Appendix B – Updated Accounting Policies – tracked changes

Notes to the Accounts

2. Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2016-17 financial year and its position at the year-end of 31 March 2017. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016-~~17supported~~17 supported by International Financial Reporting Standards (IFRS).

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

In accordance with the Accounting Code of Practice, these accounts are prepared on a going concern basis.

~~An underlying assumption in the preparation of the financial statements is the concept of a going concern. This concept assumes that the Council's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.~~

1.4 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their ~~consumption,~~consumption; they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure 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.

1.3 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 short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value and held by the Council for the purpose of meeting its short-term cash requirements.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management strategy.

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

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.~~

~~1.5 Charges to Revenue for Non-Current Assets~~

~~Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:~~

- ~~depreciation attributable to the assets used by the relevant service~~
- ~~revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off~~
- ~~amortisation of intangible non-current assets attributable to the service.~~

~~The Council is not required to raise Council tax to fund depreciation, revaluation and impairment losses or amortisation.~~

1.14 Accounting for ~~Council Tax~~Taxation

Under the Code, ~~the Council~~taxation tax income included in the Comprehensive Income and Expenditure Account for the year is the accrued income for the year. The difference between the ~~Council tax~~taxation income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund ~~shall be~~is taken to a Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

Since the collection of ~~Council tax~~taxation is in substance an agency arrangement, the Council as the billing authority recognises a creditor in its Balance Sheet for cash collected from taxpayers on behalf of major preceptors but not yet paid to them, or a debtor for cash paid to major preceptors in advance of it receiving the cash from ~~Council~~ tax payers.

~~1.15 Accounting for Non-Domestic Rates (NNDR)~~

~~The regime around the income that local Councils collect from Non Domestic Rates (NNDR) or Business Rates is one where this income is shared between central government, the local Council and other major precepting bodies (such as West Sussex County Council in Chichester's case).~~

~~Under the Code, the NNDR income included in the Comprehensive Income and Expenditure Account for the year is the accrued income for the year. The difference between the NNDR income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to a Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement on the General Fund Balance.~~

~~Since the collection of NNDR income is in substance an agency arrangement, the Council as the billing authority recognises a creditor in its Balance Sheet for cash collected from NNDR ratepayers on behalf of the government and major preceptors but not yet paid to them, or a debtor for cash paid to government and major preceptors in advance of it receiving the cash from NNDR ratepayers.~~

~~1.16 Business Improvement District (BID)~~

~~A Business Improvement District (BID) applies to the City Centre area of Chichester. This scheme is funded by a BID levy paid by non-domestic ratepayers. The Council is the billing authority for the scheme and as such collects and distributes the relevant levy income.~~

~~As the BID levy income is the BID body's revenue, the Council as the billing authority is not required to show any transactions in its Comprehensive Income and Expenditure statement since it is collecting the BID levy income as an agent on behalf of the BID body.~~

~~1.17~~1.15 Employee Benefits

iii. Benefits Payable During Employment

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

iv. Termination Benefits

~~Termination benefits are amounts payable as a result of a decision by~~When the Council is demonstrably committed to ~~terminate an officer's~~ the termination of the employment ~~before the normal retirement date~~of an officer or group of officers or making an ~~officer's decision~~ offer to ~~accept~~encourage voluntary redundancy ~~in exchange for those benefits and~~, these costs are charged on an accruals basis to the ~~appropriate service or~~respective Service line in the Comprehensive Income and Expenditure Statement ~~at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.~~

~~Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end~~.

iii. Post-employment Benefits

Employees of the Council are members of the Local Government Pensions Scheme, administered by West Sussex County Council. This scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council~~.~~.

The Local Government Pension Scheme (LGPS)

The Local Government Scheme is accounted for as a defined benefits scheme. The liabilities of the West Sussex County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, ~~etc~~etc., and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 2.6%. The discount rate used to value scheme liabilities is either:

- For Government bonds, yield curves provided by the Bank of England;
- For Corporate bonds~~;~~, a "Hymans Robertson" corporate yield curve constructed based on the constituents of the iBoxx AA corporate bond index.

Separate discount rates are set for individual employers, dependent upon their own weighted average duration (or term) of their benefit obligation.

The assets of West Sussex pension fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- un-quoted securities – professional estimate
- unitised securities – current bid price
- property – market value.

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

- Service Cost Comprising:
    - **current service cost** - the increase in 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 increase 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 as part of Non Distributed Costs within Finance and Governance.
    - **Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council** - the change during the period in the net defined liability (asset) 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 – taking into account any changes in the net defined liability (asset) during the period as a result of contribution and benefit payments.
- Re-measurements comprising:

- **the return on plan assets** – excluding amounts included in net interest on the defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

- **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 – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

- Contributions paid to the West Sussex County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises 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.

~~Discretionary Benefits~~

~~The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff 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.~~

~~1.18 Events after the Reporting Period~~

~~Events 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 Statement of Accounts is authorised for issue. Two types of events can be identified:~~

- ~~those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events~~

- ~~those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.~~

~~Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.~~

~~1.19~~1.16 Financial Instruments and Investments

Financial Instruments. A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

The Council held no material derivative financial instruments at 31 March 2017.

Financial Liabilities A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council. Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument, they are measured at amortised cost.
~~and comprise:~~

- ~~A short term bank overdraft with the Council's banker~~
- ~~finance leases~~
- ~~trade and contractual payables for goods and services received~~

~~Annual charges to the Financing and Investment Income and Expenditure line in 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. 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.~~

Financial Assets A financial asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset.

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 relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

~~The financial assets held by the Council during the year are held under the following classifications:~~

~~Loans and receivables, which comprise:~~

- ~~cash in hand~~
- ~~fixed term deposits with banks and building societies~~
- ~~loans to other local authorities~~
- ~~lease receivables~~
- ~~trade receivables for goods and services delivered~~

~~Available for sale financial assets (those that are quoted in an active market) comprise:~~

- ~~an investment with the Local Authority Property Fund~~
- ~~Investments in corporate bonds; and~~

- ~~Stable Net Asset Value money market funds.~~

~~The Council does not hold any assets that are valued at fair **value** through profit and loss.~~

~~i.~~ **Offsetting Financial Assets and Liabilities**

~~Financial assets and liabilities are set off against each other where the Council has a legally enforceable right to set off and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.~~ The Council has not offset any material financial instruments and had no other material financial assets or liabilities subject to an enforceable master netting arrangement or similar agreement.

~~**Financial Instruments - Fair Values**~~

~~Fair values are shown in note 14, split by their level in the fair value hierarchy:~~

- ~~Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices~~
- ~~Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments~~
- ~~Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness~~

~~**ii. Loans and Receivables**~~

~~Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. Annual credits to the Financing and Investment Income and Expenditure line in 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 accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.~~

~~Fair values have been estimated where required by calculating the net present **value** of the remaining contractual cash flows at 31st March 2017 by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans. They are classified as Level 2 Fair values, as they are calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments~~

~~The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.~~

~~**iii. Soft Loans**~~

~~The Council has made a number of loans to individuals under an assisted car purchase scheme, to tenants under the housing private sector renewal scheme and to tenants of certain Council owned shops for improvements where the tenant has a repair obligation. These loans have been provided either interest free or at a rate below current market levels.~~

~~These soft loans are considered not to be material to the Council's accounts as the present value of the interest that will be forgone over the life of the instrument is less than 10% of the value of investment income received in the year. The amount presented in the Balance Sheet is the outstanding principal receivable, and the interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.~~

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 relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value.

Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the 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. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Available for sale assets are maintained in the Balance Sheet at fair value level 1, derived from quoted prices in active markets for identical assets or liabilities

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- For the Council's investment in the Local Authority property fund, fund values published by CCLA have been used as these represent the prices in the principal market within which the Council would normally enter into a transaction to sell the asset.

- For Corporate Bonds, the Fair Value is taken from the Market (Bid) Price

- For the Stable Net Asset Value money market funds, shares are issued with an unchanging face value of £1. This value has been used as the Fair value as for every £1 of principal invested, the fund will return £1 of principal on withdrawal by the Council, plus interest.

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

~~**Fair Values**~~

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

~~Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).~~

Fair values are shown in note 14, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

~~1.20~~1.17 Government Grants and Contributions

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. ~~Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.~~

~~Monies advanced to the Council as grants and 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 (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income and Expenditure (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and 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 the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.~~

~~Community Infrastructure Levy~~

~~From 1 February 2016 the Council elected to charge a Community Infrastructure Levy (CIL). The levy is charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area.~~

~~CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Account in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, an administration charge of up to 5% may be used to fund revenue expenditure.~~

~~1.21~~1.18 **Heritage Assets**

Tangible and Intangible Heritage Assets

The Heritage assets held by the Council are a collection of assets or artefacts either exhibited or stored at a number of sites in the district including the Novium Museum, Pallant House Gallery and Fishbourne Roman Palace, or other local venues. The Museum Collections consist of geological, archaeological, social history and local history artefacts, images and associated information. The principal collections include:

- The Hussey Bequest collection including furniture, paintings and other domestic wares, which is based at the Pallant House Gallery
- Archaeological collections which are held both at the Novium Museum and Fishbourne Roman Palace.

Heritage assets are recognised and measured (including the treatment of valuation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. ~~However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The accounting policies in relation to heritage assets that are deemed to include elements~~

~~of intangible heritage assets are also presented below. The Council's collection of heritage assets are accounted for as follows.~~

~~i. Heritage Assets – General~~

~~The carrying amounts of heritage assets are reviewed where this is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage, damage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment. The Leisure and Wellbeing Service will occasionally dispose of heritage assets which are unsuitable for display in accordance with its disposal policy. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.~~

~~Assets above deminimis are recorded separately and any other items below the deminimis, where a value can be obtained are recorded collectively.~~

~~ii. Hussey Bequest Collection~~

~~The Hussey Bequest collection is reported in the balance sheet on an insurance valuation. This collection was a donated asset. No further acquisitions will be made or any disposals unless allowed under the terms of the bequest.~~

~~iii. Archaeological/Museum Collections~~

~~These values have been based upon; either their historical rarity, market value or purchase price, as recommended by a panel of independent experts at the British Museum (the Treasure Valuation Committee). The Council use these values for insurance purposes.~~

~~1.22 Interest~~

~~**Gross** interest earned by the Council is in the first instance credited in total to the Comprehensive Income and Expenditure Account. For **2016-17** this amounted to £0.44m.~~

~~2. Intangible Assets~~

~~Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.~~

~~Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset.~~

~~Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).~~

~~Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.~~

~~Intangible assets are measured initially at cost. Amounts are only re-valued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.~~

~~Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted 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 Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.~~

~~1.23 Inventories and Long Term Contracts~~

~~Inventories are included in the Balance Sheet. Works in progress are shown at cost, whereas stocks held at year-end are shown at latest invoice price. Although this is a departure from normal accounting practice the overall effect on the accounts is immaterial. 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.~~

~~1.24~~1.19 **Investment Property**

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, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are re-valued 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 and 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 Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.~~

~~1.25~~1.20 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 buildings 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.~~

~~**i. The Council as Lessee**~~

~~Finance Leases~~

Property plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the inception of the lease (or the present value of future lease rentals of the minimum lease rentals, if lower).

The assets so recognised are matched by a liability for the obligation to pay the lessor (supplier). ~~The Council's initial direct costs of acquisition are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Where applicable, contingent rents are charged as expenses in the periods in which they occur.~~

Lease rental payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write-down the lease liability, and
- A finance charge (interest payable on the outstanding liability) debited to the Financing and Investment Income & Expenditure line of the Comprehensive Income and Expenditure Statement.

Property plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the asset life, +or lease term if this is shorter than the asset's estimated useful life (where ownership does not transfer to the Council until the end of the lease period).

~~The Council is not required to raise Council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead a prudent annual provision is made from revenue funds (i.e. the MRP) towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation impairment losses are therefore substituted by a revenue contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.~~

~~Operating Leases~~

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

~~The Council has only one operating lease above the de-minimis level of £10,000.~~

~~**ii. The Council as Lessor**~~

~~Finance Leases~~

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal~~. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant~~ and ~~Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also 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), matched~~replaced by a ~~lease (~~long-term debtor~~) asset~~ in the Balance Sheet~~.~~

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

~~The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount~~ due ~~in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.~~

~~The written-off value of disposals 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 therefore appropriated~~

~~to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement~~the finance lease.

~~Operating Leases~~

Where the Council grants an operating lease over ~~a property or~~ an ~~item of plant or equipment, the~~ asset, this is retained ~~in~~on the Balance Sheet. Rental income is ~~credited to the Other Operating Expenditure line~~recognised in the Comprehensive Income and Expenditure statement~~. Credits are made~~ on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. if there is a premium paid at the commencement of the lease). ~~Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.~~

~~**1.26 Minimum Revenue Provision**~~

~~Local authorities are required by statute to set aside each year some of their revenue to provide for repayment of debt in respect of capital expenditure financed by borrowing or credit arrangements, known as the Minimum Revenue Provision (MRP).~~

~~For assets acquired by credit arrangement (Finance Leases), the Council's policy is to charge MRP against its general fund equal in value to the principal amount repaid as part of the lease rentals to the supplier (lessor) in each financial year.~~

~~MRP is charged to the CIES as a transfer to the Capital Adjustment Account within the adjustments between accounting basis and funding basis under regulations line in the Movement in Reserves Statement (MiRS).~~

~~1.27~~1.21 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 an expense when it is incurred.

When new assets are first acquired and recognised on the balance sheet as a non-current asset, the total value of the asset must be over the £10,000 deminimis.

~~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 initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

~~The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). 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.~~

~~Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.~~

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- all other assets – fair (or 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 current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

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

- 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(s) in the Comprehensive

Income and Expenditure Statement.

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

~~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 by:~~

- ~~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(s) in the Comprehensive Income and Expenditure Statement.~~

~~Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and 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.~~

~~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 finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- infrastructure, vehicles, plant, furniture and equipment – straight-line allocation over the useful life of the asset, as advised by a suitably qualified officer

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.
~~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~~

~~International Accounting Standard 16 (IAS16) – Property, Plant and Equipment (PPE) contains the accounting requirements for the separate recognition, depreciation and derecognition of parts of assets (referred to as componentisation). Componentisation is applied for depreciation purposes on enhancement or acquisition expenditure incurred and revaluations carried out from 1 April 2010.~~

~~Components that are required to be depreciated separately are those that have a cost that is significant in relation to the total cost of the asset, a different useful life and method of depreciation. The Council's policy on componentisation is:~~

Only assets with a gross book value of £500,000 and over ~~will be~~are considered for componentisation.

- ~~Of those assets, for the purpose of determining a 'significant' component of an asset, components with a value of 20% in relation to the overall value of the asset and over £100,000 will be considered and then only if the component has a different useful life for depreciation purposes, so as to result in depreciation charges that differ materially from the depreciation charges had the asset not been componentised.~~

~~Disposals and Non-current 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 re-valued 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 and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.~~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 not to sell.~~

~~Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.~~

~~When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also 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 accumulated for the asset 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. Normally 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. However, the pooling arrangement for housing capital receipts does not apply to the Council's share of receipts from sales under the preserved rights to buy arising from the Large Scale Voluntary Transfer of the Council's housing stock. Capital receipts received are credited to the Capital Receipts Reserve, and can be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.~~

~~The written-off value of disposals 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.~~

~~1.28~~1.22 Provisions, Contingent Liabilities and Contingent Assets

~~i. Provisions~~

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. 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 as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

~~ii. Contingent Liabilities~~

~~A contingent liability arises where an event has taken place that gives the Council 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 Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.~~

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

~~iii. Contingent Assets~~

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

~~Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.~~

~~**1.29 Reserves**~~

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

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

1.25 Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

1.26 Section 106 Developer Contributions

~~Section 106 of the Town and Country Planning Act 1990 permit local planning authorities to enter into enforceable ‘planning obligations’ with landowners and/or developers which restrict the development or use of the land in any specified way, require specific operations or activities to be carried out in, on, under or over land, require the land to be used in any specified way and/or require a sum or sums to be paid to the local planning authority on a specified date or periodically.~~

~~There are two types of agreement; those for providing some form of service e.g. maintenance of bus shelters and those to assist undertaking some form of capital project.~~

~~Money received under a Section 106 agreement is not applied for any other purpose than that provided~~

~~under the agreement. The agreements provide for the return of monies if works are not carried out after a specified period.~~ Section 106 advances received are initially recognised as a creditor in the Council's accounts whilst the monies remain unspent to reflect the liability the Council has to the developer if the agreement is not fulfilled. Once the conditions of the agreement are met the advances are recognised as revenue income or capital contributions.

1.27 VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.