APPENDIX B

DRAFT STATEMENT OF ACCOUNTING POLICIES

The purpose of presenting this to the Audit Committee is to note the revised Accounting Policies as drafted by the Council that reflect the revised accounting requirements under International Financial Reporting Standards.

Note 1) <u>Accounting policies</u>

<u>Central Bedfordshire Council is referred to throughout as “The Council”</u>

a) <u>Accruals of Expenditure and Income</u>

Income and expenditure is accounted for in the year it takes place, not simply when cash is paid or received. In particular;

- Customer and client receipts in the form of sales, fees, charges and rents are accounted for in the period to which they relate. Where income has been recognised but cash has not yet been received, a debtor is recorded within the Balance Sheet.
- Where there is uncertainty that all the income accrued and accounted for will be collected, a provision for bad debts is created by a charge to services within the Comprehensive Income and Expenditure Statement to reflect the value of the income that may not be received.
- 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.
- Employee costs are charged in full to the accounts of the period within which the employee worked. Accruals are made for salaries and wages earned but unpaid at the year end.
- Supplies and Services are accounted for in the period during which they were consumed or received. An accrual is made for all material sums unpaid at the year end for goods and services consumed or received by that date and a creditor is recorded within the Balance Sheet. If there is a gap between the receipt of goods and their consumption, then they are carried as inventories within the Balance Sheet.
- Where expenditure has taken place within the year that relates to activities to be carried out in the following financial year, a payment in advance is recorded within the Balance Sheet.
- Works are charged as expenditure as they are completed, before which they are treated as work-in-progress in the Balance Sheet.
- Interest payable and receivable is accounted for in the year to which it relates. An effective interest rate calculation is needed when the loan or investment includes variable rate options, which can be exercised over the life of the loan. In these cases the charge or credit to the revenue account represents the

interest calculated using the effective interest rate, rather than the contractual arrangement and the carrying value of the loan or investment is adjusted in the Balance Sheet. Where an effective interest rate calculation has not been made an accrual is made for any interest accounted for but not received or paid at the year-end, which adjusts the carrying value of the principal of the loans(s) or investment(s) within the Balance Sheet.

- The Council acts as an agent for the Government for the collection of National Non-Domestic Rates (NNDR) and for Bedfordshire Police Authority and Bedfordshire and Luton Fire Authority in respect of council tax collected on their behalf. At the year-end the amount of NNDR and council tax due to, or owed by, these organisations but not yet received or paid is recognised in the Balance Sheet as a debtor or creditor as appropriate.

The de-minimus level for non-schools accruals is individual invoice items of £10k and above, for schools this is £1k.

For NNDR, this value represents the balance due to or from the Government in respect of the contribution to the NNDR Pool, adjusted for NNDR arrears at the year-end, net of the associated bad debts provision.

For council tax, this value represents the share of the Collection Fund balance due to or from Bedfordshire Police Authority and Bedfordshire and Luton Fire Authority, adjusted for council tax arrears at the year-end that are attributable to these precepting bodies, net of the associated bad debts provision.

b) Acquired Operations

Income and expenditure incurred during 2009/10 related to acquired operations as the Council only came into existence on 1 April 2009.

When necessary, income and expenditure directly related to other acquired operations will be shown separately within the Comprehensive Income and Expenditure Statement under the heading of acquired operations.

See Note xx for further details.

c) Area Based Grant

Area Based Grant (ABG) is a general grant made up of former specific grants provided by the Government. The Council is free to use this grant to support its local priorities as it sees fit.

The Council's policy on grants is outlined in Section O of the Accounting Policies.

d) Back Pay Arising from Unequal Pay Claims

Back pay from unequal pay claims is not applicable to the Council.

e) Business Improvement District Schemes

The Council does not run a Business Improvement District Scheme.

f) Cash and Cash Equivalents

The Council defines cash as:

- Cash held, in hand
- Cash held in instant access deposit accounts

Cash equivalents are defined as highly liquid deposits. The Council defines investment deposits maturing within 1 month of Balance Sheet date as cash equivalents.

Assets are defined as cash or a cash equivalent, unless it is restricted from being exchanged or used to settle a liability at least 12 months after Balance Sheet date.

See Note xx for further details.

g) Contingent Assets

Contingent assets are not included in either the Comprehensive Income and Expenditure Statement or Balance Sheet but are disclosed in note xx.

h) Contingent Liabilities

Contingent liabilities are not included in either the Comprehensive Income and Expenditure Statement or Balance Sheet but are disclosed in note xx.

i) Discontinued Operations

When necessary, income and expenditure directly related to discontinued operations are shown separately within the Comprehensive Income and Expenditure Statement under the heading of discontinued operations.

See Note xx for further details.

j) Employee Benefits

Pensions:

Most employees of the Council participate in one of two pension schemes to meet the needs of employees in particular services. Both schemes provide final salary defined benefits, in the form of lump sums and annual pensions, based on scheme membership earned during the time the employee worked for the Council.

1) Local Government Pension Scheme

All employees (other than teachers) and councillors, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. The scheme is known as the Bedfordshire Pension Fund and is administered by Bedford Borough Council in accordance with the Pensions Regulations 2008 on behalf of all participating employers within the Bedfordshire area.

With effect from 2003/04, local authorities have been required to implement Financial Reporting Standard 17 (FRS17) in full. The accounts have therefore been prepared in accordance with CIPFA guidance on Accounting for Retirement Benefits. This scheme is accounted for as a defined benefit scheme as follows:

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

Those liabilities are discounted to their value at current prices using a discount rate based on the indicative rate of return on a high quality corporate bond each year-end as prescribed by FRS17.

- The assets of the Fund attributable to the Council are included at their fair value on the following basis;
  - Quoted securities – current bid price.
  - Unquoted securities – market value.
  - Unitised securities – current bid price.
  - Property professional estimate.
- 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, which is charged to the revenue accounts of the services for which the employee worked.
  - **Past service cost**. The increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years and which is charged to Net Cost of Services 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 and which is charged to Net Operating Expenditure.
- **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, which is credited to Net Operating Expenditure.
- **Gains and losses on settlements and curtailments.** The results of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees, which is charged to the Net Cost of Services as part of Non-Distributed Costs.
- **Actuarial gains and losses.** Changes in the net pension liability that arise because events have not coincided with the assumptions made at the last actuarial valuation or because the actuary has updated their assumptions. These changes are not charged to revenue.
- **Contributions paid to the Fund**. Cash paid as the employer's contribution to the Pension Fund.

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the Pension Fund. In the Statement of Movement on the General Fund Balance, the notional debits and credits for retirement benefits are removed and replaced with debits for the actual cash paid to the Pension Fund and any amounts payable to the Pension Fund that are unpaid at the year-end. Similar adjustments are made within the Statement of Movement on the Housing Revenue Account Balance in respect of Pension Fund transactions in relation to the provision of council housing.

2) Teachers' Pension Scheme

The Teachers' Pension Agency (TPA) manages this scheme on behalf of the Department for Education (DfE). Although the scheme is unfunded, the government has set up a notional fund as the basis for calculating employers' contributions. The Council contributes at rates determined by the DfE.

This scheme is accounted for as a defined benefit scheme and the Children's and Education Services area within the Comprehensive Income and Expenditure Statement is charged with the employer's contributions to teachers' pensions in the year. There is no recognition made in the balance Sheet for the future payment of benefits.

3) Early Retirements

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

Benefits payable during employment:

Benefits payable during employment are split in classification to short and long term.

Short term employee benefits are those falling due wholly within 12 months of the Balance Sheet date, in which the employees render the related service and include:

- Wages, salaries and social security contributions
- Short-term compensated absences
- Bonuses and similar payments
- Non-monetary benefits.

Other longer-term employee benefits are those not falling wholly within 12 months of the Balance Sheet date.

Termination benefits:

Termination Benefits such as lump sum payments on termination of employment not associated with retirement are now required to be charged to Surplus or Deficit on the Provision of Services immediately whether they vest immediately or not. They are not to be amortised over a straight-line basis over the period in which the increase in benefit vests, as was previously required.

k) Events After the Balance Sheet Date

Events after the Balance Sheet date are defined as:

- An adjusting event occurs where an event takes place after the Balance Sheet date, which provides evidence that the condition(s) existed at the Balance Sheet date. In this case, the amounts recognised in the Statement of Accounts are adjusted.
- A non-adjusting event occurs where an event takes place after the Balance Sheet date, which indicates that the conditions giving rise to the event arose after the Balance Sheet date. In this case, the amounts recognised in the Statement of Accounts are not adjusted.

See Note x for further details.

l) Exceptional Items and Prior Period Adjustments

Material adjustments applicable to prior years arising from changes to accounting policies or from the correction of fundamental errors are accounted for by re-stating the comparative figures for the preceding period.

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The implementation of IFRS has required considerable restatement of prior year figures and comparators.

m) Financial Instruments

Financial Liabilities

1) Borrowing

Borrowing is classed as either a long-term liability, if it is repayable after 12 months or longer or a current liability if it is repayable within 12 months. Borrowing is shown at either current cost if the borrowing attracts a fixed rate of interest or at amortised cost using an effective interest rate if the borrowing has a stepped interest rate facility. In the case of fixed interest rate loans, usually from the Public Works Loans Board, the amount of interest accrued in the year is added to the loan principal to arrive at the carrying value of the loan at the Balance Sheet date. In the case of stepped interest rate loans such as Lender Option, Borrower Option Loans (LOBO), the value of the principal held within the Balance Sheet is adjusted to reflect the effective interest applicable to the loan over its life.

The interest charges to the Comprehensive Income and Expenditure therefore vary depending on whether an effective interest calculation has been made or not. For fixed rate loans the interest charged to the Comprehensive Income and Expenditure Statement is the amount due under the loan agreement. If an effective interest calculation has been used then a constant interest charge is made to the Comprehensive Income and Expenditure Statement over the life of the loan with the difference between this and the annual interest due under the loan agreement being adjusted within the Movement in Reserves Statement.

2) Trade creditors

Trade creditors are recognised when a contractual arrangement is entered into between the Council and a supplier to provide goods and services for an agreed price. The value of trade creditors recognised in the Balance Sheet represents the current value of the outstanding liabilities of the Council at 31 March 2011 as a proxy for amortised cost.

Creditors for taxation, council tax, NNDR and other creditors where no trading agreement exists are excluded from trade creditors.

3) Interest

Interest is earned annually by investing surplus money with financial institutions and this is credited to the Comprehensive Income and

Expenditure Statement. This interest is however adjusted by further transactions with ring-fenced balances of the Council as follows:

- The Housing Revenue Account (HRA) receives interest from the General Fund on its cash balances during the year and
- Schools do not receive interest on unspent balances they hold.

These interest adjustments are shown within Financing and Investment I&E in the Comprehensive Income and Expenditure Statement.

Financial Assets

The Council holds two types of financial assets – loans and receivables and available for sale assets.

i) Loans and Receivables

Loans and receivables are financial assets that have fixed or determinable payments but are not quoted or traded in an active market. The Council holds investments with financial institutions, trade debtors and mortgages as loans and receivables within its Balance Sheet.

- Investments are placed with banks, building societies and occasionally, the money market. They are classed as long-term assets if repayable after 12 months or longer or short-term assets if repayable within 12 months. Initial measurement is at fair value and they are carried in the Balance Sheet at amortised cost, meaning that the Balance Sheet value represents the outstanding principal due under the loan agreement adjusted for the accrual of interest outstanding at the year-end. The interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable in the year under the loan agreement. This interest is supplemented by interest charges payable by the HRA to the General Fund calculated under the Housing Subsidy item 8 determinations.

Where the value of an investment is deemed to be impaired i.e. it is worth less than its carrying value, then the loan is written down to its recoverable amount through the Comprehensive Income and Expenditure Statement in the year the impairment is recognised.

- Trade Debtors

Trade debtors are recognised when a contractual arrangement is entered into between the Council and a customer to provide goods and services for an agreed price. The value of trade debtors recognised in the Balance Sheet represents the current value of the outstanding debt owed to the Council at 31 March 2011, as a proxy for amortised cost. Debtors for taxation, council tax, NNDR and other debtors where no trading agreement exists are excluded from trade debtors.

- Soft Loans

Soft loans arise where the Council provides a loan facility at a discounted interest rate such as officers car loans, credit union etc. The loss of interest is charged to the Comprehensive Income and Expenditure Statement and is calculated by assessing the present value of the interest that will be foregone over the life of the loan. The carrying value of the loan within the Balance Sheet is less than the principal advanced under the loan agreement.

The soft loans currently held by the Council are however not material in value and the current accounting treatment does not follow the guidance as the amounts recorded in the Balance Sheet reflect the cash advances made under the loan agreement.

- Gains and Losses on De-recognition

A financial asset becomes de-recognised when the contractual rights to the cash flows from the financial asset have expired or transferred. Any gains or losses that arise on de-recognition are charged or credited to the Comprehensive Income and Expenditure Statement in the year de-recognition takes place.

ii) Available for Sale Assets

Available-for-Sale assets are initially measured and carried at fair value using the following principles;

- Assets with quoted market prices – the bid or market value.
- Assets with fixed and determinable payments – discounted cash flow analysis.
- Equity shares with no quoted market prices – independent appraisal of company valuations.

Interest received from investments in available-for-sale assets is recognised within the Comprehensive Income and Expenditure Statement on an amortised cost basis using the relevant effective interest rate for the particular asset. Other income received on available-for-sale assets, where there are no fixed or determinable payments e.g. dividends, is recognised in the Comprehensive Income and Expenditure Statement when it becomes due.

Changes in fair value are balanced by entries to the Available-for-Sale Reserve and any gains or losses recognised in the Movement in Reserves Statement, except where impairment losses have been incurred. In this case, the losses are charged to the Comprehensive Income and Expenditure Statement along with any net gain or loss for the asset accumulated within the Asset-for Sale Reserve.

Where an Available-for-Sale asset is sold or matures, any change between the sale proceeds and the fair value at the previous Balance Sheet date is charged or credited to the Comprehensive Income and Expenditure Statement in the year of the sale or maturity. At the same time, any amounts remaining in the Available-for-Sale Reserve in respect of the asset are transferred through the Movement in Reserves Statement to the General Fund.

Gains and Losses on Debt Restructuring

Gains and losses on debt re-structuring arise when external loans are repaid prematurely by the Council. Gains, or discounts, arise when the rate of interest on the loan repaid prematurely is lower than current interest rates for long-term borrowing. Conversely losses, or premiums, arise when the rate of interest on the loan repaid prematurely is higher than current interest rates for long-term borrowing.

For gains and losses on debt restructuring arising after 1 April 2007, the full value of the gain or loss is usually recognised within Net Cost of Service in the Comprehensive Income and Expenditure Statement in the year the re-structuring takes place.

However, where a loan with the same lender is modified i.e. where the net present value of the replacement loan varies by no more than 10% of the original loan and the exchange of loans takes place on the same day, then the effect of the resulting premium or discount can be charged to Net Cost of Services over the term of the replacement loan, rather than in the year the premium or discount arises.

Statutory guidance issued by the DCLG allows for gains and losses arising from the early repayment of loans to be charged to the General Fund or the Housing Revenue account over a number of years, rather than be recognised in the year the repayment is made.

The Council’s policy over the treatment of gains and losses is as follows;

- Gains giving rise to discounts are credited to the General Fund over the remaining life of the loan repaid at the time of repayment or 10 years, whichever is the shorter.
- Losses giving rise to premiums are charged to the General Fund over the remaining life of the loan at the time of repayment or the life of the new loan, whichever is the shorter.

The Comprehensive Income and Expenditure Statement reflects the requirements of the guidance. Differences between the gains and losses on debt re-structuring within the Comprehensive Income and Expenditure Statement and the amounts chargeable to the General Fund or the Housing Revenue Account under statute are adjusted through the Movement in Reserves Statement or the Statement of Movement on the Housing Revenue Account Balance as appropriate and transferred to the Financial Instruments Adjustment Account in the Balance Sheet.

n) <u>Foreign Currency Translation</u>

Any income or expenditure arising from transactions denominated in foreign currency are translated into Sterling (£) at the exchange rate in operation on the date on which the transaction occurred and recognised in the Comprehensive Income and Expenditure Statement at that value.

There is little direct impact upon the Council in terms of foreign currency transactions.

o) Government Grants and Other Contributions

Whether paid on account, in arrears or by instalments, Government grants and other contributions are accounted for on an accruals basis and recognised as income when the Council has met the conditions of entitlement to the grant or contribution and there is reasonable assurance that the grant or contribution will be received.

Revenue Grants and Contributions:

Revenue grants and contributions are matched in the Comprehensive Income and Expenditure Statement to the service expenditure to which they relate. Revenue grants received in advance of need are treated as creditors (receipt in advance) until such time as they can be justifiably recognised as income and credited to the Comprehensive Income and Expenditure Statement. Grants to cover general expenditure, such as the Revenue Support Grant, are credited to the Comprehensive Income and Expenditure Statement after Net Cost of Services.

Capital Grants and Contributions:

Capital Grants or Contributions and donated assets are to be accounted for through the Comprehensive Income and Expenditure Statement once any conditions have been met and the expenditure has been incurred. The grant or contribution is then transferred from the general fund to the CAA, reflecting the application of capital resources to finance expenditure. The transfer is reported in the Movement in Reserves Statement.

Where a Capital Grant or Contributions are received and conditions remain outstanding at the balance sheet date, the grant or contribution is to be recognised in Capital Grants Receipts in Advance. Once conditions are met, the Grant or Contribution will be transferred from the Capital Grants Receipts in Advance and recognised in the Comprehensive Income and Expenditure Statement.

Where a capital grant or contribution is received and there are no conditions but the expenditure has not been incurred at the balance sheet date, the grant or contribution shall be transferred to the Capital Grants Unapplied account, reflecting its status as a capital resource available to finance expenditure. When the expenditure to be financed from the Grant or Contribution is incurred, the Grant or Contribution shall be transferred from the Capital Grants Unapplied account to the Capital Adjustment Account.

See Notes xx & xx for further details.

p) Intangible Assets

An intangible asset is a fixed asset that does not have physical substance but is identifiable and is controlled by the Council through custody or legal rights and provides benefit to the Council for periods of more than one year. Expenditure on intangible assets is capitalised on an accruals basis.

These assets are carried in the Balance Sheet at cost and are amortised to the Comprehensive Income and Expenditure Statement on a straight-line basis over their economic lives, subject to a maximum of 5 years, depending on the type of asset.

Only intangible assets that have a discernable market value can be re-valued and as a consequence none of the Council's intangible assets are included within the current revaluation programme.

The definition of intangibles has been extended under IFRS to include internally generated intangible assets, for example a software database created by staff.

Disposals of intangible assets are recognised by charging the Comprehensive Income and Expenditure Statement with the carrying value of the asset at the time of the disposal and crediting the Comprehensive Income and Expenditure Statement with the sale proceeds. The resulting gain or loss on disposal is reversed through the Statement of Movement on the General Fund Balance, or the Statement of Movement on the Housing Revenue Account Balance in the case of housing related assets, to the Capital Adjustment Account for the carrying value of the asset and the Capital Receipts Reserve for the sale proceeds.

At 1st April 2009, intangible assets totalling £4.6m were transferred from Bedfordshire County Council, Mid-Bedfordshire and South Bedfordshire district councils. These assets have been capitalised in full and are carried at cost.

For expenditure after 1st April 2009 on intangible assets with a value of over £10,000 will be capitalised.

See Note xx for further details.

q) Inventories and Long-term Contracts

Inventories are valued in the Balance Sheet as:

- Inventories acquired through a non-exchange transaction, valued at their fair value as at the date of acquisition
- Inventories provided at no charge or for a nominal charge, valued at the lower of cost and current replacement cost
- All other inventories, value at the lower of cost and net realisable value.

The Council has no inventories:

- Acquired through a non-exchange transaction, which would be valued at their fair value as at the date of acquisition, or
- Held for distribution at no charge or for a nominal charge / consumption in the production process of goods to be distributed at no charge or for a nominal charge, which would be valued at the lower of cost and current replacement cost.

See Notes xx & xx for further details.

r) Investment Property

An Investment Property is defines as a property that is solely owned/used to earn rental or for capital appreciation, or both. After initial recognition at cost, Investment Properties are held at fair value and are not depreciated.

After initial recognition, any gain or loss arising from a change in the fair value of investment property is recognised in the surplus or deficit on the provision of services, for the period in which it arises. The fair value of investment property shall reflect market conditions at the balance sheet date.

Investment Properties that an authority decides to sell are not reclassified as held for sale but remain investment property, until the sale.

See Note xx for further details.

s) Landfill Allowances Schemes

Landfill allowances, whether allocated from the Department for Environment, Food and Rural Affairs or purchased from another waste disposal authority are recognised as current assets and are initially measured at fair value.

The allowances are released as income on a systemic basis over the compliance year for which the allowances are allocated.

As landfill is used, a liability is recognised in the form of a provision for actual waste landfill usage. The liability is measured at the best estimate of the expenditure required to meet the obligation at the Balance Sheet date.

The Council has no Landfill Allowances Schemes.

t) Leases

The Council separates leases of land and buildings into land and buildings elements, and classifies and accounts for those elements separately.

The tests used to establish whether the lease is Finance or Operating are as listed below. The examples are of situations that individually or in combination would normally lead to a lease being classified as a Finance lease:

- The lease transfers ownership of the asset to the lessee by the end of the lease term
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the FV, so as to make it reasonably certain the option will be exercised
- The lease term is for the major part of the economic life of the asset (specified by the Council as 70%)
- The present value of minimum lease payments amount to at least substantially all the FV of the leased assets (specified by the Council as 70%)
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications

Due to its' infinite life, land is classified as an operating lease, unless the title is expected to pass to the lessee at the end of the lease. The Council has no leases (as lessor or lessee) were ownership transfers at the end of the lease.

1) Finance Leases (Council as lessee)

The Council accounts for leases as Finance leases when substantially all the risks and rewards relating to leased property transfer to the Council. Rentals payable are apportioned between;

- A charge for the interest in the property, which is recognised as a liability in the Balance Sheet at the start of the lease and is matched with a tangible fixed asset. The liability is written down as the rental becomes payable and
- A finance charge, which is debited to Financing and Investment I&E in the Comprehensive Income and Expenditure Statement as the rent becomes payable.

Fixed assets recognised under Finance leases are accounted for using the policies applied generally to tangible fixed assets, subject to depreciation being charged over the lease term if this is shorter than the estimated useful life of the asset.

2) Operating Leases (the Council as lessee)

Leases that do not meet the definition of a Finance lease are accounted for as Operating leases. Lease rentals are charged to the relevant service revenue account within the Comprehensive Income and Expenditure Statement on a straight-line basis over the terms of the lease, generally meaning that rentals are charged when they become payable.

3) Finance leases (the Council as lessor)

There are no material leases (individually or as a group), where the Council is lessor, that meet the requirements above to be classified as Finance leases.

4) Operating leases (the Council as lessor)

The Council also acts in the capacity as lessor for the lease of land and property it owns. Rent due under these Operating leases is accounted for on a straight-line basis over the life of the lease. Land and property leased under Operating leases are held as fixed assets within the Balance Sheet and valued in accordance with the Council's valuation policies.

See Note xx for further details.

u) <u>Assets Held for Sale</u>

An asset held for sale is measured at the lower of its carrying amount and its fair value less costs to sell.

The definition of an asset held for sale should meet the following criteria:

- The asset (or disposal group) must be available for sale for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets (or disposal groups)
- The sale must be highly probable; the appropriate level of management must be committed to a plan to sell the asset (or disposal group) and an active programme to locate a buyer and complete the plan, must have been initiated
- The asset (or disposal group) must be actively marketed for a sale at a price that is reasonable in relation to its current fair value

Where the sale is expected to completed sale within one year of the date of classification and action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn, will qualify the asset for current status and therefore recognition. There the criteria is not met non-current status is recognised.

Depreciation on assets held for sale is not made.

Rights to Buy properties are classified as assets held for sale, where they meet the above definition.

See Note xx for further details.

v) <u>Overheads</u>

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting code of Practice.

Where practical, support services have been allocated to capital schemes, where it can be shown that these support costs directly contribute to the delivery of these schemes.

The full cost of overheads and support services to be charged to the Comprehensive Income and Expenditure Statement is shared between users in proportion to the benefits received with the exception of:

- Corporate and Democratic Core: which represent costs relating to the Council's status as a multi-functional democratic organisation
- Non-distributed costs: which relate to the cost of discretionary benefits awarded to employees who are taking early retirement

w) <u>PFI Schemes</u>

Councils are required to treat PFI contracts in a manner that is consistent with the requirements of International Financial Reporting Standard IFRIC12 – Service Contracts, which requires PFI-funded assets and liabilities to be recorded within the Balance Sheet.

However the existing PFI contract in place relates to the development of two newly created Foundation Schools and therefore does not relate to assets of the Council. The liability continues to be recorded in the Balance Sheet.

For any new PFI projects that may arise in the future;

- Land and property used in the PFI contract will be recognised as assets within its Balance Sheet.
- A related deferred liability will be recognised within the Balance Sheet at the same time.
- The initial recognition of the assets and the deferred liability will be at fair value, calculated as being the cost to purchase the

property or carry out the work at the time they were made available for use.

- Once recognised these assets will be treated in the same way as other land and property assets and will be subject to depreciation, revaluation and impairment in accordance with the Council's current accounting policies.
- The unitary charge is split to recognise the service, interest and capital financing elements of the charge. The capital financing element will be deducted from the Comprehensive Income and Expenditure Statement and will reduce the deferred liability in the Balance Sheet.
- Any difference between the additional Minimum Revenue Provision and the capital financing element of the unitary charge will be adjusted through the Movement in Reserves Statement to the Capital Adjustment Account so that there is no impact on the level of council tax to be raised by the Council.

See Note xx for further details.

x) <u>Property, Plant and Equipment</u>

Tangible fixed assets are assets that have a physical substance and are held for use in the provision of services, for income generation or for administrative purposes on a continuing basis.

a) Recognition

Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it will yield a benefit to the Council for more than one financial year. This will include costs and fees incurred on capital projects, which are under construction at the year-end, where it can be shown that either a new asset will be created or an existing asset enhanced. All other expenditure on assets is charged to the Comprehensive Income and Expenditure Statement as it is incurred.

Tangible fixed assets also include assets under finance leases and private finance initiatives, which have been capitalised and included in the Balance Sheet at a value that reflects the Council's obligation to meet future rental payments.

The Council sets a de-minimis level for capital spending and spending below this limit is charged to service revenue accounts within the Comprehensive Income and Expenditure Statement, unless the spending forms part of a larger scheme. For 2010/11, the following de-minimis levels have been set for non-schools;

- Land and Property - £10,000
- Infrastructure - £10,000
- Community assets - £10,000
- Plant and Equipment - £10,000

- Vehicles - £ Nil

Schools operate a separate de-minimis of £2k for capitalisation of capital expenditure.

Assets from the demised authorities that now form The Council are recognised in the accounts at their carrying value at 31 March 2009.

b) Measurement

Assets are initially measured at cost, which includes all expenditure directly attributable to bringing an asset into working condition for its intended use. On completion tangible assets are included within the Balance Sheet using the following measurement bases;

- Operational land and buildings – the lower of net current replacement cost or net realisable value in existing use.
- Infrastructure, community assets and vehicles, plant and equipment – depreciated historic cost.
- Council housing – existing use value for social housing.
- Surplus properties – (not held for sale) the lower of net current replacement cost or net realisable value in existing use.
- Assets under construction – historic cost until such time as the assets are commissioned.

Assets included in the Balance Sheet at net current replacement cost or market value are re-valued as a minimum every five years but where there is evidence that their value may have materially changed in the interim, more regular valuations are carried out.

Increases in asset values are matched by credits to the Revaluation Reserve to recognise unrealised gains.

c) Impairment

An impairment review is carried out annually on the value of fixed assets carried within the Balance Sheet where there is evidence that this value may be excessive.

All impairments and revaluation losses are now recognised in the Revaluation Reserve up to the amount in the Revaluation Reserve for each respective asset and there after recognised in the Surplus or Deficit on provision of services, including those previously defined as ''clear consumption of economic benefits' under SORP.

Impairment losses are reversed through the Movement in Reserves Statement or the Statement of Movement on the Housing Revenue Account Balance in the case of impairment losses on housing assets, and appropriated to the Capital Adjustment Account to ensure that there is no impact on council tax or the balance on the Housing Revenue Account.

d) Gains and Losses on Asset Disposals

The Council has to account for gains and losses arising from the disposal of assets through its Comprehensive Income and Expenditure Statement. When an asset is decommissioned or sold, the carrying value of the asset held within the Balance Sheet is written of to the Comprehensive Income and Expenditure Statement. Receipts from the sale are credited to the Comprehensive Income and Expenditure Statement and matched against the carrying value of the asset to arrive at the gain or loss from the sale of the asset.

The net gain or loss on all asset sales does not affect either the level of Council Tax that needs to be raised by the Council , or the balance on the Housing Revenue Account, as the cost of using fixed assets is fully provided for under separate arrangements for capital financing. The carrying value of assets that have been sold or decommissioned is therefore appropriated to the Capital Adjustment Account, whilst sale proceeds meeting the definition of capital receipts are credited to the Capital Receipts Reserve. This is achieved by adjusting either the Movement in Reserves Statement or the Statement of Movement on the Housing Revenue Account Balance, depending on the previous ownership of the asset.

When assets that are carried at current value are sold or decommissioned, any balance on the Revaluation Reserve in respect of the assets is written off to the Capital Adjustment Account.

e) Capital Receipts

Capital receipts are generated from the sale of assets that are surplus to requirements with a value of over £10,000, or relate to the sale of council houses under the Right-to-Buy (RTB) Scheme. Capital receipts are split between General Fund capital receipts and Housing capital receipts. As each require different treatment within the accounts.

- General Fund receipts are recognised in full within the Capital Receipts Reserve when the full sale proceeds are received.
- Housing receipts from RTB sales of council houses are subject to a pooling arrangement with The Departments of Communities and Local Government (CLG), whereby 75% of all RTB capital receipts, net of allowable deductions for administering the RTB scheme, is pooled and paid over to the DCLG. The remaining 25% is recognised within the Capital Receipts Reserve.

Receipts from the sale of other housing assets are subject to a 50% deduction to be paid over to the DCLG, except where the capital receipts are to be used to finance new housing or regeneration projects. In these cases the 50% deduction does not apply and the full value of the receipt is recognised in the Capital Receipts Reserve.

Capital receipts are used either to pay for new capital spending or be set aside to repay debt by reducing the Council's capital financing requirement.

f) Depreciation

Depreciation is charged on fixed assets that have a finite useful life, except for investment properties which are likely to appreciate in value over time. Depreciation is calculated on a straight-line basis over the useful life of the assets with charges commencing in the year following acquisition. Depreciation is recognised within service revenue accounts within the Comprehensive Income and Expenditure Statement.

The following useful lives have been used to calculate depreciation:

- Operational buildings up to 50 years
- Infrastructure up to 30 years
- Council houses 60 years
- Vehicles up to 10 years
- Plant and equipment up to 10 years

Intangible assets amortised over up to 5 years
Investment properties are not depreciated.

These asset lives apply to capital spending occurring after 1 April 2010 on new schemes.

Depreciation also has to be calculated on revaluation gains and is represented by the difference between depreciation calculated on current value and depreciation calculated on historic cost. The difference between the two values is transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

General Fund Assets

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations in relation to its General Fund assets. It is however, required to make an annual minimum revenue provision from revenue to reduce its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance.

Depreciation, impairment and amortisations are therefore replaced by a minimum revenue provision in the Movement in Reserves Statement, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

For 2010/11, the minimum revenue provision charged to the Movement in Reserves Statement is equal to 4% of the capital financing requirement of the Council at 1 April 2010.

For new capital spending and borrowing requirements from 2009/10 onwards, The Council has adopted the guidance issued by the Department of Communities and Local Government and will make variable minimum revenue provisions using the useful lives shown above, based on the capital financing requirement at 1 April 2010.

Housing Revenue Account Assets

Depreciation is a real charge to the Housing Revenue Account and forms part of the cost of providing council housing.

This is achieved by transferring the difference between the depreciation charge for the year and the major repairs allowance from the Major Repairs Reserve to the Statement of Movement on the Housing Revenue Account Balance.

Impairments and the amortisation of intangible assets owned by the Housing Revenue Account do not form a charge to the Housing Revenue Account Balance and are reversed through the Statement of Movement on the Housing Revenue Account Balance to the Capital Adjustment Account.

See Note xx for further details.

y) Provisions

Provisions are required for any obligations of uncertain timing or amount in circumstances where:

- The Council has a present, legal or constructive obligation as a result of a past event
- It is probable that a transfer of economic benefits will be required to settle the obligation
- A reliable estimate of the amount of the obligation can be made taking into account the risks and uncertainties surrounding the obligation

Where provisions meet the definition of current liabilities, these have classified over the relevant sections of current and non-current liabilities, the former defined as a provision to be used within 12 months of Balance Sheet date.

Provisions are charged to the appropriate revenue account in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement. Estimated settlements are reviewed at the end of each financial year to determine if the level of provision is adequate and changes to the level of the provision(s) are reflected within the relevant service revenue accounts. When payments in relation to the provision are made they are charged directly to the provision in the year that they are incurred.

See Note xx for further details.

z) Reserves

The Council sets aside specific amounts as reserves to meet future spending requirements, to cover contingencies arising from unexpected events and to provide a working balance to help manage uneven cash flows. Reserves are created by appropriating amounts from the Movement in Reserves Statement, or if related specifically to council housing from the Movement on the Housing Revenue Account Statement.

When expenditure financed from a reserve is incurred, it is charged to the appropriate revenue account in the year to score against the Net Cost of Services in the Comprehensive Income and Expenditure Statement. The reserve is appropriated back to into the Movement in Reserves Statement, so that there is no net charge against council tax for the expenditure. If the expenditure to be met from reserves relates to council housing then the appropriation is instead back to the Movement on the Housing Revenue Account Statement.

The existing reserves policy is to have a minimum level of reserves ie General Fund balances, at the equivalent of one week's payroll, supplies and services, and third party payments. For 2011/12 this equates to £5m. This level has been set on the basis of the Council is still a relatively new authority, without a significant history on which to base its' future financial commitments. The present environment of financial austerity is another factor in the decision to retain this minimum target.

This is, of course, the minimum and balances do need to be higher to give greater financial resilience. Given the changes in funding for local government and the greater variability in the net expenditure figure the calcualtion has been based on 3% of gross expenditure, which gives an equivalent sum of £10m.

The Revaluation Reserve and Capital Adjustment Account are reserves that are kept solely to manage the accounting arrangements for tangible and intangible fixed assets. The Pensions Reserve manages retirement benefits. These reserves are classified as unusable within the Movement in Reserves Statement.

Movements on all reserves are shown in detail in the Movement in Reserves Statement.

See Notes xx & xx for further details.

aa) Revenue Expenditure Funded from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of tangible fixed assets e.g. home improvement grants, has been charged to the relevant service area within the Comprehensive Income and Expenditure Statement in the year. Where the Council has decided to meet this cost from existing capital resources, a charge to the Capital Adjustment Account from the Movement in Reserves Statement reverses out the amounts charged and credited to the Comprehensive Income and Expenditure Statement, so that there is no impact on the level of council tax to be raised by the Council.

bb) <u>Value Added Tax</u>

Income and Expenditure excludes any amounts related to VAT, unless it is deemed to be irrecoverable, as all VAT collected is paid over to HM Revenues and Customs and all VAT paid is recoverable from them.

VAT rates in 2009/10 and 2010/11:

- 1st April 2009 to 31st December 2009- 15%
- 1st January 2010 to 31st December 2010- 17.5%
- 1st January 2011 to 31st March 2011- 20%