AUDIT COMMITTEE – 2 MARCH 2012

Title of paper:	**REVIEW OF ACCOUNTING POLICIES**	
Director(s)/ Corporate Director(s):	Carole Mills-Evans Deputy Chief Executive/Corporate Director for Resources	**Wards affected:** All
Report author(s) and contact details:	Barry Dryden, Senior Finance Manager, Financial Reporting barry.dryden@nottinghamcity.gov.uk 0115 876 2799	
Other colleagues who have provided input:	None	

Relevant Council Plan Strategic Priority:	
World Class Nottingham	
Work in Nottingham	
Safer Nottingham	
Neighbourhood Nottingham	
Family Nottingham	
Healthy Nottingham	
Leading Nottingham	✓

Summary of issues (including benefits to citizens/service users):
This report provides a set of International Financial Reporting Standards compliant accounting policies for Nottingham City Council's 2011/12 Statement of Accounts .

Recommendation(s):	
1	Review the accounting policies for inclusion in the 2011/12 annual accounts.

1. BACKGROUND

Part 3 of the Accounts and Audit Regulations 2011 require the City Council to produce an annual Statement of Accounts. In accordance with International Financial Reporting Standards (IFRS), the Statement of Accounts must include a statement of accounting policies.

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2. REASONS FOR RECOMMENDATIONS

A draft Statement of Accounts must be prepared and certified by the responsible financial officer by 30th June. In accordance with best practice for local authorities the draft accounting policies should be reviewed by Audit Committee before the 2011/12 Statement of Accounts are produced.

The draft 2011/12 accounting policies are included in **Appendix A** with changes in wording from 2010/11 marked in **bold.** The only change to the accounting policies themselves relates to the categorisation and valuation of Heritage Assets, in line with changes brought about by the Code of Practice for Local Authority Accounting in the United Kingdom 2011/12. Heritage Assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. However, buildings such as Wollaton Hall and Nottingham Castle which house museums, collections, works of art etc are deemed to be operational or community assets. All other changes to the accounting policies statement have been made to improve the clarity and disclosure of existing policies.

The draft accounting policies will also be reviewed by the Audit Commission and therefore are still subject to change. Any major changes will be highlighted to Audit Committee at the next Committee Meeting.

3. OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

None.

4. FINANCIAL IMPLICATIONS (INCLUDING VALUE FOR MONEY)

None.

5. RISK MANAGEMENT ISSUES (INCLUDING LEGAL IMPLICATIONS, CRIME AND DISORDER ACT IMPLICATIONS AND EQUALITY AND DIVERSITY IMPLICATIONS)

None.

6. EQUALITY IMPACT ASSESSMENTS (EIAs)

An EIA is not required as this report does not include proposals for new or changing policies, services or functions.

7. LIST OF BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING CONFIDENTIAL OR EXEMPT INFORMATION

None

8. PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

Annual Accounts 2010/11
Accounts and Audit regulations 2011
Code of Practice on Local Authority Accounting in the United Kingdom 2011/12

APPENDIX A

Nottingham City Council

Nottingham City Council

A safer, cleaner, ambitious Nottingham
A city we're all proud of

Statement of Accounting Policies 2011/12

General Principles

The Statement of Accounts summarises the Council's transactions for the 2011/12 financial year and its position at the year end of 31 March 2012. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the ~~Best Value Accounting Code of Practice 2010/11~~ **Service Reporting Accounting Code of Practice (SeRCOP),** supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 7 of the 2011 Act.

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

4.1.1 *Accruals of Expenditure and Income*

The revenue and capital accounts of the Council are maintained on an accrual basis. This means that expenditure is charged to the account in the period in which goods and services are received and similarly, income is credited in the period in which it falls due, rather than simply being recorded when cash payments are made or received. In particular:

- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Cash received or paid and not yet recognised as income or expenditure is shown as a creditor (receipt in advance) or debtor (payment in advance) in the Balance Sheet and the Comprehensive Income and Expenditure Statement (CIES) adjusted accordingly. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

- Fees, charges and rents due from customers are accounted for as income at the date that the Council provides the associated goods or services.

- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet. This policy is not followed for certain quarterly payments, including gas and electricity, where expenditure is recorded at the date of meter reading rather than being apportioned between financial years. This practice is consistently applied each year and therefore does not have a material effect on the year's accounts.

- Works are charged as expenditure when they are completed, before which they are carried as ‘works in progress’ on the Balance Sheet.
- For significant accruals such as pay awards, the approach is to make estimates on the basis of the best information available at the time or to make forecasts of the cost of pay awards that are not yet settled but likely to apply to part of the financial year to which the accounts relate.

- Interest payable on borrowings and receivable on investments 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.

- Income and expenditure are credited and debited to the relevant service revenue account, except for capital expenditure which results in the creation of a fixed asset on the Balance Sheet.

In many cases the value to be entered in respect of accrued transactions will be certain. In others, this value has to be estimated and reference is then made to past transactions and trends in order to determine the likely value. Where possible and commonly in the case of highways and building works, the related assets or liabilities will be valued at the year-end by colleagues working in relevant services.

4.1.2 *Acquisitions and Discontinued Operations*

Separate disclosures will be given where there are any material operations which were either discontinued or acquired in the year. The Council has no material acquisitions or discontinued operations in 2010/11.

4.1.3 *Cash and Cash Equivalents*

Cash is represented by cash in hand and deposits with the Council’s own bank.

Cash equivalents are deposits with financial institutions repayable without penalty on notice of not more than 24 hours, which includes Council deposits in other UK bank call accounts.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand.

4.1.4 *Exceptional Items*

Where exceptional items are material, their nature and amount is disclosed separately, either on the face of the CIES or in the notes to the accounts, depending on how significant the items are to the understanding of the Council’s financial performance.

4.1.5 *Charges to Revenue for Non-Current Assets*

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

- Depreciation attributable to the assets used by the relevant service.

- Revaluation and impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service, and other losses where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off

- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement, excluding amounts attributable to Housing Revenue Account (HRA) activity). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the revenue provision in the Movement in Reserves Statement (MIRS), by way of an adjusting transaction within the Capital Adjustment Account for the difference between the two. The HRA currently receives a statutory charge in respect of interest only.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

REFCUS is expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets. **REFCUS expenditure is charged to the CIES in the year in which it incurred and written out to the Capital Adjustment Account**. Where the Council has decided to meet the cost of the expenditure from existing capital resources or by borrowing, entries via the Capital Adjustment Account and the Movement in Reserves remove the impact on the level of council tax.

4.1.6 *Employee Benefits*

In accordance with IAS 19, the Council accounts for the total benefit earned by employees during the financial year.

Benefits Payable During Employment

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

An accrual is made for the cost of the holiday entitlements or for any form of leave, e.g. time off in lieu earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, this being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the MIRS so that the cost of holiday benefits are charged to revenue in the financial year in which the holiday is earned rather than when it is exercised.

Termination Benefits

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

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement on 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 amounts payable but unpaid at the year-end in respect of these.

Post Employment Benefits

As part of the terms and conditions of employment of its employee's, the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make and disclose these retirement benefits at the time the employees earn their future entitlement to them.

The Council participates in two pension schemes:

- The Local Government Pension Scheme, administered locally by Nottinghamshire County Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.
- The Teachers Pension Scheme – administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE). This is accounted for as if it were a defined contributions scheme with contributions from teachers, together with employer's contributions, being paid by the Council to the scheme. This is treated as a defined contributions scheme as the arrangements for the scheme mean that the liabilities for benefits cannot be identified to the Council and no liability for future payment of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the Teachers' Pension scheme in the year.

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

<u>The Local Government Pension Scheme</u>

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

- The liabilities of the Nottinghamshire pension scheme 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 at the Balance Sheet date. The discount rate is the yield on the iBoxx AA rated over 15 years corporate bond index as at this date which has been chosen to meet the requirements of IAS19.

- The assets of the Nottinghamshire 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 liability is analysed into seven components:

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the CIES to the services for which the employees worked.

- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the CIES as part of Non-Distributed Costs.

- Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the CIES.

- Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the CIES.

- Gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the CIES as part of Non-Distributed Costs.

- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the CIES.

- Contributions paid to Nottinghamshire County Council Pension Fund – cash paid as employer's contributions to the pension fund.

Statutory provisions limit the Council from raising Council Tax to cover the amounts payable to the pension fund in the year. In the MIRS, 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 actual cash paid to the pension fund and any amounts payable to the fund but unpaid at the year end.

Discretionary Benefits

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

4.1.7 *Events After the Balance Sheet Date*

~~Material events that occur after the Balance Sheet date of 31 March and the date when the Statement of Accounts is authorised for issue and which provide additional evidence relating to conditions existing at the Balance Sheet date are detailed within the notes to the Accounts.~~

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the Balance Sheet date of 31 March 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 which arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where the event 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.

4.1.8 *Financial Instruments*

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

For most of the borrowings that the Council has, it has been determined that the amount presented in the Balance Sheet is the carrying amount of the loan at that date and interest charged to the CIES is the amount payable for the year in 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 CIES 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 CIES 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 CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the MIRS.

Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

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

Soft loans occur when the Council has provided loans at less than market rates. When soft loans are made, a loss is recorded in the CIES for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year. The reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the MIRS.

Where loans and receivables are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the loan is written down and a charge made to the CIES. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset’s original effective interest rate.

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

Available-for-sale Assets

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

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

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

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

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

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

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

4.1.9 *Government Grants and Contributions*

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income 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 CIES until any conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed as specified, otherwise the grant or contribution must be returned.

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, attributable revenue grants and contributions are credited to the relevant service line and non ring fenced revenue grants and all capital grants to Taxation and Non-Specific Grant Income in the CIES.

Where capital grants are credited to the CIES, they are reversed out of the General Fund Balance in the MIRS. 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.

General grants and contributions e.g. Revenue Support Grant are shown together on the face of the Comprehensive Income and Expenditure Statement and details provided in the notes to the accounts.

Business Improvement Districts

A Business Improvement District (BID) scheme applies across the whole of the Council. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Council acts as principal under the scheme and accounts for income received and expenditure incurred (including contibutions to the BID project) within the relevant services within the CIES.

4.1.10 ***Heritage Assets***

The Council has eight collections of heritage assets which involves over 95,000 items or groups of items (excluding natural history), the heritage assets information is held upon an asset register. The Council holds

these assets in support of its objective to be a contributing to the knowledge and cultural development of City's Citizens and visitors to the city and region. The heritage assets items are either held on display at one of the Council's museums or held in storage. Regarding the pieces held in storage, access is encouraged for scholars and others for research.

These eight collections have been grouped as follows:

- **Byron Collection**
- **Costume Collection**
- **Decorative Art**
- **Fine Art**
- **Human & Social History**
- **Industrial History**
- **Civic Regalia & Silver Collection**
- **Civic Miscellaneous Items**

Civic Miscellaneous Items have been omitted from the Balance Sheet due to not having received an external valuation, the Civic Miscellaneous Collection consists of circa 100 TW Hammond paintings. The Council is unable to obtain the valuations at a cost which is commensurate with the benefits it would provide to users of the financial statements.

The remaining collections are reported in the Balance Sheet at market value and have been valued by an external valuer, the valuation dates range from 2001 to 2008. These external valuations have been carried out by a variety of qualified experts in the relevant field. These external valuations are annually adjusted by the Council providing the Council with an internal valuation which is used until the collection is periodically externally revalued.

Acquisitions are either purchased by the City Council or donated by a third party. Purchases are initially recorded at cost while donations are held at nil value, this is until the assets related collection is externally valued within the heritage asset valuation cycle.

The Councils Heritage Assets do not incur any deprecation or amortisation, due to the assets having an indefinite life.

4.1.11 *Intangible Assets*

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that it will bring future benefits to the Council for more than one financial year. The balance is amortised on a straight line basis to the revenue account over the economic life which is generally assessed to be 5 years. This reflects the consumption of economic benefits by the relevant service.

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 being attributable to the asset and is restricted to that incurred during the development phase.

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 and will only be revalued where there is a determinable market value for the asset. In practice, no intangible asset held by the Council meets this criteria and they are all therefore carried at amortised cost. 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 CIES. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the CIES.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not allowed to 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 £10k the Capital Receipts Reserve.

4.1.12 *Interests in Companies and Other Entities*

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

The inclusion in the Council group is dependent upon the extent of the Council's interest and control over an entity. The determining factor for assessing the extent of interest and control is either through ownership of an entity, a shareholding in an entity or representation on an entity's board of directors. An assessment of all the Council's interests has been carried out during the year, in accordance with the Code of Practice on Local Authority Accounting in the UK, to determine the relationships that exist and whether they should be included in the Council's group accounts.

4.1.13 *Inventories and Work in Progress*

Stocks are largely valued at latest purchase price and any difference between this and actual cost is not considered to be material. Other less significant stocks are valued at average or actual cost.

4.1.14 *Investment Property*

Investment properties are those used solely to earn rentals and/or for capital appreciation and does not apply to properties which are being used to deliver services for the Council.

Investment properties are measured initially at cost. They are not depreciated but are revalued annually according to market conditions at year-end. Gains and losses on revaluation and on disposal are posted to the Financing and Investment Income and Expenditure line in the CIES. However as revaluation and disposal gains and losses are not allowed by statute to impact on the General Fund balance, they are reversed out in the MIRS and posted to the Capital Adjustment Account. Any sale proceeds greater than £10k are posted to the Capital Receipts Reserve.

Rental income from investment properties is credited to the Financing and Investment Income line of the CIES.

4.1.15 *Leases*

Leases are classified as finance leases where substantially all of the risks and rewards incidental to ownership of the property, plant or equipment transfer 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.

Finance Leases – where the Council is Lessee

Property, plant and equipment held under finance leases are recognised on the Balance Sheet initially at fair value or the present value of the minimum lease payments if lower. The asset is matched by a liability for the obligation to pay the lessor. Any initial direct costs of the Council are added to the carrying amount of the asset.

Lease payments are apportioned between:

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

Property, Plant and Equipment recognised under finance leases is depreciated over the lease term if this is shorter than the asset's estimated useful life and where ownership of the asset does not transfer to the authority at the end of the lease period.

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

Operating Leases

Rentals paid under operating leases are charged to the service benefiting from use of the leased asset in the CIES.

Charges are made on a straight-line basis over the life of the lease, even if it does not match the pattern of payments.

Finance Leases – the Council as Lessor

Where the Council grants a finance lease over a property or an item of plant or equipment, the carrying amount of the asset is written off and a long term debtor raised in the Balance Sheet.

The gain on disposal in accordance with statute cannot increase the General Fund Balance and must be treated as a capital receipt. Where rental payments are due in future financial years, the balance is transferred from the General Fund Balance to the Capital Receipts Reserve in the MIRS.

Lease rentals receivable are apportioned between:

- Principal repayment – applied to write down the debtor and
- Income is credited to the Financing and Investment Income and Expenditure line in the CIES.

Operating Leases

Where the Council has granted 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 CIES. Credits are made on a straight line basis over the life of the lease and any direct costs incurred in negotiating and arranging the lease are added to the carrying amount and charged as an expense over the lease term on the same basis as rental income.

4.1.16 *Overheads and Support Services*

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the ~~CIPFA Best Value Accounting Code of Practice 2010/11 (BVACOP~~) **CIPFA Service Reporting Accounting Code of Practice 2011/12 (SeRCOP).** The basis of allocation is generally the time spent by colleagues on relevant tasks, although other bases may be more appropriate in certain instances.

The following two exceptions are allowed and are accounted for as separate headings in the CIES, as part of Net Cost of Services:

- Corporate and Democratic Core – these costs relate to the Council's status as a multi-functional, democratic organisation and will include all aspects of Councillors' activities, corporate, programme and service policy making and more general activities relating to governance and the representation of local interests.

- Non Distributed Costs – The ~~BVACOP~~ **SeRCOP** defines certain costs that cannot be attributed to the delivery of services and which, therefore, are not distributed. These will include, for example, the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in ~~BVACOP~~ **SeRCOP** and accounted for as separate lines on the CIES, as part of Net Expenditure on Continuing Services.

4.1.17 *Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors*

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

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

Material errors discovered in prior periods are corrected retrospectively by amending opening balances and comparative amounts for the prior period. In addition, full disclosure as to the nature, circumstance and value of the adjustment will be disclosed in the notes to the accounts.

4.1.18 *Property, Plant and Equipment*

Assets that have physical substance and are held for use in the provision of services, for rental to others or for administrative purposes on a continuing basis are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year and the cost of the item can be measured reliably. Expenditure that maintains but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to revenue as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising the purchase price and any costs attributable to bringing the asset into working condition for its intended use. The Council does not capitalise borrowing costs. Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure and community assets – examples of infrastructure assets will include roads and bridges whereas community assets include parks and land used for cemeteries and crematoria. The general approach is for infrastructure and community assets to be valued at depreciated historical cost.

- Council dwellings – the basis of valuation is the Existing Use Value for Social Housing (EUV-SH) as defined in the Royal Institute of Chartered Surveyors (RICS) valuation manual. The valuation exercise was carried out in accordance with guidance issued by the DCLG, in 2009/10 based on a full valuation of beacon properties by Chartered Surveyors Herbert Button & Partners and Freeman & Mitchell.

- Other land and buildings – valued at fair value being the amount that would be paid for the asset in its existing use (EUV). Where insufficient market based evidence of fair value is available because an asset is specialised in nature, Depreciated Replacement Cost (DRC) has been applied.

- All other assets – valued at fair value, determined as the amount that would be paid for the asset in its existing use.

Assets included in the Balance Sheet at fair value are revalued if there is evidence that there has been material changes in the value and as a minimum every 5 years. Increases in valuations are credited to the CIES where they arise from the reversal of a revaluation or an impairment loss previously charged on the same asset to a service revenue account. Gains in excess of previous revaluation losses charged to the service revenue account are matched by credits to the Revaluation Reserve.

Where decreases in value are identified, they are accounted for as follows:

- 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 upto 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 in the CIES.

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

De Minimis Levels

All assets acquired are included in the Balance Sheet, regardless of their cost. However where the current value is less than a presented amount the Council may choose to exclude the asset from the Balance Sheet.

TABLE 4.3: DE MINIMUS LEVELS	
Description	**£m**
Vehicles and Plant	0.003
Computer Equipment	0.005
Land & Buildings	0.010

Impairment

Asset values are assessed at the end of each financial year for evidence of reductions in value. Once identified as part of this review or as a result of a valuation exercise, they are accounted for as follows:

- Where there is a balance of revaluation gains on the Revaluation Reserve for the relevant asset the impairment loss is charged against that balance until it is used up. Thereafter, or if there is no balance of revaluation gains the impairment loss is charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account an amount up to the value of the loss is transferred from the Capital Adjustment Account to the General Fund Balance in the MIRS.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets. The annual charge to the CIES is calculated by dividing the value less any residual value of the asset by the estimated asset life. There is no depreciation on the assets in the year of acquisition, although a full year of depreciation is charged in the year of disposal. In accordance with recommended accounting practice, depreciation is not provided for in respect of freehold land, certain Community Assets and assets under construction.

Depreciation is calculated on the following bases:

- Dwellings – straight line allocation over the useful life on the building major components.
- Buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- Vehicles, plant, furniture and equipment – straight line allocation over the useful life.
- Infrastructure and Community – straight-line allocation generally over 25 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.

Disposals and Capital Receipts

~~Sale proceeds from the disposals of assets are netted off the carrying value of the asset as part of the gain or loss on disposal recognised in the CIES~~. **When a non-current asset is disposed of or decommissioned, a gain or loss is calculated from the difference between the net disposal proceeds, if any, and the carrying amount of the item. The gain or loss on disposal is recognised in the CIES.**

Sale proceeds in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to HRA disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Usable Capital Receipts Reserve.

Costs incurred up to 4% of the disposal proceeds may be funded from the capital receipt.

The net surplus or loss on disposals is not a charge against council tax and any balances are transferred to capital reserves.

Surplus Assets

Assets that are surplus to service needs but that do not meet the classification of Investment Property or Assets Held for Sale are classified as Property Plant and Equipment ‘Surplus’, pending a decision on the future use of the asset.

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 reclassification of an asset as ‘held for sale’ is evidenced by:

- The existence of appropriate authority to proceed with the sale
- An intention to dispose of the asset within the next 12 months
- Active marketing of the asset

The asset is revalued immediately before reclassification and then carried at the lower of this amount or fair value less costs 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.

Componentisation

Where an asset consists of significant components that have different useful lives and / or depreciation methods to the remainder of asset, then these components are separately identified and depreciated accordingly. Where there is more than one significant part of the same asset which have the same useful life and depreciation method, such parts are grouped in determining the depreciation charge

This policy is applied using the following criteria:

- Componentisation is only applicable to enhancement and acquisition expenditure incurred, and revaluations carried out from 1 April 2010.
- A de-minimus level of £3m. Where an asset is enhanced, it’s value will be reconsidered and if this then exceeds the £3m threshold, it will be subject to componentisation.
- A component’s value will need to be at least 20% of the whole asset.

4.1.19 *Private Finance Initiative (PFI) and Similar Contracts*

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge (with the exception of LIFT Joint Service Centres for which there is an option to purchase), the Council carries the assets used under the contracts on its Balance Sheet as part of the Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the CIES.
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the CIES.
- contingent rent – increases in the amount to be paid for the property arising during the contract due to inflation, debited to the CIES.
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator. The profile of write-downs is calculated using the same principles as for a finance lease.
- lifecycle replacement costs – written off to the CIES as incurred.

4.1.20 *Provisions, Contingent Liabilities and Contingent Assets*

Provisions

Provisions are set aside where an event has taken place that will probably oblige the Council to provide settlement by a transfer of economic benefits but where the timing of that transfer remains uncertain. For example, the Council may be involved in a court case that could eventually result in the making of a settlement or the requirement to pay compensation.

Provisions are charged to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation, based upon the best estimate of the likely settlement at the balance sheet date.

When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and, in those cases where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower than anticipated settlement 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, for 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.

Provisions are also set up for bad and doubtful debts, although these amounts are offset against the debtor balance on the balance sheet rather than being included in the provisions figure.

Provision for Back Pay Arising from Unequal Pay Claims

Provision has been made for the costs of settling claims for back pay arising from discriminatory payments incurred before the Council implemented its equal pay strategy. ~~During 2010/11, the Council has received approval to capitalise the back pay costs in respect of the unequal pay claim, and as a result the amounts in the provision have been reversed.~~

Landfill Allowance Schemes

The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities to reduce the amount of biodegradable municipal waste (BMW) disposed to landfill. The act also provides the legal framework for the Landfill Allowances Trading Scheme (LATS). The scheme allocates landfill allowances to each waste disposal authority, to be set against its verified BMW landfill usage.

Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense is recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

Information from the market and DEFRA indicates that there are significant levels of surplus LATS, in excess of 1 million, within the country and that there has been minimal trading apart from those trades agreed in previous years. Therefore the LATS held by the Council have nil value and have been valued as such within the CIES.

Contingent Liabilities

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

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

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset where 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.

4.1.21 *Reserves*

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingences. Reserves are created by appropriating amounts out of the General Fund Balance in the MIRS.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to net off against the Surplus or Deficit on the Provision of Services in the CIES. The reserve is then appropriated back into the General Fund balance in the MIRS so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council.

4.1.22 *Value Added Tax*

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from it.