

Accounting Policies

Accounting Principles and General Principles

a Going Concern

The Authority prepares its accounts on the basis that the Authority is a going concern; that is that there is the assumption that the functions of the Authority will continue in operational existence. In the case of a pending local government reorganisation, where assets and liabilities are due to be redistributed, the Authority would still account on the basis of going concern as the provision of services would continue in another authority.

b Accruals Concept

The Authority accounts for income and expenditure in the period to which the service to which it relates has taken place, rather than when cash payments are received or made.

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 respectively. Equally, where cash has been received or paid which is not yet recognised as income or expenditure, a creditor (income in advance) or debtor (payment in advance) is recorded in the Balance Sheet respectively and the Comprehensive Income and Expenditure Statement adjusted accordingly.

c Cost of Services

Internal service costs (e.g. Human Resources) are apportioned across the core service areas to represent the total cost of delivering that service to the public.

This is in accordance with the costing principals of the CIPFA Service Reporting Code of Practice 2014/15 (SERCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to benefits received, with the exception of:

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

These two cost categories are accounted for as separate headings in the Income and Expenditure Account as part of the Net Cost of Services.

d Value Added Tax

Income and expenditure treated as either capital or revenue, excludes any amounts related to VAT. All VAT collected is payable to HM Revenue and Customs and all

VAT paid is recoverable from it. Any amounts outstanding (payment or receipt) at the year-end date is held as a creditor or debtor after netting off the amounts due / owed.

e Changes in Accounting Policy

Where there is a known future change in accounting policy required by the CIPFA Code, the Authority will disclose in the notes to the accounts:

- The nature of the change in accounting policy;

- The reasons why applying the new accounting policy provides reliable and more relevant information;
- For both the current reporting period, and the previous year comparatives reported, the extent to which the change in accounting policy would have impacted on the financial statements if it had been adopted in that year;
- The amount of adjustment relating to years previous to those reported in the set of financial statements, had the proposed policy been adopted retrospectively;
- If retrospective application is impracticable for a particular period, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

The Authority will also disclose information relating to an accounting standard, which has been issued but not yet adopted.

f Previous Year Adjustments

Omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- Was available when financial statements for those periods were authorised for issue; and
- Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights, or misinterpretations of facts, and fraud.

Where those errors are thought to be material, an adjustment will be entered into the financial statements comparative year balances, and the columns headed restated. In addition full disclosure as to the nature, circumstance, and value of the adjustment will be disclosed in the notes to the accounts.

g Events after the Balance Sheet date

Where there is a material post balance sheet event, a disclosure in the notes to the accounts will be included. If this event provides additional evidence of conditions that existed at the Balance Sheet date, and materially affects the amounts to be included in the accounts; adjusting items will have been shown in the accounts.

h Exceptional and extraordinary items and prior period adjustments

Exceptional and extraordinary items will have been disclosed separately on the face of the Comprehensive Income and Expenditure Statement and details will be disclosed in the notes to the accounts.

i Contingent assets and liabilities

Where the Council has a contingent asset or liability this will be disclosed as a note to the accounts.

Capital Accounting

j Recognition of Capital Expenditure (de-minimis Policy).

In accordance with International Accounting Standard 16 (IAS 16), the Council recognises non-current assets when all four of the following tests are met:

- Assets held for use in the production or supply of goods or services, rental to others, or for administrative purposes.
- Assets expected to be used for more than one financial period.

- Assets where it is expected that future economic benefit will flow to the Authority.
- Assets where the cost can be measured reliably.

The capital cost of an asset is recognised to be:

- Purchase price, construction cost, minimum lease payments or equivalent including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- Costs associated with bringing the asset to the location and condition necessary for it to be capable of operating in the manner required by management.
- Initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located, the obligation for which the Authority incurred either when the asset was acquired or as a consequence of having used the asset during a particular period for purposes other than producing inventories during that period.
- Subsequent expenditure that will substantially increase the market value of the asset.
- Subsequent expenditure that will substantially increase the extent to which the Authority can use the asset for the purpose, or in conjunction with the functions of the Authority.

The Authority has a general de-minimis level of £6,000 for capital expenditure purposes. Where an asset has been acquired for less than £6,000 but has been funded by ring fenced capital funding, this will be treated as capital.

Capital Assets are held on the balance sheet as non-current assets, unless otherwise stated.

k Non-Current Asset Classification.

The Authority manages its assets in the following categories:

- **Intangible Assets.**

In line with International Accounting Standard 38 (IAS 38), the Authority recognises intangible assets as non-monetary assets without physical substance, where that asset meets the capital expenditure criteria set out in accounting policy j.

- **Property, Plant and Equipment Assets.**

Property Plant and Equipment Assets are subcategorised into Operational Land and Building, Community Assets, Vehicles Plant and Equipment, Infrastructure Assets, Assets Under Construction and Non-Operational Assets.

- **Land and/or Buildings Assets**, in line with IAS 16, are recorded, valued and accounted for based on their significant components.
- **Community Assets** are assets that have no determinable useful life and which may, in addition, have restrictions on their disposal. There is little prospect for sale or change of use.

If the asset is used for a specific operational purpose, it does not qualify as a community asset and should be valued accordingly.

Test for Community Assets:

- Is the intent to hold the asset forever?
- Does the asset have an indeterminable useful life?
- Are there restrictions on disposal?

The answers for the first two questions have to be yes, while an affirmative answer to the third question is not obligatory but may help determine the correct classification.

- **Infrastructure Assets**, include all tangible (physical) assets required within the authorities land drainage system, and cemetery roadways. There is no prospect for sale of infrastructure assets; expenditure is only recoverable through continued use of the asset.
- **Vehicles, Plant and Equipment Assets and Assets Under Construction** are also classified as Property Plant and Equipment where they do not meet the criteria for Investment Property Assets or Assets Held for Sale.
- **Surplus Assets** are assets, which the Authority no longer operates from, however do not meet the definition of held for sale. All surplus assets are treated in the same way as operational assets of the same type (valuation, depreciation, recognition etc).
- **Heritage Assets** are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that make it important to ensure that they are preserved for future generations. They may be any kind of asset including buildings, works of art, furniture, exhibits, artefacts, etc or intangible assets such as recordings of significant historical events.

As such, assets in this category are held principally for their contribution to knowledge and/or culture.

- **Investment Property Assets** are items of land and / or buildings held by the Authority solely for the purpose of rental income generation or capital appreciation or both.

Therefore, where there is a service of the Authority being delivered from the property, this is not classified as Investment Property Assets. This includes where the intention of the asset is to generate economic growth to an area such as below market value rental.

Some Assets Under Construction will also be classified as Investment Property Assets where the intended eventual use is rental income generation or capital appreciation.

- **Assets Held for Sale.**

The Authority will classify assets as held for sale where:

- The asset is in the condition required for sale and is vacant.
- The assets sale is highly probable.
- The asset has been advertised for sale and a buyer sought.
- The completion of the sale is expected within 12 months.

Assets which become non-operational / surplus which do not meet all of the requirements set out as assets held for sale continue to be classified and accounted for as their previous category. In addition, if the asset later no longer meets the criteria, it is restored to its previous classification and all transactions, which would have occurred, shall be retrospectively applied as though the asset had never been held for sale. Investment properties, which become available for sale, remain as Investment Properties.

Assets meeting the criteria as held for sale are held as current assets on the balance sheet as income is expected within 12 months.

It is possible that assets meet the criteria to be held for sale; however a change in circumstance beyond the control of the Authority means that the sale is delayed beyond 12 months. In these instances the Authority follows the policies outlined for assets held for sale; however disclosure of the value for these assets is within non-current assets.

I **Non-Current Asset Valuation Methodology.**

The various classifications of assets as outlined in accounting policy k are valued on differing basis. Where not explicitly stated otherwise, property revaluations are completed by an RICS qualified valuer, on a 5 year rolling programme i.e. 20% of the Council's assets are revalued each year.

Where there is an upward revaluation, the carrying value is increased and the associated credit charged directly to the revaluation reserve. This is then reflected in the MIRS as a revaluation gain. Where there is a revaluation, which results in a lower than carrying amount valuation, this is treated in line with accounting policy m impairment of assets.

Valuations are completed as follows:

- **Intangible Assets** - the Authority recognises Intangible Assets at cost. The Authority will revalue intangible assets annually where there is determinable market value for the asset.
- **Property Plant and Equipment** - Property Assets are held at fair value, which is the amount that would be paid for the asset in its existing use. This requirement is met by providing a valuation on the basis of exiting use value (EUV) in accordance with UKPS 1.3 of the RICS Valuation Standards. As a matter of last resort, where no other valuation method can be used, depreciated replacement cost is used.
 - **Council Dwellings** – Land and building structure are valued at EUV for Social Housing, being 34% of market value. Individual components are valued at Depreciated Historic Cost.
 - **Vehicles and Assets under construction** within PPE are held at fair value.
 - **Community Assets** - the Authority recognises Community Assets at depreciated historic cost (not revalued).
 - **Infrastructure Assets** - the Authority recognises Infrastructure Assets at depreciated historic cost (not revalued).
- **Investment Property Assets** - Investment Properties are annually revalued at fair value, which is to be interpreted as the amount that would be paid for the asset in its highest and best use, i.e. market value. This includes investment property under construction. The fair value of investment property held under a lease is the lease interest.
- **Assets Held for Sale** - Assets held for sale are held at fair value.
- **Heritage Assets** – Heritage Assets are held at valuation where practicable (and at depreciated historic cost where it is not practicable to obtain a valuation).

m Impairment of Non-Current Assets

The accounting policy has been created in accordance with IAS 36.

Impairment is the amount to which the carrying amount of an asset exceeds the recoverable amount.

At the end of each reporting period the Authority assesses whether there is any indication that an asset may be impaired

The Authority recognises impairment as:

- A significant decline (i.e. more than expected as a result of the passage of time or normal use) in an assets market value during the period;
- Evidence of obsolescence or physical damage of an asset;
- A commitment by the Authority to undertake a significant reorganisation; and
- A significant adverse change in the statutory or other regulatory environment in which the Authority operates.

Where there has been a previous revaluation taken to the revaluation reserve, an impairment up to that value would reverse the previous revaluation. Any further impairment or if there has been no previous revaluation, the impairment is charged to revenue. This is then reversed through the movement in reserves statement and charged to the capital adjustment account.

n Disposal of Non-Current Assets

Where an asset is identified as surplus to requirements, and meets the definition of an asset held for sale (see note k) it will be accounted for in accordance with note k, where an asset does not meet the classification of available for sale it will be tested for impairment, prior to being made available for disposal. There will be no impairments at the point of disposal. When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Sale proceeds in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing 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 are credited to the Useable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are transferred to the Reserve from the movement in reserves statement. The value of the asset is transferred to the capital adjustment account via the movement in reserves statement.

Sale proceeds below £10k are below de-minimis and are credited straight to the Comprehensive Income and Expenditure Statement.

o Depreciation / Amortisation Methodology

Depreciation is provided for on all completed assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use.

Depreciation is calculated using the Straight-Line method over the determined life of the asset. The Council depreciates assets in the year of acquisition and disposal. This is in accordance with regulations. Where an asset has major components with different estimated useful lives, these are depreciated separately.

Residual values

Asset Type	Assumed Residual Value
Property Assets	Land Value only
Vehicles, Plant and Equipment	Nil
Intangible Assets	Nil

Useful Economic Lives of assets are:

Asset Group	Useful economic Lives (UEs)
Council Dwellings	50 years
Housing Buildings	10-70 years*
Other Buildings	4-69 years*
Land	Not depreciated
Community Assets	15-50 years*
Heritage Assets	Not depreciated*
Infrastructure Assets	25 years
Intangible Assets	3-10 years*
Vehicles, Plant and Equipment	3-25 years*
Investment Properties	Not depreciated
Assets Held for Sale	Not depreciated
Surplus Assets	5-60 years*

* Depending on the nature of the specific asset

In the Year of acquisition and disposal, the Authority charges a quarter of the annual depreciation where the asset is owned on the first day of each financial quarter.

Individual components within Council Dwellings are depreciated separately from the building structure, using the following lives:

Asset Group	Useful Economic Lives (UEs)
Kitchens	20 years
Bathrooms	30 years
Windows and Doors	30 years
Heating Systems	20 years
Lights and Electric	25 years

p Component Accounting

For **Council Dwellings** the following components are valued, enhanced and depreciated separately – Kitchen, Bathroom, Windows and Doors, Heating Systems and Lights and Electrics. No other components are material and are therefore treated as part of the building structure. The separately identified components will be depreciated over their useful lives. They will be derecognised when replaced by new components.

For **all other assets**, components will only be shown separately in the asset register if they are significant i.e. if they cost more than £250,000 and their cost amounts to more than 25% of the total cost of the asset. Where the value of an asset is not known, Gross Book Value will be used as a proxy for the determination of significant components.

Land and buildings will be separately valued. The building component will be fully depreciated over its useful life, the residual value of the whole asset being the land component.

The nature of property assets is such that any revaluation relates mainly to the land and structure so will not be passed down to any individual components that have been identified.

Non-dwelling assets will be considered for componentisation if they are material, i.e. have a total building valuation in excess of £1m. Components will only be separately valued if they are significant, i.e. above the de-minimis level of 25% detailed above.

Components will only be separately valued if they are significant, i.e. above the de-minimis level detailed above.

Components will be derecognised if their replacement is deemed to be significant under this policy, i.e. if the cost of it is more than £250,000 and amounts to more than 25% of the total cost of the asset.

Where significant components, as defined above, have been separately recorded on the Asset Register they will be depreciated over their useful lives.

q Leases

In line with the interpretation IFRIC 4, the Authority recognises a lease to be any agreement, which transfers the right to use an asset for an agreed period in exchange for payment, or a series of payments.

This includes; leases, hire purchase, rental, contracts of service, service level agreements and any other arrangement where the ability to use an asset is conveyed.

r Defining a Finance Lease

A finance lease is where substantially all of the risks and rewards incidental to ownership transfer to the lessee.

Tests to give an indication of the transfer of risk and reward are:

- If the lessee will gain ownership of the asset at the end of the lease term (e.g. hire purchase)
- If the lessee has an option to purchase the asset at a sufficiently favourable price that it is reasonably certain, at the inception of the lease, that it will be exercised
- If the lease term is for the major part of the economic life of the asset even if title is not transferred.
 - The economic life of the asset is deemed to be that which is consistent with the class of asset in the depreciation policy.

- The Authority recognises major part to be 75% of the life of the asset, unless on an individual case basis this would not give a true representation of the substance of the transaction.
- At the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.
 - The present value of the minimum lease payments is calculated by discounting at the rate inherent in the lease.
 - If this rate cannot be determined the incremental borrowing rate applicable for that year is used.
 - The Authority recognises “substantially all” to mean 90% of the value of the asset. In some circumstances, a level of 75% can be used if the Council believes that using this level will give a result that better reflects the underlying transaction.
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.
- If the lessee cancels the lease, the losses of the lessor, associated with the cancellation are borne by the lessee.
- Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (e.g. in the form of a rent rebate equalling most of the sales proceeds at the end of the lease).
- The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

A suitably experienced accountant, with assistance from qualified valuers, will make a judgement based on the level of risk and reward held by the Authority as to whether an asset is operating or finance.

s Defining an Operating Lease

Any lease which is not a finance lease is recognised by the Authority to be an operating lease.

t Lessee Accounting for a Finance Lease

Where the Authority is tenant in a property, or is, by definition of IFRIC 4, leasing an asset which is deemed under IAS 17 to be a finance lease the Authority will recognise that asset within the asset register, and account for that asset as though it were an owned asset.

The initial recognition of the asset is at the fair value of the asset, or if lower, the present value of the minimum lease payments. A liability is also recognised at this value, which is reduced as lease payments are made. Lease payments made to the lessor, are split between the repayment of borrowings, and interest, which is charged to the Income and Expenditure account.

u Lessor Accounting for a Finance Lease

Where the Authority is the lessor for a finance lease, the asset is not recognised in the asset register; however a long-term debtor at the present value of minimum lease payments is recognised. Income received is split between capital - credited against the

debtor, and finance income credited to the Comprehensive Income and Expenditure Statement as interest receivable.

v Lessor Accounting for an Operating Lease

Where the Authority is the lessor for an operating lease, normally the asset is classified as an investment property. Any rental income is credited to the relevant service income.

w Lessee Accounting for an Operating Lease

Costs associated with operating leased assets where the Authority is the lessor are charged immediately to the relevant revenue service expenditure within the net cost of services on an accruals basis.

x Service Concession Agreements (PFI and other similar contracts)

PFI and similar arrangements are usually agreements with the private sector for the construction or enhancement of fixed assets needed to provide services to a public sector body. PFI and similar contracts are assessed against criteria within IFRIC 12 (Service Concession Arrangements) to determine whether the risks and rewards incidental to ownership lie with the Authority or the contractor.

Where these lie with the contractor, all payments made during the life of the contract are chargeable to revenue as incurred.

Where these lie with the Authority, the Authority shall assess them against two tests:

a) the local authority controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price;

and where

b) the local authority controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the arrangement.

Where test a) is met but not test b) the arrangement is reviewed to see if it contains an embedded lease, in which case this will be accounted for in accordance with the Authority's leasing policies.

Where test b) is met but not test a) the Authority will recognise the difference between the expected value of the fixed assets at the end of the arrangement and the amount (if any) it will have to pay the contractor then.

Where both tests are met the Authority will recognise a Property, Plant or Equipment asset in the Balance Sheet for value of the construction costs. Once recognised this asset is treated in line with the Authority's other PPE assets. A corresponding long-term liability of equal value is also recognised.

Payments made during the life of the contract are split into finance costs, capital costs and service costs. The split of payments is calculated at the inception of the contract and is based on the inherent interest rate within the original agreement. Finance costs are chargeable to the Comprehensive Income and Expenditure Statement as Interest payable. Capital Costs reduce the level of liability in the Balance Sheet. Service costs are chargeable to the relevant revenue service expenditure. Pre-payments or Dowry payments reduce the level of liability at the start of the contract.

PFI Credits are treated as general revenue government grants.

y Capital Grants and Contributions

The Authority recognises capital grants and contributions as being related to capital assets and uses them to fund capital expenditure on those assets. Grants, contributions, and donations are recognised as income at the date that the Authority has satisfied the

conditions of entitlement, and there is reasonable assurance that the monies will be received.

Any grant received before these recognition criteria were satisfied would be held as a capital grant received in advance. Any grant, which had met the recognition criteria but had not been received, would be shown in the Comprehensive Income and Expenditure Account with a corresponding debtor. This is in line with the accruals concept policy.

Once the recognition criteria above have been satisfied, capital grants are recognised as income in the relevant service revenue account within the net cost of services.

In order to not impact on the level of Council Tax, the Authority removes the credit from the General Reserves through the Movement in Reserves Statement, and crediting to the Capital Grants Unapplied Reserve.

Once expenditure has been incurred on the related asset, the credit is removed from the Capital Grants Unapplied Reserve and credited to the Capital Adjustment Account.

Relevant Government Grants are treated in accordance with this policy.

z Revenue Expenditure Funded from Capital Under Statute (REFCUS)

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

aa Minimum Revenue Provision (MRP)

The Council has implemented the 2012 CLG Minimum Revenue Provision (MRP) guidance, and assessed their MRP in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

Where a historical debt liability was created prior to 1st April 2008, MRP will be charged at the rate of 4% on the reducing balance, in accordance with Option 1 of the guidance, the “regulatory method”.

The debt liability relating to capital expenditure incurred from 2008-09 onwards is subject to MRP under option 3, the “asset life method”, and is charged over a period that is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, is related to the estimated life of that building.

Estimated life periods are determined in line with accounting guidance and regulations. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, the Council generally adopts these periods. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives are assessed on a basis that most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it is grouped together in a manner that reflects the nature of the main component of expenditure and is only be divided up in cases where there are two or more major components with substantially different useful economic lives.

The Council seeks to spread MRP charges prudently in relation to asset lives, and with regard to the revenue impact of MRP charges. Where prudent to do so, capital receipts are used to repay borrowing previously taken out in relation to assets with a short life. MRP on residual debt is based on the lives of the remaining asset for which borrowing was undertaken.

MRP is charged from the financial year after the asset comes into use. In cases where the Council has approved the use of capital receipts to fund the asset, this funding is assumed when the receipt is contractually certain, even if not actually received. In such cases no MRP charge is made.

Where finance leases are held on the balance sheet, the MRP is set at a charge equivalent to the element of the annual lease charge that goes to write down the balance sheet liability, thereby applying Option 3 in a modified form.

The Council has taken advantage of any transitional arrangements introduced to minimise or negate the impact of retrospective accounting adjustments as a result of the transfer to the balance sheet of finance leases previously treated as operating leases under the introduction of IFRS.

ab Capital Reserves

The Authority holds capital reserves for the purpose of financing capital expenditure. Reserves will be disclosed as either usable (available to fund capital expenditure) or unusable (reserves held as a result of timing differences associated with recognition of capital expenditure and related financing).

Movements in capital reserves are accounted for through the Movement in Reserves Statement.

Revenue Accounting

ac Recognition of Revenue Expenditure.

The Authority recognises revenue expenditure as expenditure, which is not capital.

ad Employee Costs

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

Employee Costs are split into 3 categories; short term benefits, termination benefits and pensions costs.

Short-term employee benefits:

- **Salaries and Wages** - The total salary and wages earned by employees within the financial year have been charged to the revenue expenditure account. Where the amount accrued exceeds the amount paid at the 31st March, a creditor will be reflected in the accounts.

- **Leave Owed** - The Authority allows employees to earn time off in one period and carry forward amounts of accrued leave into the following period, such as annual leave, flexi-time and time off in lieu. The cost associated with this leave is attributable to the period in which it is earned, rather than when it is exercised. As such a charge has been made to the service revenue account and a creditor accrual has been reflected in the Balance Sheet.
- **Maternity/Paternity Leave** - The obligation upon the Authority to allow maternity leave and pay maternity pay occurs in mid stages of pregnancy. The cost associated with this leave is attributable to the period in which the obligation is created, rather than when it is exercised. As such a charge has been made to the service revenue account and a creditor accrual has been reflected in the Balance Sheet for time off owed at the 31st March.

Termination Benefits

- **Redundancy Costs** - The obligation to pay redundancy costs occurs when there is a formal plan to create redundancies, which has been approved. The plan would include the location, function and approximate number of employees affected; the termination benefits offered; and the time of implementation. When these recognition criteria have been met the Authority recognises the costs associated with this in the service revenue expenditure and create a creditor in the Balance Sheet. In the case of an offer to encourage voluntary redundancy, the Authority has recognised the estimated cost based on the expected number of employees taking the offer.

- **Pensions Costs**

Employees of the Council are members of the Local Government Pension Scheme administered by Northamptonshire County Council. The Scheme provides benefits to members (retirement lump sums and pensions) earned as employees of the Council.

The Local Government Pension Scheme is a defined benefit scheme. The liabilities of the scheme attributable to the Authority 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 earnings for current employees.

Pension liabilities are measured using the projected unit method and discounted at the balance sheet date rate of return on high quality corporate bonds of equivalent term to the liabilities. The discount rate is the weighted average of spot yields on AA rated corporate bonds.

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

- Current service cost - the increase in liabilities as result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of 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 Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- Interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement

- Expected return on assets - the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return - credited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement
- Gains/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 to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- Actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - debited to the Statement of Comprehensive Income and expenditure.
- Contributions paid to the Northamptonshire County Council Pension Fund – cash paid as employers contributions to the Pension Fund.

In relation to retirement benefits, statutory provisions require the General Reserves to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. Adjustments are therefore made in the Movement in Reserves Statement.

- **Early Retirement, Discretionary Payments** - the Authority 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.

ae Revenue Grants and Contributions

Grants, contributions, and donations are recognised as income at the date that the Authority has satisfied the conditions of entitlement, and there is reasonable assurance that the monies will be received. Any grant received before these recognition criteria were satisfied would be held as a creditor (receipts in advance). Any grant, which had met the recognition criteria but had not been received, would be shown as a debtor. This is in line with the accruals concept policy.

Revenue grants will either be received to be used only for a specific purpose, or can be used for general purpose. Those for a specific purpose are recognised as income in the relevant service revenue account (wherever the related expenditure is incurred) within the net cost of services. Those, which are for general purpose, are shown in the foot of the Comprehensive Expenditure and Income Statement, before the net surplus or deficit.

af Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that the Authority recognises an obligation, based on the best estimate of the likely settlement. When payments are eventually made, it is charged to the provision.

Estimated settlements are reviewed at the end of each financial year and adjustments with the service revenue account are made as required.

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

ag Revenue Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against Council Tax in that year for the expenditure.

The Council maintains earmarked reserves for a number of reasons including: -

- Setting aside money for future policy initiatives;
- To finance expenditure on future projects;
- To mitigate the impact between financial years of expenditure and income on general working balances;
- To mitigate the effect of specifically identified significant risks; and
- To protect the Authority against unexpected events and change in legislation.

The Council's risk-based assessment of the required level of General Fund working balance is £3.1m for 2014/15. This level of general working balance is considered reasonable due to the mitigation of some risks through the holding of earmarked reserves.

Certain reserves are kept to manage the accounting processes for tangible fixed assets, retirement benefits, and financial instruments and these reserves do not represent usable resources for the Council. The usable Earmarked Reserves are set out in the notes to the Statement of Accounts.

ah Council Tax Recognition

Council Tax income included in the Comprehensive Income and Expenditure Statement for the year shall be the accrued income for the year. The Authority's share of the accrued Council Tax income is obtained from the information that is required by billing authorities in the production of the Collection Fund Statements.

If the net cash paid to the Authority in the year is more than its proportionate share of net cash collected from Council Tax debtors in the year the Authority will recognise a credit adjustment for the same amount in creditors after adjusting for the previous year brought forward and vice versa if net cash paid is less than the proportionate share.

The Cash Flow Statement includes within operating activities the net Council Tax cash received from the Collection Fund in the year (i.e. the precept for the year plus its share of Collection Fund surplus for the previous year, or less the amount paid to the Collection Fund in respect of its share of the previous year's Collection Fund deficit).

The difference between the net cash received from the Collection Fund and the Authority's share of cash collected from Council Tax debtors by the billing authority in the year is included within financing activities in the Cash Flow Statement.

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement.

ai Inventories and long-term contracts

Inventories include goods held for future use. Inventories are included in the Balance Sheet at the lower of cost and net realisable value. Inventories are recorded in terms of average cost. Work in progress on long term contracts is subject to an interim valuation at the year-end and recorded in the Balance Sheet at cost plus any profit reasonably attributable to the works. The Council currently does not have any contracts that fulfil this criterion.

aj Provisions for bad and doubtful debts

In order to suitably reflect the varied nature of debtors within the Council, the basis for providing for bad debts is specific to the circumstances in each individual department. The general policy followed is:

- No public sector debt is provided for (other Local Authorities, NHS, or Central Government).
- Aged debt is reviewed and a reasonable percentage provided for.

Significant individual invoices are reviewed and wholly provided for where it is thought to be necessary.

Treasury Management

ak Definition of Treasury Management Activities

The Authority has adopted the following definition of Treasury Management activities:

The management of the Authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The Authority regards the successful identification, monitoring, and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Authority.

The Authority acknowledges that effective treasury management will provide support towards the achievement of its service objectives. It is therefore committed to the principals of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

al Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost.

Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable plus any interest accrued to 31st March and interest charged to the

Comprehensive Income and Expenditure Statement 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 Net Operating Expenditure in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate. Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Reserves to be spread over future years.

The Authority has a policy of spreading the gain/loss over the term of the replacement loan subject to a minimum period of 10 years with the case of discounts. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Reserves is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

am 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

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus any interest accrued to 31st March and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement. However, the Council could make loans to organisations or individuals at less than market rates (soft loans).

When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the 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 Reserves is the interest receivable for the financial year. The reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Reserves is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. Any gains and losses that arise on the derecognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

- **Available-for-sale assets** - assets that have a quoted market price and/or do not have fixed or determinable payments.

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument.

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

Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Movement in Reserves Statement. The exception is where impairment losses have been incurred these are debited to the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the 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, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. Any gains and losses that arise on the derecognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

- **Financial assets at fair value through income and expenditure** – The council does not generally deal in derivatives but may take out forward loans from time to time as part of its overall Treasury Management Strategy.

an Interests in Companies and Other Entities

The council has no material interests in companies and other entities that have the nature of subsidiaries, associates, and joint ventures and so there is no requirement to prepare group accounts. The Council has one Joint Arrangements that is Not an Entity (JANEs), the Joint Planning Unit (JPU): this is not material to the accounts.

ao Business Improvement Districts

The Council collects Business Rates in respect of two Business Improvement Districts (BIDs), the first based on the Brackmills Industrial Estate geographic area, and the second based on the Town Centre geographic area. For both of these BIDs, the Council collects the business rates and pays the amount collected over to the BID on a monthly basis. The money collected is treated as a creditor in the Council's accounts to reflect the fact that the cash received will be paid to the BID and any balances are only there because of a timing issue.

ap Cash and Cash Equivalents

Cash is represented by notes and coins held by the Authority and deposits available on demand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts only arise as part of the Council's cash management and are therefore netted off against Cash and Cash Equivalents.

Bank overdrafts will only be shown separately as liabilities in the Balance Sheet where they are not an integral part of the Council's cash management; no such instances currently exist that would require separate disclosure from cash and cash equivalents.

aq General Government Grants

General government grants and contributions in the form of Revenue Support Grant, Retained Business Rates, New Homes Bonus, etc are disclosed on the face of the Comprehensive Income and Expenditure Statement in the line Taxation and Non-Specific Grant Income.