

## Report of the Interim Deputy Chief Executive

**STATEMENT OF ACCOUNTS 2018/2019 - ACCOUNTING POLICIES**1 Purpose of report

To provide Members with any updates made to the Council's accounting policies in relation to the production of the 2018/2019 financial statements.

2 Introduction

Prior to the completion of the Statement of Accounts 2018/2019, it is considered good practice that Members are given the opportunity to discuss and comment on the accounting policies to be used in the production of the financial statements. These policies will be applied to the treatment of all transactions that make up the Statement of Accounts to ensure the accounts present a true and fair view of the financial position of the Council as at 31 March 2019.

The 2018/2019 Statement of Accounts will be prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 (the Code), based upon International Financial Reporting Standards (IFRS).

3 Updates to the statement

The 2018/2019 Code introduces amendments to:

- the classification and measurement of financial assets and the impairment of financial liabilities
- the recognition of revenue
- the presentation of the cash flow notes

The Council's policies on Accruals of Income and Expenditure (policy ii) and Financial Instruments (policy x) have been reviewed and updated where appropriate.

The policies on Acquisitions and Discontinued Operations and Private Finance Initiatives and Similar Contracts have been removed from the statement as these do not apply to the Council's operations.

The proposed Accounting Policies for 2018/2019 are set out in the appendix.

4 Financial implications

There are no direct financial costs associated with the accounting policy updates.

**Recommendation**

**The Committee is asked to RESOLVE the Accounting Policies for 2018/2019 be approved.**

Background papers

Nil

## APPENDIX

**1. Accounting Policies****(i) General Principles**

The Statement of Accounts summarises the authority's transactions for the 2018/19 financial year and its position at the year end of 31 March 2019. The authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting 2018/19 supported by International Financial Reporting Standards (IFRS), International Accounting Standards and statutory guidance issued under section 12 of the Local Government Act 2003.

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

The Statement of Accounts has been prepared on a going concern basis. As required by IAS 1, it has been assumed that the Council will continue in operation for the foreseeable future.

**(ii) Accruals of Income and Expenditure**

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. A minimum value of £500 is applied to all such debtor and creditor accruals. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

An exception to the above relates to electricity and other similar quarterly payments which are charged at the date of meter reading rather than being apportioned between financial years. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

As regards private sector housing benefits, payments can relate to periods partly in advance and partly in arrears. The cut-off date applied to such payments is as near to the year end as possible and ensures consistency with the figures used to calculate government subsidy received on such payments.

Council housing rents become chargeable on the Monday of each week for the week ahead. Rent income is accounted for up to and including the last Monday in the financial year. This can therefore include an element relating to the following year for which no adjustment is made.

### **(iii) Cash and Cash Equivalents**

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

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

### **(iv) Exceptional Items**

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

### **(v) Prior Year Adjustments, Changes in Accounting Policies and Estimates and Errors**

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effects of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. See note 2 for more details.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period. See note 6 for more details.

### **(vi) Charges to Revenue for Non-Current Assets**

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

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

Where an impairment loss is charged to the Comprehensive Income and Expenditure Statement, but there were accumulated revaluation gains in the Revaluation Reserve for that particular asset, an amount up to the value of that loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

The Council is not required to raise council tax or council housing rents 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 authority in accordance with statutory guidance. This is known as the Minimum Revenue Provision (MRP).

Depreciation, revaluation and impairment losses and amortisations are therefore reversed out of the General Fund (and Housing Revenue Account (HRA)) and replaced by the MRP. This is completed with an adjusting transaction with the Capital Adjustment Account within the Movement in Reserves Statement for the difference between the two. This ensures that depreciation, revaluation and impairment losses and amortisations have no overall effect on council tax or housing rent levels.

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008, require local authorities to approve an MRP policy at the beginning of each financial year on setting aside a sum of money from revenue for the repayment of principal on outstanding debt. From 2012/13 onwards the Council has approved a policy such that, for capital expenditure incurred before 1 April 2008, the MRP is based on 4% of the authority's Capital Financing Requirement for the General Fund. For General Fund capital expenditure incurred after 1 April 2008, the MRP is based upon the estimated life of those assets where the financing was provided by borrowing. The Council has also decided that no voluntary provision for the repayment of debt relating to the HRA should be made in 2018/19.

## **(vii) Employee Benefits**

### Benefits Payable During Employment

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

### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure Statement

when the Council is demonstrably committed to the termination of the employment of an officer or making an offer to encourage voluntary redundancy.

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

### Post-Employment Benefits

Employees of the Council are members of the Local Government Pension Scheme, administered by Nottinghamshire County Council. The scheme is a defined benefit scheme in that it provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

### The Local Government Pension Scheme

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

- The liabilities of the Nottinghamshire County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees based on assumptions about mortality rates, employee turnover rates, etc. and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices using a discount rate that reflects the time value of money and the characteristics of the liability.
- The assets of the Nottinghamshire County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value:
  - Quoted securities – current bid price
  - Unquoted securities – professional estimate
  - Unitised securities – current bid price
  - Property – market value

The change in the net pension's liability is analysed into the following components:

- Service cost comprising:
  - 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 as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years (debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Resources).
  - Net interest on the net defined benefit liability or asset (i.e. the net interest expense for the Council) – the change during the period in the net defined liability or asset that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the

Comprehensive Income and Expenditure Statement). This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability or asset at the beginning of the period after taking into account any changes in the net defined benefit liability or asset during the period as a result of contribution and benefit payments.

- Re-measurements comprising:
  - The return on plan assets (excluding amounts included in net interest on the net defined benefit liability or asset) charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
  - 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) charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the Nottinghamshire County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities (not accounted for as an expense).

In relation to retirement benefits, statutory provisions require the General Fund and Housing Revenue Account balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any 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 and Housing Revenue Account of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

#### Discretionary Benefits

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

#### **(viii) Events after the Balance Sheet Date**

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

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

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

## **(ix) Financial Instruments**

### Financial Liabilities

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

All borrowings shown in the Balance Sheet consist of the outstanding principal repayable plus accrued interest. Annual interest is charged to the Comprehensive Income and Expenditure Statement in accordance with 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 or the Housing Revenue Account, regulations allow the impact on the General Fund and Housing Revenue Account Balance respectively to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement or the Housing Revenue Account to the net charge required against the General Fund or Housing Revenue Account Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### Financial Assets

Certain reserves are kept to manage the accounting processes for non-current fixed assets and retirement benefits and do not represent usable resources for the Council - these reserves are explained in the relevant policies below.

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss

- fair value through other comprehensive income
- Available for Sale Assets – assets that have a quoted market price and/or do not have any fixed or determinate payments.

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest.

#### Financial Assets measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

All such assets held on the Balance Sheet consist of the outstanding principal receivable plus accrued interest. Annual interest is credited to the Comprehensive Income and Expenditure Statement in accordance with the loan agreement.

The Council has provided a number of "soft loans" to employees at less than market rates for the purchase of motor vehicles. These should be correctly shown in the Balance Sheet at fair value. However, the value of these loans is not considered to be material. Accordingly the value as shown in the Balance Sheet represents the value of any loans made less any repayments that have been received.

Any gains or 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.

#### Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost wither on a 12 month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly, or remains low, losses are assessed on the basis of 12 month expected losses.

#### Financial Assets measured at Fair Value through Profit or Loss

Financial assets measured at fair value through profit or loss are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive occur n the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.



The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price.
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement technique are categorised in accordance with the following:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains or 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.

#### **(x) Government Grants and Contributions**

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired by 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-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

**(xi) Heritage Assets**

The Council's Heritage Assets consist of the DH Lawrence Birthplace Museum building and a painting by Dr Ala Bashir, a respected sculptor and painter, of DH Lawrence which is linked to his most famous novel, *Lady Chatterley's Lover*. The museum building is held for its historical and artistic significance and to promote knowledge and culture. The DH Lawrence Birthplace Museum is recognised and measured (including the treatment of depreciation and revaluation gains and losses) in accordance with the Authority's accounting rules on property, plant and equipment. The building was revalued at 31 March 2017 in accordance with the Council's 5 year revaluation cycle for such assets. The painting was donated to the Council in 2008.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment. For example, this may be where the asset has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment.

**(xii) Intangible Assets**

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

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

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

Intangible assets are measured initially at cost. Amounts are only re-valued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

An asset is tested for impairment whenever there is an indication that the asset might be impaired. Any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not

permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sales proceeds greater than £10,000) the Capital Receipts Reserve.

### **(xiii) Interests in Companies and Other Entities**

The authority has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts. Liberty Leisure Ltd is a wholly owned subsidiary of the authority which manages the provision of leisure and culture services and its accounts are consolidated with the authority's in accordance with IAS 27. See also policy xvi below.

### **(xiv) Inventories and Long Term Contracts**

Inventories are included in the Balance Sheet at cost. Whilst the Code of Practice on Local Authority Accounting 2018/19 requires inventories to be shown at the lower of cost and net realisable value, a departure from this is permitted under IFRS due to:

- the value of inventories not being considered to be material.
- the cost of analysing inventories between cost and net realisable value outweighing the value to the user of the accounts.

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

### **(xv) Investment Property**

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

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

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

**(xvi) Jointly Controlled Operations and Jointly Controlled Assets**

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

Jointly controlled assets are items of property, plant and equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

Whilst the Council does not strictly have any jointly controlled operations and jointly controlled assets in line with the definitions above, the Council has a 50% interest in the Bramcote Bereavement Services Joint Committee with the other 50% relating to Erewash Borough Council. Whilst the Bramcote Bereavement Services Joint Committee is a separate entity in its own right, its decision making and operational arrangements fulfil many of features associated with a jointly controlled operation. Therefore, the Council recognises 50% of the assets and liabilities of the Joint Committee on its Balance Sheet and debits and credits the Comprehensive Income and Expenditure Statement with 50% of the expenditure and income of the Joint Committee. This is also recognised in the Movement in Reserves Statement and the Cash Flow Statement as appropriate.

**(xvii) 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 upon the use of specific assets.

**The Council as Lessee****(i) Finance Leases**

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception. The asset recognised is matched by a liability for the obligation to pay the lessor. Contingent rents are charged as expenses in the periods in which they are incurred. All assets acquired through finance leases have been fully written down at the Balance Sheet date.

(ii) Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease.

**The Council as Lessor**

(i) 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.

(ii) 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.

**(xviii) Overhead and Support Services**

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

- Corporate and Democratic Core – costs relating to the authority's status as a multi-functional, democratic organisation
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early

These two cost categories are defined in the Service Reporting Code of Practice but are accounted for under Resources in the Comprehensive Income and Expenditure Statement.

**(xix) Property, Plant and Equipment**

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

The Council operates a de minimis level in valuing assets. Any assets valued at less than £5,000 are excluded from Balance Sheet values.

**Recognition**

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the

Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

### Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

- Infrastructure, community assets and assets under construction – depreciated historical cost
- Dwellings - fair value, determined using the basis of existing use value for social housing (EUV-SH)
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)

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

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

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

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

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

### Impairment

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

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

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

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

### Depreciation

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

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight line allocation over the useful life of the property.
- Vehicles, plant, furniture and equipment – straight line allocation over the useful life of the asset. New specialist vehicles may also have an additional depreciation provision made from the year following acquisition as advised by a suitably qualified officer.
- Infrastructure - straight line allocation over 40 years.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. This applies particularly in respect of council house dwellings.

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

#### Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any 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.

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

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

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

If part of an asset is replaced with a similar identifiable component, the carrying amount of the replaced or restored component is derecognised with the carrying amount of the new component being recognised. Any gain or loss arising from this process is credited or debited to the Comprehensive Income and Expenditure Statement as appropriate.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The Council has committed to a government scheme whereby, as from 2012/13, housing capital receipts from right to buy sales can only be used towards



new affordable council housing, and within three years of their receipt, otherwise they become payable to the government. The balance of receipts held is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment on council housing or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written off value of disposals is not a charge against council tax or housing rents, 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.

## **(xx) Provisions, Contingent Liabilities and Contingent Assets**

### Provisions

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation and are measured as the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

A provision exists in relation to outstanding insurance claims, based upon information supplied by the Council's insurers. All insurance claims transactions during the course of the year are passed through the provision with the appropriate charge being made against the service lines within the Comprehensive Income and Expenditure Statement.

### Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts. Further details can be found in note 44 to the accounts.

### Contingent Assets

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

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential. Further details can be found in note 45 to the accounts.

### **(xxi) Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund or Housing Revenue Account 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 or Housing Revenue Account balance in the Movement in Reserves Statement so that there is no net charge against council tax or housing rents for the expenditure.

### **(xxii) Revenue Expenditure Funded from Capital under Statute**

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

### **(xxiii) VAT**

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

### **(xxiv) Collection Fund**

Billing authorities are required to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and non-domestic rates. The Council acts as an agent, collecting and distributing council tax and business rates income on behalf of the major precepting authorities and central government as well as itself.

**Non Domestic Rates**

From April 2013 the business rates included in the Comprehensive Income and Expenditure Statement is the accrued income for the year. Any difference between the income in the Comprehensive Income and Expenditure Statement and the estimated share of income is taken to the Collection Fund Adjustment Account and included as an adjusting item in the Movement in Reserves Statement. As the collection of business rates is conducted on an agency basis, there is a debtor or creditor position between the Council and the major precepting authorities and central government.

**Council Tax**

The Local Council Tax Support Scheme is reviewed by the Finance and Resources Committee prior to the commencement of the financial year and any amendments are approved by full Council.