# Statement of Accounts
# 2011 / 2012

Cheshire East Council

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## Explanatory Foreword

The published Accounts for the year ended 31 March 2012 form an important element in demonstrating how the Cheshire East Borough Council manages the public money it is responsible for. The accounts show how resources have been used to deliver services to Cheshire East's community.

The financial statements present a fair reflection of financial activity in Cheshire East Borough Council during the period 1 April 2011 to 31 March 2012. The presentation of the statements is intended to support the reader in understanding the Council's finances and allow them to be compared against other local authorities whose accounts are prepared in this same format.

This foreword covers:

- An explanation of the various statements which make up the Council's 2011/12 accounts;
- Information on where expenditure was incurred and sources of income in 2011/12;
- Commentary on the financial statements;
- A description of any material issues affecting the Council in 2011/12;
- Future issues facing the Council in 2012/13 onwards.

I hope you find this Statement of Accounts clear and informative. Should you require any further information, please contact Cheshire East Customer Services, telephone number 0300 123 55 00 (all calls at local rates).

*Lisa Quinn*

**Lisa Quinn** MAAT CPFA

Director of Finance and Business Services for Cheshire East Borough Council

## Explanatory Foreword - the Statements

The Council's accounts provide a number of key tables to assist the reader in understanding key facts about the Council's financial management and financial position.

The following items are contained within the accounts:

### 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 / (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.

### Comprehensive Income and Expenditure Statement

This statement gives detailed information about total expenditure on the services that the Council provides. Income for each service is matched against the expenditure to show the net cost of services. The statement also shows how much is received from council tax payers and from general Government grants to help meet the cost of services.

### Balance Sheet

The Balance Sheet provides a snapshot of the Council's financial position as at 31 March 2012 and includes both the General Fund and the Collection Fund balances. It sets out what the Council owns and what is owed at this point in time.

### Cash Flow Statement

This statement summarises the total cash movements during the year for both capital and revenue purposes.

### Notes to the Statement of Accounts

These notes provide further information to aid understanding of the financial statements.

### Collection Fund

Cheshire East is obliged to maintain this Fund separately from all its other funds and accounts. It shows the transactions that have arisen because Cheshire East Borough Council is a billing authority which is responsible for collecting National Non-Domestic Rates and council tax on behalf of central government and precepting authorities - the police and fire authorities, town and parish councils - as well as for Cheshire East. The Collection Fund records the income received from local tax payers and the money that is distributed as precepts.

## Explanatory Foreword – Accounting Regulations and Policies

The Statement of Accounts for 2011/12 has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom ("the Code"), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

In 2011/12 there is only one significant change in the Code's requirements which affects Cheshire East Borough Council, the introduction of a new category of assets called Heritage Assets.

### Changes in Accounting Policies - Heritage Assets

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 has introduced a change in accounting policy in relation to the treatment of Heritage Assets held by the Authority. The new standard (FRS 30) requires a new class of asset, Heritage Assets, to be disclosed separately on the Council's Balance Sheet from 2011/12.

Heritage Assets are defined as assets that are maintained for their contribution to knowledge and culture and are held in order to preserve them for future generations.

Heritage Assets include historical buildings, archaeological sites, military and scientific equipment of historical importance, civic regalia and museum and art gallery collections.

The Authority's accounting policies for the recognition and measurements of heritage assets are set out in Note 51 and further details on the 2011/12 position are provided in Note 13.

# Explanatory Foreword - Summary of the 2011/12 Financial Year

## Revenue Budget and Outturn

2011/12 proved to be a challenging year for the Council as the nature of council funding changed in 2010.

The Comprehensive Spending Review (CSR) was announced on 20 October 2010 and, as expected, central government outlined its policy to make reductions in funding to Local Government over four financial years from 2011/12 as part of its strategy to reduce the national debt.

Cheshire East receives two main types of Government grants, Formula Grant and Specific Grants. As part of the CSR, central government also announced changes to the grant system and confirmed that 24 specific grants would be rolled into Formula Grant. The Council benefitted from the impact of this additional flexibility; however, the overall reduction in grant posed significant savings targets for the Council. The Formula Grant for 2011/12 was £70.3m, a reduction in cash terms of £11.8m (14%) when compared to the equivalent 2010/11 position.

The method of calculating central government support to the Council provides relatively low financial assistance to Cheshire East, as the calculations take account of the relative affluence of local people. The Council therefore relies on Council Tax for 72% of its funding. The Council chose to freeze the level of Council Tax in 2011/12 and benefitted from the Council Tax Freeze Grant of £4.4m for four years.

When the budget of £249.0m for 2011/12 was set, it included significant savings proposals and, in line with the Reserves Strategy, intended to increase the level of reserves by £5.1m.

A restructure of the senior management team has been undertaken in 2011/12 and the review of legacy terms and conditions has been finalised and implemented, resulting in significant savings.

In October 2011 the Cheshire East Borough Council Highways Service contract was awarded to Ringway Jacobs. The scope of the contract includes pothole repairs, safety repairs, blocked gullies, street lighting repairs, winter maintenance, street-works, co-ordination of utility companies, traffic management, dealing with customer enquiries and the design and construction of schemes. The contract is designed to benefit from the best of the public and private sector whilst achieving financial savings.

The financial year 2011/12 proved challenging, as expected, for Adult Social Care, which mirrors the position nationally. Rising demographic pressures, breakdown in carer support, challenging market conditions and financial constraints means that Adult Social Care is one of the greatest challenges facing local government today.

In May 2011 the Council applied to the Department for Communities and Local Government (DCLG) for a capitalisation direction to allow the costs of redundancy to be treated as capital expenditure, as considerable costs continue to be incurred in voluntary redundancy payments as the Council downsizes. Following the award of the capitalisation direction, £2.3m of voluntary redundancy costs in 2011/12 has been treated as capital expenditure and funded from capital receipts.

At the Mid Year position a potential overspend against the budget of £9.4m was reported. Remedial actions were undertaken to address the budget shortfall and, in October 2011, the

Council implemented austerity measures to begin the process of further reducing expenditure. These included a recruitment freeze, stopping all non-statutory advertising and publications, and the cessation of expenditure on non-essential supplies and services.

## PFI (Private Finance Initiatives) Schemes

In October 2010, as part of its Comprehensive Spending Review, central government reconsidered the level of funding for PFI schemes. In the case of Cheshire, PFI credits of £130m to support a Waste Treatment Facility and £70m to support an Extra Care Housing Scheme were withdrawn.

The two schemes were inherited from the former Cheshire County Council and, following Local Government Re-organisation in April 2009, the schemes were continued by Cheshire East Borough Council and Cheshire West and Chester Council operating in partnership.

The two Councils sought a Judicial Review of the central government decision to withdraw funding for the Waste Treatment Facility, but the High Court ruled in favour of central government. Following notification on 26 July 2011 that the legal challenge to this action had failed, it was decided that an appeal could not be justified.

As a result of this decision, the Council was left in the position where its share of the capitalised project expenditure, amounting to £1.6m, was required to be written off to revenue. In order to alleviate the pressure on revenue reserves, in March 2012 the Council applied to the Department for Communities and Local Government (DCLG) for a capitalisation direction. Capitalisation is the means by which, exceptionally, central government permits local authorities to treat revenue costs as capital costs. Unfortunately, DCLG did not deem the circumstances to be exceptional enough to treat the abortive PFI costs as capital expenditure and the direction was not granted.

The 2010/11 Statement of Accounts indicated that the abortive costs would be attributed to the revenue account in the year that the decision to abort was made. As the final decision to abort the scheme was approved by Council on 19 April 2012, the Council is able to make another capitalisation bid in 2012/13. However, given the high risk of refusal, it is considered prudent to reflect the write off (£1.6m expenditure relating to the Waste PFI scheme and £0.1m relating to the Extra Care Housing scheme) in the 2011/12 accounts.

## Capital Project - Waste Transfer Facility at Lyme Green Depot

The Council's capital programme for 2011/12 included provision of £650,000 for the development of a Waste Transfer Facility on the site of the former Lyme Green highways depot in the north of the borough. A contractor was subsequently appointed and work commenced on the site in October 2011, with the costs being treated as capital expenditure. Work on the site was suspended in late November 2011 in the light of concerns raised in respect of various contractual, planning and procedural matters, which are the subject of an on-going independent investigation.

The costs relating to this scheme totalled £696,078 in 2011/12 and are included within the value of "work in progress" on the Council's balance sheet as at 31 March 2012. Additional expenditure of £3,595 has been incurred in 2012/13 and a final settlement will be made with the facility construction contractor by mid-October. The original forecast expenditure for 2012/13 of £30,000 is not expected to be fully incurred.

Work remains suspended until a final decision is made on the future development of the site. If no alternative capital scheme is taken forward then the costs incurred to date will be abortive, and will need to be written off as a charge against the Council's Income & Expenditure Account.

## Final Outturn Position

| | Original Budget £000 | Revised Budget £000 | Actual £000 | Revised Budget compared to Actual £000 |
|---|---|---|---|---|
| **Service Outturn** | **354,850** | **360,587** | **368,882** | **8,295** |
| Costs not included in Service Outturn: | | | | |
| PFI Abortive Costs (2011/12) | 0 | 0 | 1,117 | 1,117 |
| Capitalised Redundancy Costs | 0 | 0 | 2,314 | 2,314 |
| **Net Cost of Service as Directorate Analysis (Note 30)** | **354,850** | **360,587** | **372,313** | **11,726** |
| Corporate Amounts not included in Service Outturn | 6,526 | 3,626 | 3,361 | (265) |
| Specific Service Grants | (30,200) | (32,400) | (32,612) | (212) |
| PFI Abortive Costs (pre 2011/12) | 0 | 0 | 605 | 605 |
| Un-ringfenced Government Grants | (101,150) | (101,150) | (101,150) | 0 |
| Capital Financing | 13,916 | 14,116 | 12,337 | (1,779) |
| Capitalisation of Redundancy Costs | 0 | 0 | (2,314) | (2,314) |
| Contribution to/(from) Earmarked Reserves | 0 | (400) | (2,379) | (1,979) |
| Contribution to/(from) General Reserves | 5,073 | 4,636 | (1,146) | (5,782) |
| **Total Net Expenditure** | **249,015** | **249,015** | **249,015** | **0** |
| **Funded by:** | | | | |
| Council Tax | 178,680 | 178,680 | 178,680 | 0 |
| Business Rates | 53,728 | 53,728 | 53,728 | 0 |
| Revenue Support Grant | 16,607 | 16,607 | 16,607 | 0 |
| **Total Funding** | **249,015** | **249,015** | **249,015** | **0** |

Overall services overspent against budget by £8.2m, with the main areas of overspend relating to the following areas:

<u>Children & Families</u> - £1.8m overspend

The final outturn for Children and Families is an overspend position of £1.794m as a result of additional care costs for Looked After Children and increased agency staffing costs.

Placement costs have overspent by £2.6m in 2011/12, and in part this is due to the number of 16+ placements. There are 87 young people in care over the age of 16 and, previously, these placements could have been expected to end. However, with the Southwark judgement, the Council is obliged to maintain their placements. Investment of £1m has been earmarked in the 2012/13 budget to address this particular area, through a Targeted Youth service.

Following the creation of Cheshire East Borough Council, a review of the approach to safeguarding across the Borough resulted in increasing numbers of children requiring care. In recognition of the increasing costs of these Looked After Children, the department created the Early Intervention and Prevention Service in April 2011. This incorporated the Family Service, Children's Centres and the First Contact service, which aims to keep more children in their own homes. Over the longer term, through increasing early intervention and support, it is anticipated that the numbers of children needing to be looked after will gradually reduce.

<u>Adults</u> - £2.9m overspend

Adults Services continue to face major financial challenges, given the demographics of the Borough and, increasingly, the complex conditions that service users are presented with. This is especially relevant with regard to the Learning Disability Pooled Budget, which cuts across all services in Adults. The increase in care costs through the Pooled Budget reflects the complexity of service users at both ends of the age spectrum, firstly, those coming through transition at the end of their teenage years with extensive needs and, also, those older learning disability service users worsening or developing additional conditions. These financial pressures are only likely to grow in the short term and extensive remedial measures will be necessary to reverse the current year on year trend of increased costs.

<u>Waste, Recycling & Streetscape</u> - £1.5m overspend

The underlying outturn position in waste operations reflects the additional and mainly one-off costs associated with the split implementation of the new harmonised waste collection service between May and October 2011. Additional pay/agency costs and hired vehicle/fuel costs associated with the roll-out were over and above that envisaged in the roll-out plan. The overspend in Waste has been reduced through lower contract costs, vacancy management and reduced expenditure on supplies and services.

The Streetscape Service has a net overspend of £464,000 due mainly to: not fully realising planned savings for the Streetscape Review or Market rent increases; facing pay pressures in Markets and under-achievement of income in bereavement services as a consequence of reduced capacity at Macclesfield following longer than anticipated implementation of replacement cremators. Again, the service mitigated these costs in part through vacancy management in grounds maintenance, reduced verge maintenance and stopping non essential spending in supplies and services.

<u>Centrally retained cross-cutting savings</u> - £2.9m overspend

The outturn position on centrally-retained cross-cutting savings targets was £2.9m. This included £700,000 procurement savings, £310,000 in salary sacrifice / agency contract savings and £300,000 of Shared Services improvements, which have not proved possible to realise; corresponding growth items have been approved in the 2012/13 budget. Conversely, additional voluntary redundancy savings allocated to Services of £300,000 have assisted the overall position.

Whilst £500,000 of the £2.4m pay harmonisation savings were achieved, £1.9m remained unallocated at year end, reflecting the terms of the agreement reached between the Council and the unions (including one-year increment freeze) and also adjustments at year end totalling £102,000 in respect of car allowances and Shared Services budgets.

The service overspend position is mitigated by additional items in respect of specific grants, savings in capital financing costs and other non-budgeted income. However, these have been offset by the impact of supplementary estimates and the charging of PFI abortive costs to the revenue account.

Following an in year review of earmarked reserves, £1.9m has been identified as surplus and transferred to general reserves and £0.4m of the Invest to Save reserve has been allocated to fund service expenditure.

The overall impact on general reserves as a result of the 2011/12 outturn position has led to an overall decrease in the general fund balance of £1.1m to £11.4m.

The Income and Expenditure Account includes a number of items that are not required to be included in the General Fund and to be taken into account in setting the council tax. The Income and Expenditure Account included within this Statement of Accounts shows the net cost of services for the year of £422.7m. This reconciles to the General Fund expenditure reported on page 20 as follows:

| | £000 |
|---|---|
| **Reconciliation to Comprehensive Income & Expenditure Statement** | |
| **(Surplus)/Deficit on Provision of Services** | |
| **Net Cost of Service as Directorate Analysis** (Note 30) | **372,313** |
| Services & Support Services not included in the Analysis | 6,089 |
| Amounts not reported in service management accounts | 45,858 |
| Amounts not included in Net Cost of Service | (1,574) |
| **Net Cost of Services as per Comprehensive Income & Expenditure Statement** | **422,686** |
| Net Other Operating Expenditure (Note 9) | 37,283 |
| Financing & Investment Income & Expenditure (Note 10) | 3,949 |
| Taxation & Non Specific Grant Income (Note 11) | (411,581) |
| **Deficit on Provision of Services as per Comprehensive Income & Expenditure Statement** | **52,337** |

## Services Provided

The table below shows how the gross revenue expenditure and income was distributed across services in 2011/12 in accordance with Service Reporting Code of Practice (SeRCOP) expenditure analysis:

| | Expenditure | | Income | |
|---|---|---|---|---|
| | £000 | % | £000 | % |
| **Services Provided:** | | | | |
| Central Services to the Public | 36,848 | 5 | | |
| Cultural & Related Services | 43,492 | 6 | | |
| Environmental & Regulatory Services | 42,085 | 5 | | |
| Planning Services | 13,391 | 2 | | |
| Education & Children's Services | 315,452 | 40 | | |
| Highways & Transport Services | 38,828 | 5 | | |
| Other Housing Services | 86,567 | 11 | | |
| Adult Social Care | 160,111 | 20 | | |
| Other Operating Expenditure | 40,372 | 5 | | |
| Financing & Investment Income | 11,843 | 1 | | |
| **Total Gross Expenditure** | **788,989** | **100** | | |
| Fees & Charges | | | 59,208 | 8 |
| Specific Government Grants | | | 232,776 | 32 |
| Other Government Grants | | | 159,124 | 22 |
| Revenue Support Grant | | | 16,607 | 2 |
| National Non-Domestic Rates | | | 53,728 | 7 |
| Council Tax (including Parish Precept) | | | 182,122 | 25 |
| Other Income (including Joint Arrangements) | | | 33,087 | 4 |
| **Total Income** | | | **736,652** | **100** |
| **Deficit on Provision of Services** | | | **52,337** | |

## Schools

Schools-related expenditure is paid directly to local authorities via the Dedicated Schools Grant (DSG) and this has been included within specific Government grants in the table above. Further details about DSG are provided in Note 41.

During 2011/12, four Foundation Schools and one Community School converted to Academy status. One school also converted to Free School status. Further details of these conversions are contained in Note 41.

The reserves and balances held by schools at 31 March 2012 totalled £15m, an increase of £5m from the previous year.

## General Reserve

The final general reserve position of £11.4m is below the Reserves Strategy risk assessed minimal level of reserves of £14.7m. However, the final outturn is in line with the forecast predicted at Third Quarter of £13.2m. It must also be recognised that, during the year, Supplementary Revenue Estimates were approved to realise circumstances that had previously been covered by the risk level of reserves, namely £0.86m for pay harmonisation issues and £0.6m for ICT Shared Service redundancies to enable savings against the ICT Shared Service overspend position. Similarly, the risk of the capital costs of PFI becoming abortive had been recognised for some time and had therefore been factored against the strategic risk element of the risk assessed level of reserves. The abortive costs of £1.7m have been prudently recognised against the 2011/12 outturn position. Therefore, the final general reserve position of £11.4m remains adequate in risk terms.

It is important to maintain a healthy level of general fund balances to cover for unforeseen events and also provide a stable level of resources for future planning. However, this has to be balanced against meeting the Council's spending priorities and also, importantly, setting a low council tax.

## Capital Programme and Outturn

The Council spent £50.2m on capital schemes in 2011/12, compared to the original budget of £77.0m, and £1.9m on new finance leases.

Total capital expenditure incurred by Council Services in 2011/12 is summarised below:

| Service | 2011/12 £000 |
|---|---|
| **Capital Expenditure:** | |
| Adult Services | 1,270 |
| Children and Families | 11,768 |
| Communities | 3,034 |
| Economic Development | 2,457 |
| Strategic Planning and Housing | 2,022 |
| Visitor Economy | 854 |
| Assets | 6,121 |
| Highways and Transport | 13,870 |
| Streets and Open Spaces | 6,563 |
| Performance and Capacity | 1,179 |
| Corporate Services | 2,927 |
| **Total Capital Expenditure** | **52,065** |

The sources of income which financed this expenditure are as follows:

| Service | 2011/12 £000 | % |
|---|---|---|
| **Funded by:** | | |
| Supported Borrowing | 3,643 | 7 |
| Prudential (Unsupported) Borrowing | 7,421 | 14 |
| Grants and Contributions | 28,175 | 54 |
| Revenue Contribution to Capital | 303 | 1 |
| Finance Leases | 1,843 | 3 |
| Capital Reserve | 10,680 | 21 |
| **Total Capital Funding** | **52,065** | **100** |

At the end of the financial year, work on some capital schemes was still underway - this can be carried forward into the new financial year and is known as slippage. The main areas of slippage in 2011/12 relate to the Schools Programme, Property Planned Maintenance, Office Accommodation Upgrades and Highways Maintenance. A small number of projects have minor overspends against budget, and any overspends will be covered by virement from within the existing programme.

A review of the capital programme has been undertaken to rationalise and streamline existing projects and revised 2012/13 budgets will be reported to Cabinet for approval as part of the Quarterly Financial and Performance Update. The Capital Investment Plans for the Council for the next five years are currently being developed and will be reported through the 2013/14 Business Planning process.

## Borrowing

As at 31 March 2012 total borrowing was £134.4m, comprising long term borrowing of £128.9m and short term borrowing of £5.5m, of which 87% was borrowed from the Public Works Loans Board (PWLB).

The Council undertakes borrowing in order to finance capital spending and satisfies its borrowing requirement for this purpose by securing external loans. However, the Council is able to temporarily defer the need to borrow externally by using the cash it has set aside for longer term purposes; this practice means that there is no immediate link between the need to borrow to pay for capital spend and the level of external borrowing.

## Capital Receipts Reserve

The Capital Receipts Reserve has decreased by £9.1m during 2011/12, leaving a balance of £16.3m at year end. This position has arisen due to £10.7m being used to finance capital expenditure and £2.3m to fund voluntary redundancy costs, £3.3m being generated in-year from asset disposals and right-to-buy receipts (net of disposal costs), and a further £0.5m repaid to the capital reserve from revenue in respect of prior year expenditure on the Waste PFI project.

## Pension Fund

The Statement of Accounts reflects the full adoption of International Accounting Standards 19 (IAS19). This requires that:

- Pension costs charged to the services are based on the cost of providing retirement benefits to employees in the period that the benefits are earned by the employee rather than the actual cash contributions to the Cheshire Pension Fund. This cost, referred to as the current service cost, is calculated by the Fund’s Actuary, Hymans Robertson.
- The net pension asset/liability in respect of the surplus/deficit on the Pension Fund, as calculated by the Fund’s Actuary, is included in the balance sheet. The net liability for Cheshire East Borough Council increased to £360.2m as at 31 March 2012 (£280.7m at 31 March 2011).

# Explanatory Foreword - Commentary on the Key Financial Statements

**Comprehensive Income and Expenditure Statement and Movement in Reserves Statement**

The Council operates within a framework of accountability through its Scheme of Financial Delegation. Named managers each have an agreed annual budget, within which they are required to achieve clearly identified aims and objectives as set out in their service plan. Managers must account for their actions to elected Councillors at key stages in the year.

The Comprehensive Income and Expenditure Statement for 2011/12 shows a deficit of £52.3m on the provision of services. Included within this figure are a number of notional charges and credits made to comply with recommended accounting practice; charges for depreciation, impairments, pension related costs, losses on the sale of fixed assets and credits for Government grants and contributions applied to capital expenditure.

The Movement in Reserves Statement brings together all the adjustments required in order to reverse out the notional charges and credits, which are required to comply with recommended accounting practice, and replaces them with the amounts required to be funded from Council Tax. Further details relating to these adjustments are detailed in Note 6. In total, these adjustments amount to £50.1m and - when netted off against the deficit on the Comprehensive Income and Expenditure Statement, adjusted for transfers from earmarked reserves of £1.1m - results in a decrease in General Fund balances of £1.1m.

The required adjustments can vary significantly from year to year. When compared to 2010/11, the main variances relate to the loss on disposal of fixed assets, in particular the write out of schools that have transferred to Foundation status and the adjustments involving the Pensions Reserve. The impact of these adjustments has resulted in an overall deficit on the provision of services in 2011/12.

**Balance Sheet**

Property, Plant and Equipment, which represent the value of land, buildings, roads, bridges and vehicles, total £872.2m. These have decreased by £24.3m during the year, largely as a result of:

- £14.7m expenditure on infrastructure;
- £12.1m expenditure on property;
- £10.7m expenditure on equipment and vehicles, including finance leases;
- £16.1m upward valuation of properties;
- £6.9m expenditure on assets under construction;
- £7.8m transfers from other asset categories.

Offset by:

- Disposals and write-out of assets with a value of £40.6m;
- Depreciation and impairment charges of £54.3m, including adjustments for revalued, impaired or disposed-of assets.

Investment Properties have decreased by £10.8m. Following a revaluation exercise a number of investment properties have now been reclassified as Surplus Assets or Property, Plant and Equipment.

Long-term investments have increased by £19.8m, mainly as a result of investment into Pooled Funds where the expectation is for these investments to be retained over twelve months.

Long-term liabilities have increased by £79.2m. This mainly consists of an increase of £79.5m in the Net Pension Liability, mainly a result of the Local Government Pension Scheme. The decrease in the Local Government Pension Scheme is due to falling bond yields and poor asset returns. The projected pension expense for next year has also risen for the same reasons and reduced the expected asset rates of return.

Reserves are important as a means of providing working capital to finance spending whilst awaiting income. They are also a means of providing flexibility in the event of unforeseen circumstances. The Council seeks to maintain the General Fund at a level consistent with a detailed assessment of risk as set out in its Reserves Strategy. This assessment is updated annually as part of the Council's Business Plan. The current level of the Fund (£11.4m) is considered to be at an adequate level.

In addition to general reserves, the Council has created a number of earmarked reserves to provide for specific future spending requirements. Further details of these can be found in Note 7.

## Explanatory Foreword - Future Issues

The Council anticipates that the coming year will be equally challenging as 2011/12, with continued pressures on all main services, particularly Adult Social Care and Children's Services.

Going forward, the Council faces a significant number of changes including the following:

- Potential development of the current ICT, HR and Finance and Occupational Health Shared Services into a viable Separate Legal Entity (SLE);
- Transfer of services to Town and Parish Councils;
- Public Health Transfer;
- Retention of Business Rates and Supplementary Business Rates;
- Localisation of Council Tax Benefits;
- Academy Funding;
- Welfare Reform;
- Further reductions in grant funding.

# Movement in Reserves Statement

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

The ‘surplus or (deficit) on the provision of services' line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund balance for Council Tax-setting purposes.

The 'Net Increase/Decrease before Transfers to Earmarked Reserves' line shows the statutory General Fund balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

**Movement in Reserves 2011/12:**

| | General Fund Balance £000 | Earmarked Reserves £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | **Total Usable Reserves** £000 | Unusable Reserves £000 | **Total Authority Reserves** £000 |
|---|---|---|---|---|---|---|---|
| **Opening balance at 1 April 2011** | **12,527** | **24,398** | **25,436** | **12,607** | **74,968** | **426,898** | **501,866** |
| Movement in Reserves 2011/12 | | | | | | | |
| Surplus or (deficit) on provision of services | (52,337) | 0 | 0 | 0 | (52,337) | 0 | (52,337) |
| Revaluation gains (chargeable to revaluation reserve) (Note 26a) | 0 | 0 | 0 | 0 | 0 | 24,867 | 24,867 |
| Revaluation losses (chargeable to revaluation reserve) (Note 26a) | 0 | 0 | 0 | 0 | 0 | (12,005) | (12,005) |
| Surplus / Deficit on revaluation of available for sale financial assets (Note 26b) | 0 | 0 | 0 | 0 | 0 | 130 | 130 |
| Actuarial gains / losses on pension assets / liabilities (Note 26f) | 0 | 0 | 0 | 0 | 0 | (84,614) | (84,614) |
| **Total Comprehensive Income and Expenditure** | **(52,337)** | **0** | **0** | **0** | **(52,337)** | **(71,622)** | **(123,959)** |
| Adjustments between accounting basis and funding basis under regulations (Note 6) | 50,102 | 0 | (9,135) | (2,813) | 38,154 | (38,154) | 0 |
| **Net Increase/Decrease before Transfers to Earmarked Reserves** | **(2,235)** | **0** | **(9,135)** | **(2,813)** | **(14,183)** | **(109,776)** | **(123,959)** |
| Transfers to/(from) Earmarked Reserves (Note 7) | 1,089 | (1,097) | 8 | 0 | 0 | 0 | 0 |
| **Increase/Decrease in Year** | **(1,146)** | **(1,097)** | **(9,127)** | **(2,813)** | **(14,183)** | **(109,776)** | **(123,959)** |
| **Closing Balance at 31 March 2012** | **11,381** | **23,301** | **16,309** | **9,794** | **60,785** | **317,122** | **377,907** |

## Movement in Reserves 2010/11:

| | General Fund Balance £000 | Earmarked Reserves £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | **Total Usable Reserves** £000 | Unusable Reserves £000 | **Total Authority Reserves** £000 |
|---|---|---|---|---|---|---|---|
| **Opening Balance at 1 April 2010** | **10,224** | **32,317** | **32,687** | **9,729** | **84,957** | **(39,800)** | **45,157** |
| Movement in Reserves 2010/11 | | | | | | | |
| Surplus or (deficit) on the provision of services | 37,800 | 0 | 0 | 0 | 37,800 | 0 | 37,800 |
| Revaluation gains (chargeable to revaluation reserve) (Note 26a) | 0 | 0 | 0 | 0 | 0 | 184,298 | 184,298 |
| Revaluation losses (chargeable to revaluation reserve) (Note 26a) | 0 | 0 | 0 | 0 | 0 | (670) | (670) |
| Surplus / Deficit on revaluation of available for sale financial assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Actuarial gains / losses on pension assets / liabilities (Note 26f) | 0 | 0 | 0 | 0 | 0 | 235,281 | 235,281 |
| **Total Comprehensive Income and Expenditure** | **37,800** | **0** | **0** | **0** | **37,800** | **418,909** | **456,709** |
| Adjustments between accounting basis and funding basis under regulations (Note 6) | (44,220) | 0 | (6,447) | 2,878 | (47,789) | 47,789 | 0 |
| **Net Increase/Decrease before Transfers to Earmarked Reserves** | **(6,420)** | **0** | **(6,447)** | **2,878** | **(9,989)** | **466,698** | **456,709** |
| Transfers to/from Earmarked Reserves (Note 7) | 8,723 | (7,919) | (804) | 0 | 0 | 0 | 0 |
| **Increase/Decrease in 2010/11** | **2,303** | **(7,919)** | **(7,251)** | **2,878** | **(9,989)** | **466,698** | **456,709** |
| **Closing balance at 31 March 2011** | **12,527** | **24,398** | **25,436** | **12,607** | **74,968** | **426,898** | **501,866** |

# 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 above Movement in Reserves Statement.

| 2010/11 (As Restated – Note 1) | | | | 2011/12 | | |
|---|---|---|---|---|---|---|
| Gross Expenditure £000 | Gross Income £000 | Net Expenditure £000 | | Gross Expenditure £000 | Gross Income £000 | Net Expenditure £000 |
| 28,640 | (24,763) | **3,877** | Central Services to the public | 26,884 | (2,639) | **24,245** |
| 39,079 | (9,460) | **29,619** | Cultural and Related Services | 43,492 | (9,531) | **33,961** |
| 43,038 | (5,672) | **37,366** | Environmental and Regulatory Services | 42,085 | (5,178) | **36,907** |
| 14,325 | (5,869) | **8,456** | Planning Services | 13,391 | (5,604) | **7,787** |
| 375,358 | (287,149) | **88,209** | Education and Children's Services | 315,452 | (233,651) | **81,801** |
| 44,891 | (14,008) | **30,883** | Highways and Transport Services | 38,828 | (9,405) | **29,423** |
| 86,161 | (79,996) | **6,165** | Other Housing Services | 86,567 | (2,288) | **84,279** |
| 160,262 | (43,423) | **116,839** | Adult Social Care | 160,111 | (45,744) | **114,367** |
| (106,910) | (2,343) | **(109,253)** | Exceptional Items | 0 | 0 | **0** |
| 4,797 | 0 | **4,797** | Corporate and democratic core | 4,877 | 0 | **4,877** |
| 8,482 | 0 | **8,482** | Non distributed costs | 5,087 | (48) | **5,039** |
| **698,123** | **(472,683)** | **225,440** | **Cost of Services** | **736,774** | **(314,088)** | **422,686** |
| 14,620 | (2,926) | 11,694 | Other Operating Expenditure (Note 9) | 40,372 | (3,089) | **37,283** |
| 32,505 | (2,047) | 30,458 | Financing and Investment Income and Expenditure (Note 10) | 11,843 | (7,894) | **3,949** |
| 0 | (305,392) | (305,392) | Taxation and Non-Specific Grant Income (Note 11) | 0 | (411,581) | **(411,581)** |
| **745,248** | **(783,048)** | **(37,800)** | **(Surplus) or Deficit on Provision of Services** | **788,989** | **(736,652)** | **52,337** |
| | | **(183,604)** | (Surplus) or deficit on revaluation of non current assets (Note 26a) | | | **(12,862)** |
| | | **(24)** | (Surplus) or deficit on revaluation of available for sale financial assets (Note 26b) | | | **(130)** |
| | | **(235,281)** | Actuarial (gains) / losses on pension assets / liabilities (Note 26f) | | | **84,614** |
| | | **(418,909)** | **Other Comprehensive Income and Expenditure** | | | **71,622** |
| | | | | | | |
| | | **(456,709)** | **Total Comprehensive Income and Expenditure** | | | **123,959** |

## Balance Sheet as at 31 March 2012

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

Reserves are reported in two categories:

- Usable reserves are those that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.
- Unusable reserves are those that the Council is not able to use to provide services. Unusable reserves include reserves that hold unrealised gains and losses (e.g. the Revaluation Reserve, where amounts would only become available to provide services if the assets were sold), and reserves that hold timing differences shown in the Movement of Reserves Statement line, 'Adjustments between accounting basis and funding basis under regulations'.

| 31 March 2011 £000 | | Notes | 31 March 2012 £000 |
|---:|---|:---:|---:|
| 896,495 | Property, Plant and Equipment | 12 | 872,195 |
| 0 | Heritage Assets | 13 | 1,202 |
| 19,841 | Investment Property | 14 | 9,075 |
| 297 | Intangible Assets | 15 | 387 |
| 585 | Long Term Investments | 19 | 20,365 |
| 4,804 | Long Term Debtors | 21 | 3,750 |
| **922,022** | **Long Term Assets** | | **906,974** |
| 39,358 | Short Term Investments | 19 | 3,687 |
| 215 | Assets Held for Sale | 16 | 9,314 |
| 1,011 | Inventories | 20 | 682 |
| 61,393 | Short Term Debtors | 21 | 52,292 |
| 26,365 | Cash and Cash Equivalents | 22 | 34,592 |
| **128,342** | **Current Assets** | | **100,567** |
| (5,021) | Short Term Borrowing | 19 | (5,521) |
| (100,614) | Short Term Creditors | 23 | (102,094) |
| **(105,635)** | **Current Liabilities** | | **(107,615)** |
| (5,864) | Provisions | 24 | (6,039) |
| (129,382) | Long Term Borrowing | 19 | (128,880) |
| (280,723) | Net Pension Liability | 47 | (360,242) |
| (269) | Other Deferred Liabilities | | (214) |
| (25,070) | Other Long Term Liabilities | 19 | (25,125) |
| (1,555) | Capital Grant Receipts in Advance | 42 | (1,519) |
| **(442,863)** | **Long Term Liabilities** | | **(522,019)** |
| **501,866** | **Net Assets** | | **377,907** |

| 31 March 2011 £000 | | Notes | 31 March 2012 £000 |
|---|---|---|---|
| 25,436 | Capital Receipts Reserve | 25b | 16,309 |
| 12,607 | Capital Grants Unapplied | 25c | 9,794 |
| 9,975 | Reserves and Balances held by Schools | 25d | 14,963 |
| 14,423 | General Fund Earmarked Reserves | 7 | 8,338 |
| 12,527 | General Fund Reserve – Borough Fund | 25a | 11,381 |
| **74,968** | **Usable Reserves** | 25 | **60,785** |
| 228,352 | Revaluation Reserve | 26a | 220,312 |
| 0 | Available for Sale Reserve | 26b | 130 |
| 488,269 | Capital Adjustment Account | 26c | 466,282 |
| 95 | Capital Receipts Deferred | 26d | 83 |
| (1,385) | Financial Instrument Adjustment Account | 26e | (1,501) |
| (280,723) | Pensions Reserve | 26f | (360,242) |
| 5 | Collection Fund Adjustment Account | | 5 |
| (677) | Unequal Pay Back Pay Account | 26g | (438) |
| (7,038) | Accumulated Absences Account | 26h | (7,509) |
| **426,898** | **Unusable Reserves** | 26 | **317,122** |
| **501,866** | **Total Reserves** | | **377,907** |

# The Cash Flow Statement for the Year ended 31 March 2012

This statement shows the changes in cash and cash equivalents of the Council during the reporting period. It shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council.

Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

| 2010/11 £000 | | Notes | 2011/12 £000 |
|---|---|---|---|
| 37,800 | Net surplus or (deficit) on the provision of services | | (52,337) |
| 90,188 | Adjustment to surplus or deficit on the provision of services for non cash movements | | 159,680 |
| (126,697) | Adjust for items included in the net surplus or (deficit) on the provision of services that are investing and financing activities | | (100,838) |
| **1,291** | **Net cash flows from operating activities** | 27 | **6,505** |
| (11,774) | Net cash flows from Investing Activities | 28 | (346) |
| (8,037) | Net cash flows from Financing Activities | 29 | 2,068 |
| **(18,520)** | **Net increase or (decrease) in cash and cash equivalents** | | **8,227** |
| (5,719) | Cash and Bank Balances at the beginning of the reporting period | 22 | (2,021) |
| 50,604 | Cash Investments at the beginning of the reporting period | 22 | 28,386 |
| **44,885** | **Opening balance – cash and cash equivalents** | | **26,365** |
| (2,021) | Cash and Bank Balances at the end of the reporting period | 22 | 7,523 |
| 28,386 | Cash Investments at the end of the reporting period | 22 | 27,069 |
| **26,365** | **Closing balance – cash and cash equivalents** | | **34,592** |
| **(18,520)** | **Net increase or (decrease) in cash and cash equivalents** | | **8,227** |

# Notes to the Statement of Accounts 2011/12

## 1. 2010/11 Comprehensive Income and Expenditure Account (As Restated)

The 2010/11 Service Gross Expenditure has been restated to correct a reallocation of the Support Service Expenditure. The original figures included an over-allocation of support service recharges to Schools within Education & Children's Services. The impact of the re-allocation is shown below:

| | 2010/11 Audited Statements £000 | 2010/11 Restated Comparatives £000 |
|---|---|---|
| Central Services to the Public | 28,597 | 28,640 |
| Cultural and Related Services | 37,098 | 39,079 |
| Environmental and Regulatory Services | 41,948 | 43,038 |
| Planning Services | 14,268 | 14,325 |
| Education and Children's Services | 386,187 | 375,358 |
| Highways and Transport Services | 43,252 | 44,891 |
| Other Housing Services | 85,866 | 86,161 |
| Adult and Social Care | 154,812 | 160,262 |
| Exceptional Items | (106,910) | (106,910) |
| Corporate and Democratic Core | 4,797 | 4,797 |
| Non Distributed Costs | 8,482 | 8,482 |
| **Cost of Services** | **698,397** | **698,123** |
| Other Operating Expenditure | 14,620 | 14,620 |
| Financing and Investment Expenditure | 32,231 | 32,505 |
| **Total Gross Expenditure** | **745,248** | **745,248** |

## 2. Accounting Standards Issued but yet to be Adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) has introduced a change in relation to the treatment of IFRS7, Financial Instruments: Disclosures (transfers of financial assets), which will need to be adopted fully by the Council in the 2012/13 financial statements.

The amendments to IFRS7, Financial Instruments: Disclosures (transfers of financial assets), are intended to evaluate the risk exposures that relate to transfers of financial assets and the effect of those risks on the Council's financial position. However, CIPFA is of the view that the transfers described by the standard do not occur frequently in local authorities. Relevant circumstances would arise where a Council retains ownership of a financial asset but contracts to reassign or otherwise pay over the cash flows generated by the instrument, at the same time as retaining substantially all the risks and rewards of ownership.

## 3. Critical Judgement in Applying Accounting Policies

In applying the accounting policies set out in Note 51, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statements of Accounts are:

- The Council is deemed to control the services provided under the agreement for the provision of Extra Care Housing on three sites at Middlewich, Handforth and Crewe. The Council will control the residual value of the homes at the end of the agreement. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the buildings valued at £27.1m are recognised as Property, Plant and Equipment on the Balance Sheet.
- The Council has a Highway Services Contract with Ringway Jacobs. It has been concluded that the contract does not create an agency partnership or joint venture relationship between the parties.
- The partnership arrangements with the Crime and Disorder Reduction Partnership (CDRP) and the Cheshire Safer Roads Partnership (CSRP) have been considered against the criteria for Group Accounts. It has been concluded that neither involve group accounts as, although Cheshire East Borough Council is the accountable body for the partnership budget, decisions with regard to policy and spending are voted and agreed upon by members of the respective boards.
- The Council has contractual arrangements with Connexions - Cheshire & Warrington Ltd for the provision of youth-related services. The company is considered to be an associate; however the Council has not produced group accounts due to the monetary amounts involved. Further detail on this may be found in Note 39 (Interest in Other Companies and Entities – Connexions).
- Capital expenditure incurred on the Waste PFI and the Extra Care Housing scheme has been written off to revenue following the withdrawal of funding from central government and the Council decision to abort the schemes. Further details are provided in the Explanatory Foreword (page 8).

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

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

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

| Item | Uncertainties | Effect if Actual Results Differ from Assumptions |
|---|---|---|
| Pensions Liability | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. Hymans Robertson are engaged to provide the Council with expert advice about the assumptions to be applied. | The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £97.5m. |
| Arrears | At 31 March 2012, the Council had a balance of sundry debtors of £52.6m. A review of balances has been carried out and an impairment allowance of 5.62% (2.64% at 31 March 2011) has been made in accordance with the accounting policy set out in Note 51. | Sundry Debt levels have reduced from 2011 by £2.5m. If Collection Rates were to deteriorate during 2012/13 at the same rate as 2011/12 (2.98%) then an additional £1.56m impairment allowance would be required. |

This list does not include assets and liabilities that have are carried at fair value based on a recently observed market price.

## 5. Events after the Balance Sheet Date

These accounts have been authorised for issue by the Director of Finance and Business Services on 29 June 2012 and reflect all known post Balance Sheet events affecting the financial statements for the financial year 2011/12 up to this date. Events taking place after this date are not reflected in the financial statements or notes.

Where events took place before this date, providing that information about conditions existed at 31 March 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

### Academy Conversions

Within Cheshire East, there are eight schools which have converted to Academy status, and one school which has converted to Free School status as at 31 March 2012.

Knutsford High School converted to Academy status on 1 April 2012 and an Academy order has been received for Eaton Bank High School, which is expected to convert to Academy status on 1 September 2012. Changes as a result of these Academy conversions from 1 April 2012 will be captured in the 2012/13 financial accounts as appropriate.

## 6. Adjustments between Accounting Basis and Funding Basis under Regulations

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

| 2011/12 Adjustments | General Fund Balance £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | **Total Usable Reserves £000** | Unusable Reserves £000 | **Total Authority Reserves £000** |
|---|---|---|---|---|---|---|
| **Adjustments Involving the Capital Adjustment Account (CAA):** | | | | | | |
| ***Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CI&ES):*** | | | | | | |
| Depreciation of Non-Current Assets | 32,717 | 0 | 0 | **32,717** | (32,717) | **0** |
| Revaluation Losses on Property, Plant and Equipment | 20,911 | 0 | 0 | **20,911** | (20,911) | **0** |
| Movement in market value of investment property | (6,145) | 0 | 0 | **(6,145)** | 6,145 | **0** |
| Amortisation of Intangible Assets | 133 | 0 | 0 | **133** | (133) | **0** |
| Capital grant and contributions applied | (25,362) | 0 | 0 | **(25,362)** | 25,362 | **0** |
| Revenue Expenditure Funded from Capital under Statute (REFCUS) | 6,030 | 0 | 0 | **6,030** | (6,030) | **0** |
| Amounts of non current assets written off on disposal or sale as part of the (gain)/loss on disposal to the CI&ES | 38,484 | 0 | 0 | **38,484** | (38,484) | **0** |

| 2011/12 Adjustments | General Fund Balance £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | **Total Usable Reserves £000** | Unusable Reserves £000 | **Total Authority Reserves £000** |
|---|---|---|---|---|---|---|
| ***Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:*** | | | | | | |
| Statutory Provision for financing of Capital Investment | (10,034) | 0 | 0 | **(10,034)** | 10,034 | **0** |
| Capital Expenditure Charged against General Fund | (931) | 80 | 0 | **(851)** | 851 | **0** |
| **Adjustments Involving the Capital Grants Unapplied Account:** | | | | | | |
| Application of grants to capital financing transferred to the Capital Adjustment Account | 0 | 0 | (2,813) | **(2,813)** | 2,813 | **0** |
| **Adjustments Involving the Capital Receipts Reserve (CRR):** | | | | | | |
| Transfer of sale proceeds credited as part of gain or loss on disposal to CI&ES | (3,274) | 3,274 | 0 | **0** | 0 | **0** |
| Use of CRR to finance capital expenditure | 0 | (10,180) | 0 | **(10,180)** | 10,180 | **0** |
| Contribution from CRR to finance payments to Government Capital Receipts Pool | 7 | (7) | 0 | **0** | 0 | **0** |
| Revenue Expenditure Funded from Capital Under Statute (Capitalisation of Employment Termination Costs) | 2,314 | (2,314) | 0 | **0** | 0 | **0** |
| **Adjustments Involving the Deferred Capital Receipts Reserve:** | | | | | | |
| Transfer of deferred sale proceeds credited as part of the (gain)/loss on disposal to the CI&ES | 0 | 12 | 0 | **12** | (12) | **0** |
| **Adjustments Involving the Financial Instruments Adjustment Account:** | | | | | | |
| Amount by which finance costs charged to the CI&ES are different from those chargeable in accordance with statutory requirements | 115 | 0 | 0 | **115** | (115) | **0** |
| **Adjustments Involving the Pension Reserve:** | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the CI&ES | 30,566 | 0 | 0 | **30,566** | (30,566) | **0** |
| Employer's pension contributions and direct payments to pensioners | (35,661) | 0 | 0 | **(35,661)** | 35,661 | **0** |
| **Adjustments Involving Collection Fund Adjustment Account:** | | | | | | |
| Amount by which council tax credited to the CI&ES is different from the amount calculated in accordance with statutory requirements | 0 | 0 | 0 | **0** | 0 | **0** |
| **Adjustments Involving Unequal Pay Back Pay Account:** | | | | | | |
| Amount by which amounts charged for equal pay claims to the CI&ES are different from the cost of settlements chargeable in the year in accordance with requirements | (239) | 0 | 0 | **(239)** | 239 | **0** |
| **Adjustments Involving Accumulated Absences Account:** | | | | | | |
| Amount by which officer remuneration charged to the CI&ES on an accruals basis is different from remuneration chargeable in year in accordance with statutory requirements | 471 | 0 | 0 | **471** | (471) | **0** |
| **Total Adjustments 2011/12** | **50,102** | **(9,135)** | **(2,813)** | **38,154** | **(38,154)** | **0** |

| 2010/11 Comparative Adjustments | General Fund Balance £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | **Total Usable Reserves £000** | Unusable Reserves £000 | **Total Authority Reserves £000** |
|---|---|---|---|---|---|---|
| **Adjustments Involving the Capital Adjustment Account (CAA):** | | | | | | |
| ***Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CI&ES):*** | | | | | | |
| Depreciation of Non-Current Assets | 22,536 | 0 | 0 | **22,536** | (22,536) | **0** |
| Revaluation Losses on Property, Plant and Equipment | 51,490 | 0 | 0 | **51,490** | (51,490) | **0** |
| Movement in market value of investment property | (67) | 0 | 0 | **(67)** | 67 | **0** |
| Amortisation of Intangible Assets | 109 | 0 | 0 | **109** | (109) | **0** |
| Capital grant and contributions applied | (37,045) | 0 | 0 | **(37,045)** | 37,045 | **0** |
| Revenue Expenditure Funded from Capital under Statute (REFCUS) | 5,604 | 0 | 0 | **5,604** | (5,604) | **0** |
| Amounts of non current assets written off on disposal or sale as part of the (gain)/loss on disposal to the CI&ES | 17,295 | 0 | 0 | **17,295** | (17,295) | **0** |
| ***Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:*** | | | | | | |
| Statutory Provision for financing of Capital Investment | (8,958) | 0 | 0 | **(8,958)** | 8,958 | **0** |
| Capital Expenditure Charged against General Fund | (105) | 0 | 0 | **(105)** | 105 | **0** |
| **Adjustments Involving the Capital Grants Unapplied Account:** | | | | | | |
| Grant and contributions unapplied credited to CI&ES | (2,878) | 0 | 2,878 | **0** | 0 | **0** |
| **Adjustments Involving the Capital Receipts Reserve (CRR):** | | | | | | |
| Transfer of sale proceeds credited as part of gain or loss on disposal to CI&ES | (7,689) | 7,689 | 0 | **0** | 0 | **0** |
| Use of CRR to finance capital expenditure | 0 | (14,145) | 0 | **(14,145)** | 14,145 | **0** |
| Contribution from CRR to finance payments to Government Capital Receipts Pool | 6 | (6) | 0 | **0** | 0 | **0** |
| Revenue Expenditure Funded from Capital Under Statute (Capitalisation of Employment Termination Costs) | 0 | 0 | 0 | **0** | 0 | **0** |
| **Adjustments Involving the Deferred Capital Receipts Reserve:** | | | | | | |
| Transfer of deferred sale proceeds credited as part of the (gain)/loss on disposal to the CI&ES | 0 | 15 | 0 | **15** | (15) | **0** |
| **Adjustments Involving the Financial Instruments Adjustment Account:** | | | | | | |
| Amount by which finance costs charged to the CI&ES are different from those chargeable in accordance with statutory requirements | 617 | 0 | 0 | **617** | (617) | **0** |
| **Adjustments Involving the Pension Reserve:** | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the CI&ES | (54,851) | 0 | 0 | **(54,851)** | 54,851 | **0** |
| Employer's pension contributions and direct payments to pensioners | (29,681) | 0 | 0 | **(29,681)** | 29,681 | **0** |

| 2010/11 Comparative Adjustments | General Fund Balance £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | **Total Usable Reserves £000** | Unusable Reserves £000 | **Total Authority Reserves £000** |
|---|---|---|---|---|---|---|
| **Adjustments Involving Collection Fund Adjustment Account:** | | | | | | |
| Amount by which council tax credited to the CI&ES is different from the amount calculated in accordance with statutory requirements | (237) | 0 | 0 | **(237)** | 237 | **0** |
| **Adjustments Involving Unequal Pay Back Pay Account:** | | | | | | |
| Amount by which amounts charged for equal pay claims to the CI&ES are different from the cost of settlements chargeable in the year in accordance with requirements | 153 | 0 | 0 | **153** | (153) | **0** |
| **Adjustments Involving Accumulated Absences Account:** | | | | | | |
| Amount by which officer remuneration charged to the CI&ES on an accruals basis is different from remuneration chargeable in year in accordance with statutory requirements | (519) | 0 | 0 | **(519)** | 519 | **0** |
| **Total Adjustments 2010/11** | **(44,220)** | **(6,447)** | **2,878** | **(47,789)** | **47,789** | **0** |

## 7. Transfers to/from Earmarked Reserves

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

| Earmarked Reserve | Balance at 31 March 2011 £000 | Transfers Out 2011/12 £000 | Transfers In 2011/12 £000 | Balance at 31 March 2012 £000 |
|---|---|---|---|---|
| **School Balances:** | | | | |
| Reserves and Balances held by Schools | 9,975 | (1,341) | 6,329 | **14,963** |
| **Total Schools Balances** | **9,975** | **(1,341)** | **6,329** | **14,963** |
| **General Fund:** | | | | |
| Revenue Grants Transferred to Earmarked Reserves | 2,976 | (2,420) | 0 | **556** |
| Carry Forwards by Service Managers | 160 | (160) | 813 | **813** |
| Enabling Local Working Reserve | 717 | (149) | 0 | **568** |
| Insurance Reserve – Cheshire East Fund | 1,607 | (1,868) | 1,680 | **1,419** |
| Insurance Reserve – Cheshire County Fund | 1,983 | (263) | 0 | **1,720** |
| Invest to Save Reserve | 1,093 | (438) | 0 | **655** |
| LATS Trading Account Reserve | 235 | (235) | 0 | **0** |
| PFI Equalisation Reserve | 892 | 0 | 0 | **892** |
| Economic Development Reserve | 463 | (200) | 0 | **263** |

| Earmarked Reserve | Balance at 31 March 2011 £000 | Transfers Out 2011/12 £000 | Transfers In 2011/12 £000 | Balance at 31 March 2012 £000 |
|---|---|---|---|---|
| **Other Earmarked Reserves**: | | | | |
| Education All Risks Scheme | 257 | (207) | 0 | **50** |
| Long Term Sickness Scheme | 517 | (367) | 0 | **150** |
| Section 117 | 133 | (133) | 0 | **0** |
| Leisure Facilities Management | 47 | (47) | 0 | **0** |
| Fluctuations in School Days | 223 | (223) | 0 | **0** |
| Victoria CC Cumberland | 96 | (96) | 0 | **0** |
| Countryside and Rangers | 62 | (62) | 0 | **0** |
| Health Improvements | 5 | (5) | 0 | **0** |
| Strategic Director | 6 | (6) | 0 | **0** |
| Streetscape | 31 | (26) | 0 | **5** |
| Crematoria | 189 | (126) | 128 | **191** |
| Markets | 30 | (30) | 0 | **0** |
| Community Safety | 25 | (25) | 0 | **0** |
| Building Regulation Fee Earning | 337 | (156) | 0 | **181** |
| Local Development Framework | 291 | (291) | 0 | **0** |
| Housing Strategy | 61 | (61) | 0 | **0** |
| Regeneration Support Services | 309 | (41) | 0 | **268** |
| People into Jobs | 57 | (57) | 0 | **0** |
| Recession Task Group | 48 | (48) | 0 | **0** |
| Climate Change | 67 | 0 | 0 | **67** |
| Benefits | 200 | (200) | 0 | **0** |
| Other Revenue Reserves | 1,249 | (709) | 0 | **540** |
| Travel Plan Measures | 52 | (52) | 0 | **0** |
| Crewe Lyceum Theatre | 5 | (5) | 0 | **0** |
| **Total General Fund Reserves** | **14,423** | **(8,706)** | **2,621** | **8,338** |
| **Total Earmarked Reserves** | **24,398** | **(10,047)** | **8,950** | **23,301** |

## 8. Exceptional Items

Exceptional items are ones that are material in terms of the Authority's overall expenditure and not expected to recur frequently or regularly. Exceptional items are included on the face of the Comprehensive Income and Expenditure Account.

In 2010/11 two specific items were included in exceptional items:

- Past Service Pension Costs: In the June 2010 Emergency Budget, the Chancellor announced that public sector pension increases will henceforth be linked to the Consumer Prices Index (CPI) rather than to the Retail Prices Index (RPI). The change of basis of valuation of future pension increases gave rise to an exceptional gain for past service amounting to £107.396m.
- Retrospective VAT claims: In 2010/11 the Council received net income of £1.857m in settlement of retrospective "Fleming" VAT claims, after deducting fees payable to external consultants who completed the claims on behalf of the Council. The claims were made to recover VAT paid over in respect of various cultural and leisure charges which, following legal rulings, was deemed to have been overpaid to HM Revenue & Customs.

There are no items considered to be exceptional in 2011/12.

## 9. Other Operating Income and Expenditure

| 2010/11 £000 | Other Operating Expenditure | 2011/12 £000 |
|---|---|---|
| 130 | Council Tax on Second Homes | 0 |
| 3,040 | Precepts and Levies | 3,442 |
| 6 | Payments to Government Housing Capital Receipts Pool | 7 |
| 665 | Impairments of Financial Assets | (57) |
| 10,779 | (Gains)/losses on the disposal of non current assets | 36,283 |
| 0 | Other Expenditure | 697 |
| **14,620** | **Total** | **40,372** |
| | | |
| **2010/11 £000** | **Other Operating Income** | **2011/12 £000** |
| (56) | Debt Charges Income | 0 |
| (369) | Business Finance Loan Interest | (270) |
| (115) | 3C Waste Royalties | 0 |
| (103) | CLC Rent Income | (107) |
| (1,173) | Other Capital Income | (961) |
| (1,110) | Other Income | (1,751) |
| **(2,926)** | **Total** | **(3,089)** |
| **11,694** | **Net Other Operating Expenditure** | **37,283** |

## 10. Financing and Investment Income and Expenditure

| 2010/11 (as Restated) £000 | | 2011/12 £000 |
|---|---|---|
| 5,976 | Interest Payable and Similar Charges | 6,167 |
| (1,980) | Interest and Investment Income | (1,517) |
| 23,467 | Pensions Interest Cost and Expected Return on Pension Assets | 2,761 |
| 3,062 | Trading Accounts (Surplus) / Deficit (Note 32) | 2,915 |
| (67) | Income and expenditure in relation to investment properties and changes in their fair value | (6,377) |
| 0 | Other investment income | 0 |
| **30,458** | **Total** | **3,949** |

## 11. Taxation and Non-Specific Grant Income

| 2010/11 £000 | | 2011/12 £000 |
|---|---|---|
| (179,618) | Demand on Collection Fund | (182,122) |
| 0 | (Surplus)/Deficit on Collection Fund | 0 |
| (55,437) | National Non Domestic Rates | (53,728) |
| (8,050) | Revenue Support Grant | (16,607) |
| (39,923) | Government Grants | (159,124) |
| (22,364) | Area Based Grant | 0 |
| **(305,392)** | **Total** | **(411,581)** |

## 12. Property, Plant and Equipment (PP&E)

| Property, Plant and Equipment 2011/12 | Other Land and Buildings £000 | Vehicles, Plant, Furniture and Equipment £000 | Infrastructure Assets £000 | Community Assets £000 | Surplus Assets £000 | Assets Under Construction £000 | **Total PP&E £000** | PFI Assets included in PP&E £000 |
|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | | |
| **At 1 April 2011** | 668,316 | 51,173 | 324,597 | 1,602 | 38,088 | 9,750 | **1,093,526** | 31,096 |
| Additions | 12,116 | 8,818 | 14,723 | 36 | 892 | 6,903 | **43,488** | 0 |
| New Finance Leases | 0 | 1,843 | 0 | 0 | 0 | 0 | **1,843** | 0 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | 15,971 | 0 | 0 | 0 | 163 | 0 | **16,134** | 0 |
| Derecognition - Disposals | (36,598) | (1,245) | 0 | 0 | (1,888) | 0 | **(39,731)** | 0 |
| Derecognition - Other | (819) | 0 | 0 | 0 | 0 | 0 | **(819)** | 0 |
| Assets reclassified (to)/from Investment Properties | 518 | 0 | 0 | 0 | 13,447 | 0 | **13,965** | 0 |
| Assets reclassified (to)/from Assets Held for Sale | (1,875) | 0 | 0 | 0 | (4,318) | 0 | **(6,193)** | 0 |
| Assets reclassified within PP&E | 9,250 | 0 | 1,941 | 0 | (1,750) | (9,441) | **0** | 0 |
| Other movements in Cost or Valuation | (15,145) | (6,349) | (408) | 0 | 0 | 0 | **(21,902)** | 0 |
| **At 31 March 2012** | **651,734** | **54,240** | **340,853** | **1,638** | **44,634** | **7,212** | **1,100,311** | **31,096** |
| **Accumulated Depreciation and Impairment** | | | | | | | | |
| At 1 April 2011 | (65,721) | (33,307) | (84,533) | (2) | (13,468) | 0 | **(197,031)** | (3,519) |
| Depreciation charge | (16,791) | (4,964) | (9,493) | 0 | 0 | 0 | **(31,248)** | (474) |
| Depreciation written out to the Revaluation Reserve | 2,720 | 0 | 0 | 0 | 0 | 0 | **2,720** | 0 |
| Impairment losses/ (reversals) recognised in the Revaluation Reserve | (9,634) | 0 | 0 | 0 | 0 | 0 | **(9,634)** | 0 |
| Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services | (14,553) | (2,696) | (562) | (36) | (1,548) | 0 | **(19,395)** | 0 |
| Derecognition - Disposals | 1,173 | 1,052 | 0 | 0 | 988 | 0 | **3,213** | 0 |
| Other movements in Depreciation and Impairment | 15,484 | 6,349 | 408 | 0 | 1,018 | 0 | **23,259** | 0 |
| **At 31 March 2012** | **(87,322)** | **(33,566)** | **(94,180)** | **(38)** | **(13,010)** | **0** | **(228,116)** | **(3,993)** |
| **Net Book Value** | | | | | | | | |
| **At 31 March 2012** | **564,412** | **20,674** | **246,673** | **1,600** | **31,624** | **7,212** | **872,195** | **27,103** |
| **At 31 March 2011** | **602,595** | **17,866** | **240,064** | **1,600** | **24,620** | **9,750** | **896,495** | **27,577** |

## Depreciation

All depreciation calculations are made on a straight-line basis.

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

- Property excluding Land – 2 to 60 years. Useful lives are as indicated in the most recent valuation certificate.
- Land – no charge is made.
- Vehicles, Plant, Furniture and Equipment – 3 to 20 years. Useful lives and residual values are as assessed by the suitably qualified users of the assets.
- Infrastructure – 40 years.

## Significant Commitments Under Capital Contracts

The value of significant commitments under capital contracts, where amounts of greater than £0.5m are contracted to be paid after 31 March 2012, totals £4.0m. These contracts are all fully funded and are summarised as follows:

| Capital Project | Contract Total £000 | Amount Paid Up To 31 March 2012 £000 | Balance £000 |
|---|---|---|---|
| **People** | | | |
| Poynton High School | 3,222 | 1,325 | 1,897 |
| Tytherington High School | 3,096 | 951 | 2,145 |
| **Total** | **6,318** | **2,276** | **4,042** |

## Revaluations

Property assets transferred from the former Districts were revalued at 31 March 2010. Property assets transferred from the former Cheshire County Council were revalued at 31 March 2011.

Property assets revalued at 31 March 2012 are, in the main, the assets held as Investment Properties and the playing fields of Voluntary Aided schools, where the statutory responsibility for the land remains with the Local Authority. The valuation of land and buildings (other than the Farms Estate) at 31 March 2012 was carried out by Drivers Jonas Deloitte in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The valuation of the Farms Estate at 31 March 2012 was carried out by David R Job MRICS, Farms Estate Shared Service Manager, Cheshire Farms Service, in accordance with the statement of methodology agreed by ACES (The Association of Chief Estate Surveyors and Property Managers in Local Government.)

Vehicles, plant, furniture and equipment continue to be carried at cost, which the Council considers would not differ materially from other methods such as ‘current prices where there is an active second-hand market’ or ‘latest list prices adjusted for the condition of the asset.’

| Property, Plant and Equipment Comparative Movements 2011/12 | Other Land and Buildings £000 | Vehicles, Plant, Furniture and Equipment £000 | Infrastructure Assets £000 | Community Assets £000 | Surplus Assets £000 | Assets Under Construction £000 | **Total Property, Plant and Equipment £000** | PFI Assets included in Property, Plant and Equipment £000 |
|---|---|---|---|---|---|---|---|---|
| Carried at historical cost | 0 | 52,356 | 340,853 | 1,638 | 0 | 7,212 | **402,059** | 0 |
| Valued as Fair Value as at: | | | | | | | | |
| 31 March 2012 | 117,015 | 0 | 0 | 0 | 6,836 | 0 | **123,851** | 0 |
| 31 March 2011 | 463,087 | 0 | 0 | 0 | 27,734 | 0 | **490,821** | 31,096 |
| 31 March 2010 | 72,819 | 0 | 0 | 0 | 10,064 | 0 | **82,883** | 0 |
| 31 March 2009 | 0 | 1,884 | 0 | 0 | 0 | 0 | **1,884** | 0 |
| **Total Cost or Valuation** | **652,921** | **54,240** | **340,853** | **1,638** | **44,634** | **7,212** | **1,101,498** | **31,096** |

## 13. Heritage Assets

Heritage Assets are assets that have been preserved in trust for future generations because of their environmental, artistic, scientific, geophysical or historical associations. The assets can also be held for the contribution of knowledge and culture.

The Heritage Assets that are held on the Council balance sheet at a value of £1.2m primarily relate to Civic Regalia or the ceremonial pieces that go alongside the formal civic ceremonies. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting polices on property, land and equipment. However, some of the measurement rules are relaxed in relation to Heritage Assets, as detailed below.

| Heritage Assets 2011/12 | Civic Regalia £000 | Art Work £000 | Ceramics £000 | Sculpture £000 | **Total Heritage Assets £000** |
|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | |
| **Opening Balance at 1 April 2011** | 0 | 0 | 0 | 0 | **0** |
| Additions | 0 | 0 | 0 | 0 | **0** |
| Disposals | 0 | 0 | 0 | 0 | **0** |
| Valuations | 864 | 86 | 13 | 239 | **1,202** |
| Impairment Losses/(Reversals) recognised in Revaluation Reserve | 0 | 0 | 0 | 0 | **0** |
| Impairment Losses/(Reversals) recognised in Surplus or Deficit on the Provision of Services | 0 | 0 | 0 | 0 | **0** |
| Depreciation | 0 | 0 | 0 | 0 | **0** |
| **Closing Balance at 31 March 2012** | **864** | **86** | **13** | **239** | **1,202** |

**Civic Regalia, Ceramics Work and Figurines**

The Authority's collection of Civic Regalia, Ceramics and Sculptures is reported in the Balance Sheet at insurance valuation based on market values. The collection was valued in November 2010 by Byrnes Auctioneers and Valuers LLP based in Chester. The collection will not be revalued annually but a regular review is carried on certain valuable items within the collection to ensure the adequacy of the valuation.

The Civic Regalia, Ceramics and Sculptures Collection also has particularly significant items in terms of both value and note, including a William and Mary silver gilt mace by Anthony Nelme, London, dated 1693 and valued at £110,000; Artemis Sculpture valued at £100,000, and the former Borough of Crewe Mayoral gold chain dated 1877 and valued at £62,500.

**War Memorials**

The Authority has approximately 40 War Memorials situated across the Borough in the form of stone memorials in town centres, stone crosses in parks and cemeteries, as well as plaques and tablets in a number of buildings and schools owned by the Authority.

The Authority considers that obtaining valuations for the vast majority of the War Memorials and other artefacts would involve a disproportionate cost in comparison to the benefits to the users of the Authority's financial statements. This is because of the diverse nature of the assets held and the lack of comparable values.

**West Park Museum Collection**

The Authority does hold a Collection of Ceramics, Porcelains, Artwork and Egyptian Artefacts at West Park Museum.  Many of the items within the Collection have been loaned to the Authority from the Brocklehurst Family collection and from the estate of Charles Frederick Tunnicliffe. Information from the Council's Legal Department suggests that these items are not owned by the Authority and in the event of any of the items being sold the proceeds would go to executors of their respective estates.

For the remaining items in the collection, the Authority has not recognised them in the Balance Sheet as cost information is not readily available and the Authority believes that the benefits of obtaining a valuation for these items would not justify the cost.

## 14. Investment Properties

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

| 31 March 2011 £000 | | 31 March 2012 £000 |
|---:|---|---:|
| 323 | Rental income from investment property | 233 |
| (206) | Direct operating expenses arising from investment property | (1) |
| **117** | **Net gain / (loss)** | **232** |

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

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

| 2010/11 £000 | | 2011/12 £000 |
|---|---|---|
| 19,098 | **Opening Balance at 1 April** | 19,841 |
| | Additions: | |
| 2,894 | Purchases | 0 |
| 0 | Disposals | (79) |
| 67 | Net gains/losses from fair value adjustments | 6,145 |
| | Transfers: | |
| (2,218) | (To)/from Property, Plant and Equipment | (14,207) |
| 0 | (To)/from Assets Held for Sale | (2,625) |
| **19,841** | **Closing Balance at 31 March** | **9,075** |

## 15. Intangible Assets

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

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority.

The Council maintains the amortisation rates applied by the predecessor authorities to their transferred assets. Amortisation periods for the transferred assets are in the range 3 to 10 years. Intangible Assets capitalised since the formation of Cheshire East Borough Council are amortised over 3 years.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £132,648 charged to revenue in 2011/12 was charged to the Services identified as users of the assets.

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

| 2010/11 £000 | Intangible Assets | 2011/12 £000 |
|---|---|---|
| | **Opening Balance at 1 April** | |
| 747 | • Gross carrying amounts | 1,182 |
| (689) | • Accumulated Amortisation | (885) |
| **58** | **Net carrying amount at start of year** | **297** |
| 133 | Additions: Purchases | 223 |
| | Assets Reclassified from VPE: | |
| 302 | • Cost | 0 |
| (87) | • Accumulated Amortisation | 0 |
| (109) | Amortisation for the year | (133) |
| **297** | **Net carrying amount at end of year** | **387** |
| | **Comprising:** | |
| 1,182 | • Gross carrying amounts | 1,405 |
| (885) | • Accumulated Amortisation | (1,018) |
| **297** | **Closing Balance at 31 March** | **387** |

No individual items of capitalised software are considered to be material to the Financial Statements.

## 16. Assets Held for Sale

| | Current Assets | | Non-Current Assets | |
|---|---|---|---|---|
| | 2010/11 £000 | 2011/12 £000 | 2010/11 £000 | 2011/12 £000 |
| **Opening Balance at 1 April** | **0** | **215** | **1,156** | **0** |
| Assets newly classified as held for sale: | | | | |
| • Property, Plant and Equipment | 0 | 5,175 | 0 | 0 |
| • Investment Properties | 0 | 2,625 | | |
| Revaluation losses | 0 | (1,182) | 0 | 0 |
| Revaluation gains | 35 | 3,625 | 0 | 0 |
| Impairment losses | 0 | (929) | 0 | 0 |
| Assets declassified as held for sale: | | | | |
| Assets sold | (976) | (215) | 0 | 0 |
| Transfers from non current to current | 1,156 | 0 | (1,156) | 0 |
| **Closing Balance at 31 March** | **215** | **9,314** | **0** | **0** |

## 17. Capital Expenditure and Capital Financing

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

| 2010/11 £000 | | 2011/12 £000 |
|---|---|---|
| **193,931** | **Opening Capital Financing Requirement** | **204,595** |
| 63,407 | Property Plant and Equipment | 45,331 |
| 2,894 | Investment Properties | 0 |
| 133 | Intangible Assets | 223 |
| 605 | Loans transferred to Long-term Debtors | 481 |
| 5,604 | Revenue Expenditure Funded from Capital under Statute | 6,030 |
| | **Sources of Finance** | |
| (14,145) | Capital Receipts | (10,180) |
| (37,045) | Grants and Contributions | (28,175) |
| (105) | Direct Revenue Contributions | (850) |
| | **Minimum Revenue Provision** | |
| (6,012) | Amount provided in respect of supported borrowing | (6,157) |
| (1,278) | Amount provided in respect of unsupported borrowing | (2,298) |
| (1,233) | Amount provided in respect of Finance leases | (1,031) |
| (435) | Amount provided in respect of PFI arrangements | (548) |
| (1,726) | Prior year adjustments | 1,537 |
| **204,595** | **Closing Capital Financing Requirement** | **208,958** |
| | **Explanation of movements in year** | |
| 5,903 | Increase/(decrease) in underlying need to borrow (supported by government financial assistance) | (2,512) |
| 6,429 | Increase in underlying need to borrow (unsupported by government financial assistance) | 6,610 |
| (1,233) | Assets Acquired under finance leases | 813 |
| (435) | Assets Acquired under PFI/PPP Contracts | (548) |
| **10,664** | **Increase in Capital Financing Requirement** | **4,363** |

## 18. Impairment Losses

Paragraph 4.7.4.2(1) of the Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated in Note 12 reconciling the movement over the year in the Property, Plant and Equipment balances.

The largest single amount in the Other Land and Buildings total of £4.7m related to the Queens Park restoration. There were also a number of impairment reversals previously charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure that reduced the over all charge:

| | £m |
|---|---|
| Enhancing spend identified as Assets under Construction in 2010/11 | 5.4 |
| Enhancing spend 2011/12 | 1.4 |
| Accumulated spend on Project determined as complete in 2011/12 | 6.8 |
| Certified valuation of Buildings at 31 March 2012 | (2.1) |
| Queens Park Restoration Impairment 2011/12 | 4.7 |

Note that while the revaluation at 31 March 2012 produced downward revaluations of £4.7m for PP&E, it also produced upward revaluations totalling £24.9m on other PP&E assets.

1) At 31 March 2012 the Council commissioned Drivers Jonas Deloitte to revalue a number of asset categories including all the existing and new investment properties, assets that have transferred category and required a further revaluation and the playing fields associated with Voluntary Aided schools where the statutory responsibility for the land still lies with the Local Authority.

   From 2012/13 the Council intends to introduce a 5-year rolling programme for revaluations. Approximately 20% of property assets will be revalued each year, spreading impairment charges over 5 years.

2) During the 2011/12 revaluation a number of balances (cost and accumulated depreciation) were identified as not representing a physical asset and written out. Accumulated depreciation has been written back where the Council's accounting policy (Surplus, Investment Properties) is not to make a depreciation charge.

3) Expenditure charged to capital projects that has created or enhanced an asset is carried forward in the PP&E balances. If it does not create or enhance an asset it is regarded as capital spend not adding value (CNAV) and charged to the Comprehensive Income and Expenditure Statement as 'impairment'.

## 19. Financial Instruments

The following categories of Financial Instruments are carried in the Balance Sheet:

| 31 March 2011 Long-Term £000 | 31 March 2011 Current £000 | | Notes | 31 March 2012 Long-Term £000 | 31 March 2012 Current £000 |
|---|---|---|---|---|---|
| | | **Investments:** | 19(a) | | |
| 585 | 39,358 | Loans and Receivables | | 1,733 | 3,687 |
| 0 | 0 | Available for Sale Financial Assets | | 18,632 | 0 |
| **585** | **39,358** | **Total Investments** | | **20,365** | **3,687** |
| | | **Debtors:** | | | |
| | | Loans and Receivables: | | | |
| 85 | 0 | Mortgages | | 73 | 0 |
| 2,827 | 0 | Other Loans and Receivables | | 2,747 | 0 |
| 0 | 34,486 | Financial Assets carried at Contract Amounts | | 0 | 33,021 |
| **2,912** | **34,486** | **Total Debtors** | | **2,820** | **33,021** |
| | | **Borrowings:** | 19(b) | | |
| (129,382) | (5,021) | Financial Liabilities at Amortised Cost | | (128,880) | (5,521) |
| **(129,382)** | **(5,021)** | **Total Borrowings** | | **(128,880)** | **(5,521)** |
| | | **Other Long-Term Liabilities:** | | | |
| (22,778) | 0 | PFI Liabilities | 44 | (22,230) | 0 |
| (2,292) | (1,117) | Finance Lease Liabilities | 43 | (2,895) | (1,269) |
| **(25,070)** | **(1,117)** | **Total Other Long-Term Liabilities** | | **(25,125)** | **(1,269)** |
| | | **Creditors:** | | | |
| 0 | (65,281) | Financial Liabilities at Contract Amount | | 0 | (50,544) |
| **0** | **(65,281)** | **Total Creditors** | | **0** | **(50,544)** |

Note 50 refers to the nature and extent of risks associated with financial instruments.

## Financial Instruments - Income, Expense, Gains and Losses

| 31 March 2011: Financial Liabilities measured at Amortised Cost £000 | 31 March 2011: Financial Assets: Loans and Receivables £000 | 31 March 2011: Financial Assets: Available for Sale £000 | 31 March 2011: Assets and Liabilities at Fair Value through Profit and Loss £000 | 31 March 2011: Total £000 | | 31 March 2012: Financial Liabilities measured at Amortised Cost £000 | 31 March 2012: Financial Assets: Loans and Receivables £000 | 31 March 2012: Financial Assets: Available for Sale £000 | 31 March 2012: Assets and Liabilities at Fair Value through Profit and Loss £000 | 31 March 2012: Total £000 |
|---|---|---|---|---|---|---|---|---|---|---|
| 7,741 | 0 | 0 | 0 | **7,741** | Interest Expense | 7,297 | 0 | 0 | 0 | **7,297** |
| 0 | 0 | 0 | 0 | **0** | Impairment Losses | 0 | (57) | 0 | 0 | **(57)** |
| 18 | 0 | 3 | 0 | **21** | Fee Expenses | 2 | 0 | 45 | 0 | **47** |
| **7,759** | **0** | **3** | **0** | **7,762** | **Total Surplus or (Deficit) on the Provision of Services** | **7,299** | **(57)** | **45** | **0** | **7,287** |
| 0 | (964) | (108) | 0 | (1,072) | Interest Income | 0 | (622) | 0 | 0 | (622) |
| 0 | (109) | 0 | 0 | (109) | Interest Income Accrued on Impaired Financial Assets | 0 | (63) | 0 | 0 | (63) |
| **0** | **(1,073)** | **(108)** | **0** | **(1,181)** | **Total Income in Surplus or (Deficit) on the Provision of Services** | **0** | **(685)** | **0** | **0** | **(685)** |
| 0 | 0 | 0 | 0 | 0 | Gains on Revaluation | 0 | 0 | (131) | 0 | (131) |
| 0 | 0 | 24 | 0 | 24 | Losses on Revaluation | 0 | 0 | 0 | 0 | 0 |
| **0** | **0** | **24** | **0** | **24** | **Surplus/(Deficit) arising on Revaluation of Financial Assets in Other Comprehensive Income and Expenditure** | **0** | **0** | **(131)** | **0** | **(131)** |
| **7,759** | **(1,073)** | **(81)** | **0** | **6,605** | **Net Gain/(Loss) for Year** | **7,299** | **(742)** | **(86)** | **0** | **6,471** |

## Financial Instruments - Fair Values of Assets and Liabilities

The fair value of financial assets at 31 March 2012 represents the amount that would need to be invested on 31 March 2012 at rates of interest prevailing on that date for the period up until the existing amounts are due to mature/be repaid to the Council which would generate an amount equal to that the Council is currently due to receive from its existing deposits.

| 31 March 2011: Carrying Amount £000 | 31 March 2011: Fair Value £000 | | 31 March 2012: Carrying Amount £000 | 31 March 2012: Fair Value £000 |
|---|---|---|---|---|
| | | **Assets:** | | |
| 39,943 | 39,629 | Loans and Receivables | 5,420 | 5,423 |
| 2,912 | 2,912 | Long Term Debtors | 2,820 | 2,820 |
| **42,855** | **42,541** | **Total Assets** | **8,240** | **8,243** |

The only instance where the fair value of the financial assets held differed from their carrying value was in respect of one fixed term money market deposit that is due to mature in April 2012. Money markets rates at 31 March 2012 had not changed significantly from those applicable at the time the loans were made. The fair value is lower to reflect the lower rate applicable to the remaining period of the loan.

Available for sale financial assets were carried in the balance sheet at their fair value in 2011/12.

Trade Debtors are all due immediately so the fair value is assessed as being equal to the carrying value in the balance sheet. Similarly, mortgages and other loans which make up the Long Term Debtors are repayable at market rates so the fair value is assessed as equal to the carrying value.

The fair value of the financial liabilities represents the amount of loans that could be raised on 31 March 2012 which would give rise to the same profile of interest payments and principal repayments as those the Council is committed to under its existing loan agreements. This is based on the Public Works Loans Board (PWLB) repayment rates and market (LOBO) loan swap rates.

| 31 March 2011 | | | 31 March 2012 | |
|---|---|---|---|---|
| Carrying Amount £000 | Fair Value £000 | | Carrying Amount £000 | Fair Value £000 |
| | | **Liabilities:** | | |
| 134,403 | 141,286 | Financial Liabilities | 134,401 | 158,670 |
| 25,070 | 25,070 | Other Long Term Liabilities | 25,125 | 25,125 |
| **159,473** | **166,356** | **Total Investments** | **159,526** | **183,795** |

The market value of total borrowings was higher than their carrying value as at 31 March 2012. This is a result of the Council having all fixed rate loans within its portfolio which are at higher rates than the repayment and swap rates prevailing at 31 March 2012.

Trade creditors are all due immediately so the fair value is equal to the carrying value in the balance sheet.

## 19(a). Investments

### Long Term Investments are as follows:

| 2010/11 £000 | | 2011/12 £000 |
|---|---|---|
| | **Loans and Receivables:** | |
| 584 | Heritable Bank (in administration) | 225 |
| | **Available for Sale Financial Assets:** | |
| 0 | Investec Managed Pooled Funds | 20,139 |
| 1 | Government Consolidated Stock and War Stock | 1 |
| **585** | **Total Long Term Investments** | **20,365** |

The investment with Heritable Bank relates to former Cheshire County Council investments of £8.5m of which a 54.3% share (£4.62m) has been inherited by Cheshire East Borough Council. Heritable Bank went into administration on 7 October 2008 and it is expected that 88% of the total amount due to the Council at that time will be received. An impairment charge was included in the accounts of Cheshire County Council in 2008/09 to allow for amounts not likely to be recovered. This impairment has been reduced in 2011/12 as the expectation is that more will be recovered than originally predicted. The amount shown as long term investments is likely to be received in April 2013. Amounts due to be received in 2012/13 are included in the Short Term Investments.

The Pooled Funds shown as available for sale financial assets are investments with no determinable maturity date that the Council can sell at any time. However, the expectation is for these investments to be retained over the next 12 months.

**Short Term Investments are as follows:**

| 2010/11 £000 | | 2011/12 £000 |
|---|---|---|
| | **Loans and Receivables:** | |
| 8,074 | Lloyds TSB Bank | 3,059 |
| 957 | Heritable Bank (in administration) | 612 |
| 5,032 | Santander (UK) | 3 |
| 15,181 | Barclays Bank | 0 |
| 10,100 | Nationwide Building Society | 0 |
| 14 | Other | 13 |
| **39,358** | **Total Short Term Investments** | **3,687** |

Short Term Investments represent all invested funds which are not immediately convertible to cash on 31 March 2012 but where repayment is expected before 31 March 2013. All investments are in sterling and were made in accordance with the Council's Treasury Management Strategy.

The general policy objective of the Council was the prudent investment of its treasury balances. The Council's investment priorities are the security of capital and liquidity of its investments which take priority over yield. The reduction in investments from 31 March 2011 to 31 March 2012 reflects the use of internal cash resources to defer borrowing, thereby reducing the credit risk associated with investments and avoiding the short term costs of carrying additional debt.
The Council considered that an appropriate risk management response to uncertain and deteriorating credit conditions in Europe was to shorten maturities for new investments. In the last part of 2011/12, investments have been limited to Money Market Funds and instant access bank accounts which are shown in the accounts as cash equivalents (see Note 22).

## 19(b). Borrowings – Financial Liabilities at Amortised Cost

The amounts and maturity profile of borrowings are as follows:

| Total 2010/11 | Debt Maturity | Lender<br>Public Works Loans Board | Banks | Total |
|---|---|---|---|---|
| £000 | | £000 | £000 | £000 |
| | **Short Term Borrowing** | | | |
| 5,021 | within the next financial year | 5,521 | 0 | 5,521 |
| **5,021** | **Total short term borrowing** | **5,521** | **0** | **5,521** |
| | **Long Term Borrowing** | | | |
| 5,021 | 1 – 2 years | 5,521 | 0 | 5,521 |
| 22,934 | 2 – 5 years | 24,435 | 0 | 24,435 |
| 22,594 | 5 – 10 years | 20,076 | 0 | 20,076 |
| 0 | 10 – 15 years | 0 | 0 | 0 |
| 12,422 | 15 – 20 years | 17,585 | 0 | 17,585 |
| 13,781 | 20 – 25 years | 8,622 | 0 | 8,622 |
| 2,604 | 25 – 30 years | 7,846 | 0 | 7,846 |
| 50,026 | More than 30 years | 26,948 | 17,847 | 44,795 |
| **129,382** | **Total long term borrowing** | **111,033** | **17,847** | **128,880** |
| | | | | |
| **134,403** | **Total** | **116,554** | **17,847** | **134,401** |

The only new borrowing in 2011/12 was £5m to refinance maturing debt arising from debt restructuring in July 2010.

### 20. Inventories

| | **Balance as at 1 April 2011** | Purchases | Recognised as an expense in the year | Written Off Balances | Reversal of Write-offs in previous year | **Balance as at 31 March 2012** |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Catering Service | **70** | 2,632 | (2,660) | 0 | 0 | **42** |
| Engineering Salt | **127** | 254 | (281) | 0 | 0 | **100** |
| Visitor Information Centres – Items Held for Sale | **14** | 201 | (194) | 0 | 0 | **21** |
| Tatton Park Shop – Items Held for Sale | **96** | 357 | (370) | 0 | 0 | **83** |
| Concessionary Travel Railcards and Bus Passes | **207** | 0 | (165) | 0 | 0 | **42** |
| Waste and Recycling Collection Bins | **0** | 270 | (111) | 0 | 0 | **159** |
| Fuel | **60** | 1,461 | (1,439) | 0 | 0 | **82** |
| Litter Bins | **7** | 0 | 0 | 0 | 0 | **7** |
| Memorial Items for Resale | **35** | 31 | (32) | 0 | 0 | **34** |
| Emergency Planning Sand Bags | **0** | 3 | 0 | 0 | (1) | **2** |
| Bar and Catering Stocks | **60** | 149 | (174) | 0 | 9 | **44** |
| Office and General Supplies | **335** | 221 | (490) | 0 | 0 | **66** |
| **Total** | **1,011** | **5,579** | **(5,916)** | **0** | **8** | **682** |

## 21. Debtors

### Current (Short-Term) Debtors

The Council's current debtors, due within 12 months, are summarised as follows:

| 31 March 2011 £000 | | 31 March 2012 £000 |
|---|---|---|
| 5,084 | HM Revenue & Customs - VAT reclaimable | 6,699 |
| 8,779 | National Non-Domestic Rates (net of impairment) | 6,073 |
| 3,827 | Housing and Council Tax benefit subsidy | 3,297 |
| 7,655 | Government grants | 1,319 |
| 5,022 | Other central government debtors and prepayments | 2,092 |
| 0 | Impairment | 0 |
| **30,367** | **Total central government bodies** | **19,480** |
| 4,785 | Cheshire West and Chester Council | 3,088 |
| 2,555 | Other local authorities | 2,781 |
| (26) | Impairment | (21) |
| **7,314** | **Total other local authorities** | **5,848** |
| 1,812 | Primary Care and other NHS Trusts | 2,395 |
| 0 | Impairment | 0 |
| **1,812** | **Total NHS bodies** | **2,395** |
| 161 | Public corporations and trading funds | 18 |
| 0 | Impairment | 0 |
| **161** | **Total public corporations and trading funds** | **18** |
| 12,721 | Council tax payers | 13,174 |
| 4,083 | Benefits claimants | 5,130 |
| 3,124 | Deferred debtors | 3,342 |
| 11,558 | Other sundry debtors and prepayments | 13,207 |
| (9,747) | Impairment on all the above | (10,302) |
| **21,739** | **Total other entities and individuals** | **24,551** |
| **61,393** | **Total Current Debtors** | **52,292** |

## Long-Term Debtors

Long Term Debtors at 31 March were as follows:

| 31 March 2011 £000 | | 31 March 2012 £000 |
|---|---|---|
| 2,103 | Cheshire Lifestyle Services (CLS) | 1,593 |
| 706 | Soft Loans | 941 |
| 1,892 | Joint Assets – Cheshire East BC share of Cheshire West and Chester Council Assets | 930 |
| 0 | Academies | 197 |
| 85 | Mortgages (Right to Buy and Housing Act Advances) | 73 |
| 16 | Finance Leases | 16 |
| 2 | Car Loans to employees (1 – 5 years) | 0 |
| **4,804** | **Total Long-term Debtors** | **3,750** |

Long term debtors include soft loans. These are loans which have been granted either without interest payable or with interest payable at below market levels. The Council has issued the following soft loans:

| 31 March 2011 £000 | | 31 March 2012 £000 |
|---|---|---|
| 306 | Congleton Town Hall | 223 |
| 26 | Foster Family | 22 |
| 262 | Housing – Assisted Purchase Scheme | 427 |
| 112 | Housing – Private Sector Assistance | 269 |
| **706** | **Total Soft Loans** | **941** |

## 22. Cash and Cash Equivalents

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

| 31 March 2011 £000 | | 31 March 2012 £000 |
|---|---|---|
| 527 | Cash held by the Council | 667 |
| (2,548) | Bank current accounts | 6,856 |
| 28,386 | Instant access investments | 27,069 |
| **26,365** | **Total Cash and Cash Equivalents** | **34,592** |

## 23. Creditors

### Current (Short-Term) Creditors

The Council's current creditors, payable within 12 months, are as follows:

| 31 March 2011 £000 | | 31 March 2012 £000 |
|---|---|---|
| (13,280) | Capital grant received in advance from central government departments | (27,305) |
| (5,889) | National Insurance and PAYE payable to HM Revenue & Customs | (5,011) |
| (1,723) | Superannuation Contributions payable to Teachers Pensions | (1,427) |
| (6,120) | Other central government creditors and receipts in advance | (2,813) |
| **(27,012)** | **Total central government bodies** | **(36,556)** |
| (18,282) | Cheshire West and Chester Council | (11,735) |
| (2,896) | Local Government Pension Scheme contributions | (2,704) |
| (2,169) | Other local authorities | (2,736) |
| **(23,347)** | **Total other local authorities** | **(17,175)** |
| **(543)** | **NHS bodies – Primary Care and other NHS Trusts** | **(1,760)** |
| **(262)** | **Public corporations and trading funds** | **(190)** |
| (7,038) | Leave due to Council employees | (7,509) |
| (2,086) | Highways Maintenance Contract Payments | (4,907) |
| (1,435) | Council Tax received in advance | (1,467) |
| (1,117) | Finance Leases payable within 12 months (Note 43) | (1,269) |
| (37,774) | Amounts due to other entities and individuals | (31,261) |
| **(49,450)** | **Total other entities and individuals** | **(46,413)** |
| **(100,614)** | **Total Current Creditors** | **(102,094)** |

## 24. Provisions

The following table provides a summary of the provisions held:

| Provision | Balance at 1 April 2011 £000 | Additional provisions made in 2011/12 £000 | Amounts used in 2011/12 £000 | Unused amounts reversed in 2011/12 £000 | Unwinding of discounting in 2011/12 £000 | Balance at 31 March 2012 £000 |
|---|---|---|---|---|---|---|
| Insurance Provision – Cheshire East Fund (Note 24a) | 1,762 | 1,936 | (775) | 0 | 0 | **2,923** |
| Insurance Provision – Cheshire County Fund (Note 24a) | 2,706 | 186 | (772) | 0 | 0 | **2,120** |
| Single Status Provision (Note 24b) | 677 | 0 | 0 | (239) | 0 | **438** |
| Early Retirement Provision (Note 24c) | 155 | 0 | (155) | 0 | 0 | **0** |
| **Other Provisions (Note 24d):** | | | | | | |
| Highways Schemes | 405 | 0 | 0 | 0 | 0 | **405** |
| Section 117 | 84 | 33 | (117) | 0 | 0 | **0** |
| Public Health Drainage | 26 | 0 | 0 | 0 | 0 | **26** |
| Domestic Violence Family Support Unit | 15 | 0 | 0 | 0 | 0 | **15** |
| Local Land Charge | 0 | 65 | 0 | 0 | 0 | **65** |
| Asset Recovery Scheme | 29 | 13 | 0 | 0 | 0 | **42** |
| Safer and Stronger Communities | 5 | 0 | 0 | 0 | 0 | **5** |
| **Total Provisions** | **5,864** | **2,233** | **(1,819)** | **(239)** | **0** | **6,039** |

### 24(a). Insurance Provision and Reserve

Cheshire East Borough Council has large excess levels on its external insurance policies and is therefore required to meet the cost below the excess arising from claims in respect of fire and consequential loss, public and employers' liability, and vehicles. An Insurance Fund has been established to meet these potential costs, with annual contributions being charged to the revenue account.

In accordance with accounting practice, the Fund has been analysed into a provision (amounts required for reported claims) and a reserve (estimates for future claims not yet reported). The amounts set aside are based on estimates from the actuary, with an independent actuarial review to be carried out every three years to review the level of the amounts set aside in both the provision and reserve.

The figures below relate to the Cheshire East Borough Council Insurance Fund (inclusive of the former Districts) as at the balance sheet date. The provision covers the estimated settlement costs of claims received up to 31 March 2012 and the reserve represents the sums held to cover potential further claims coming to light in future years.

## Cheshire East Fund

| Insurance Funds | Provision 2011/12 £000 | Reserve 2011/12 £000 | Provision 2010/11 £000 | Reserve 2010/11 £000 |
|---|---|---|---|---|
| **Opening Balance at 1 April** | **1,762** | **1,607** | **1,125** | **1,038** |
| Less claims paid during the year: | | | | |
| Property | (39) | 0 | (23) | 0 |
| Public Liability | (420) | 0 | (220) | 0 |
| Employer's Liability | (110) | 0 | (49) | 0 |
| Motor | (206) | 0 | (246) | 0 |
| Transfer from/(to) Insurance Reserve | 1,948 | (1,868) | 1,175 | (1,175) |
| Appropriation from/(to) Comprehensive Income and Expenditure Account | (12) | 1,680 | 0 | 1,744 |
| **Closing Balance at 31 March** | **2,923** | **1,419** | **1,762** | **1,607** |

One of the former Insurers of the District Council, Municipal Mutual Insurance (MMI) was liquidated in 1993 and since that time has been hoping to achieve a solvent run-off when all outstanding liability claims are settled. As a result of the Supreme Court of Justice Ruling taken on 28 March 2012 regarding the Employers Liability Trigger Litigation, a solvent run-off is now less likely. The MMI 'Scheme of Arrangement' will be triggered if a solvent run-off is unachievable. This is a contingency plan which requires policyholders (including Cheshire East, as successor authority to the former District Councils) to repay a percentage of settled claims to MMI. At this point the Council does not have sufficient information to formally predict the level of clawback under the Scheme of Arrangement and therefore no provision has been made in the Council's Balance Sheet.

## Cheshire County Council Fund

Following the Local Government Review of 2008/09, Cheshire East Borough Council manages the run-off claims relating to the former Cheshire County Council on behalf of Cheshire West and Chester Council as well as Cheshire East Borough Council. The insurance fund has therefore been transferred to Cheshire East Borough Council to administer these claims:

| Insurance Funds | Provision 2011/12 £000 | Reserve 2011/12 £000 | Provision 2010/11 £000 | Reserve 2010/11 £000 |
|---|---|---|---|---|
| **Opening Balance at 1 April** | **2,706** | **1,983** | **4,868** | **1,231** |
| Less claims paid during the year: | | | | |
| Property | 0 | 0 | 0 | 0 |
| Public Liability | (647) | 0 | (870) | 0 |
| Employer's Liability | (130) | 0 | (391) | 0 |
| Motor | 5 | 0 | (30) | 0 |
| Interest accrued on the Fund | 24 | 0 | 23 | 0 |
| Interest paid to CWAC and CEBC | (24) | 0 | (23) | 0 |
| Transfer (to)/from Insurance Reserve | 186 | (186) | (871) | 871 |
| Appropriation from/(to) Comprehensive Income and Expenditure Account | 0 | (77) | 0 | (119) |
| **Closing Balance at 31 March** | **2,120** | **1,720** | **2,706** | **1,983** |

The above figures show the former Cheshire County Council Insurance Fund as at the balance sheet date. As for the Cheshire East Fund, the provision covers the estimated settlement costs of claims received up to 31 March 2012 and the reserve represents the sums held to cover potential further claims coming to light in future years.

The interest earned for 2011/12 was £23,982 with £10,857 due to Cheshire West and Chester Council. The Cheshire East Borough Council share of £13,125 is included within the Council's Comprehensive Income and Expenditure Statement.

As a policyholder, the MMI Scheme of Arrangement and recent Supreme Court of Justice Ruling noted above have significant implications for the former Cheshire County Council Fund. Advice obtained from the market suggests that at this point, the potential liability against the Fund could range between 10% and 32% of the total value of claims paid as at 31 March 2012.

## 24(b). Single Status Provision

£0.2m was credited to the revenue account in year to leave a balance of £0.4m on the provision at the end of 2011/12. Payments to relevant individuals are expected to take place early in 2012/13 when the balance on the provision is projected to reduce to zero.

## 24(c). Early Retirement Provision

An early retirement provision was created to meet the actuarial costs of early retirements paid over to the Pension Fund over five years, but which were charged to the revenue account over different periods.

## 24(d). Other Provisions

### Highways Schemes Provision

The Highways Schemes Provision has been created to meet the potential costs in relation to noise, disturbance and contractors claims in respect of major highways schemes. The schemes covered are Handforth By-Pass and Crewe Green Link Road. The deadline for claims relating to the Crewe Green Link Road scheme was during 2011/12, and so the outstanding provision will be returned to the Capital Reserve in 2012/13. The remaining £0.210m provision for Handforth By-Pass relates to as yet still uncertain events and so will be rolled forward to 2012/13.

### Section 117 Provision

This provision has been created to meet known liabilities for payments to individuals who have been discharged from hospital under s117 of the Mental Health Act. The timing of payments is uncertain as it depends on whether or not the individuals need to pay for aftercare services.

### Public Health Drainage Provision

This provision holds sums set aside for the planned programme of maintenance on septic tanks linked to former district housing stock.

### Domestic Violence Family Support Unit – Exit Strategy

This provision is a contingency against future exit costs and is sufficient to cover any potential redundancy costs. There is no indication at present that this partnership will cease.

### Local Land Charge

This provision has been created to fund potential claims which are likely to be made by Personal Search Companies in respect of charges levied by the Council between April 2009 and August

2010. The charges were levied for providing responses to specific land search enquiries (CON29R and CON29O selectable questions), however it is now understood that these responses should have been provided free of charge as they fell within the Environmental Information Regulations 2004.

**Asset Recovery Scheme Provision**
This provision has been created to hold funding received from the Home Office under its Asset Recovery Scheme. Under the scheme, monies confiscated as the proceeds of crime are redistributed back to front line agencies, with specific conditions on use. The creation of the provision recognises the ongoing liability of the Council to either use the funds for qualifying expenditure or to refund the balance of unspent monies to the Home Office.

**Safer and Stronger Communities Provision**
This provision relates to a contribution to a Community Safety capital scheme.

## 25. Usable Reserves

This note lists those reserves that contain resources that the Council can apply to the provision of services, either by incurring expenses or undertaking capital investment; whether or not there are particular restrictions on exactly what the resources can be applied to. Relevant reserves include the Capital Reserve, Capital Grants Unapplied Account, General Fund balance and any earmarked reserves under the General Fund umbrella.

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement, and the notes on Adjustments between Accounting Basis and Funding Basis under Regulations (Note 6) and Transfers to/from Earmarked Reserves (Note 7).

### 25(a). General Fund Reserve – Borough Fund

The Borough Fund is the main fund of the Council to which all revenue receipts are credited and from which all revenue liabilities are discharged; all such transactions are recorded in the Council's Comprehensive Income and Expenditure Statement.

### 25(b). Capital Receipts Reserve

The Capital Receipts Reserve exists to finance capital projects and is maintained by receipts from the sale of land and buildings and by contributions from revenue. During 2011/12, £10.7m from the Reserve was used to finance capital expenditure. This was partly funded from the transfer by the predecessor authorities, partly from capital receipts and transfers in from other Reserves during the year. Transfers in included capital receipts of £3.3m which were generated during 2011/12. A repayment of £0.5m was made to the Capital Receipts Reserve from revenue in respect of prior year expenditure on the Waste PFI project.

As part of the appropriations to the General Fund, the Authority was able to capitalise £2.314m of Voluntary Redundancy Costs during 2011/12 due to the Capitalisation Direction received from the Department for Communities and Local Government and funded it from the Capital Receipts Reserve.

The 2011/12 closing balance on the Capital Receipts Reserve was £16.3m. The movements in year are summarised as follows:

| 2010/11 £000 | | 2011/12 £000 |
|---|---|---|
| 32,687 | Opening Balance at 1 April | 25,436 |
| 7,698 | Usable Capital Receipts | 3,274 |
| **40,385** | | **28,710** |
| **(14,145)** | **Amount used to finance capital spending** | **(10,680)** |
| **0** | **Repayment to Capital Receipts Reserve from General Fund – Waste PFI** | **500** |
| | Appropriations (from) / to: | |
| 0 | • General Fund | (2,229) |
| (804) | • Other Reserves | 8 |
| **(804)** | | **(2,221)** |
| **25,436** | **Total Capital Reserve** | **16,309** |
| | **Representing:** | |
| 24,766 | Usable Capital Receipts | 16,309 |
| 670 | Other Monies | 0 |
| **25,436** | **Closing Balance at 31 March** | **16,309** |

## 25(c). Capital Grants Unapplied

The Capital Grants Unapplied Account contains capital grants and contributions where no conditions remain. The grant income has been recognised through the Comprehensive Income and Expenditure Account, but the expenditure to be financed from that grant or contribution had not been incurred by 31 March 2012.

As at 31 March 2012 the closing balance on the Capital Grants Unapplied Account was £9.8m.

| 2010/11 £000 | | 2011/12 £000 |
|---|---|---|
| **9,729** | **Opening Balance at 1 April** | **12,607** |
| 39,923 | Grants with conditions met in year | 25,362 |
| (37,045) | Capital Grants used to Finance Capital Expenditure | (28,175) |
| **12,607** | **Closing Balance at 31 March** | **9,794** |

## 25(d). Reserves and Balances Held by Schools under Delegated Schemes

The funding framework for schools is laid down in the Schools Standards and Framework Act 1998. Unspent budgets that have been delegated remain at the disposal of the school, even though they are still reserves held by the Council. In effect, these unspent balances represent a special form of reserve that is not available to the Council to use. It is a statutory earmarked reserve. As at 31 March 2012, the accumulated underspend on schools budgets was £15.0m.

## 25(e). General Fund Earmarked Reserves

These reserves are amounts set aside from General Fund balances, earmarked to provide finance for future expenditure plans. The balance as at 31 March 2012 was £8.3m. Details on the movements between Earmarked Reserves are provided in Note 7.

## 26. Unusable Reserves

### 26(a). Revaluation Reserve

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

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

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

| 2010/11 £000 | | 2011/12 £000 |
|---|---|---|
| **49,294** | **Opening Balance at 1 April** | **228,352** |
| 184,298 | Upward revaluation of assets | 23,680 |
| (694) | Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services | (10,817) |
| **183,604** | **Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services** | **12,863** |
| (2,118) | Difference between fair value depreciation and historical cost depreciation | (6,210) |
| (2,428) | Accumulated gains on assets sold or scrapped | (14,658) |
| 0 | Reclassification of Property Category | (35) |
| **(4,546)** | **Amount written off to the Capital Adjustment Account** | **(20,903)** |
| **228,352** | **Closing Balance at 31 March** | **220,312** |

### 26(b). Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the unrealised gains/losses made by the Authority arising from revaluation of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The gains/losses relate to investments in pooled funds managed by external fund managers and represents the increase or decrease in the value of these funds attributable to the Cheshire East Borough Council investments.

| 2010/11 £000 | | 2011/12 £000 |
|---|---|---|
| (24) | **Opening Balance at 1 April** | 0 |
| 0 | Upward revaluation of investments | 232 |
| 0 | Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services | (102) |
| 24 | Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income | 0 |
| **0** | **Closing Balance at 31 March** | **130** |

## 26(c). Capital Adjustment Account

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

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

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 26a provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

| 2010/11 £000 | Capital Adjustment Account | 2011/12 £000 |
|---|---|---|
| **520,437** | **Opening Balance at 1 April** | **488,269** |
| | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | |
| (22,536) | • Charges for depreciation of non current assets | (32,717) |
| (51,490) | • Revaluation losses and Impairment on Property, Plant and Equipment | (20,911) |
| (109) | • Amortisation of intangible assets | (133) |
| (5,604) | • Revenue expenditure funded from capital under statute | (6,030) |
| (17,295) | • Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (38,484) |
| 4,546 | Adjusting amounts written out of the Revaluation Reserve | 20,903 |
| | Capital financing applied in the year: | |
| 14,145 | • Use of the Capital Receipts Reserve to finance new capital expenditure | 10,180 |
| 37,045 | • Capital grants and contributions credited to Comprehensive Income and Expenditure and Capital Grants Unapplied that have been applied to capital financing | 28,175 |
| 8,958 | • Statutory provision for the financing of capital investment charged against the General Fund | 10,034 |
| 105 | • Capital expenditure charged against the General Fund | 851 |
| 67 | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement | 6,145 |
| **488,269** | **Closing Balance at 31 March** | **466,282** |

## 26(d) Capital Receipts Deferred

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

| 2010/11 £000 | | 2011/12 £000 |
|---|---|---|
| 110 | **Opening Balance at 1 April** | 95 |
| 0 | Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 0 |
| (15) | Transfer to the Capital Receipts Reserve upon receipt of cash | (12) |
| **95** | **Closing Balance at 31 March** | **83** |

## 26(e). Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenditure relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The balance on the account is represented by three specific items:

- **Unamortised premiums and discounts** – these arise from the early repayment of loans which will be charged / credited to the General Fund through the Movement in Reserves Statement. A number of loans were repaid early in July 2010 with the premiums / discounts being charged through the accounts over 10 years. The balance outstanding as at 31 March 2012 is £0.36m.
- **Lender Option Borrowers Option (LOBO) loans** – these arise from the change to the basis on which stepped LOBO loans are recorded using the effective interest rate. The amounts will be charged to the General Fund through the Movement in Reserves Statement over the remaining lives of the loans (between 31 and 42 years remaining). The balance outstanding as at 31 March 2012 is £0.7m.
- **Soft Loans** – these are loans which have been granted either without interest payable or with interest payable at below market levels. The value of the loan is written down by the amount of interest foregone with the corresponding amount transferred to the Financial Instruments Adjustment Account. The Comprehensive Income and Expenditure Statement (CI&ES) is credited each year with the effective interest calculated on a suitable market basis and the balance in the Financial Instruments Adjustment Account is written down accordingly so that at the end of the loan the amount relating to the soft loan is zero. The amounts of soft loans have increased in 2011/12 due to additional loans under the Assisted Purchase and Private Sector Housing Assistance schemes where interest free mortgages are being granted.

| 2010/11 | | 2011/12 | | | |
|---|---|---|---|---|---|
| | | PWLB | LOBO | Soft Loans | Total |
| £000 | | £000 | £000 | £000 | £000 |
| **(768)** | **Opening Balance at 1 April** | **(403)** | **(689)** | **(293)** | **(1,385)** |
| | Amounts incurred/(received) in the year and charged/(credited) to the Comprehensive Income and Expenditure Statement: | | | | |
| (1,264) | PWLB Premiums | 0 | 0 | 0 | 0 |
| 831 | PWLB Discounts | 0 | 0 | 0 | 0 |
| | Proportion of charges/(receipts) from previous financial years to be charged/(credited) against the General Fund balance in accordance with statutory requirements: | | | | |
| 117 | PWLB Premiums | 126 | 0 | 0 | 126 |
| (56) | PWLB Discounts | (83) | 0 | 0 | (83) |
| (13) | LOBO loans | 0 | (12) | 0 | (12) |
| (232) | Soft Loans | 0 | 0 | (147) | (147) |
| (617) | Amount by which finance costs charged/(credited) to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable/(receivable) in the year in accordance with statutory requirements: | 43 | (12) | (147) | (116) |
| **(1,385)** | **Closing Balance at 31 March** | **(360)** | **(701)** | **(440)** | **(1,501)** |

## 26(f). Pensions Reserve

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

| 2010/11 £000 | | 2011/12 £000 |
|---|---|---|
| (600,536) | **Opening Balance at 1 April** | (280,723) |
| 235,281 | Actuarial gains or losses on pensions assets and liabilities | (84,614) |
| 54,851 | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | (30,566) |
| 29,681 | Employer's pensions contributions and direct payments to pensioners payable in the year | 35,661 |
| **(280,723)** | **Closing Balance at 31 March** | **(360,242)** |

## 26(g). Unequal Pay Back Pay Account

The Unequal Pay Back Pay Account compensates for the differences between the rate at which the Authority provides for the potential costs of back pay settlements in relation to Equal Pay cases and the ability under statutory provisions to defer the impact on the General Fund balance until such time as cash might be paid out to claimants.

| 2010/11 £000 | | 2011/12 £000 |
|---|---|---|
| **(524)** | **Opening Balance at 1 April** | **(677)** |
| (153) | (Increase) / Decrease in provision for back pay in relation to Equal Pay cases | 239 |
| 0 | Cash settlements paid in the year | 0 |
| **(153)** | **Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements** | **239** |
| **(677)** | **Closing Balance at 31 March** | **(438)** |

## 26(h). Accumulated Absences Account

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

| 2010/11 £000 | | 2011/12 £000 |
|---|---|---|
| **(7,557)** | **Opening Balance at 1 April** | **(7,038)** |
| 7,557 | Settlement or cancellation of accrual made at the end of the preceding year | 7,038 |
| (7,038) | Amounts accrued at the end of the current year | (7,509) |
| **519** | **Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements** | **(471)** |
| **(7,038)** | **Closing Balance at 31 March** | **(7,509)** |

## 27. Cash Flow Statement - Operating Activities

| 2010/11 £000 | | 2011/12 £000 |
|---|---|---|
| **37,800** | **Net surplus / (deficit) on the provision of services** | **(52,337)** |
| | Adjust net surplus or deficit on the provision of services for non cash movements: | |
| 22,536 | Depreciation | 31,248 |
| 51,490 | Impairment and downward valuations | 20,323 |
| 109 | Amortisation | 133 |
| 197 | Reductions in fair value of Soft Loans (non Subsidiary) made in the year | 186 |
| (23) | Soft Loans (non Subsidiary) - Interest adjustment credited to CI&ES during year | (39) |
| (524) | Adjustments for effective interest rates | (2) |
| 0 | Increase/Decrease in Interest Creditors | 415 |
| (1,346) | Increase/Decrease in Creditors | 1,428 |
| 445 | Increase/Decrease in Interest and Dividend Debtors | 319 |
| 30,906 | Increase/Decrease in Debtors | 5,847 |
| (268) | Increase/Decrease in Inventories | 330 |
| (107,398) | Pension Liability | (5,095) |
| 0 | Contributions to/(from) Provision for Equal Pay | (239) |
| (4,319) | Contributions to/(from) other Provisions | 414 |
| 0 | Unrealised (gains) / losses on Available for Sale Long Term Investments | (130) |
| 17,295 | Carrying amount of non-current assets | 38,484 |
| 81,155 | Carrying amount of short and long term investments sold | 72,203 |
| (67) | Movement in Investment Property Values | (6,145) |
| **90,188** | **Adjustment to surplus or deficit on the provision of services for non cash movements** | **159,680** |
| | Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities: | |
| (39,923) | Capital Grants credited to surplus or deficit on the provision of services | (25,362) |
| (79,091) | Proceeds from the sale of short and long term investments | (72,203) |
| (7,683) | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (3,273) |
| **(126,697)** | **Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities** | **(100,838)** |
| **1,291** | **Net Cash Flows from Operating Activities** | **6,505** |

The cash flows for operating activities include the following items:

| 2010/11 £000 | Operating activities within the cash flow statement include the following cash flows relating to interest | 2011/12 £000 |
|---|---|---|
| 2,402 | Interest Received | 1,667 |
| (6,500) | Interest Paid | (5,754) |

## 28. Cash Flow Statement - Investing Activities

| 2010/11 £000 | | 2011/12 £000 |
|---|---|---|
| (66,612) | Purchase of Property, Plant and Equipment, investment property and intangible assets | (46,386) |
| (78,215) | Purchase of short and long term investments | (56,500) |
| (673) | Other Payments for Investing Activities | (481) |
| 7,951 | Proceeds from the sale of property plant and equipment, investment property and intangible assets | 4,184 |
| 79,091 | Proceeds from short-term and long-term investments | 72,203 |
| 46,684 | Other receipts from Investing Activities | 26,634 |
| **(11,774)** | **Total Cash Flows from Investing Activities** | **(346)** |

## 29. Cash Flow Statement - Financing Activities

| 2010/11 £000 | | 2011/12 £000 |
|---|---|---|
| 50,000 | Cash receipts of short and long term borrowing | 5,000 |
| (3,553) | Billing Authorities - Council Tax and National Non-Domestic Rates adjustments | 4,096 |
| (52,816) | Repayment of Short-Term and Long-Term Borrowing | (5,080) |
| (1,233) | Payments for the reduction of a finance lease liability | (1,400) |
| (435) | Payments for the reduction of a PFI liability | (548) |
| **(8,037)** | **Total Cash Flows from Financing Activities** | **2,068** |

## 30. Amounts Reported for Resource Allocation Decisions (Segmental Reporting)

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Authority’s Cabinet on the basis of budget reports analysed across Directorates. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement); and
- the cost of retirement benefits is based on cash flows (payment of employer’s pensions contributions) rather than current service cost of benefits accrued in the year.

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

| 2011/12 | Adult Social Care £000 | Children's Services £000 | Places, Health and Wellbeing £000 | Performance and Capacity £000 | Total £000 |
|---|---|---|---|---|---|
| Fees, charges and other service income | (61,823) | (18,781) | (48,192) | (16,412) | **(145,208)** |
| Government grants and contributions | (2,466) | (225,740) | (3,866) | (11) | **(232,083)** |
| **Total Income** | **(64,289)** | **(244,521)** | **(52,058)** | **(16,423)** | **(377,291)** |
| Employee expenses | 37,296 | 191,928 | 46,064 | 33,840 | **309,128** |
| Other service expenses | 126,114 | 112,553 | 73,803 | 128,006 | **440,476** |
| **Total Expenditure** | **163,410** | **304,481** | **119,867** | **161,846** | **749,604** |
| **Net Expenditure** | **99,121** | **59,960** | **67,809** | **145,423** | **372,313** |

| 2010/11 Comparative Figures (As Restated) | Adult Social Care £000 | Children's Services £000 | Places, Health and Wellbeing £000 | Performance and Capacity £000 | Total £000 |
|---|---|---|---|---|---|
| Fees, charges and other service income | (65,535) | (13,257) | (41,905) | (14,083) | **(134,780)** |
| Government grants and contributions | (18,035) | (288,058) | (7,142) | (97,623) | **(410,858)** |
| **Total Income** | **(83,570)** | **(301,315)** | **(49,047)** | **(111,706)** | **(545,638)** |
| Employee expenses | 40,792 | 212,747 | 46,901 | 33,290 | **333,730** |
| Other service expenses | 123,058 | 127,563 | 68,994 | 120,756 | **440,371** |
| **Total Expenditure** | **163,850** | **340,310** | **115,895** | **154,046** | **774,101** |
| **Net Expenditure** | **80,280** | **38,995** | **66,848** | **42,340** | **228,463** |

The following reconciliation shows how the figures in the analysis of Directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement:

| 2010/11 £000 | | 2011/12 £000 |
|---|---|---|
| 228,463 | Net expenditure in the Directorate Analysis | 372,313 |
| 37 | Net expenditure of services and support services not included in the Analysis | 6,089 |
| (24,661) | Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis | 45,858 |
| 21,875 | Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement | (1,574) |
| **225,714** | **Cost of Services in Comprehensive Income and Expenditure Statement** | **422,686** |

The following reconciliation shows how the figures in the analysis of Directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement:

| 2011/12 | Directorate Analysis £000 | Services and Support Services not in Analysis £000 | Amounts not reported to management for decision-making £000 | Amounts not included in CI&ES £000 | Allocation of Recharges £000 | **Cost of Services £000** | Corporate Amounts £000 | **Total £000** |
|---|---|---|---|---|---|---|---|---|
| Fees, charges and other service income | (145,208) | 0 | 0 | 14,804 | 0 | **(130,404)** | (15,045) | **(145,449)** |
| Surplus or deficit on associates and joint ventures | 0 | 0 | 0 | 0 | 0 | **0** | 0 | **0** |
| Interest and investment income | 0 | 0 | 0 | (122) | 0 | **(122)** | (1,894) | **(2,016)** |
| Income from council tax | 0 | 0 | 0 | 0 | 0 | **0** | (182,122) | **(182,122)** |
| Government grants and contributions | (232,083) | 0 | 0 | (693) | 0 | **(232,776)** | (229,459) | **(462,235)** |
| **Total Income** | **(377,291)** | **0** | **0** | **13,989** | **0** | **(363,302)** | **(428,520)** | **(791,822)** |
| Employee expenses | 309,128 | 6,054 | (8,842) | (7,490) | 0 | **298,850** | 7,490 | **306,340** |
| Other service expenses | 440,476 | 0 | 94 | (4,891) | 0 | **435,679** | 5,588 | **441,267** |
| Support Service recharges | 0 | 35 | 0 | (2,003) | 0 | **(1,968)** | 2,003 | **35** |
| Depreciation, amortisation and impairment | 0 | 0 | 57,317 | (864) | 0 | **56,453** | 864 | **57,317** |
| Changes in Value of Investment Properties | 0 | 0 | 0 | 232 | 0 | **232** | (6,377) | **(6,145)** |
| Interest Payments | 0 | 0 | 0 | (547) | 0 | **(547)** | 6,167 | **5,620** |
| Pension Interest Cost and Rate of Return on Pension Assets | 0 | 0 | (2,761) | 0 | 0 | **(2,761)** | 2,761 | **0** |
| Impairments of Financial Assets | 0 | 0 | 57 | 0 | 0 | **57** | (57) | **0** |
| Precepts and Levies | 0 | 0 | 0 | 0 | 0 | **0** | 3,442 | **3,442** |
| Payments to Housing Capital Receipts Pool | 0 | 0 | (7) | 0 | 0 | **(7)** | 7 | **0** |
| Gain or Loss on Disposal of Non Current Assets | 0 | 0 | 0 | 0 | 0 | **0** | 36,283 | **36,283** |
| **Total Expenditure** | **749,604** | **6,089** | **45,858** | **(15,563)** | **0** | **785,988** | **58,171** | **844,159** |
| **(Surplus) or deficit on the provision of services** | **372,313** | **6,089** | **45,858** | **(1,574)** | **0** | **422,686** | **(370,349)** | **52,337** |

| 2010/11 Comparatives | Directorate Analysis £000 | Services and Support Services not in Analysis £000 | Amounts not reported to management for decision making £000 | Amounts not included in CI&ES £000 | Allocation of Recharges £000 | **Cost of Services £000** | Corporate Amounts £000 | **Total £000** |
|---|---|---|---|---|---|---|---|---|
| Fees, charges and other service income | (134,780) | 0 | (1,534) | 0 | 0 | **(136,314)** | 1,534 | **(134,780)** |
| Interest and investment income | 0 | 0 | 0 | 0 | 0 | **0** | (2,349) | **(2,349)** |
| Income from council tax | 0 | 0 | 0 | 0 | 0 | **0** | (179,618) | **(179,618)** |
| Government grants and contributions | (410,858) | 0 | 0 | 22,364 | 0 | **(388,494)** | (125,774) | **(514,268)** |
| **Total Income** | **(545,638)** | **0** | **(1,534)** | **22,364** | **0** | **(524,808)** | **(306,207)** | **(831,015)** |
| Employee expenses | 333,730 | 0 | (75,273) | 0 | 0 | **258,457** | 0 | **258,457** |
| Other service expenses | 440,371 | 0 | (2,483) | (489) | 0 | **437,399** | 0 | **437,399** |
| Support Service recharges | 0 | 37 | 0 | 0 | 0 | **37** | 0 | **37** |
| Depreciation, amortisation and impairment | 0 | 0 | 78,751 | 0 | 0 | **78,751** | 0 | **78,751** |
| Changes in Value of Investment Properties | 0 | 0 | 0 | 0 | 0 | **0** | (67) | **(67)** |
| Interest Payments | 0 | 0 | 16 | 0 | 0 | **16** | 5,976 | **5,992** |
| Pension Interest Cost and Rate of Return on Pension Assets | 0 | 0 | (23,467) | 0 | 0 | **(23,467)** | 23,467 | **0** |
| Impairments of Financial Assets | 0 | 0 | (665) | 0 | 0 | **(665)** | 665 | **0** |
| Precepts and Levies | 0 | 0 | 0 | 0 | 0 | **0** | 3,040 | **3,040** |
| Payments to Housing Capital Receipts Pool | 0 | 0 | (6) | 0 | 0 | **(6)** | 6 | **0** |
| Gain or Loss on Disposal of Non Current Assets | 0 | 0 | 0 | 0 | 0 | **0** | 9,606 | **9,606** |
| **Total Expenditure** | **774,101** | **37** | **(23,127)** | **(489)** | **0** | **750,522** | **42,693** | **793,215** |
| **(Surplus) or deficit on the provision of services** | **228,463** | **37** | **(24,661)** | **21,875** | **0** | **225,714** | **(263,514)** | **(37,800)** |

## 31. Landfill Allowance Trading Scheme (LATS)

The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDAs) in the United Kingdom to reduce the amount of biodegradable municipal waste (BMW) disposed to landfill. It also provides the legal framework for the Landfill Allowances Trading Scheme (LATS), which commenced operation on 1 April 2005. Following the Waste Review on 14 June 2011, DEFRA announced the ending of the Landfill Allowance Trading Scheme (LATS) after the 2012/13 Scheme year in England.

From April 2009 the Council has been allocated an annual allocation of landfill allowances/permits. One allowance/permit is equal to one tonne of BMW Waste. The Council must therefore have sufficient permits in its possession at the year end to meet the tonnage of BMW waste it is to commit to landfill in that year.

The Council may use these allowances to meet its liability for its actual BMW landfill usage, sell any available allowances to another WDA or purchase additional resources from a WDA.

Therefore, if the Council landfills more waste than their allowance from the Department for Environment, Food and Rural Affairs (DEFRA) permits, they must purchase allowances from another WDA to enable them to meet their liability for actual BMW landfill usage, bring forward allowances from a future year or pay a financial penalty to DEFRA if they fail to acquire sufficient allowances to meet the liability. If they landfill less waste than the allowances held permit, they can be carried forward to meet future years' liabilities. Allowances allocated by DEFRA or purchased from another authority are classified as current assets and any penalty payment due to DEFRA in respect of landfill usage is shown as a liability.

The Authority received allowances for the year 2011/12 for 69,883 tonnes. The estimated BMW landfill usage is 54,600 tonnes. There were no trades of allowances carried out by Cheshire East Borough Council during 2011/12. The forecast landfill usage during 2011/12 is less than the allowances allocated from DEFRA and the surplus allowances (15,283 tonnes) valued at £0.00 (£0m) have been written off in accordance with the regulations (as noted above).

| 2010/11 £000 | | Gross Income £000 | Gross Expenditure £000 | Net Expenditure £000 |
|---|---|---|---|---|
| 235 | Cultural, Environmental, Regulatory and Planning Services | (235) | 235 | 0 |

| 2010/11 £000 | | Upon Recognition £000 | Movement After Recognition £000 | 2011/12 £000 |
|---|---|---|---|---|
| | **Current Assets** | | | |
| 1,489 | Balance Brought Forward | 998 | 0 | **998** |
| (398) | Writing down of allowances to reflect revised market value | 0 | (234) | **(234)** |
| (1,091) | De-recognition of allowances for 2010/11 | 0 | (764) | **(764)** |
| 998 | Landfill Usage Allowances allocated by DEFRA for 2011/12 | 0 | 0 | **0** |
| **998** | | **998** | **(998)** | **0** |
| | **Current Liabilities** | | | |
| (978) | Balance Brought Forward | (763) | 0 | **(763)** |
| (113) | Increase in 2010/11 liability post verification | 0 | (1) | **(1)** |
| 1,091 | Prior year liability discharged | 0 | 764 | **764** |
| (763) | Liability to DEFRA 2010/11 | 0 | 0 | **0** |
| **(763)** | | **(763)** | **763** | **0** |
| **235** | **Current Assets less Current Liabilities** | **235** | **(235)** | **0** |

## 32. Trading Operations

The Council has three major trading units covering a range of activities which generate income from third parties or from charges made to other areas of the Council:

- Catering operates as a trading account for school meals and staff catering;

- Cleaning operates as a trading account for the provision of caretaking and cleaning services to schools, offices and other organisations;
- Tatton Park operates as a trading operation and includes all trading outlets, events and visitor attractions, operating on a 99-year lease (nominal annual rent) to the Council from the National Trust. Tatton Park was set up as a trading account to facilitate improved freedoms and flexibilities and to exploit additional income sources whilst operating within the context of a 5 year business plan.

Supplies, which supplied office supplies to both the Council and schools, was a fourth trading unit which ceased trading at the end of 2010/11. Some final expenditure fell into the 2011/12 year.

Some trading activities have net expenditure budgets, which reflect the operational and accounting policies approved by the Council in setting its budget and do not aim to recover all their costs through the level of charges.

Income and expenditure for the trading operations noted above are shown below:

| 2010/11 (as Restated) | | | | 2011/12 | | |
|---|---|---|---|---|---|---|
| Gross Expenditure £000 | Gross Income £000 | (Surplus)/ Deficit £000 | Trading Operation | Gross Expenditure £000 | Gross Income £000 | (Surplus)/ Deficit £000 |
| | | | Actively Trading 2011/12: | | | |
| 8,413 | (7,817) | **596** | Catering | 7,639 | (7,310) | **329** |
| 2,454 | (2,610) | **(156)** | Cleaning | 2,453 | (2,704) | **(251)** |
| 5,436 | (3,070) | **2,366** | Tatton Park | 5,935 | (3,130) | **2,805** |
| | | | Ceased Trading 2010/11: | | | |
| 1,952 | (1,696) | **256** | Supplies | 32 | 0 | **32** |
| **18,255** | **(15,193)** | **3,062** | **Total** | **16,059** | **(13,144)** | **2,915** |

## 33. Pooled Budgets

Under Section 75 of the National Health Service Act 2006, the Council has registered its partnership arrangement with Central and Eastern Cheshire Primary Care Trust (PCT) to commission services to Adults with Learning Difficulties within the footprint of Cheshire East Borough Council, which is known as the Learning Disability Pooled Budget.

The Learning Disability Pooled Budget for 2011/12 was a single joint arrangement hosted by and operating within the boundaries of Cheshire East Borough Council. Any additional expenditure over and above the agreed Pooled Budget is met by both Partners in the agreed proportions. Each partner to the pool will report its own share of the Pooled Budget transactions within its accounts and report the Memorandum Account and Balance Sheet as a note.

Under International Accounting Standard 31, each partner needs to report its share of the Pool's year end assets and liabilities. The following memorandum note sets out the balances as at 31 March 2012 attributable to the Pool's partners; only the Council's share of these balances has been reported within the Balance Sheet.

In both 2011/12 and 2012/13 the balance of funding for the revised Pool shifted significantly as the Department of Health transferred funding formerly directed to the health sector directly to Councils with Social Care responsibilities under the "Valuing People Now" agenda. Following the transfer, Cheshire East Borough Council contributes an increased share towards the costs of the Pooled Budget and reports a larger share of the Pool, increasing to 62.5% of the total in 2011/12 and 80% in 2012/13.

Cheshire East Borough Council – Adults with Learning Difficulties Pooled Budget

| National Health Service Act 2006 – Pooled Budget | 2011/12<br>Cash<br>£000 | Overheads<br>£000 | Grants<br>£000 | Total<br>£000 |
|---|---|---|---|---|
| **FUNDING:** | | | | |
| Cheshire East Borough Council | 21,317 | 572 | 0 | **21,889** |
| Specific Grants: | | | | |
| Learning Disability Development Fund (LDDF) | 0 | 0 | 0 | **0** |
| Carers Grant | 0 | 0 | 0 | **0** |
| Central and Eastern Cheshire PCT | 13,133 | 0 | 0 | **13,133** |
| LDDF Capital Funding | 143 | 0 | 0 | **143** |
| **Total Funding** | **34,593** | **572** | **0** | **35,165** |
| **EXPENDITURE:** | | | | |
| Internal Provision | 10,734 | 0 | 0 | **10,734** |
| External Social Care | 12,497 | 0 | 0 | **12,497** |
| Health Contracts | 4,973 | 0 | 0 | **4,973** |
| Partnership Trust | 3,879 | 0 | 0 | **3,879** |
| New Health Network SLA | 2,242 | 0 | 0 | **2,242** |
| Secure Commissioning | 1,456 | 0 | 0 | **1,456** |
| Social Care Assessors | 1,050 | 0 | 0 | **1,050** |
| Transport | 512 | 0 | 0 | **512** |
| LDDF Capital Expenditure | 0 | 0 | 0 | **0** |
| Other | 210 | 0 | 0 | **210** |
| Nurse Advisor | 195 | 0 | 0 | **195** |
| Overheads | 0 | 572 | 0 | **572** |
| **Total Expenditure** | **37,748** | **572** | **0** | **38,320** |
| **Net Overspend / (Underspend), met by additional partner contributions** | | | | **3,155** |

**Notes:**

1. Capital Funding and Expenditure not reported throughout 2011/12 agreements. Once the LDDF capital funding has been removed, the budget balances to the agreed pooled budget of £35.022m.
2. Capital balance carried forward which leaves £3.298m overspend split 37.5% PCT / 62.5% CEBC as agreed. £1.237m charged to Central and Eastern Cheshire PCT.

Balances Attributable to Pool Partners

| | Cheshire East Borough Council £000 | Central and Eastern Cheshire PCT £000 | Total £000 |
|---|---|---|---|
| Funding (excludes LDDF Capital Expenditure) | 23,950 | 14,370 | **38,320** |
| Funding Share | 62.5% | 37.5% | **100.0%** |
| **Current Assets** | | | |
| Debtors and Prepayments | 668 | 676 | **1,344** |
| Cash in Hand | 0 | 0 | **0** |
| **Current Liabilities** | | | |
| Creditors | 0 | 0 | **0** |
| Cash Overdrawn | 0 | 0 | **0** |
| **General Reserves** | | | |
| Borough Fund | 0 | 0 | **0** |

## 34. Members' Allowances

In accordance with the Local Authorities (Members' Allowances) Regulations 2003, the total amount spent on Members' allowances in 2011/12 was £1.462m. This figure includes the basic allowance, special responsibility allowance and Member pension costs. It does not include the direct reimbursement of costs incurred.

Members' allowances are approved by the Council after consideration of the advice and recommendations of its Independent Panel. As required under the appropriate regulations, the Council publishes annual details of the sums paid by it to each Member of the Council in respect of those allowances to which they are entitled. An appropriate notice is published in the local press in July, stating that details can be obtained from the Council on request.

| 2010/11 £000 | | 2011/12 £000 |
|---|---|---|
| 973 | Basic Allowance | 979 |
| 395 | Special Responsibility Allowance | 365 |
| 102 | Pension | 118 |
| **1,470** | **Total Members' Allowances** | **1,462** |

## 35. Officers' Remuneration

The number of employees (including schools-based staff) whose remuneration exceeded £50,000 is detailed below:

| 2010/11 No. of Employees | Remuneration Band | 2011/12 No. of Employees |
|---|---|---|
| 177 | £50,000 - £54,999 | 127 |
| 85 | £55,000 - £59,999 | 71 |
| 71 | £60,000 - £64,999 | 63 |
| 19 | £65,000 - £69,999 | 24 |
| 11 | £70,000 - £74,999 | 10 |
| 9 | £75,000 - £79,999 | 11 |
| 12 | £80,000 - £84,999 | 6 |
| 11 | £85,000 - £89,999 | 2 |
| 5 | £90,000 - £94,999 | 3 |
| 5 | £95,000 - £99,999 | 4 |
| 2 | £100,000 - £104,999 | 2 |
| 1 | £105,000 - £109,999 | 0 |
| 2 | £110,000 - £114,999 | 0 |
| 2 | £115,000 - £119,999 | 1 |
| 1 | £120,000 - £124,999 | 2 |
| 1 | £125,000 - £129,999 | 0 |
| 0 | £130,000 - £134,999 | 0 |
| 0 | £135,000 - £139,999 | 0 |
| 0 | £140,000 - £144,999 | 0 |
| 0 | £145,000 - £149,999 | 0 |
| 0 | £150,000 - £154,999 | 0 |
| 0 | £155,000 - £159,999 | 0 |
| 0 | £160,000 - £164,999 | 0 |
| 0 | £165,000 - £169,999 | 0 |
| 1 | £170,000 - £174,999 | 1 |
| 0 | £175,000 - £179,999 | 0 |
| 0 | £180,000 - £184,999 | 0 |
| 0 | £185,000 - £189,999 | 0 |
| **415** | **Total** | **327** |

Remuneration includes salary, taxable benefits such as car allowances, non-taxable termination payments (i.e. the first £30,000 of an individual severance payment) and backdated Single Status payments. Direct reimbursement of costs incurred and pension contributions are excluded.

## 36. Officers' Remuneration – Senior Employees

The Council is required to disclose the remuneration of senior employees and any officer earning over £150,000. Senior employees include the statutory officers and any person having responsibility for the management of the Council, to the extent that the person has power to direct or control the major activities of the Council. The figures for 2011/12 are as follows:

| **Job Title / Name** | Salary, Fees and Allowances £ | Expenses Allowances £ | Compensation for Loss of Employment £ | Employer's Pension Contribution £ | **Total** £ |
|---|---|---|---|---|---|
| Chief Executive - Erika Wenzel * | 210,567 | 346 | 0 | 36,849 | **247,762** |
| Strategic Director (Places and Organisational Capacity) | 122,000 | 840 | 0 | 25,986 | **148,826** |
| Strategic Director (Children, Families and Adults) | 120,000 | 400 | 0 | 25,560 | **145,960** |
| Director of Adult and Community Health Services | 50,000 | 0 | 65,589 | 10,650 | **126,239** |
| Head of Environmental Services | 62,430 | 833 | 38,313 | 13,298 | **114,874** |
| Head of HR and Organisational Development | 90,320 | 199 | 0 | 19,238 | **109,757** |
| Director of Finance and Business Services | 90,320 | 76 | 0 | 19,238 | **109,634** |
| Head of Service – Early Intervention and Prevention | 86,740 | 966 | 0 | 18,476 | **106,182** |
| Head of Development | 80,324 | 847 | 0 | 17,730 | **98,901** |
| Head of Health Improvement | 80,970 | 639 | 0 | 15,543 | **97,152** |
| Head of Policy and Performance | 78,639 | 226 | 0 | 16,750 | **95,615** |
| Head of Service – Safeguarding and Specialist Services | 76,962 | 784 | 0 | 16,393 | **94,139** |
| Head of Strategic Commissioning and Safeguarding | 77,585 | 0 | 0 | 16,526 | **94,111** |
| Services Manager – Strategy Planning and Performance | 76,154 | 1,061 | 0 | 16,221 | **93,436** |
| Head of Local Delivery and Independent Living Service | 76,154 | 723 | 0 | 16,221 | **93,098** |
| Head of Care4CE | 76,154 | 384 | 0 | 16,221 | **92,759** |
| Procurement Manager | 44,973 | 0 | 39,518 | 6,815 | **91,306** |
| Head of Corporate Improvement | 25,221 | 0 | 58,307 | 5,495 | **89,023** |
| Finance Manager | 71,212 | 192 | 0 | 15,168 | **86,572** |
| Borough Solicitor and Monitoring Officer | 70,549 | 26 | 0 | 15,027 | **85,602** |
| Head of Community Services | 68,615 | 759 | 0 | 14,615 | **83,989** |
| Head of Business Management Performance and Standards | 64,656 | 712 | 0 | 13,772 | **79,140** |
| HR Delivery Manager | 64,299 | 242 | 0 | 13,696 | **78,237** |
| HR Strategy Manager | 63,604 | 345 | 0 | 13,548 | **77,497** |
| ICT Strategy Manager | 60,897 | 7 | 0 | 12,797 | **73,701** |
| Legal Team Manager | 59,646 | 837 | 0 | 12,705 | **73,188** |
| HR Organisational Development Manager | 31,748 | 0 | 33,294 | 6,762 | **71,804** |
| Head of Highways and Transport | 58,522 | 712 | 0 | 12,465 | **71,699** |
| Democratic and Registration Services Manager | 58,005 | 259 | 0 | 12,338 | **70,602** |
| Shared Services Manager | 54,855 | 0 | 0 | 11,684 | **66,539** |
| ICT Manager | 13,703 | 130 | 36,377 | 2,530 | **52,740** |
| **Total** | **2,265,824** | **12,545** | **271,398** | **470,317** | **3,020,084** |

* The figure for the Chief Executive's Salary, Fees and Allowances includes Returning Officer fees as follows:
- Borough and Parish Elections / By-Elections - £22,584
- Alternative Vote Referendum - £14,983

The roles of Head of ICT Shared Services and Head of HR & Finance Shared Service are jointly shared with Cheshire West and Chester Council, at a total cost of £102,071 and £94,159 respectively. The Council contributes 50% (£98,115) of the total cost of these roles.

## 37. Termination Benefits

The Council terminated the contracts of a number of employees in 2011/12, incurring liabilities of £4.820m (£11.740m in 2010/11). Of this total, £0.271m was payable to six senior officers in the form of compensation for loss of office, with a further £0.170m of enhanced pension benefits. The remaining £4.342m is payable to 263 officers from various Services who were made redundant as part of the Council's rationalisation of Services.

A summary of the number and value of exit packages is provided below:

| Exit package cost band (including special payments) | (a) Number of compulsory redundancies | | (b) Number of other departures agreed | | (c) Total number of exit packages by cost band [(a) + (b)] | | (d) Total cost of exit packages in each band | |
|---|---|---|---|---|---|---|---|---|
| | 2010/11 | 2011/12 | 2010/11 | 2011/12 | 2010/11 | 2011/12 | 2010/11 | 2011/12 |
| | | | | | | | £000 | £000 |
| £0 - £20,000 | 0 | 4 | 270 | 189 | **270** | **193** | 2,232 | 1,541 |
| £20,001 - £40,000 | 0 | 1 | 116 | 46 | **116** | **47** | 3,287 | 1,315 |
| £40,001 - £60,000 | 0 | 0 | 47 | 16 | **47** | **16** | 2,257 | 757 |
| £60,001 - £80,000 | 0 | 0 | 25 | 4 | **25** | **4** | 1,722 | 262 |
| £80,001 - £100,000 | 0 | 0 | 7 | 5 | **7** | **5** | 606 | 440 |
| £100,001 - £150,000 | 0 | 0 | 10 | 3 | **10** | **3** | 1,151 | 348 |
| Over £150,000 | 0 | 0 | 3 | 1 | **3** | **1** | 485 | 157 |
| | **0** | **5** | **478** | **264** | **478** | **269** | **11,740** | **4,820** |

## 38. Related Parties

The Council is required to disclose any material transactions and balances with related parties. Related parties are bodies or individuals that have the ability to control or influence the Council or to be controlled or influenced by the Council. This disclosure allows readers to assess how much the Council might have been restricted in its ability to operate independently. It also allows them to assess how much the Council might have become able to limit another party's ability to bargain freely with the Council. Where it is identified that external bodies, organisations or individuals (either within or outside the Council) have the potential to control or influence the Council or be controlled or influenced by the Council, a disclosure may be necessary. All elected Members and all Council staff are required to complete a declaration regarding whether they or members of their close family or same household are involved in any such activity where there could be deemed to be an element of control or influence.

### Central Government

Central government has effective control over the general operations of the Council which it could exercise through statutory measures, directions to operate in a specific way or through financial pressure. It is responsible for providing the statutory framework within which the Council operates, prescribes the terms of many of the transactions that the Council has with other parties (e.g. housing benefits), and provides the majority of the Council's funding in the form of grants.

Details of material transactions with central government are shown throughout these notes and include the following:

- Grant funding of £462.2m received from central government departments is set out in the subjective analysis in Note 30; and
- Business Rate Payments of £124.6m shown in Collection Fund revenue account.

**Other Public Bodies**

The Council undertakes significant transactions with the Cheshire Police Authority (£21.2m) and Cheshire Fire and Rescue Service (£9.8m). These relate to the payment of Council Tax income collected on behalf of these bodies, these values are disclosed in the Collection Fund Account and amount to collection of Council Tax and payment over of Precepts.

The Council also undertakes transactions with the Pension Fund in the form of contributions to fund future pension payments for Council employees (2011/12 payments were £32.6m). Details of these transactions are disclosed in Note 47. The Pension Fund is administered and governed independently of the Council to avoid the potential for undue influence to be exerted.

The Council works closely in partnership with local health care commissioners, principally through Primary Care Trusts. These bodies fund a number of services provided by the Council on behalf of the health sector where health and care needs coincide.

The Council also carries out a significant element of its services in partnership with Cheshire West and Chester Council. In 2011/12 the Council spent £7.6m delivering services jointly with Cheshire West and Chester Council, and these transactions are disclosed in Note 49.

**Members and Officers**

Members of the Council have direct control over the Council's financial and operating policies. To safeguard against the misuse of this influence Members are required to declare the existence and nature of any personal interests in any matter on a Committee/Executive agenda and, if the interest is prejudicial, to remove themselves from the meeting. In 2011/12 Members held interests in the following organisations with whom the Council carried out business:

| Payments to Organisations where Members or their close relatives hold a personal interest | 2011/12 £ | No. of Declarations |
|---|---|---|
| Connexions - Cheshire & Warrington Ltd | 2,600,000 | 2 |
| Wulvern Housing | 102,596 | 1 |
| Gresty Community Group | 1,000 | 1 |

Included within current debtors at 31 March 2012 (Note 21) are the following amounts in respect of related parties:

| Amounts Due from Organisations where Members or their close relatives hold a personal interest | 31 March 2012 £ |
|---|---|
| Amounts due from Connexions - Cheshire & Warrington Ltd | 49,003 |
| Impairment Allowance | (34,420) |
| Net amount due from Connexions – Cheshire & Warrington Ltd not covered by impairment allowance | 14,583 |

In accordance with Section 117 of the Local Government and Finance Act 1972, all senior officers of the Council have been asked to declare any interests in other bodies with whom the Council may have dealings. No significant "pecuniary interests" have been identified during 2011/12.

Until 31 March 2012, the Council had a contractual arrangement with Connexions – Cheshire and Warrington Ltd for the provision of youth-related services. Following a review and ending of the Connexions three main contracts between the company and Cheshire East Borough Council, Cheshire West and Chester Council and Warrington Borough Council, the Board and Members of the company decided to place the company into administration. The affairs and closure of the company are being managed by the appointed Administrators, PKF (UK) LLP. During 2011/12 the company was considered to be an associate, however the Council has not produced group accounts due to the monetary amounts involved. Further information on Connexions is provided below in Note 39.

## 39. Interest in Other Companies and Entities

### Connexions

In October 2007, as part of a national agenda to bring together services delivered to young people through Connexions and those provided by local authorities into one Integrated Youth Support Service, Cheshire County Council transferred its Youth Service to Connexions - Cheshire & Warrington Ltd (company no. 04171781). During 2011/12, Cheshire East Borough Council contracted with the company for the provision of youth-related services. The initial contract, which expired on 31 March 2011, was amended and reduced in scope and extended for a further year to 31 March 2012.

On 31 March 2012 the contracts with Cheshire East Borough Council (CEBC), Cheshire West and Chester Council (CWAC) and Warrington Borough Council (WBC) ended and the services provided by the company returned under the direct provision of the three respective Councils. Following the decision by the three Councils, the Board and Members of the company decided to place it into administration, with its affairs and closure being managed by PKF (UK) LLP, the appointed Administrators.

The company is limited by guarantee to the value of £1, with the assets and liabilities being considered by the Administrators, with the creditors likely to receive a percentage settlement of the amounts owed, due to an overall deficit in the funds and assets available. The company is also expected to have an IAS 19 pension deficit. CEBC, CWAC and WBC have an agreement to meet the outstanding pension liability - please see Note 48 (Contingent Liabilities and Contingent Assets) for further details of this.

The ownership of the company is split between WBC (25%), CWAC (37.5%) and CEBC (37.5%), with the business being managed by a Board of 19 members, three of whom are nominated representatives of CEBC (3 elected members) and 12 observers, who include partner agencies whose representatives cannot take up the position of company director.

Based on Module 9 of the Code of Practice, Group Accounts, the company is considered to be an associate of the Council. This would normally require the completion of a set of group accounts. However, the Council has not produced group accounts as both the monetary amounts involved and the Council's exposure to risk are not considered to be material.

### North West Evergreen Fund (GP) Limited Fund Partnership

Fifteen local authorities in the North West of England became limited partners in the fund known as North West Evergreen Fund (GP) Limited Fund Partnership. This Fund was set up to make loans to commercial property ventures in the North West to aid regeneration in the region. The Council is a limited partner and, in common with all the other limited partners, it owns a share of what is known as the general partner. This general partner is the body which, in turn, owns the Evergreen Partnership.

The Council is one of six Councils which form the County Area partners and which, together, have 50% of the voting rights on the board of the general partner. The remainder of the vote is held by the Councils forming the Association of Greater Manchester Authorities. The County Area Councils have the right to nominate three (of six) directors to the board of the general partner.

As a limited partner, the Council provides a capital contribution of £1 to the Fund but, in order to enjoy limited liability as a limited partner, the Authority cannot participate in the management of the Fund's business.

No interest is due from the Fund to the limited partners on any capital contributions, nor on any net income or capital gain allocated to the partners for distribution. The Fund uses the finance made available to it, under an operational agreement made between it and the European Investment Bank, for eligible projects in the region.

The life of the Fund is twenty years and, in entering into the partnership agreement, the Council has committed to pay an annual contribution for twenty years. Capital liability of the limited partners for any of the Fund's debts, liabilities or obligations is limited to the amount of their respective capital contributions. The general partner has unlimited liability for the debts, liabilities and obligations of the Fund.

In joining the partnership as a County Area limited partner, the Authority is expected to advance annually to the Fund (as a loan) an index-linked amount equal to £250,000, divided by the number of County Area limited partners, to meet the ongoing expenses of the Fund.

## 40. External Audit Costs

The Council incurred the following external audit and inspection fees:

| 2010/11 £000 | | 2011/12 £000 |
|---|---|---|
| 383 | Fees payable to the Audit Commission with regard to external audit services | 339 |
| 0 | Fees payable to the Audit Commission in respect of statutory inspections | 0 |
| 75 | Fees payable to the Audit Commission for the certification of grant claims and returns | 76 |
| **458** | **Total** | **415** |

## 41. Dedicated Schools Grant (DSG)

The funding of schools is provided via Dedicated Schools Grant (DSG). The original DSG award value for 2011/12 was £231.3m (£200.6m in 2010/11). This is a ring-fenced grant and can only be applied to meet expenditure properly included in the Schools Budget. The grant is, therefore, credited against Children's and Education Services in the Comprehensive Income and Expenditure Statement. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each school. Over and under spending on the two elements are required to be accounted for separately. The Council is also able to supplement the Schools Budget from its own resources.

Details of the deployment of DSG receivable for 2011/12 are as follows:

| Schools' Budget Funded by Dedicated Schools Grant | Central Expenditure £000 | Individual Schools Budget £000 | Total £000 |
|---|---|---|---|
| Final DSG for 2011/12 | 17,418 | 214,070 | **231,488** |
| School Specific Contingencies | (1,885) | 1,885 | **0** |
| Brought Forward from 2010/11 | 538 | 0 | **538** |
| Academy Conversions | (97) | (26,099) | **(26,196)** |
| Carry forward to 2012/13 agreed in advance | 0 | 0 | **0** |
| **Agreed budgeted distribution in 2011/12** | **15,974** | **189,856** | **205,830** |
| Actual Central Expenditure | 17,460 | 0 | **17,460** |
| Actual ISB deployed to Schools | 0 | 189,856 | **189,856** |
| Local Authority contribution 2011/12 | 0 | 0 | **0** |
| **Carry Forward 2011/12** | **1,486** | **0** | **1,486** |

During 2011/12, four Foundation Schools and one Community School converted to Academy status:

- Mottram St Andrews Primary School and Congleton High School converted on 1 April 2011;
- Lacey Green Primary School (Community School) and Holmes Chapel High School converted on 1 September 2011; and

- Macclesfield High School closed and reopened as a Sponsored Academy on 1 September 2011.

Sandbach Independent School also converted to Free School status on 1 September 2011.

The Council's DSG allocation was reduced in year by £26.196m to reflect the reduction in funding for the 2011/12 conversions, and for those schools which converted in 2010/11 (Brine Leas High School, Sandbach High School, and Fallibroome High School). DSG is reduced when schools convert to Academy status, as funding is no longer routed through the Local Authority but is payable to the Academy via the Young Peoples Learning Agency (now the Education Funding Agency). The actual DSG paid to the Council in 2011/12 was £205.3m. Combined with DSG carry forward from 2010/11 of £0.538m, the final DSG budget for 2011/12 (after adjusting for Academies) was £205.8m.

## 42. Grant Income

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

| 2010/11 £000 | Credited to Taxation and Non-Specific Grant Income (Note 11) | 2011/12 £000 |
|---|---|---|
| | **Revenue Grants** | |
| 0 | Housing Benefit Subsidy Grant | (80,460) |
| 0 | Council Tax Subsidy Grant | (20,690) |
| 0 | Council Tax Freeze Grant | (4,467) |
| 0 | Housing Benefit and Council Tax Administration Grant | (2,210) |
| 0 | Early Intervention Grant | (11,830) |
| 0 | Learning Disabilities and Health Reform Grant | (4,021) |
| 0 | NHS Funding Grant | (3,906) |
| 0 | Highways Maintenance Severe Winter Funding | (1,573) |
| 0 | Other Revenue Non-Ringfenced Grants | (4,605) |
| **0** | **Total Revenue Grants** | **(133,762)** |
| | **Capital Grants and Contributions** | |
| (13,321) | Local Transport Plan | (11,237) |
| (10,169) | Standards Fund (Capital) | (9,538) |
| (2,116) | Department for Communities and Local Government | 0 |
| 0 | Assisted Purchase Housing Scheme | (1,609) |
| (2,556) | Young People's Learning Agency | 0 |
| (1,927) | Department of Health - Mental Health | (746) |
| 0 | Heritage Lottery Fund | (491) |
| (1,059) | Disabled Facilities Grant | (846) |
| (1,348) | Sure Start, Early Years Childcare Grants | 0 |
| (5,295) | Other Grants | (720) |
| (575) | Developer Contributions – s.106 and s.278 | (175) |
| (1,557) | Other Contributions | 0 |
| **(39,923)** | **Total Capital Grants** | **(25,362)** |
| **(39,923)** | **Total Credited to Taxation and Non-Specific Grant Income** | **(159,124)** |

| 2010/11 £000 | Credited to Services | 2011/12 £000 |
|---|---|---|
| | **Revenue Grants** | |
| (195,004) | Dedicated Schools Grant | (205,830) |
| (75,991) | Housing Benefit Subsidy Grant | 0 |
| (36,715) | Standards Fund | (3,061) |
| (20,690) | Council Tax Subsidy Grant | 0 |
| (27,789) | Learning Skills Council | (12,252) |
| (10,031) | Sure Start, Early Years Childcare Grants | 0 |
| (22,274) | Other Specific Grants | (11,633) |
| **(388,494)** | **Total Credited to Services** | **(232,776)** |

Prior to 1 April 2011 the Council received specific revenue grants which were ring-fenced. With effect from 1 April 2011, central government removed the ring-fence restriction applicable to some of the specific grants. This had the effect of transferring specific grants which were previously credited direct to services to taxation and non specific grant income.

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balance of these at the year-end was as follows:

| 2010/11 £000 | Capital Grants Receipts In Advance | 2011/12 £000 |
|---|---|---|
| (1,555) | Developer Contributions – Section 106 | (1,519) |
| **(1,555)** | **Total** | **(1,519)** |

## 43. Leases

### Finance Leases – Council as Lessee

The Council has acquired equipment and vehicles under finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment on the Balance Sheet, with balances of £2.9m at 31 March 2012, and £2.5m at 31 March 2011.

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

| Balance 2010/11 £000 | | Balance 2011/12 £000 |
|---|---|---|
| | **Finance Lease Liabilities:** | |
| 789 | - Current (payable in 1 year) | 849 |
| 1,695 | - Non-current | 2,086 |
| 925 | Finance Costs payable in future years | 1,229 |
| **3,409** | **Closing Balance at 31 March** | **4,164** |

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

| 2010/11 £000 | Minimum Lease Payments | 2011/12 £000 |
|---|---|---|
| 1,117 | Not Later Than 1 Year | 1,269 |
| 1,804 | Between 1 and 5 Years | 2,344 |
| 488 | Later Than 5 Years | 551 |
| **3,409** | **Total Minimum Lease Payments** | **4,164** |

| 2010/11 £000 | Finance Lease Liabilities (Principal Amounts only) | 2011/12 £000 |
|---|---|---|
| 789 | Not Later Than 1 Year | 849 |
| 1,371 | Between 1 and 5 Years | 1,650 |
| 324 | Later Than 5 Years | 436 |
| **2,484** | **Total Finance Lease Liabilities** | **2,935** |

## Operating Leases – Council as Lessee

The Council has entered into operating leases for equipment and vehicles used in the delivery of Council services. The future minimum lease payments due under non cancellable leases in future years are:

| 2010/11 | | | | 2011/12 | | |
|---|---|---|---|---|---|---|
| Land and Buildings £000 | Other £000 | **Total** £000 | | Land and Buildings £000 | Other £000 | **Total** £000 |
| | | | **Lease:** | | | |
| 124 | 229 | **353** | Not Later Than 1 Year | 223 | 417 | **640** |
| 399 | 491 | **890** | Between 1 and 5 Years | 107 | 537 | **644** |
| 0 | 33 | **33** | Later Than 5 Years | 0 | 61 | **61** |
| **523** | **753** | **1,276** | **Total** | **330** | **1,015** | **1,345** |

### Operating Leases – Council as Lessor

The Council leases out property for community services and for economic development. The Council is also lessor for farms estates. The future minimum lease payments receivable under non-cancellable leases in future years are:

| 2010/11 £000 | Minimum Lease Payments | 2011/12 £000 |
|---|---|---|
| 100 | Not Later Than 1 Year | 318 |
| 513 | Between 1 and 5 Years | 228 |
| 844 | Later Than 5 Years | 800 |
| **1,457** | **Total Minimum Lease Payments** | **1,346** |

## 44. Private Finance Initiative (PFI) and Similar Contracts

The Council has a PFI arrangement jointly with Cheshire West and Chester Council in respect of Extra Care Housing.

Extra Care Housing combines housing and care support for older people who have access to high quality accommodation with their own front door, with the security of a 24-hour Care Provider on site to provide reliable and responsive support as needed. These two elements are combined with a range of both on site support and communal facilities which seek to ensure there are opportunities to participate in a range of activities, promoting well being and enhancing independence for older people.

The Cheshire East sites are based at Crewe, Handforth and Middlewich; there are additional sites at Winsford and Ellesmere Port which are operated by Cheshire West and Chester.

The payments due to be made under the PFI contract are as follows:

| | Repayments of Liability £000 | Interest £000 | Service Charge £000 | Total £000 |
|---|---|---|---|---|
| Amounts due in 2012/13 | 582 | 1,954 | 26 | **2,562** |
| Amounts due 2013/14 – 2016/17 | 1,431 | 7,368 | 113 | **8,912** |
| Amounts due 2017/18 – 2021/22 | 2,825 | 8,445 | 40 | **11,310** |
| Amounts due 2022/23 – 2026/27 | 2,765 | 7,150 | (11) | **9,904** |
| Amounts due 2027/28 – 2031/32 | 4,740 | 5,598 | (183) | **10,155** |
| Amounts due 2032/33 – 2036/37 | 6,853 | 3,352 | (295) | **9,910** |
| Amounts due 2037/38 – 2038/39 | 3,034 | 384 | (84) | **3,334** |
| **Total** | **22,230** | **34,251** | **(394)** | **56,087** |

## 45. Trust Funds

During 2011/12 the Council acted as sole trustee for six Trust Funds. These Funds, some of which date back many years, were established for specific purposes, such as giving grants for education and training or providing community benefits, e.g. library books.

The six Funds listed below do not represent assets of the Council and so have not been included in the Council's Balance Sheet. Assets are stated at market value.

| 2010/11 | | | | | 2011/12 | | | |
|---|---|---|---|---|---|---|---|---|
| Income £ | Expend -iture £ | Assets £ | Liabil-ities £ | | Income £ | Expend -iture £ | Assets £ | Liabil-ities £ |
| 13,267 | 6,363 | 532,167 | 0 | **Audlem Education Fund** (established in 1910 to fund training and education for under 25s in the parish of Audlem) | 11,135 | 9,343 | 530,164 | 0 |
| 0 | 0 | 27,903 | 0 | **Nantwich Library Trust** (established in 1908 to fund library books, periodicals and exhibits in the urban district of Nantwich) | 28,349 | 0 | 56,252 | 0 |
| 10 | 0 | 12,935 | 0 | **Dale Eaton Trust** (established in 1955 to provide support to charities within the Congleton and Macclesfield areas) | 311 | 0 | 13,246 | 0 |
| 1,495 | 0 | 43,740 | 0 | **John McBride Trust** (established in 1955, the income to be distributed for charitable purposes in Crewe) | 1,508 | 0 | 44,127 | 0 |
| 0 | 13,817 | 0 | 0 | **Mayor of Crewe & Nantwich Charity** Closed in 2010 following final distribution of funds | 0 | 0 | 0 | 0 |
| 5,780 | 15,136 | 2,780 | 0 | **Mayor of Cheshire East Charity** (established in 2009 for charitable purposes within Cheshire East area) | 6,209 | 6,819 | 2,170 | 0 |

## 46. Pension Schemes Accounted for as Defined Contribution Schemes

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

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

In 2011/12 the Council paid £12.2m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay.

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 47.

## 47. Defined Benefit Pension Schemes

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

The authority participates in two pension schemes, the Teachers' Pension Scheme (see Note 46 above) and the Local Government Pension Scheme (LGPS).

### Local Government Pension Scheme (LGPS)

The LGPS is a funded scheme, meaning that the Scheme's liabilities are backed by investment assets. It is a statutory defined benefit final salary scheme and all employees of Cheshire East Borough Council (other than teachers) may participate in the Fund. The Authority and its employees pay contributions into the Fund, calculated by the Fund's independent actuary, at a level intended to fund the growth in pensions over the longer term.

In 2011/12 Cheshire East Borough Council paid employer contributions of £32.6m into the Cheshire Pension Fund (the Fund). This represented 21.3% of non-teaching employees' pensionable pay.

The rate of employer contributions due to the Fund is determined every three years and is based on a valuation by the Fund's actuary. The valuation effective for the 2011/12 financial year was undertaken as at 31 March 2012.

### Accounting Treatment

This scheme is accounted for as a defined benefit scheme in accordance with International Accounting Standard 19 (IAS19).

The liabilities of the scheme attributable to the Council are included in the Balance Sheet on an actuarial basis, using the projected unit method and the assets of the Fund are included at their fair value.

### Teachers Discretionary Payments

The Council has also awarded discretionary early retirement benefits for teachers and this scheme is unfunded. The Council paid £3.1m in 2011/12 in relation to this scheme.

### Accounting Treatment

This scheme is accounted for as a defined benefit scheme in accordance with International Accounting Standard 19 (IAS19).

The liabilities of the scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method.

## Transactions Relating to Post-Employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge made against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The following transactions were made in the Comprehensive Income and Expenditure Statement and the General Fund balance via the Movement in Reserves Statement during the year:

| Comprehensive Income and Expenditure Statement | Local Government Pension Scheme | | Teachers Unfunded Scheme | |
|---|---|---|---|---|
| | 2011/12 £000 | 2010/11 £000 | 2011/12 £000 | 2010/11 £000 |
| **Cost of Services:** | | | | |
| • Current service cost | 25,545 | 26,861 | | |
| • Past service costs | 0 | (107,396) | | |
| • Settlements and curtailments | 2,260 | 2,217 | | |
| **Financing and Investment Income and Expenditure** | | | | |
| • Interest cost | 52,345 | 64,521 | 2,166 | 2,404 |
| • Expected return on scheme assets | (51,750) | (43,458) | | |
| **Total Post-employment Benefit Charged to the Surplus or Deficit on the Provision of Services** | **28,400** | **(57,255)** | **2,166** | **2,404** |
| **Other Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement** | | | | |
| • Actuarial gains and losses | (82,209) | 230,518 | (2,405) | 4,763 |
| **Total Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement** | **(82,209)** | **230,518** | **(2,405)** | **4,763** |
| **Movement in Reserves Statement** | | | | |
| • Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code | (28,400) | 57,255 | (2,166) | (2,404) |
| **Actual amount charged against the General Fund balance for pensions in the year:** | | | | |
| • Employer's contributions payable to scheme | 32,581 | 26,673 | | |
| • Retirement benefits payable to pensioners | | | 3,080 | 3,008 |

The cumulative actuarial gains and losses recognised in Other Comprehensive Income and Expenditure in the actuarial gains or losses on pensions and liabilities line was a gain of £235.3m at 31 March 2011 and a loss of £84.6m at 31 March 2012.

## Assets and Liabilities in Relation to Post-Employment Benefits

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

| | Local Government Pension Scheme | | Teachers Unfunded Scheme | |
|---|---|---|---|---|
| | 2011/12 £000 | 2010/11 £000 | 2011/12 £000 | 2010/11 £000 |
| **Opening balance at 1 April** | **962,772** | **1,256,754** | **40,899** | **46,266** |
| Current service cost | 25,545 | 26,860 | 0 | 0 |
| Interest cost | 52,345 | 64,521 | 2,166 | 2,404 |
| Contributions by scheme participants | 7,792 | 8,450 | 0 | 0 |
| Actuarial gains and losses | 57,347 | (250,453) | 2,405 | (4,763) |
| Benefits paid | (40,888) | (38,181) | (3,080) | (3,008) |
| Past service costs | 0 | (107,396) | 0 | 0 |
| Entity combinations | 0 | 0 | 0 | 0 |
| Curtailments | (11,728) | 2,217 | 0 | 0 |
| Settlements | 0 | 0 | 0 | 0 |
| **Closing balance at 31 March** | **1,053,185** | **962,772** | **42,390** | **40,899** |

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

| | Local Government Pension Scheme | |
|---|---|---|
| | 2011/12 £000 | 2010/11 £000 |
| **Opening balance at 1 April** | **722,948** | **702,484** |
| Expected rate of return | 51,750 | 43,457 |
| Actuarial gains and losses | (24,862) | (19,935) |
| Employer contributions | 32,581 | 26,673 |
| Contributions by scheme participants | 7,792 | 8,450 |
| Benefits paid | (40,888) | (38,181) |
| Entity combinations | 0 | 0 |
| Settlements | (13,988) | 0 |
| **Closing balance at 31 March** | **735,333** | **722,948** |

The expected return on Scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on Scheme assets in the year was £23.9m (2010/11 £59.1m).

## Scheme History

| | 2007/08 £000 | 2008/09 £000 | 2009/10 £000 | 2010/11 £000 | 2011/12 £000 |
|---|---|---|---|---|---|
| **Present value of liabilities:** | | | | | |
| Local Government Pension Scheme | 0 | (777,248) | (1,256,754) | (962,772) | (1,053,185) |
| Discretionary Benefits | 0 | (38,525) | (46,266) | (40,899) | (42,390) |
| **Fair value of assets in the Local Government Pension Scheme** | **0** | **511,492** | **702,484** | **722,948** | **735,333** |
| **Surplus / (deficit) in the Scheme:** | | | | | |
| Local Government Pension Scheme | 0 | (265,756) | (554,270) | (239,824) | (317,852) |
| Discretionary Benefits | 0 | (38,525) | (46,266) | (40,899) | (42,390) |
| **Total** | **0** | **(304,281)** | **(600,536)** | **(280,723)** | **(360,242)** |

The liabilities show the underlying commitments that the Authority has in the long-term to pay post-employment (retirement) benefits. The total liability of £360.2m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

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

The total contribution expected to be made by the Council to the Local Government Pension Scheme in the year to 31 March 2013 is £25.4m.

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.  Both the Local Government Pension Scheme and the Unfunded Teachers Liability have been assessed by Hymans Robertsons, an independent firm of actuaries, estimates for the Council Fund being based on the latest valuation of the scheme as at 31 March 2012.

The principal assumptions used by the actuary have been:

| | Local Government Pension Scheme | | Discretionary Benefits | |
|---|---|---|---|---|
| | 2011/12 | 2010/11 | 2011/12 | 2010/11 |
| **Long-term expected rate of return on assets in the scheme:** | | | | |
| Equity Investments | 6.2% | 7.5% | - | - |
| Bonds | 3.3% | 4.9% | - | - |
| Property | 4.4% | 5.5% | - | - |
| Cash | 3.5% | 4.6% | - | - |
| **Weighted expected return** | **5.5%** | **6.8%** | - | - |
| **Mortality Assumptions:** | | | | |
| Longevity at 65 for current pensioners: | | | | |
| • Men | 22.9 years | 22.9 years | 22.9 years | 22.9 years |
| • Women | 25.7 years | 25.7 years | 25.7 years | 25.7 years |
| Longevity at 65 for future pensioners: | | | | |
| • Men | 24.9 years | 24.9 years | - | - |
| • Women | 27.7 years | 27.7 years | - | - |
| Rate of Inflation | 2.5% | 2.8% | 2.5% | 2.8% |
| Rate of increase in salaries | 4.8% | 5.1% | n/a | n/a |
| Rate of increase in pensions | 2.5% | 2.8% | 2.5% | 2.8% |
| Rate of discounting scheme liabilities | 4.8% | 5.5% | 4.8% | 5.5% |
| Take-up of option to convert annual pension into retirement lump sum | | | | |
| 50% take-up for pre-April 2008 service and 75% take up for post-April 2008 service. | | | | |

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

| | Fund Value at 31 March 2012 £000 | Proportion of the Fund % | Expected Return % |
|---|---|---|---|
| Equities | 529,440 | 72.0 | 6.2 |
| Bonds | 102,947 | 14.0 | 3.3 |
| Property | 51,473 | 7.0 | 4.4 |
| Cash | 51,473 | 7.0 | 3.5 |
| | **735,333** | **100.0** | |

### History of Experience Gains and Losses

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

| | 2008/09 % | 2009/10 % | 2010/11 % | 2011/12 % |
|---|---|---|---|---|
| Experience gains and losses on assets | 111.9 | 21.9 | (2.8) | (3.4) |
| Experience gains and losses on liabilities | 106.4 | - | 15.7 | 1.3 |

## 48. Contingent Liabilities and Contingent Assets

### Contingent Liabilities

There were three contingent liabilities at the balance sheet date:

- **Pensions Liability for Connexions - Cheshire & Warrington Ltd**
  As noted above in Note 39, Connexions - Cheshire & Warrington Ltd was placed into administration on 31 March 2012. The three associate Councils (Cheshire East Borough Council, Cheshire West and Chester Council, and Warrington Borough Council) have agreed to meet the outstanding pension liabilities of the company under both an agreement with the Cheshire Pension Fund (entered into by Cheshire County Council) and a more recent agreement between the three current Councils. In September 2011, an estimated pension deficit of £11m was calculated on a discontinuance basis. However, the most recent actuarial valuation (31 March 2012), which was prepared for IAS 19 purposes and was calculated on a continuation basis, estimated the deficit at £3.6m. As most of the Connexions staff have transferred back to their original employing Councils, it is likely that the eventual final deficit will be lower than the discontinuance valuation.

  Liability for 89% (determined by scheme membership from each of the Councils) of the eventual pensions deficit will be shared between Cheshire East Borough Council and Cheshire West and Chester Council, with Warrington Borough Council liable for the other 11%. As the value cannot yet be determined with any degree of certainty, the Pension Reserve figure of £360.2m (Note 26f) excludes any deficit arising from former Connexions employees rejoining the Cheshire Pension Fund.

- **Insurance Fund – MMI ‘Scheme of Arrangement’ Clawback**
  Following the Recent Supreme Court of Justice Ruling on the Municipal Mutual Insurance (MMI) Scheme of Arrangement, referred to in Note 24(a) of the accounts, there is a potential liability against the Insurance Fund relating to MMI clawback. Pending further update from MMI, no specific provision has been made within the Balance Sheet, but it is anticipated that there will be some mitigation within existing Fund balances.

- **Adult Social Care – Legal Challenges**
  During 2011/12, the Council experienced a number of legal challenges to its practice in relation to Adult Social Care, for example around the deprivation of liberties. Thirteen cases were presented by solicitors on behalf of individuals receiving care from the Council. All of the cases have been resolved, with the majority being successfully defended or being settled without recourse to Court action. Where cases were settled, the level of costs was seen to be excessive and negotiation is still under way to agree a more reasonable settlement. Further

claims from individuals cannot be ruled out in future, although practice in the relevant areas should reduce the risk considerably.

**Contingent Assets**

There were no contingent assets at the balance sheet date.

## 49. Cheshire Shared Services

The Council operates a number of services in partnership with Cheshire West and Chester Council. The table below sets out the total costs processed by each Council in providing these services and the degree to which those costs fell to each Council after they were re-apportioned in line with each Council's usage of the services.

| | East 2011/12 | West 2011/12 | Total 2011/12 | Share of Total Cost 2011/12 East | Share of Total Cost 2011/12 West |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **Hosted by Cheshire East** | | | | | |
| Farms Estates | (797) | 32 | **(765)** | (387) | (378) |
| Highway Maintenance Contract | 55 | 22 | **77** | 37 | 40 |
| Youth Offending Team | 3 | 1,010 | **1,013** | 476 | 537 |
| **Hosted by Cheshire West and Chester** | | | | | |
| HR and Finance | 1,058 | 1,862 | **2,920** | 1,460 | 1,460 |
| ICT | 188 | 10,013 | **10,201** | 4,887 | 5,314 |
| Civil Protection | 157 | 285 | **442** | 221 | 221 |
| Occupational Health | 0 | 208 | **208** | 104 | 104 |
| Archives | 209 | 238 | **447** | 223 | 224 |
| Libraries | 207 | 757 | **964** | 482 | 482 |
| Rural Touring Network | 15 | 14 | **29** | 15 | 14 |
| Autism Support | 52 | 76 | **128** | 68 | 60 |
| CBS Supplies | 0 | 20 | **20** | 10 | 10 |
| **Total Costs** | **1,147** | **14,537** | **15,684** | **7,596** | **8,088** |

The costs of Cheshire Shared Services relating to Cheshire East are contained in the Comprehensive Income and Expenditure Statement. The share of total cost for each Council has reduced in 2011/12 due to the planned termination of a number of Shared Services in accordance with the operational needs and strategic objectives of both Councils.

The SeRCOP analysis of the Cheshire East Shared Service costs is as follows:

| 2010/11 £000 | | 2011/12 £000 |
|---|---|---|
| 14,372 | Children's and Education Services | 1,951 |
| 3,578 | Adult Services | 2,036 |
| 15 | Central Services to the Public | 12 |
| 2,079 | Cultural, Environmental and Planning Services | 2,849 |
| 3,914 | Highways, Roads and Transport Services | 352 |
| 74 | Housing Services | 101 |
| 244 | Other Operating Income and Expenditure | 295 |
| **24,276** | **Total** | **7,596** |

The Joint Committee oversees the management of the services that are provided on a Cheshire wide basis on behalf of Cheshire East and Cheshire West and Chester Councils to ensure effective delivery of such services and to provide strategic direction. The Joint Officer Board supports the Joint Committee and is responsible for the governance and decision-making of Cheshire Shared Services and is jointly chaired by Lisa Quinn, Director of Finance and Business Services, Cheshire East Borough Council, and Julie Gill, Director of Resources, Cheshire West and Chester Council.

Shared Service Agreements underpin the legal agreement between Cheshire East Borough Council and Cheshire West and Chester Council for sharing arrangements. These set out the basis for services to be provided, identify which Council is hosting the service, the percentage of costs to be borne by each Council and the general reporting and performance management requirements. The roles and responsibilities of staff seconded to the host authority are contained within these agreements.

Business Plans and Service Delivery Statements have been developed for each Shared Service. These set out the scope, agreed objectives and expected outcomes of the shared service arrangements. Shared Service Business Plans and performance against them is regularly reviewed to ensure that they remain current and that the service delivered continues to meet the needs of the two Councils.

## 50. Nature and Extent of Risks Arising from Financial Instruments

The identification, understanding and management of risk are, by necessity, a major part of the Council's treasury management activities. To avoid the Council suffering loss as a result of its treasury management activities, a number of risk management procedures have been put in place. Their purpose is to manage the risks arising from the use of financial instruments down to acceptable and agreed levels.

These procedures are based on the concept that, firstly, security of principal is paramount, secondly that there is a need to maintain liquidity and finally, earning a rate of return commensurate with the first two concepts.

The overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects on the resources available to fund services. The management of the risks associated with the use of financial instruments is undertaken by a central treasury management team. This team works within an annual Treasury Management Strategy that is approved by Full Council prior to the start of the year. This Treasury Management

Strategy provides written principles for both overall risk management and for specific risk areas such as liquidity risk, interest rate risk and credit risk.

The Council has adopted CIPFA's 'Treasury Management in the Public Sector: Code of Practice'. It has also set treasury management indicators in accordance with the CIPFA 'Prudential Code for Capital Finance in Local Authorities'.

**Liquidity Risk**

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

Being a local authority, the Council is able to raise loans from the Public Works Loans Board (PWLB). Consequently, it is highly unlikely that the Council will be unable to raise new or replacement loans or that it will be unable to raise new loans at a cost that is linked to the cost of central government borrowing.

There is a risk, however, that the Council may be in a position where it may need to raise replacement long term loans at a time of unfavourable interest rates. To manage this risk, consideration is given to the maturity profile of maturing loans whilst recognising the potential for interest rate movements and debt rescheduling opportunities. The Council's borrowings and maturity profile are shown in Note 19(b).

Within its long term loans portfolio, the Council has three Lender Option Borrower Option (LOBO) loans with a nominal value of £17.8 million. The nature of these loans is that, on specified agreed dates, the lender has the option to change the rate of interest charged on the loan, providing that three working days' notice is given to the borrower. When this option is exercised, the borrower has the option of repaying the loan in full, and without penalty, at the end of the three-day notice period, or agreeing to pay the new amended rate of interest.

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

**Market Risk**

Market risk is the risk that, due to movements in interest rates, the Council will fail to get good value from the investment of its surplus cash balances or its raising of long term loans.

Movements in interest rates impact on the Council in a number of ways. For instance, an increase in interest rates will have the following impact:

- Borrowings at variable rates - the interest expenses charged to the Surplus or Deficit on the Provision of Services will rise;
- The fair value of borrowings at fixed rates will fall;
- Investments at variable rates - the interest income credited to the Surplus or Deficit on the Provision of Services will rise;
- The fair value of investments at fixed rates will rise.

Borrowings are recorded in the Council's Statement of Accounts on the amortised cost basis. The fair value of borrowings is shown only as a note to the accounts. Any increases or decreases in the value of fixed rate borrowings as a result of changes in interest rates will therefore be nominal and will have no impact on the Comprehensive Income and Expenditure Statement.

Changes in the amount of interest payable on variable rate borrowings and the amount of interest receivable on variable rate investments will be charged or credited (as appropriate) to the Comprehensive Income and Expenditure Statement.

Movements in the fair value of available for sale assets will be reflected in the Movement in Reserves Statement and recorded in the Available for Sale Reserve until such time as the asset is sold. At that time any gains / losses held in the Available for Sale Reserve in respect of that asset will be transferred to the Comprehensive Income and Expenditure Statement.

The Council will seek to manage its exposure to fluctuations in interest rates with the aim of minimising the net cost of interest charged to the Comprehensive Income and Expenditure Statement over the medium to long term. This will be achieved through the prudent use of approved financing and investment instruments, methods and techniques.

In seeking to minimise the net cost of interest charged to the Comprehensive Income and Expenditure Statement over the medium to longer term one of the aims will be to create stability in, and certainty of, interest costs and revenues. However, the Council also acknowledges that it will need to retain a degree of flexibility sufficient to allow it to take advantage of unexpected and potentially advantageous changes in the level or structure of interest rates.

Market rate risk is lessened by the fact that a proportion of Government grant payable on financing costs will normally move with prevailing interest rates, or the Council's cost of borrowing, and provides some compensation for a proportion of any higher costs.

If during 2011/12 and at 31 March 2012 short term and long term interest rates had been 1% higher than they actually were and all other circumstances had been the same, the financial effect would have been as follows:

| | £000 |
|---|---|
| Increase in interest payable on variable rate borrowings | 0 |
| Increase in interest receivable | (762) |
| **Net Impact on Comprehensive Income and Expenditure Statement** | **(762)** |
| Reduction in the Fair Value of fixed rate borrowing | (19,340) |
| Reduction in the Fair Value of loans and receivables (investments) | (2) |

## Credit Risk

Credit risk is the risk that the Council will not be repaid in full when it lends out monies to other banks and financial institutions (counterparties).

The Council manages this risk by ensuring that investments are placed with Banks and Building Societies, other Local Authorities or the Debt Management Office which have sufficiently high credit worthiness as set out in the Treasury Management Strategy. Limits on the amount of money that can be invested with any single counterparty or group are set individually (for most UK counterparties the maximum limit is £20m). There are a range of credit ratings issued by 3 different credit rating agencies but broadly speaking they can be categorised as:

AAA – Highest credit quality with the lowest expectation of default risk and exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA – Very high credit quality with a very low expectation of default risk and very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A – High credit quality with a low expectation of default risk and a strong capacity for payment of financial commitments. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.

Each of these ratings has a number of sub-categories within them which differ between the different credit rating agencies; e.g. 'A' can be subdivided where A+ will be a stronger credit rating than A-. It must also be noted that although credit ratings remain a key source of information, the Council recognises that they have limitations, and investment decisions are based on a range of market intelligence. All investments have been made in line with the Council's Treasury Management Strategy Statement for 2011/12.

The minimum criterion for internally managed investments now stands at a minimum long term rating (lowest common denominator approach) of A-. All UK counterparties are also deemed to be systemically important to the UK Banking System, after being named as Eligible Institutions under the Credit Guarantee Scheme (CGS) in October 2008. The one exception to this criterion is the inclusion on the list of counterparties of the Co-operative Bank to which the Council is exposed on a daily basis as they hold the main clearing accounts of the Council. Investments with the Co-operative Bank are limited to instant access call accounts.

In 2011/12 the Council invested £20m in a pooled investment fund managed by an external fund manager. The fund is not credit rated but invests in a diverse range of securities spread across different asset classes and national boundaries in order to minimise any risk to the investments. The risk of any investment made by the fund defaulting is spread across all parties to the pooled fund with any effect on the Council likely to be negligible.

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

The analysis below excludes deposits held with Heritable Bank in administration (£0.8m) but includes instant access funds (£27.1m) which are classified in the accounts as cash equivalents. This summarises the Council's potential maximum exposure to credit risk, based on the market experience of default and non-recovery over the last five financial years, adjusted to reflect current market conditions:

| | Amount deposited at 31 March 2012 £000 | Historical experience of default % | Estimated maximum exposure to default £000 |
|---|---|---|---|
| **Investments Loans and Receivables:** | | | |
| Banks – UK | | | |
| AAA | 0 | 0.00 | 0 |
| AA | 0 | 0.00 | 0 |
| A | 13,065 | 0.00 | 0 |
| Money Market Funds | | | |
| AAA | 17,078 | 0.00 | 0 |
| Managed Investments | | | |
| Pooled Funds - Unrated | 20,139 | 0.00 | 0 |
| **Debtors:** | | | |
| Trade Debtors | 15,573 | 0.77 | 120 |
| Other Debtors | 17,448 | 0.77 | 134 |
| **Total** | **83,303** | | **254** |

No credit limits were exceeded during the year and, given the cautious approach adopted in selecting suitable counterparties, the Council does not expect any losses in respect of investments.

The debtors figures exclude any Council Tax and Business Rates debtors which are dealt with separately in the Collection Fund Accounts. Also excluded are any non-trade debtors. The Council generally allows its trade debtors credit of 1 month. Of the £15.57m invoiced income outstanding from trade debtors, £6.46m is past its due date for payment which is analysed by age as follows:

| Age of Invoiced Debt | £000 |
|---|---|
| Less than 3 months overdue | 2,185 |
| 3 to 6 months overdue | 449 |
| 6 months to 1 year overdue | 868 |
| More than 1 year overdue | 2,954 |
| **Total** | **6,456** |

## 51. Accounting Policies

### a) General Principles

The Statement of Accounts summarises the Council's transactions for the 2011/12 financial year and its balance sheet position as at 31 March 2012. The Council is required by The Accounts and Audit (England) Regulations 2011 to prepare an annual Statement of Accounts, and those regulations require it to be prepared in accordance with proper accounting practices. These practices primarily comprise the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the CIPFA Service Reporting Code of Practice (SeRCOP) 2011/12, supported by International Financial Reporting Standards (IFRS). Exceptions are made to accepted accounting practice where this is overridden by legislative requirements. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of Non-Current Assets and Financial Instruments.

Expenditure and income are reported in accordance with a total cost basis of accounting. Gross total cost includes all expenditure attributable to the service or activity, including employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and depreciation. No categories of income are considered to be abatements of expenditure, and movements to and from reserves are excluded from total cost.

In producing the Statement of Accounts the following accounting concepts are applied:

- **Consistency**
  Cheshire East Borough Council came into existence on 1 April 2009 and has determined its accounting policies based on a review of the policies adopted by the predecessor Authorities and consideration of the best approach for the new Authority. These accounting policies will be reviewed each year and the impact of any significant change in policies will be declared in the accounting statements so that useful comparisons can be made.

- **Materiality**
  The concept that any omission from, or inaccuracy in, the statement of accounts should not be so large as to affect the understanding of those statements by a reader, either in terms of the nature of the transactions or their value.

- **Going Concern**
  The principle that accounts are always prepared on the basis that the organisation will continue to operate for the foreseeable future. Following Local Government Reorganisation in Cheshire, the Council inherited the assets and liabilities of the District Councils of Crewe and Nantwich, Congleton and Macclesfield and a proportion of the assets and liabilities of Cheshire County Council. Cheshire East Borough Council is providing the same services as the demised Councils and therefore the going concern principle still applies.

**b) <u>Changes in Accounting Policies and Estimates and Errors</u>**

Where there is a change in an accounting policy, the changes for the current reporting period and, where practical, the changes resulting from retrospective application are disclosed in each financial statement. Corrections are only made to update accounting estimates or to correct errors where failure to do so would materially misrepresent the Council's financial position.

A correction has been made to the 2010/11 Service Gross Expenditure figures. The figures published in the 2010/11 Statement of Accounts included an over-allocation of support service recharge to Schools and so the figures have been restated. Further details of the impact of the restatement are available in Note 1.

**c) <u>Accounting for Council Tax</u>**

While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and paid out to major preceptors. The amount credited to the General Fund under statute is a Council's precept or demand for the year, plus or minus the Council's share of the surplus/deficit on the Collection Fund for the previous year.

The Council Tax income included in the Comprehensive Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement.

The cash collected by the Council from Council Tax payers belongs proportionately to all the major preceptors. The difference between the amounts collected on behalf of the other major preceptors and the payments made to them is reflected as a debtor or creditor balance as appropriate.

**d) Accounting for National Non-Domestic Rates (NNDR)**

As the Council acts as an agent in the collection of NNDR income it does not include the financial position with regard to the rate payers and only reports the net cash position with central government in its Balance Sheet.

The Council maintains records of NNDR arrears, impairment allowances, prepayments and overpayments in its underlying accounting records, however for final accounts purposes these balances are consolidated into a single agency account, with the figures netting down to the debtor/creditor to the national pool.

The cost of collection allowance received by Cheshire East Borough Council is the billing authority's income and is included in the Comprehensive Income and Expenditure Statement.

**e) Accruals of Income and Expenditure**

Income and expenditure is included in the accounts on an accruals basis, apart from housing benefit payments and minor cash income, which are shown in the accounts when the expenditure is incurred or the income is received. In particular:

- Sales, fees, charges and rent due from customers are accounted for as income at the date the Council provides the relevant goods and services;
- 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;
- Works are charged as expenditure when they are completed. Prior to this they are carried as work in progress on the Balance Sheet;
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- The Council is a billing authority and collects National Non Domestic Rates (NNDR) under what is in substance an agency agreement with central government for the collection of business rates. The same principle applies for Council Tax collected on behalf of the precepting bodies: Cheshire Police, Cheshire Fire Authority and Parish Councils. The income collected on an agency basis is not the income of the billing authority and is not included in the Comprehensive Income and Expenditure Statement;
- Where income or expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The Council's policy is to

provide in full for the non-payment of all debts over 6 months old unless a payment arrangement is in place or the debt is otherwise secured;

- Where income has been received in the year in relation to activities to be carried out in the following financial year, a receipt in advance is recorded in the Balance Sheet;
- Where payment has been made in relation to activities to be carried out in the following financial year, a payment in advance is recorded in the Balance Sheet;
- Severance costs arising from redundancies agreed on or before Balance Sheet date are accrued in the accounts;
- Income and expenditure are credited and debited to the relevant Income and Expenditure Account, unless they properly represent capital receipts or capital expenditure.

**f) <u>Debtors and Creditors</u>**

Income and expenditure is accounted for on an accruals basis, i.e. in the year the activity takes place rather than when cash is paid or received. In accordance with this, creditors are accrued on an actual payment basis for the first 2 weeks of the new financial year, and then on an estimated creditors schedule for outstanding items.

Income is recorded in the year in which it is earned. Therefore, debtors are recorded in the accounts at the time they are due, with the exception of central government grants which are estimated at the year end. If there is objective evidence that a debt held within the accounts exceeds the recoverable amount, the value of that debt is impaired.

Specific government grants such as Rent Allowances and Council Tax Benefit are accrued based on data produced from the Council's benefits system at 31 March. The total benefits paid out during the financial year is used as the basis of calculating the remaining government grant due to the Council (debtor) or due to be repaid back to central government (creditor). This estimation technique also applies to the grant that the Council receives from the NNDR pool.

**g) <u>Cash and Cash Equivalents</u>**

Cash is represented by cash in hand and deposits with financial institutions that are immediately repayable without penalty. Cash equivalents are highly liquid investments held at the balance sheet date that are readily convertible to known amounts of cash on the balance sheet date 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.

**h) <u>Charges to Revenue for Non-Current Assets</u>**

Service Income and Expenditure Accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding non-current 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 assets attributable to the service.

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

## i) Contingent Assets and Liabilities

Contingent assets and liabilities are obligations or assets arising from past events where:

- The existence or value of the obligation is dependent on future events which are not wholly within the control of the Council;
- It is not probable that a flow of economic benefits will be required to settle the obligation; or
- The obligation/contingent asset cannot be easily quantified.

Contingent assets and liabilities are not recognised in the Balance Sheet but are disclosed in Notes 48. The disclosures set out both the scale of potential costs and the likelihood of these being realised.

## j) 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 salaries, paid annual leave, paid sick leave and non-monetary benefits for current employees. These 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 leave entitlements which were not taken before the year end and which employees can carry forward to the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

### 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.
Termination Benefits 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.

Details of Termination Benefits are contained in Note 37.

**Post-Employment Benefits**

Most employees of the Council participate in one of two pension schemes which meet the needs of employees in particular services (further details are provided in Notes 46 and 47 to the financial statements). Both schemes provide final salary defined benefits to members (retirement lump sums and pensions) based on membership earned during the time that the employee was a member of the scheme.

**Local Government Pension Scheme (LGPS)**

All employees (other than teachers) and Councillors, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. The scheme, known as the Cheshire Pension Fund, is administered by Cheshire West and Chester Council.

Local authorities are required to implement International Accounting Standard 19 (IAS19) in full. The accounts have therefore been prepared in accordance with CIPFA's guidance on Accounting for Retirement Benefits. The Local Government Pension Scheme is accounted for as a defined benefit scheme:

- The liabilities of the Cheshire 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 actuarial assumptions (as detailed in Note 47).

  Those liabilities are discounted to their value at current prices, using a discount rate which is based on the indicative rate of return on a high quality corporate bond at each year end as prescribed in IAS19. For 2011/12 this rate was 4.8% (5.5% in 2010/11).

- The assets of the Cheshire Pension Fund attributable to the Council are included in the Balance Sheet at their fair value as follows:
  - unquoted securities – professional estimate
  - quoted securities – current bid price
  - unitised securities – current bid price
  - property – market value

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

- **current service cost** – the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- **past service cost** – the increase in liabilities arising from current year decisions, the effect of which relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- **interest cost** – the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

- **expected return on assets** – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return, credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- **gains 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, credited or debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- **actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, debited to the Pensions Reserve;
- **contributions paid to the Pension Fund** – cash paid as employer's contributions to the Fund.

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.
Statutory provisions limit the Council to raising Council Tax to cover the cash amounts payable by the Council to the Pension Fund in the year.

**Teachers' Pensions Scheme (TPS)**

This is a contributory scheme administered by Capita Teachers' Pensions (TP) on behalf of the Department for Education (DfE). Although the Scheme is unfunded, central government has established a notional fund as the basis for calculating employers' contributions. The Council contributes at rates determined by the DfE. The arrangements for the TPS mean that liabilities for these benefits cannot be identified to the Council. The Scheme is therefore accounted for as if it were a defined contribution scheme, with no liabilities for future payments or benefits recognised in the Balance Sheet. The Children's Service within the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the Scheme in year.

In addition, the Council is responsible for any payments relating to early retirements outside the standard terms of the Scheme. This part of the Scheme is accounted for on a defined benefit basis using the same policies that are applied to the Local Government Pension Scheme.

**k) <u>Events after the Balance Sheet Date</u>**

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

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would

have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

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

## l) <u>Financial Instruments</u>

### Financial Liabilities

Financial liabilities (i.e. long-term loans raised by the Council) 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 Interest Rate (EIR) for the instrument.

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's policy is that any premiums are charged to the General Fund balance over the shorter of the remaining life of the loan repaid early or over 10 years. Discounts are credited to the General Fund over the shorter of the remaining life of the loan repaid or 10 years. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### Financial Assets

Financial assets are classified into two types: loans and receivables; and available-for-sale assets.

**Loans and Receivables** are assets that have fixed or determinable payments but are not quoted in an active market. Examples include fixed term money market deposits, instant access accounts and call accounts. They are shown on the Balance Sheet initially at fair value, then subsequently at amortised cost using the Effective Rate of Interest method. 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 the value of a loan and receivables financial asset is deemed to be impaired, then the value of the asset is written down to its recoverable amount. The amount of the write down is charged in full to the Comprehensive Income and Expenditure Statement in the year the impairment is recognised. Where there is a revision to the value of the asset previously impaired then adjustments are made to the value of the asset and to the Comprehensive Income and Expenditure Statement in the year in which the revision is made.

The interest credited to the Comprehensive Income and Expenditure Statement in respect of loans and receivables is equal to the coupon rate of interest on the deposit/account.

Soft Loans are loans made to voluntary organisations or other bodies, at less than market interest rates. When a Soft Loan is made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the loan, resulting in a lower value for the loan being shown on the balance sheet. Interest is then credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement each year at a higher effective rate of interest than the rate receivable from the voluntary or other organisations, with the difference serving to increase the value of the loan on the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund balance is the interest receivable for the financial year so the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement of Reserves Statement. The Council operates a de minimis level of £250,000 for accounting for soft loans and consequently loans below this level are not written down on the balance sheet to reflect the interest foregone.

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** are financial instruments that have a quoted market price and/or do not have fixed or determinable payments. Examples of available for sale assets used by the Council are UK Government bonds (gilts), certificates of deposit (CDs) and pooled investment funds. They are initially measured and carried at fair value. Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

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

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

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

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

During the year surplus money is invested and the interest earned credited to the Comprehensive Income and Expenditure Statement. Interest is paid to Cheshire West and Chester in relation to balances on the Insurance and Relocation Reserves which are managed by Cheshire East on behalf of the two authorities. Interest is also credited to schools on unspent balances held.

The accounting policy for interest payable on financial liabilities and interest receivable on financial assets is included in the accounting policies on financial liabilities and financial assets respectively.

**Risks Arising from Financial Instruments**

The risks associated with financial instruments are referred to in Note 50.

**m) Grants and Contributions**

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments, and the grants or contributions will be received.

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

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

Where a capital grant or contribution has been received, and conditions remain outstanding at the Balance Sheet date, the grant or contribution is recognised as part of the Capital Grants Receipts in Advance. Once the condition has been met, the grant or contribution is transferred from the Capital Grants Receipts in Advance and recognised as income in the Comprehensive Income and Expenditure Statement.

Where a capital grant or contribution has been recognised as income in the Comprehensive Income and Expenditure Statement, and the expenditure to be financed from that grant or contribution has been incurred at the Balance Sheet date, the grant or contribution is transferred from the General Fund to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure. This transfer is reported in the Movement in Reserves Statement.

Where a capital grant or contribution has been recognised as income in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed from that grant or contribution has not been incurred at the Balance Sheet date, the grant or contribution is transferred to the Capital Grants Unapplied Account, reported in the Movement in Reserves Statement. When the expenditure is incurred, the grant or contribution is transferred to the Capital Adjustment Account.

**n) Heritage Assets**

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment.

Heritage Assets are assets that have been preserved in trust for future generations because of their environmental, artistic, scientific, geophysical or historical associations. The assets can also be held for the contribution of knowledge and culture.

The Heritage Assets held on the Cheshire East balance sheet relate in the main to Civic Regalia or the ceremonial pieces that go alongside the formal civic ceremonies. The value in the balance sheet has been taken from the latest insurance valuation that has been completed within the last five years. There is no formal policy to revalue these items on a more regular basis, however items of a certain value are individually reviewed and their valuation assessed to ensure they are in line with current market conditions.

In respect of the Authority's War Memorials a decision has been made by the Authority not to seek a valuation on the items as the Authority believes it will not benefit the users of the Authority's financial statements or be a cost effective exercise given the diverse number of War Memorials and associated Artefacts.

**o) Intangible Assets**

Intangible assets are assets that do not have physical substance but are separately identifiable and controlled by the Council (e.g. software licences) as a result of past events and it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

**Recognition and Measurement**

An Intangible fixed asset is recognised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Expenditure on such assets is capitalised in situations where the software costs are more than £10,000 and will bring benefits to the Council for more than one financial year. Expenditure on intangible assets costing less than £10,000 is charged in full to the Comprehensive Income and Expenditure Statement in the year that it is incurred. All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The Council maintains the amortisation rates applied by the predecessor authorities to their transferred assets. Amortisation periods for the transferred assets are in the range of 3 to 10 years. Intangible

Assets capitalised since the formation of Cheshire East Borough Council are amortised over 3 years.

Internally generated assets may be recognised subject to criteria being met. They can be capitalised when it is demonstrable that the project is technically feasible and is intended to be completed, with adequate resources being available, and the Council is able to generate future economic benefits or deliver service potential by being able to sell or use the asset. The Council currently has no internally generated intangible assets.

**Amortisation**

Expenditure on intangible assets is written down (amortised) to the Comprehensive Income and Expenditure Statement on a straight line basis over the estimated economic life of the asset. The estimated economic life of a licence is assumed to be the shorter of 5 years or the period for which the licence has been granted.

The values of intangible assets are reviewed at the end of each financial year for evidence of reductions in value. Impairment of intangible assets is treated in the same way as impairment of tangible assets. When an asset is disposed of or derecognised, the value of the asset is recognised in the surplus or deficit on the Provision of Services.

## p) Interest in Companies and Other Entities

Until 31 March 2012, the Council had a contractual arrangement with Connexions – Cheshire and Warrington Ltd (company no. 04171781) for the provision of youth-related services.

Following a review and termination of the three main contracts between the company and its associates - Cheshire East Borough Council (CEBC), Cheshire West and Chester Council (CWAC) and Warrington Borough Council (WBC) - the Board and Members of the company decided to place the company into administration. The affairs and closure of company are being managed by the appointed Administrators, PKF (UK) LLP.

During 2011/12 the company was considered to be an associate, however the Council has not produced group accounts due to the monetary amounts involved and related to the company being placed into administration. Information on this may be found in Note 39 (Interest in Other Companies and Entities – Connexions).

## q) Inventories and Work in Progress (Contracts)

Inventories are valued at the lower of cost or net realisable value. Stocks of stationery (apart from those held by Central Stores) are not included in the Balance Sheet since such stocks are incidental and deemed not to be material to the accounts.

Work in Progress (Contracts) applies to construction that the Council is undertaking for customers – not assets under construction – where the Council is the customer rather than contractor. The Council does not act as contractor so this is not applicable.

## r) Investment Property

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

**Recognition and Measurement**

Investment properties are measured initially at cost and subsequently at fair value. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

## s) Jointly Controlled Operations and Jointly Controlled Assets

**Cheshire Shared Services – Shared Services Agreement with Cheshire West and Chester Council**

At Local Government Review the Council entered into an agreement with Cheshire West and Chester Council to deliver over 30 services via a shared services agreement. Services which could be operated as part of a shared services arrangement were determined and assessed using the criteria of maintaining operational efficiency and identifying those services that utilised a single infrastructure that could not be disaggregated economically or in the short term.

The structure of the Shared Services Arrangement is that of a jointly controlled operation in accordance with International Accounting Standard (IAS) 31. Each authority accounts directly for its part of the assets, liabilities, income, expenditure and cash flows held within or arising from the structure. Where expenditure has been recharged to the non host authority the analysis of net charge has been reflected in the accounts on the same subjective analysis as costs incurred directly.

## t) Landfill Allowance Trading Scheme (LATS)

To enable England to meet its share of UK landfill diversion targets, waste disposal authorities in England are given individual targets and the Landfill Allowance Trading Scheme (LATS) enables local authorities to trade allowances in a cost effective way. Allowances allocated by the Department for Environment, Food and Rural Affairs (DEFRA) or purchased from another council are classified as current assets, measured at the weighted average value. The requirements of LATS remain in place and will be enforced until the end of the 2012/13 scheme year. Further details are in Note 31.

## u) Leases

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

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

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

**The Council as Lessee**

**Finance Leases**

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

Lease payments are apportioned between:

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

Property, Plant and Equipment recognised under finance leases 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. there is a rent-free period at the commencement of the lease).

**The Council as Lessor**

**Finance Leases**

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and

Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

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

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement.

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.

**v) <u>Overheads and Support Services</u>**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with costing principles of the CIPFA Service Reporting Code of Practice 2011/12 (SeRCOP).

The total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

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

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

### w) <u>Property, Plant and Equipment</u>

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

**Recognition and Measurement**

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.

The Council applies capital expenditure de minimis levels of £10,000.

Assets are initially measured at cost, comprising the purchase price, and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost;
- All other Property, Plant and Equipment assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value). If there is no market-based evidence of fair value, an estimated fair value is made using a depreciated replacement cost approach or depreciated historical cost for non-property assets that have short useful lives, low values, or both. For vehicles, plant, furniture and equipment the Council considers depreciated historical cost to be an adequate substitute for fair value.

The values of properties used in the accounts are based on certificates issued by the Assets Manager, Daniel and Hulme Property Consultants (RICS), District Valuation Service, Drivers Jonas Deloitte and the Farms Estate Shared Service manager.

**Revaluations**

Accounting practice requires all properties to be revalued at least once every five years. All former district properties were revalued in 2009/10, and other operational property were revalued in 2010/11 as part of the transition to International Financial Reporting Standards. As from the valuation at 31 March 2012, the Council intends to develop a rolling programme to ensure that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. The significant assumptions applied in estimating the fair values are:

- As defined in IAS16, Fair Value is the amount for which an asset could be exchanged between knowledgeable, willing partners in an arms length transaction.
- For Operational Assets, Fair Value relates to its existing use. Existing Use Value (EUV) is the basis used in valuing non-specialised assets.

- Specialised assets for which there is no market-based evidence to support the use of EUV are valued using the Depreciated Replacement Cost (DRC) basis. This applies in particular to schools.
- For property assets that are not used operationally, Fair Value equates to Market Value. This is the estimated amount for which a property should exchange between a willing buyer and a willing seller in an arm's-length transaction after proper marketing, and both parties acting knowledgeably, prudently and without compulsion.

Any increases in the valuation of properties since April 2007 arising from general price level movements are matched by corresponding credits to the Revaluation Reserve. Any revaluation increases/decreases that took place prior to 1 April 2007 are recorded in the Capital Adjustment Account.

Gains recognised on revaluation of Property, Plant and Equipment are matched by credits to the Revaluation Reserve to recognise an unrealised gain, unless the asset has previously been subject to an impairment loss or revaluation decrease charged to Surplus or Deficit on the Provision of Services. In this case the gain is credited to the Comprehensive Income and Expenditure Statement.

Where a revaluation loss occurs as a result of revaluation to account for downward changes in market value, the decrease is recognised in the Revaluation Reserve to the extent the asset had previously been revalued upwards and thereafter in the surplus or deficit on the Provision of Services.

**Impairment**

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

Where impairment losses are identified, they are accounted for as below:

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

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

**Disposals and Non-Current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset is recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale.

The following strict criteria have to be met before an asset can be classified as held for sale:

- The asset must be available for immediate sale in its present condition and is being marketed for sale at a price reasonable in relation to its fair value;
- The sale must be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated;
- The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification.

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

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

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

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

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

**Capital Receipts**

Capital receipts are the amounts derived from the sale of capital assets. The Capital Receipts policy is to ensure that capital receipts are used in the most beneficial way to support corporate priorities and strategic objectives of the Council. The policy is intended to separate the use of resources from the means of acquiring resources therefore supporting the strategic approach to capital investment. This will mean that all receipts will be pooled centrally and allocation to capital projects will be via the Capital Asset Group. The Council has implemented a Disposals Policy as part of the Asset Management Plan; where property assets are not meeting the Council's objectives, their retention will be subject to asset challenge and a process of rationalisation and disposal for surplus/under-performing property will be adopted. No de minimis limit is applied to capital receipts.

**Depreciation**

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets), assets that are not yet available for use (i.e. assets under construction), investment properties carried at fair value and land where it can be demonstrated that the asset has an unlimited useful life (excluding land subject to depletion, i.e. quarries and landfill sites). It is not charged in the year of acquisition, or on revaluations in the year of revaluation. In the year of disposal, depreciation is calculated for the proportion of the year up to date of disposal.

Depreciation is calculated on the following bases:

- dwellings and other buildings (excluding land) – straight-line allocation over the useful life of the property as estimated by the valuer;
- vehicles, plant, furniture and equipment – a straight line allocation over the useful life of the asset, as advised by a suitably qualified officer;
- infrastructure – straight-line allocation over 40 years.

No depreciation charges are made for land, assets under construction, surplus assets, investment properties, and community assets.

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

**Componentisation**

IAS16 requires all components of an asset with a significant cost in relation to the total cost of the asset to be depreciated separately. The principal distinction is between Land (no depreciation) and Buildings (depreciable).

Where an item of Property, Plant and Equipment has major components with costs significant in relation to the total cost of the item, the components are depreciated separately. The main components of buildings are identified as 'main structure', 'temporary buildings and external works', and 'services and specialist equipment'. The requirement for componentisation for depreciation purposes only applies to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2010. As depreciation is not charged in the first year for additions and revaluations, the first charge based on the newly identified components has been made in 2011/12.

The Council has determined a de-minimis asset value of £1.9 million as a basis for componentising depreciation charges.

**x) <u>Private Finance Initiative (PFI) and Similar Contracts</u>**

PFI and Similar Contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide services passes to the PFI contractor. The Council is deemed to control the services that are provided under its PFI scheme and, as ownership of the Property, Plant and Equipment will pass to the Council at the end of the contract for no additional charge, the Council carries the fixed assets used under the contracts on the Balance Sheet.

The Council is party to one PFI contract in respect of Extra Care Housing. The contract also involves Cheshire West and Chester Council and will terminate in 2039.

The original recognition of these assets has been balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. The Property, Plant and Equipment recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council. The amounts payable to the PFI operator each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to Financing and Investment Income and Expenditure line on the Comprehensive Income and Expenditure Statement;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to Financing and Investment Income and Expenditure line on the Comprehensive Income and Expenditure Statement;
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator;
- operator lifecycle replacement costs – recognised as Property, Plant and Equipment on the Balance Sheet.

### y) Pooled Budgets

The Council registered a partnership arrangement under Section 75 of the National Health Service Act 2006 to commission services to Adults with Learning Difficulties within Cheshire East. The contributions to the partnership are in the following proportions:

| | |
|---|---|
| Cheshire East Borough Council | 67.50% |
| Central and Eastern Cheshire PCT | 32.50% |

This split reflects the apportionment of costs after the first “Valuing People Now” (VPN) transfer. A further VPN transfer has been agreed for 2012/13 and this will result in a revision to the split and an increase in the Council’s contributory share.

The Pooled Budget agreement ran until 31 March 2012 and a new one year agreement is currently being negotiated with the two Clinical Commissioning Groups (CCGs) who are in shadow mode in 2012/13 and which will formally replace the Primary Care Trust from 1 April 2013. A new agreement will be needed from 1 April 2012 if the Pooled Budget is to continue in operation.

Further details relating to the Council’s Pooled Budgets are provided in Note 33.

### z) Provisions

Provisions are made when the Council recognises that it has an obligation as a result of a past event, when it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year when the Council becomes aware of the obligation, based on the best estimate of the likely settlement.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and, if no longer required, are reversed and credited back to the Comprehensive Income and Expenditure Statement. Where some or all of the payment required to settle an obligation is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service if it is virtually certain that reimbursement will be received if the obligation is settled. Details relating to the Council's provisions are provided in Note 24.

**aa) Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies and are split between usable and non-usable. Usable Reserves are those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitation on their use. Unusable reserves cannot be used to provide services; this category includes reserves that hold unrealised gains and losses (e.g. the Revaluation Reserve).

Resources set aside for specific purposes or to meet predicted liabilities are held as "earmarked reserves". The Council also sets aside sums as a more general reserve, called the General Fund, to cover the impact of unexpected events or emergencies or provide a working balance to help manage the effect of uneven cash flows. The Council seeks to maintain the General Fund at a level consistent with a detailed assessment of risk as set out in its Reserves Strategy. This assessment is updated annually as part of the Council's Medium Term Financial Planning.

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

Certain reserves are kept to manage the accounting process for tangible fixed assets (Revaluation Reserve and Capital Adjustment Account) and retirement benefits (Pension Reserve). These are in effect accounting reserves rather than cash reserves.

**bb) Revenue Expenditure funded from Capital Resources under Statute**

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

**cc) Single Status**

Costs relating to 2011/12 pay have been included in the appropriate service line. Costs relating to back pay for earlier years (2006/07 to 2010/11) have been included in Other Operating Income and Expenditure. However, these costs have been transferred to an Equal Pay Back Pay Reserve until such time as the payments are made.

**dd) VAT**

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from them. At the year end any amounts outstanding are represented by a debtor or creditor on the balance sheet.

# Collection Fund and Notes 2011/12

## Collection Fund Revenue Account

| 2010/11 | | | 2011/12 | |
|---|---|---|---|---|
| £000 | £000 | | £000 | £000 |
| | | **Expenditure** | | |
| 210,244 | | Precepts (Note 2) | 213,112 | |
| | | National Non-Domestic Rates: | | |
| 120,415 | | Payment to National Pool | 124,023 | |
| 562 | | Cost of Collection | 562 | |
| | | Council Tax: | | |
| 3,754 | | Increase / (Decrease) in Impairment Allowance | (1,735) | |
| | 334,975 | | | 335,962 |
| | | **Income** | | |
| 193,537 | | Income from Council Tax | 190,974 | |
| 20,461 | | Transfers from General Fund: Council Tax Benefits | 20,403 | |
| 120,977 | | Income from National Non-Domestic Rates | 124,585 | |
| | 334,975 | | | 335,962 |
| | **0** | **Surplus/(Deficit) for Year** | | **0** |
| | 6 | Balance Brought Forward at 1 April | | 6 |
| | **6** | **Balance Carried Forward at 31 March** | | **6** |

## Notes to the Collection Fund

### 1. National Non-Domestic Rates (Business Rates)

| 2010/11 | | 2011/12 |
|---|---|---|
| £336.731m | a) Total Rateable Value at 31 March 2012 | £340.119m |
| 41.4p | b) Rate in the Pound for Year | 43.3p |
| 40.7p | c) Small Business Rate Relief | 42.6p |

### 2. Precepts and Demands

| 2010/11 £000 | | 2011/12 £000 |
|---|---|---|
| 179,618 | a) Cheshire East Borough Council (including Parish precepts) | 182,122 |
| 20,982 | b) Cheshire Police Authority | 21,231 |
| 9,644 | c) Cheshire Fire Authority | 9,759 |
| **210,244** | | **213,112** |

In England, billing authorities act as agents, collecting council tax on behalf of the major preceptors and itself. Council Tax transactions and balances therefore need to be allocated between the billing authority and major preceptors. This means that Cheshire East Borough Council has to remove from its Comprehensive Income and Expenditure Statement the share of the demand on the Collection Fund and any surplus or deficit in respect of the other major preceptors. Similarly, on the Balance Sheet the Council has to remove the share of assets and liabilities that relate to the other major preceptors, to leave only the assets and liabilities that relate to the Council.

Consequently, the other major preceptors will show their share of the demand on collection, surplus or deficit on the Fund, assets and liabilities within their own Comprehensive Income and Expenditure Statements and Balance Sheets.

## 3. General

These Accounts represent the transactions of the Collection Fund that are required by Section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992).

## 4. National Non-Domestic Rate Pool

The Council collects National Non-Domestic Rates (NNDR, also known as Business Rates) for the area based on rateable values multiplied by a national uniform rate. The total amount collected, less certain reliefs and other deductions, is paid to a central pool (the NNDR pool) managed by central government, which in turn pays back to authorities their share of the pool based on a standard amount per head of local adult population.

## 5. Council Tax

Council Tax is a property based tax which was introduced by the Local Government Finance Act 1992. Each relevant property is allocated a Council Tax Band (A to H) upon valuation. The Billing Authority levies a Council Tax amount for each band within each area of the Borough, based upon its own council tax requirement, the demands made by its precepting authorities and the Council Tax Base. The Council Tax Base is the number of chargeable dwellings in each valuation band converted to an equivalent number of Band D dwellings.

| Band | Valuation of Property at 1 April 1991 | Cheshire East | Fire | Police | Council Tax Payable |
|---|---|---|---|---|---|
| | | £ | £ | £ | £ |
| A | Up to £40,000 | 810.89 | 44.29 | 96.35 | **951.53** |
| B | £40,001 to £52,000 | 946.04 | 51.67 | 112.41 | **1,110.12** |
| C | £52,001 to £68,000 | 1,081.19 | 59.05 | 128.47 | **1,268.71** |
| D | £68,001 to £88,000 | 1,216.34 | 66.43 | 144.53 | **1,427.30** |
| E | £88,001 to £120,000 | 1,486.64 | 81.19 | 176.65 | **1,744.48** |
| F | £120,001 to £160,000 | 1,756.94 | 95.95 | 208.77 | **2,061.66** |
| G | £160,001 to £320,000 | 2,027.23 | 110.72 | 240.88 | **2,378.83** |
| H | Over £320,000 | 2,432.68 | 132.86 | 289.06 | **2,854.60** |

## 6. Council Tax Base Calculation

The Council Tax base is the total number of properties in each band multiplied by a factor to convert the number to a Band D equivalent adjusted for discounts – for 2011/12, this was £146,899.21.

| BAND | Number of Properties after Discount | Ratio to Band D | Band D Equivalent | Adjustment for 99.0% Collection Rate |
|---|---|---|---|---|
| DIS | 84.56 | 5/9th | 46.98 | |
| A | 24,098.84 | 6/9th | 16,065.89 | |
| B | 30,027.69 | 7/9th | 23,354.87 | |
| C | 29,479.47 | 8/9th | 26,203.97 | |
| D | 22,186.95 | 1 | 22,186.95 | |
| E | 17,371.10 | 11/9th | 21,231.34 | |
| F | 12,119.30 | 13/9th | 17,505.66 | |
| G | 11,219.75 | 15/9th | 18,699.58 | |
| H | 1,543.91 | 18/9th | 3,087.82 | |
| **Total** | **148,131.57** | | **148,383.06** | **146,899.22** |

# Statement of Responsibilities for the Statement of Accounts

**The Council's Responsibilities**

The Council is required:

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

**The Director of Finance and Business Services Responsibilities**

The Director of Finance and Business Services is responsible for the administration of the financial affairs of the Council and for the preparation of the Council's Statement of Accounts which, 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"), is required to present a true and fair position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2012.

In preparing this Statement of Accounts, the Director of Finance and Business Services has:

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

The Director of Finance and Business Services has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities;
- ensured that accurate representations have been made to the Council's Auditor, all relevant records made available and any matters that could have a material effect on the financial statements have been disclosed.

**Director of Finance and Business Services Certificate**

I certify that the Statement of Accounts presents a true and fair financial position of Cheshire East Borough Council as at 31 March 2012 and its income and expenditure for the year ended 31 March 2012 and authorise the financial statements for issue on 30 September 2012.

*Lisa Quinn*

**Lisa Quinn** MAAT CPFA

Director of Finance and Business Services for Cheshire East Borough Council

Dated: 27 September 2012

# Approval of Accounts

The approval of the audited accounts and the Annual Governance Statement will take place at the Audit and Governance Committee on 27 September 2012.

Signed on behalf of Cheshire East Borough Council

**John Hammond**
Chairperson

Dated: 27 September 2012

# Independent Auditor's Report

## Glossary of Terms

**Accounting Period**
The period of time covered by the accounts, this is the twelve months commencing on 1 April to 31 March. The 31 March is the end of the accounting period and is the balance sheet date.

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

**Actuarial Assumptions**
Assumptions made by the Pension Fund Actuary in valuing the Fund’s assets and liabilities.

**Actuarial Gains and Losses**
For a defined pension scheme, the changes in actuarial deficits or surpluses arising because events have not coincided with the actuarial assumptions made at the last valuation, or because the actuarial assumptions have changed.

**Actuarial Valuation**
An actuary undertakes a valuation by comparing the value of the pension scheme’s assets with its liabilities. The actuary then calculates how much needs to be paid into the scheme by the employer and members to ensure there will be adequate funds to pay pensioners when they become due.

**Actuary**
An actuary is an expert on pension scheme assets and liabilities. The Local Government Pension Scheme Actuary reassesses the rate of employer contributions to the Pension Fund every three years.

**Agency Services**
These are services the Council provides to a third party on behalf of another organisation.

**Amortisation**
The process of charging capital expenditure (usually on Property, Plant and Equipment) to the accounts over a suitable period of time.

**Appropriations**
Amounts transferred between the Comprehensive Income and Expenditure Statement and revenue or capital reserves.

**Area Based Grants**
A non-ringfenced general grant with no conditions on use imposed as part of the grant determination ensuring full control over how the funding can be used.

**Audit Commission**
Statutory body which oversees the conduct of local authority statutory audits.

**Average Cost**
Where goods such as stocks may be purchased at different times and at different prices, an average cost is calculated to give a value to goods held at the balance sheet date.

**Balance Sheet**
The balance sheet is a summary of a Council’s financial position at the year end. It shows the balances and reserves at the Council’s disposal and its long-term indebtedness, and the long-term and net current assets employed in its operations, together with summarised information on assets held.

**Billing Authority**
Cheshire East Borough Council is classed as a billing authority as it has responsibility for collecting the Council Tax and National Non-Domestic Rates. It collects the Council Tax on behalf of the Cheshire Police Authority, Cheshire Fire Authority and Parish Councils. It collects the National Non-Domestic Rates on behalf of central government.

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

**Business Rates**
See National Non-Domestic Rates.

**Capital Adjustment Account**
This account records the consumption of historic cost over the life of the asset and deferred charges over the period that the authority benefits from the expenditure. The account also records the resources set aside to finance capital expenditure.

**Capital Assets**
See Property, Plant and Equipment.

**Capital Charges**
Charge to service revenue accounts to reflect the cost of Property, Plant and Equipment used in the provision of services.

**Capital Expenditure**
Expenditure on the acquisition of an item of Property, Plant or Equipment, or expenditure that extends the useful life or operational capability of an existing asset.

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

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

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

**Capital Reserve**
A reserve held to provide an alternative source for financing future capital expenditure, and to ensure some stability in the level of capital programmes that can be financed.

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

**Cash and Cash Equivalents**
This comprises cash in hand, cash overdrawn and short term investments that are readily convertible into known amounts of cash.

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

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

**Collection Fund**
This is a statutory fund kept separate from the main accounts of the Council. It records all income due from the Council Tax and National Non-Domestic Rates and details the precept payments due to Cheshire East Borough Council, Cheshire Fire Authority and Cheshire Police Authority.

**Community Assets**
Assets that the Council intends to hold in perpetuity, that have no determinable finite useful life and in addition may have restrictions on their disposal (e.g. parks and historic buildings).

**Comprehensive Income and Expenditure Statement (CI&ES)**
This Account sets out the income and expenditure for the all the Council's functions for the financial year, according to the CIPFA Service Reporting Code of Practice (SeRCOP)

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

**Constitution**
The fundamental principles by which the Council operates and is governed.

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

**Contingent Assets**
A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control.

**Contingent Liabilities**
A contingent liability is either:

- a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly with the Council's control; or
- a present obligation arising from past events where it is probable that a transfer of economic benefits will be required, but the amount cannot be measured with sufficient reliability.

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

**Corporate Governance**
The authoritative rules and controls in place within an organisation required to promote openness, inclusivity, integrity and accountability.

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

**Creditors**
Amounts owed by the Council for goods or services that it has received but for which payment had not been made by 31 March.

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

**Current Service Cost (IAS 19 term)**
Employer pension contributions charged during the year have been removed from the Comprehensive Income and Expenditure Statement and replaced with an amount (i.e. current service cost) which reflects the increase in the Scheme liabilities expected to arise from employee membership of the Scheme in the year of account.

**Debtors**
Amounts owed to the Council at 31 March, where services have been delivered but for which payment has not been received.

**Deferred Benefits**
A future benefit which is being paid for in the current accounting period.

**Deferred Capital Receipts**
Amounts derived from asset sales which will be received in instalments over a period of years.

**Deferred Liabilities**
An amount already received by the Council that is being credited to the Comprehensive Income and Expenditure Statement over a number of years.

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

**Delegated Budgets**
Budgets for which schools and other services have complete autonomy in spending decisions.

**Depreciation**
The measure of the wearing out, consumption, or other reduction in the useful economic life of an item of Property, Plant or Equipment, whether arising from usage or obsolescence through technological or other changes.

There are different ways to attribute the cost of the asset over its economic life, of which the most common are the straight line method and the reducing balance method:

- Straight line depreciation method – the useful life of the asset is estimated, for instance at 3 years for IT equipment or 5 years for a vehicle, and the cost of the asset is divided equally over that number of financial years.
- Reducing balance method – the value of the asset is reduced by a fixed percentage each year, reflecting a greater loss of value in earlier years.

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

**Disposals**
Where an asset is disposed of or de-commissioned.

**Earmarked Reserves**
These reserves represent monies set aside that can only be used for a specific usage or purpose.

**Exceptional Items**
Items that derive from the ordinary activities of the Council and are material in terms of the Council's overall expenditure and not expected to recur frequently or regularly.

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

**Financial Instruments**
A financial instrument is any contract that gives rise to a financial asset for one party and a financial liability or equity instrument for the other.

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

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

**General Reserves**
These are amounts set aside for use in future years, not earmarked for any specific purpose.

**Government Grants**
Amounts received from central government towards funding the Council's activities.

**Gross Book Value**
The historical cost or the revalued amount of the asset before depreciation.

**Heritage Assets**
Assets which are preserved in trust for future generations, or which are held for their contribution to knowledge and culture.

**Impairment**
Relates to a reduction in book value of either a physical or financial asset, for example:

- A reduction in the book value of an item of property, plant or equipment arising from physical damage to the asset, dilapidation or obsolescence; or
- A reduction in the book value of a financial asset for which the carrying value exceeds the estimated recoverable amount. Bad and doubtful debt falls into this category.

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

**Infrastructure Assets**
Cheshire East Borough Council's network of roads, pavements, and bridges included within Property, Plant and Equipment**.**

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

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

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

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

**Landfill Allowance Trading Scheme (LATS)**
The scheme allocates tradable landfill allowances to each waste disposal authority in England and authorities can buy, sell or carry forward landfill allowances depending on usage requirements. The Scheme will end after the 2012/13 financial year.

**Leasing**
A method of acquiring the use of a non-current asset by paying a rental for a specified period of time, rather than purchasing it outright.

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

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

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

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

**Movement in Reserves Statement (MiRS)**
This shows the movement in the year on the different reserves held by the Council, analysed into usable and unusable reserves.

**National Non-Domestic Rates (NNDR)**
Also known as business rates, national non-domestic rates (NNDR) are collected from businesses by councils, pooled by central government and then redistributed to councils on a formula basis. NNDR money combines with the Revenue Support Grant (RSG) and council tax to make up local government funding.

**Net Book Value**
The amount at which assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

**Net Current Replacement Cost**
The estimated cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

**Net Debt**
This comprises short term investments plus cash in hand less cash overdrawn and long term borrowing.

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

**Net Worth**
The total value of an organisation expressed as total assets less total liabilities.

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

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

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

**Prepayments**
Amounts paid by the Council in year that related to goods and services not received until the following year.

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

**Private Finance Initiative (PFI)**
A means of securing new assets and associated services in partnership with the private sector.

**Projected Unit Method (IAS 19 term)**
An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings.

**Property, Plant and Equipment**
An asset with physical substance which is intended to be in use for and yield benefits for the Council for more than one year e.g. land, a building, or a vehicle.

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

**Rateable Value**
The annual assumed rental value of a property that is used for business purposes.

**Receipts in Advance**
Amounts received by the Council during the year relating to goods or services delivered in the following year.

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

**Reserves**
Specific amounts set aside for future policy purposes or to cover contingencies. There are two types of reserve: Usable and Unusable. Usable Reserves can be used to meet current expenditure, Unusable Reserves cannot.

**Revaluation Reserve**
This accounts for amounts where the current value net book value (NBV) of an asset is above its historic cost (NBV). It represents the accumulated amount of valuation gains less amounts written off owing to depreciation and impairment.

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

**Revenue Expenditure Funded from Capital Resources under Statute (REFCUS)**
Expenditure incurred that may be capitalised although it does not create a non-current asset.

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

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

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

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

**Surplus Assets**
Property, plant and equipment held by the Council which are not currently used in the provision of Council services.

**Surplus or Deficit**
The remainder after deducting all expenditure from income.

**'The Code'**
The Code is a code of practice on Local Authority accounting that has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board. The Code is based on International Financial Reporting Standards (IFRS), which local authority accounts are now required to be based on.

**Transfer Payments**
Relates to payments for which no goods or services are received by the Council e.g. Rent Allowances.

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