AUDIT COMMITTEE – 26 APRIL 2013

Title of paper:	**REVIEW OF ACCOUNTING POLICIES**	
Director(s)/ Corporate Director(s):	Carole Mills 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 2012/13 Statement of Accounts.

Recommendation(s):

1	Review and agree the Statement of Accounting Policies for inclusion in the 2012/13 annual accounts.

1. BACKGROUND

1.1 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

2.1 A draft Statement of Accounts must be prepared and certified by the responsible financial officer by 30 June. In accordance with best practice for local authorities the draft accounting policies should be reviewed by Audit Committee before the 2012/13 Statement of Accounts is produced.

2.2 The draft 2012/13 accounting policies are included in Appendix A with changes in wording from 2011/12 marked in **bold.** There are no changes to the accounting policies themselves but they have been reworded into plain language for the benefit of the reader and to improve the clarity and disclosure of existing policies.

2.3 The draft accounting policies will also be reviewed by the External Auditors, KPMG, and therefore are still subject to change. Any major changes will be highlighted to Audit Committee at its next meeting.

3. OTHER OPTIONS CONSIDERED IN MAKING ECOMMENDATIONS

3.1 None.

4. FINANCIAL IMPLICATIONS (INCLUDING VALUE FOR MONEY)

4.1 None.

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

5.1 None.

6. EQUALITY IMPACT ASSESSMENTS (EIAs)

6.1 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

7.1 None

8. PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

Annual Accounts 2011/12

Accounts and Audit Regulations 2012

Code of Practice on Local Authority Accounting in the United Kingdom 2012/13

Statement of Accounting Policies 2012/13

3.2 Accounting Policies

This section explains the accounting policies applied in producing the Statement of Accounts.

3.2.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year end of 31 March 2013. It provides the reader with information about the Council's financial position and its stewardship of public funds. The Statement of Accounts is a legal requirement under the Accounts and Audit Regulations 2011 and must comply with proper accounting practices. These practices are set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) which is based on approved accounting standards. In addition to compliance with the Code, the Council's accounts also comply with the Service Reporting Code of Practice 2012/13 (SeRCOP). This Code sets out proper practice for financial reporting to ensure consistency and comparability across Councils. The accounts are 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.

3.2.2 Accruals of Expenditure and Income

The revenue and capital accounts of the Council are maintained on an accrual basis. This means that income and expenditure are recognised in the accounts in the period in which they are earned or incurred and not when money is received or paid. Further details are given below:

- 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 ***in the period during which 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. ***For some quarterly payments including gas and electricity*****,** 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 ***once complete, prior to completion*** they are carried as 'works in progress' on the Balance Sheet.
- For significant accruals such as pay awards, estimates are ***made based on the best information available at the time*****.** ***Cost of pay awards not yet settled but likely to apply to part of the financial year to which the accounts relate are based on forecasted cost.***
- Interest payable on borrowings and ***interest receivable on investments is accounted for as income and expenditure based on 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 in the CIES.*** Capital expenditure ***creates a fixed asset which is shown*** on the Balance Sheet.

Accruals have been made on the basis of the known value of the transaction wherever possible. Where estimates have been required to be made, they are based on appropriate and consistently applied methods. In the case of highways and building works, the related assets or liabilities will be valued at the year-end by colleagues working in the relevant service. Where there has been a change to an estimation method from that applied in previous years and the effect is material, a description of the change and if practicable, the effect on the results for the current period is separately disclosed.

3.2.3 Accounting for the Costs of the Carbon Reduction Commitment Scheme

Under the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme, the Council has to purchase and surrender allowances retrospectively on the basis of carbon dioxide emissions. As energy is used and carbon dioxide is emitted, an expense is charged to services in the CIES together with a corresponding liability being created on the Balance Sheet. The expense is apportioned to services on the basis of energy consumption. The liability is estimated at the year end, normally based on the current market price of the allowances required to meet the liability. The liability is then discharged when the allowances are surrendered.

3.2.4 Cash and Cash Equivalents

The Council's Cash Flow Statement reflects the movements in cash and cash equivalents during the year and is shown net of bank overdrafts that are repayable on demand. 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. This includes Council deposits in other UK bank call accounts and Money Market Funds.

3.2.5 Exceptional Items

Normally any material exceptional items are separately identified on the face of the CIES, in order to give a fair presentation of the accounts. Where these items are less significant they are included within the cost of the relevant service, however, details of all exceptional items are given in the Explanatory Foreword.

3.2.6 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)

The Council is permitted by Statute to treat some items of expenditure as capital even though they do not generate an asset or have lasting economic benefit. This is referred to as revenue expenditure funded from capital under statute (REFCUS) and is

charged to the relevant service in the CIES. Any REFCUS grant funding used to finance the expenditure is credited to the CIES. The net expenditure is then reversed out of the General Fund revenue account via the MIRS to ensure that the capital expenditure is not funded from Council Tax payers.

3.2.7 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, being the period in which the employee takes the benefit.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an 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 CIES 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.

Pensions

The Council has accounted for its pension costs arising from the Local Government Pension Scheme and for all unfunded discretionary benefits which it has granted as defined benefit schemes.

Pension costs relating to Teachers' Pension Scheme have been treated as defined contribution schemes in accordance with the Code and the costs are charged to Children’s and Education in the CIES.

Defined Benefit Schemes

For those schemes treated as defined benefit schemes, pension fund assets are accounted for at fair value, quoted and unitised securities at current bid price, unquoted securities at professional estimate and property at market value.

Pension liabilities are measured on an actuarial basis using the projected unit method. This is 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 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.

Within the CIES, service revenue accounts have been charged with their current service cost, which represents the extent to which the pension liability has increased as a result of employee service during the year. Past service costs, settlements and curtailments have been charged to non-distributable costs. The interest cost and expected return on assets have been included in net operating expenditure. Expected return on assets is credited to Financing and Investment Income. Actuarial gains and losses are charged to the Pension Reserve.

An appropriation to the Pensions Reserve has been made to reverse out the pension costs calculated according to IAS 19 in the CIES and replace them with the actual pension payment for the year. This complies with statutory provisions which limit the Council from raising Council Tax to cover the amounts payable to the pension fund.

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.

3.2.8 Events After the Balance Sheet Date

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. The two types of events ***and the accounting treatment are given below:***

- ***For any material events after the balance sheet date which provide additional evidence regarding conditions existing at***

the balance sheet date, an adjustment has been made to the Statement of Accounts.

- ***Material events after the balance sheet date which concerned conditions not existing at 31 March have been disclosed as a separate note to the accounts.***

3.2.9 Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet initially at fair value and carried at their amortised cost. Interest payable is charged to the Financing and Investment Income and Expenditure line of the CIES. The amount shown in the Balance Sheet is the carrying amount of the loan at 31st March. Gains and losses on the repurchase or early settlement of borrowing are also credited and debited to the Financing and Investment line in the year of repurchase/settlement. 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, the Council in accordance with regulations allow the impact on the General Fund Balance to be spread over future years. The gain or loss is spread 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 comprise of loans and receivables and available-for -sale assets.

Loans and receivables are recognised on the Balance Sheet, initially 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.

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 which results 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 increasing the

amortised cost of the loan in the Balance Sheet. In accordance with statutory provisions, 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 derecognition 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 included within Long Term Investments in the Balance Sheet and valued at fair value. Where available-for-sale assets are quoted in an active market, the quoted market price is taken as fair value and for other instruments with fixed and determinable payments, discounted cash flow analysis is used. For equity shares where no market price is available, then fair value is based on independent appraisal of company valuations.

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).

3.2.10 Government Grants and Contributions

Government grants and other contributions are recognised as due to the Council when the attached conditions have been satisfied and there is reasonable assurance that the grant or contribution will be received.

Grants and contributions are credited to income when there is reasonable assurance that the attached conditions will be met. Any grants received where conditions have not been met are carried in the Balance Sheet as creditors. When all conditions are satisfied, the grant is credited to the relevant service line and non-ring fenced grants and capital grants are credited to Taxation and Non-specific grant income in the CIES.

Capital grants are reversed out of the General Fund balance in the MIRS to the Capital Grants Unapplied Account. When the grant has been applied to fund capital expenditure, it is posted to the Capital Adjustment Account.

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 contributions to the BID project) within the relevant services within the CIES.

3.2.11 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 on an asset register. The Council holds these assets in support of its objective to be 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 and 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 adjusted annually by the Council to provide 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 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.

Heritage Assets are assessed during the year and at the end of each financial year for evidence of damage or reduction in value. Once an impairment has been identified the impairment loss will be charged against the Revaluation Reserve balance for the specific asset. If there is no balance of revaluation gains the impairment loss is charged to the relevant service revenue account.

When a Heritage Asset is disposed of, the gain or loss is calculated from the difference between the net disposal proceeds and the carrying amount of the items. The gain or loss on disposal is recognised in the CIES.

3.2.12 Intangible Assets

Intangible assets where the Council has control of the asset through either custody or legal protection for e.g. software licences, are capitalised at cost. Expenditure on website development is not capitalised if the website is solely or primarily used to promote or advertise the Council's goods or services. Internally generated assets are capitalised when it can be demonstrated that the project is technically feasible, will be completed and will generate future economic benefit or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be attributed to the asset but is restricted to that incurred during the development phase.

The capital cost of an intangible asset is charged to revenue over its economic life on a straight line basis which is generally assessed to be 5 years.

Assets have been reviewed for any impairment loss in respect of consumption of economic benefit. Where an impairment loss has occurred, it has been charged to the service revenue account. An amount equal to the amortised charges for the use of intangible assets and relevant impairment losses included in revenue accounts is reversed within the MIRS. Gains or losses on disposal

of intangible assets are included in the Other Operating line of the CIES. Any sale proceeds greater than £10k are posted to the Capital Receipts Reserve.

3.2.13 Interests in Companies and Other Entities

Inclusion in the Council's Group Accounts is, in accordance with the Code, dependent upon the extent of the Council's interest and control over an entity. In the Council's single-entity accounts, the interests in companies and other entities are shown as investments and valued at cost less any provision for losses.

3.2.14 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.

3.2.15 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. Gains and losses on revaluation and on disposal are posted to the Financing and Investment Income and Expenditure line in the CIES. Rentals received in relation to investment properties are also credited to the gain or loss on investment properties line. Any sale proceeds greater than £10k are posted to the Capital Receipts Reserve.

3.2.16 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, regardless of 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 the principal repayment which reduces the debtor balance and interest which 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.

3.2.17 Overheads and Support Services

Overheads and support services are charged to service revenue accounts, trading undertakings and other support services in accordance with SeRCOP. The basis for apportionment is generally time spent by colleagues on relevant tasks although other bases are used where more appropriate. The costs of Corporate and Democratic and Non-Distributable costs are not charged to service revenue accounts but are shown as separate lines on the CIES.

3.2.18 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

A prior period adjustment will be made to the accounts as a result of a change in accounting policies. Changes in accounting estimates will be accounted for prospectively. Material errors in prior periods are corrected retrospectively by amending opening balances and comparative amounts. A full disclosure as to the nature, circumstance and value of the adjustment will be disclosed in the notes to the accounts.

3.2.19 Property, Plant and Equipment

Recognition

All expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it brings benefits to the Council for more than one financial year. 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, i.e. purchase price plus any costs incurred in 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 for e.g. roads and bridges and community assets for e.g. parks and land used for cemeteries and crematoria are generally valued at depreciated historical cost.***
- ***Council dwellings are valued at 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 and Mitchell.***

- ***Other land and buildings are valued at fair value, 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 are valued at fair value, the amount that would be paid for the asset in its existing use.***

Assets included in the Balance Sheet at fair value are revalued, ***as a minimum, every 5 years. However*****,** if there is evidence that there have been material changes in the value ***a further valuation will be undertaken****.*

Increases in valuations are credited to ***services within*** the CIES where they arise from the reversal of a revaluation or an impairment loss previously charged on the same asset. ***Any*** Gains in excess of previous revaluation losses are matched by credits to the Revaluation Reserve.

Any revaluation losses are firstly written down against any previous revaluation gains held in the Revaluation Reserve. Where there are no previous revaluation gains, the losses are charged to the relevant service line of 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 ***can be*** included in the Balance Sheet, regardless of their cost. However where the current value is less than ***the following*** amounts 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. If identified either 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 ***line of the CIES***.

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

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 £10k 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 credited to the Usable Capital Receipts Reserve. Costs of up to 4% of the disposal proceeds may be funded from the capital receipt.

Any balance on the net surplus or loss on disposals is 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. Assets held for sale are carried at the lower of carrying value and 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, these components are separately identified and depreciated accordingly. A component value must be at least 20% of the whole asset. Where there is more than one significant part of the same asset which has the same useful life and depreciation method, the parts have been grouped to determine the depreciation charge. Componentisation only applies to enhancement and acquisition expenditure and revaluations carried out from 1st April 2010 with a de-minimis level of £3m.

3.2.20 Private Finance Initiative (PFI) and Similar Contracts

In accordance with the code, the Council accounts for its PFI contracts in accordance with IFRC 12 Service Concession Agreements. The Council is deemed to control the services that are provided under its PFI schemes and ownership 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). Therefore, the Council carries the assets used under the contracts, on its Balance Sheet as Property, Plant and Equipment, where they are accounted for in the same way as the other assets. The original recognition of assets is at fair value with a corresponding liability for the amounts due to the scheme operator.

The amounts payable to the PFI operators is comprised of 5 elements. The Fair Value of Services received during the year, Finance Cost, Contingent Rent, Payment towards liability and Lifecycle replacement costs which are posted to the CIES.

3.2.21 Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions have only been recognised in the accounts where there is a legal or constructive obligation to transfer economic benefits as a result of a past event and where such an amount can be reliably estimated. Provisions are charged to the CIES and, depending on their materiality, are either disclosed as a separate item on the Balance Sheet or added to the carrying balance of an appropriate current liability. When expenditure is eventually incurred, it is charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it is apparent that the provision is not required or is lower than originally anticipated, 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, but 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.

Landfill Allowance Schemes

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 lower of cost and net realisable value.

As landfill is used, an expense is charged to services in the CIES together with a corresponding liability being created on the Balance Sheet. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is estimated at the year end, normally based on the current market price of the allowances required to meet the liability. 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. As information from the market and DEFRA indicate that there are significant levels of surplus of Landfill Trading Allowances (LATS) and trading is

minimal, the LATS held by the Council have been valued at nil within the CIES.

Contingent Liabilities

Where a material contingent loss cannot be accurately estimated or an event is not considered sufficiently certain, it has not been included in the accounts but is disclosed in the Explanatory Foreword/notes.

Contingent Assets

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

3.2.22 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Transfers to and from reserves are shown in the MIRS and not within services. Expenditure is charged to the CIES and not directly to any reserve. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement, and employee benefits and are not usable resources for the Council

3.2.23 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.