Agenda No 4

AGENDA MANAGEMENT SHEET

Report Title:	Statement of Accounts 2018/19
Name of Committee:	Audit and Ethics Committee
Date of Meeting:	26 March 2019
Report Director:	Head of Corporate Resources and CFO
Portfolio:	Corporate Resources
Ward Relevance:	All
Prior Consultation:	N/A
Contact Officer:	Ruth Barnett, Acting Financial Services Manager and Acting Deputy Section 151 Officer Tel: 01788 533448
Public or Private:	Public
Report Subject to Call-In:	No
Report En-Bloc:	No
Forward Plan:	No
Corporate Priorities: **(CR) Corporate Resources** **(CH) Communities and Homes** **(EPR) Environment and Public Realm** **(GI) Growth and Investment**	This report relates to the following priority(ies): ☒ To provide excellent, value for money services and sustainable growth ☒ Achieve financial self-sufficiency by 2020 ☒ Enable our residents to live healthy, independent lives ☒ Optimise income and identify new revenue opportunities (CR) ☒ Prioritise use of resources to meet changing customer needs and demands (CR) ☒ Ensure that the council works efficiently and effectively (CR) ☒ Ensure residents have a home that works for them and is affordable (CH) ☒ Deliver digitally-enabled services that residents can access (CH) ☒ Understand our communities and enable people to take an active part in them (CH) ☒ Enhance our local, open spaces to make them places where people want to be (EPR) ☒ Continue to improve the efficiency of our waste and recycling services (EPR)

	☒ Protect the public (EPR) ☒ Promote sustainable growth and economic prosperity (GI) ☒ Promote and grow Rugby's visitor economy with our partners (GI) ☒ Encourage healthy and active lifestyles to improve wellbeing within the borough (GI) ☒ This report does not specifically relate to any Council priorities but
Statutory/Policy Background:	The Local Audit and Accountability Act 2014 and Accounts and Audit Regulations 2015. This report provides the context within which the 2018/19 statement of accounts are being produced and risks presented to meeting the faster closedown requirements.
Summary:	Approval is sought for the Council's accounting policies for 2018/19.
Financial Implications:	There are no financial implications for this report
Risk Management Implications:	There are no risk management implications for this report
Environmental Implications:	There are no environmental implications for this report
Legal Implications:	There are no legal implications for this report
Equality and Diversity:	There are no equality and diversity implications for this report
Options:	N/A
Recommendation:	The Committee approve the Council's accounting policies for 2018/19.
Reasons for Recommendation:	Accounting policies are the specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements. The Committee is responsible for approving the financial statements and therefore required to understand the basis on which they have been prepared.

Agenda No 4

Audit and Ethics Committee - 26 March 2019

Statement of Accounts 2018/19

Public Report of the Head of Corporate Resources and CFO

Recommendation
The Committee approve the Council's accounting policies for 2018/19.

1. Introduction

1.1. This report provides the Committee with some context within which the 2018/19 Statement of Accounts (the Accounts) are being produced and the challenges and risks presented to the Council in meeting the new faster closedown requirements.

1.2. Approval is sought for the Council's accounting policies for 2018/19

2. Statement of Accounts approval and publication

2.1. For 2018/19 local authorities are required to approve and publish the Accounts by 31 May and 31 July respectively.

2.2. The Council successfully achieved the faster closedown requirements in 2017/18 with minimal changes to the Accounts between Draft and Final publication. To support a faster closedown approach CIPFA recently published a 'Streamlining Report' providing details of accepted good practise with worked examples to enable the Council to reduce any risk of possible delay.

3. Resourcing

3.1. The Council's accountancy function consists of approximately 10 FTE and is currently under resourced by two members of staff, with one of those being the recent departure of the Financial Services Manager. However, this risk has been mitigated through the appointment of an interim member of staff experienced in the production of local authority financial statements.

3.2. In addition, wherever possible tasks have been reallocated with resources flexed and some staff are being remunerated appropriately for accepting elevated duties.

4. Local Authority Accounting Framework

4.1. The up and coming changes to accounting practise and other prescribed practise reported last year will now be part of the 2018/19 accounts and include:

IFRS 9 – Financial Instruments: this new standard became applicable from 1 April 2018 and will affect how authorities account for their financial assets. The new standard will include a new basis for classification and measurement and also a new approach to impairment. Full details are given within Appendix 1 Section 7.

The risks highlighted, with the introduction of the standard, in previous reports have concerned the classification of pooled investment funds, such as the CCLA Property Fund, being accounted for as Fair Value Through Profit and Loss (FVPL.) This would mean that fair value gains and losses would be charged to a revenue account, potentially having a material impact upon General Fund balances. Following consultation with CIPFA and local authorities, MHCLG issued SI 2018/1207 in 2018 prohibiting this practice until March 2023. Instead the amount will be charged to an account established solely for the purpose of recognising fair value gains and losses.

IFRS 15 – Revenue from Contracts with Customers: this new standard became applicable from 1 April 2018 and will affect how authorities account for revenue from contracts with customers. Whilst this does not largely impact local authorities, there will need to be some consideration and review of fees and charges following a five-step process. Full details are given within Appendix 1 Section 8.

Overheads and Support Services: minor change in wording. Full details are given within Appendix 1 Section 15.

4.2. Up-coming accounting changes that will have the potential to affect the Council's finances in the future are:

IFRS 16 – Leases: this new standard will be in play from 2019/20 and will affect how organisations account for the assets that they lease from other organisations. Although it is a substantial standard change, the Council has only a limited number of leased assets and therefore at present it is expected the impact will be marginal.

4.3. Updates on these issues will be reported to the committee in further detail in due course.

5. Accounting Policies

5.1. Accounting policies are the specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements.

5.2. The Head of Corporate Resources and Chief Financial Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices and, in preparing those Accounts, is responsible for selecting suitable accounting policies and applying them consistently.

5.3. The Audit and Ethics Committee is responsible for approving the Statement of Accounts and should therefore be aware of and understand the basis on which those Accounts have been prepared.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 26 March 2019

Subject Matter: Statement of Accounts 2018/19

Originating Department: Corporate Resources

DO ANY BACKGROUND PAPERS APPLY ☐ **YES** ☒ **NO**

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

☐ Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A

Draft Accounting Policies 2018/19

1. General Principles

The Statement of Accounts (the Accounts) summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31st March 2019. The Council is required to prepare annual Accounts by the Accounts and Audit Regulations 2015, which require the Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code), supported by International Financial Reporting Standards (IFRS).

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

2. Accruals of Income and Expenditure

The Council's revenue and capital activity is accounted for in the year that it takes place, by including sums due to or from the Council in the year, not simply when cash payments are made or received.

Where material income and expenditure amounts have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected (bad debts).

This concept is not applied to electricity and gas supplies and other routine on-going business expenses. However, the Accounts do reflect twelve months' supply in each year and this does not have a material effect on the Accounts.

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than one month from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

4. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

5. Officers Remuneration

Benefits payable during employment

Short term employee benefits are those due to be settled within 12 months of the year-end. They include salaries, wages and other employment related payments and are recognised as an expense in the year in which the service is rendered by the employees. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end which employees can carry forward into the following financial year.

Termination Benefits
Termination benefits are amounts payable as a result of the Council's decision to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These are charged on an accruals basis to the relevant service line in the Comprehensive Income & Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Pension Costs

Pension Benefits
As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments for those benefits and to disclose them at the time that the employees earn their future entitlement.

The pension scheme is operated under the framework of the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions investment sub-committee of Warwickshire County Council. Policy is determined in accordance with the Pensions Fund Regulations.

Statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement this means that there are appropriations to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end. The negative balance that arise on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Recognition and Measurement
The LGPS is accounted for as a defined benefit scheme:

- The liabilities of the pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method; which is an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of future earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.6% (broadly equivalent to the yield available on high quality corporate bonds with duration, consistent with the term of the liabilities).
- The fair value of the assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:

    - Market quoted investments – current bid price on the final day of the accounting period
    - Fixed interest securities – net market value based on their current yields
    - Unquoted investments – professional estimate

The change in net pensions liability is analysed into the following components:

- **Service Cost** - comprising:
    - Current year service cost – the increase in the liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
    - Past service cost – the increases in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
    - Net interest on the net defined liability – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
- **Remeasurements** - comprising:
    - The return on plan assets – excluding amounts including in net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
    - Actuarial gains and losses – change in the net pensions liability that arise because event have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- **Contributions paid to the pension fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

6. Events after the Reporting Period

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

- Those that provide evidence of conditions that existed at the end of 2016/17 – the Accounts are adjusted to reflect such events
- Those that are indicative of conditions that arose after the 31st March 2017 – the Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made of the nature of the event and their estimated financial effect.

7. Financial Instruments

Financial Liabilities

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

The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid.

The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

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

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

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

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

Expected Credit Loss Model

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

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

Financial Assets Measured at Fair Value through Profit of Loss (FVPL)
Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

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

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

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

8. Income

Grants

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

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

Monies advanced as grants or contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line or Taxation and Non Specific Grant line in the Comprehensive Income & Expenditure Statement.

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

Revenue from contracts with customers

Where revenue is charged or received for goods or services provided to customers there will be an assessment of this income following the following 5 step approach.

1) Identify contract - agreement that creates enforceable rights and obligations
2) Identify performance obligations in the contract
3) Determine transaction price
4) Allocate transaction price to performance obligations
5) Recognise revenue when or as an entity satisfies performance obligations

The outcome of this evaluation will determine how this will be accounted for within the statement of accounts.

9. Heritage Assets

Heritage assets are assets that are held by the Council principally for their contribution to knowledge and culture. They are a distinct class of asset which is reported separately from property, plant, and equipment. Previously the majority of these assets had been held as Community Assets with the exception of one or two which were held in Infrastructure Assets or Other Land and Buildings. The heritage assets held by the Council have been categorised as follows:

- Art & Social History Collections
- Monuments & Statues
- Historic sites / buildings
- Civic Regalia

The Code requires councils to recognise heritage assets where the Council has information on the cost or value of the asset. However, the unique nature of many heritage assets makes reliable valuation complex. Where it is not practical to obtain a valuation for an asset (at a cost which is commensurate with the benefits to users of the financial statements) and cost information is available, the asset will be carried at historical cost (less any accumulated depreciation, amortisation and impairment losses) as permitted by the Code.

Valuations may be made by any method that is appropriate and relevant to the heritage asset: this includes insurance valuations for museum collections, monuments & statues, historic sites, and civic regalia. It is not a requirement of the Code for valuations to be carried out or verified by external valuers. Although there is no prescribed minimum period between full valuations, the Council considers it appropriate to seek a full valuation every five years.

Impairment reviews will only take place where there is physical deterioration or new doubts as to the authenticity of the heritage asset. Any impairment recognised will be treated in accordance with the Council’s policy on impairments.

10. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance are identifiable and controlled by the Council is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council. Normal examples are those of software or software licences, which have a value, but over a fairly short life of 3 –10 years and are therefore written down over that useful life.

11. Inventories and Long-term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

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

12. Investment Properties

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

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

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

13. Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- Its assets, including any held jointly
- Its liabilities, including any share of any liabilities incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its expenses, including its share of any expenses incurred jointly
- The Council has a 50% interest in the Rainsbrook Crematorium Joint Committee with the other 50% relating to Daventry District Council. The decision making and operational arrangements of the Joint Committee fulfil the features associated with a jointly controlled operation in that:
- Each operator incurs its own expenses and liabilities and raises its own finance, which represent its own obligations; and
- The joint operation agreement provides a means by which the revenue from the service and any expenses incurred in common are shared among the operators.

Therefore, in line with the contractual arrangements set out in the joint agreement, the Council recognises its share of the operational assets and liabilities of the Joint Committee on its Balance Sheet and also debits and credits the Comprehensive Income and Expenditure Statement with 50% of the expenditure and income of the Joint Committee. This is also recognised in the Movement in Reserves Statement and the Cash Flow Statement as appropriate. Further detail on this Joint Operation is also provided in Note 36 Related Party Transactions.

14. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and building elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets. This definition includes rental agreements, contract hire and licences.

15. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received.

16. Property Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as a revenue expense when it is incurred. The Council has established a de-minimis level of £10,000. Expenditure on assets under this level is not capitalised within the Accounts and the assets are fully depreciated within the year.

Measurement

Assets are initially measured at cost, comprising:

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

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

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

- Infrastructure assets, community assets and assets under construction are carried at historic cost, net of depreciation where appropriate.
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective;
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. This includes assets such as the Queen's Diamond Jubilee Leisure Centre, Benn Hall and the John Barford Car Park.

Where non-property assets have short useful lives and/or low values, such vehicles and IT equipment, they are measured at depreciated historical cost as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Land and building assets under £10,000 are not revalued with the exception of investment properties. Increases in valuation are matched by credits to the Revaluation Reserve to recognise unrealised gains, or may be credited to the Comprehensive Income & Expenditure Statement to reverse a previous downward revaluation.

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

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

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

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

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

Impairment Losses
No impairments were recognised in the year following a review of asset compliance with our componentisation policy.

Depreciation
Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable useful life (i.e. freehold land and Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Where depreciation is provided for, assets are depreciated using the straight-line method over the following periods:

- Dwellings and other buildings – 5-60 yrs.
- Vehicles, plant and equipment – 3-25 yrs.
- Infrastructure – 7-40 yrs.

Depreciation is charged on council dwellings in the year of disposal.

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

Componentisation

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. The Council has established a threshold of £500,000 for determining whether an asset needs to be componentised and an individual asset cost of more than 25% to determine whether an asset is considered as a component.

The carrying amount of a replaced or restored part of an asset (component) is derecognised, with the carrying amount of the new component being recognised subject to the principles set out in Recognition and Measurement above. This recognition and derecognition takes place regardless of whether the replaced part had been depreciated separately.

Subsequent Expenditure on Property Plant and Equipment

Subsequent costs incurred on an asset previously recognised as Property, Plant and Equipment will only be capitalised if they result in items with physical substance and meet the recognition principle that

- It is probable that future economic benefits or service potential associated with the item will flow to the Council; and
- The cost of the item can be measured reliably.

Exceptions to the general approach of comparing the outcome of expenditure compared to previously assessed levels of performance:

- Where subsequent expenditure will actually increase the level of performance of an asset in generating economic benefits or providing service potential but does not increase the level of performance previously assessed by the Council for that asset, then the assessment can be updated (through a revaluation adjustment) and the new expenditure capitalised
- Where subsequent expenditure represents the replacement of a component of an existing asset provided that the old component can be written out of the Balance Sheet

Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposal are credited to the Other Operating Expenditure line in 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.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts, whereas amounts below are classed as revenue income. A proportion of receipts relating to Right-to-Buy housing disposals are payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund or HRA Balance in the Movement in Reserves Statement.

The writing off of the remaining net book value of assets which are disposed of is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income & Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

17. Provisions, Contingent Liabilities & Contingent Assets

Provisions represent amounts set aside to meet future liabilities which are likely or certain to be incurred but where it is not possible to determine exactly the amounts or timing of such events.

Provisions in respect of bad and doubtful debts are maintained, including amounts relating to rent, council tax and business rate arrears, which have been estimated in accordance with recommended practice and past experience and are charged as an expense to the appropriate service line in the Comprehensive Income & Expenditure Statement. When payments are eventually made these are charged to the provision carried in the Balance Sheet.

Contingent Liabilities

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

Contingent Assets

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent assets are not recognised in the Balance Sheet but are disclosed in the accounts where it is probable that there will be an inflow of economic benefits or service potential.

18. Value Added Tax (VAT)

VAT is included in service revenue or capital income and expenditure accounts only when it is not recoverable.