**STATEMENT OF ACCOUNTING POLICIES**

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1. **General Principles**

The Statement of Accounts summarises the Council’s transactions for the 2021/22 financial year and its position at the year-end of 31 March 2021.

The Council is required to prepare an annual Statement of Accounts under the Accounts and Audit Regulations 2015. These Regulations require the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2021/22*, 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.

1. **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 contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
* Supplies are recorded as expenditure when they are consumed. For material items where there is a gap between the date supplies are received and their 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 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 income or expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

**Creditors**

* Payments to creditors are included in the accounts where the payment relates to goods and/or services received prior to 1 April 2022. Any payments in advance (before 1 April 2022), which relate to the 2021/22 financial year are shown as prepayments.
* Exceptions to this include utilities, such as electricity and similar periodic payments, such as rents. Utility costs are included at the date of meter readings rather than apportioned between two financial years. Rental costs are included in the accounts based on the date the invoice is due for payment. This policy is consistently applied each year and therefore does not have a material effect on the accounts.

**Debtors**

* Income from debtors is included in the accounts where the income relates to goods and/or services provided by the Council prior to 31 March 2022. Any income received before 1 April 2022, which relates to the 2021/22 financial year is shown as receipts in advance.
* An exception to this relates to rent due for retail, commercial and industrial premises where rent is due at the quarter date in March. This policy is consistently applied each year and therefore does not have a material effect on the accounts.
1. **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 highly liquid investments that mature overnight or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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.

1. **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; that is, 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. **Charges to Revenue for Non-Current Assets**

Services and trading accounts are charged 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 assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from Revenue towards the reduction in its overall borrowing requirement, equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance known as the Minimum Revenue Provision (MRP). The Council’s MRP policy is:

* For supported borrowing the regulatory method is used and;
* From 2015/16 for all other assets acquired through unsupported borrowing, except for commercial property investments, the MRP is based on the depreciation method. Prior to 2015/16 the method used to calculate the MRP was based on the asset life method. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance as MRP by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.
* For commercial property investments purchased using unsupported borrowing, MRP is based on the Future Cash Flow / Impairment Method, as per the 2021/22 MRP Policy Statement.
1. **Council Tax and Non-Domestic Rates (NDR) (England)**

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (ie the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

**Accounting for Council Tax and NDR**

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council’s share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council’s General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council’s share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), 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. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

1. **Employee Benefits**

**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, paid sick leave and bonuses for current employees. These are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the cost of holiday entitlements (or any form of leave, for example, time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following financial year, being the period in which the employee takes the benefit.

The accrual is charged to surplus/deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

**Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer’s employment before the normal retirement date or an officer’s decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment 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 Pension 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.

**Post-Employment Benefits**

Employees of the Council are Members of The Local Government Pensions Scheme, administered by Nottinghamshire County Council. The scheme provides defined benefits to Members (retirement lump sums and pensions) earned as employees worked for the Council.

**The Local Government Pension Scheme**

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

* The liabilities of the Nottinghamshire County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method, that is an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions made, for example mortality rates and employee turnover rates, and projections of earnings for current employees.
* Liabilities are discounted to their value at current prices, using a discount rate that reflects the time value of money and the characteristics of the liability.
* The assets of the Nottinghamshire County Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

|  |  |
| --- | --- |
| **Asset Category** | **Basis of Valuation** |
| Quoted Securities | Current bid price |
| Unquoted Securities | Professional estimate |
| Property | Market value |
| Unitised Securities | Current bid price |

The change in the net pension 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 revenue accounts of 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 Net Cost of Service in the Comprehensive Income and Expenditure Statement, as part of non-distributed costs.
* Net interest on the net defined benefit liability (asset); ie net interest expense for the Council, the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in 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 liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

**Re-measurement comprising:**

* The return on plan assets – excluding amounts included in net interest on the net 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 Nottinghamshire 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 Pension 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 the 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. **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. **Financial Instruments**

**Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the 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.

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

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase or settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

**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 council’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 (that is, 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 council 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 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 council, 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.

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 Comprehensive Income and Expenditure Statement.

**Expected Credit Loss Model**

The council 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 council.

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 or Loss**

Financial assets that are measured at Fair Value through Profit or Loss 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. 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 council 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.

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.

1. **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 grant 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 contributions 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 giver.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When the conditions are satisfied, the grant or contributions is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income (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.

1. **Business Improvement Districts (BID)**

A business improvement district (BID) scheme applies across the whole of the council.

The scheme is funded by a BID levy paid by non-domestic ratepayers. The council acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the comprehensive income and expenditure statement.

1. **Heritage Assets**

Heritage Assets are those that have historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution towards increasing the knowledge, understanding and appreciation of the Council’s history and local area.

The assets are recognised at cost where valuations are readily available. In a number of instances the Council does not consider that reliable cost or valuation information can be obtained due to a lack of comparable market values or that valuations would involve a disproportionate cost in comparison to the benefits to users of the financial statements. In these instances the Council does not recognise these assets on the balance sheet.

Future acquisitions will be recognised at cost or if bequeathed or donated will not be recognised in the Balance Sheet unless market valuations can be obtained through the sale of similar items at auction.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, for example where an item has suffered physical deterioration or breakage or where doubts arise to its authenticity. Any impairment is recognised and measured in accordance with the Council’s general policies on impairment. Where heritage assets are disposed of the proceeds 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.

1. **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 (for example, software licences and patents) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

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 revalued 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 the Capital Receipts Reserve.

1. **Interests in companies and Other Entities**

The council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the council’s own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

Where interested in companies and other entities are not material, these are not consolidated into the Council’s group accounts.

1. **Inventories and Long-term Contracts**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. Work in progress is subjected to an interim valuation at the year end and is also recorded in the Balance Sheet at the lower of cost or 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 work and services received under the contract during the financial year.

1. **Investment Property**

Investment properties are those that are used solely to earn rentals and/or 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 by the Council 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. 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 in the Movement in Reserve Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

1. **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 the other joint operators involve the use of the assets and resources of those joint operators.

Mansfield and District Crematorium is recognised as a Joint arrangement between Mansfield District Council, Ashfield District Council and Newark and Sherwood District Council. The Council accounts directly for its share of the assets, liabilities, income, expenditure and cash flows held arising from the operations of the Crematorium.

1. **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.

**The Council as a 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 lease’s inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

* a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
* a finance charge (debited to the Financing and Investment Income and Expenditure line in 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 lease term if this is shorter than the asset’s estimated useful life (where ownership of the asset does not transfer to the council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation, revaluation and impairment losses are therefore substituted by a revenue contribution to 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 (for example there is a rent-free period at the commencement of the lease).

**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 (that is netted off against the carrying value of the asset at the time of disposal), matched 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.

**Operating Leases**

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the 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 (for example, where 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. **Overheads and Support Services**

The costs of overheads and support services are charged to service segments in accordance with the Council’s arrangements for accountability and financial performance.

1. **Property, Plant and Equipment**

Assets that have a 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. Acquisitions of assets which are less than £10,000 (the Council’s de minimus level) are charged straight to the Comprehensive Income and Expenditure Statement.

**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 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 (for example, repairs and maintenance) is charged to as an expense when it is incurred.

**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.

Assets are then carried on the Balance Sheet on the following measurement basis:

|  |  |
| --- | --- |
| **Asset Category** | **Basis of Valuation** |
| Council Dwellings | Current value determined using the basis of existing use value for social housing (EUV-SH) |
| Other Land and Buildings | Current value determined as the amount that would be paid for the asset in its existing use (existing use value – EUV) except where there is no market where depreciated replacement cost is used as an estimate of current value.  |
| Infrastructure, Community assets and assets under construction  | Depreciated historical cost |
| Vehicles, plant and equipment | The lower of net current replacement cost or net realisable value in existing use |
| Surplus Assets | Fair value estimated at highest and best use from a market participants perspective |
| Assets acquired for other than a cash consideration | Appropriate fair value |

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 of current value.

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 revalued 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. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of an impairment loss previously charged to a service revenue account.

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 the 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 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:

1. 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 this balance (up to the amount of the accumulated gains)
2. 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 applied to 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 (that is, freehold land and certain community assets) and assets that are not yet available for use (that is, assets under construction)

Depreciation is calculated on a ‘straight line’ basis over their useful life as determined by the Council’s valuers, as set out below, unless further information has been received:

|  |  |
| --- | --- |
|  | **Asset life** |
| HRA dwellings | 30 years |
| Non HRA dwelling | 21 years |
| Workshops | 20-50 years |
| Community centres | 50-99 years |
| Vehicles and plant | 2-10 years |
| Other | 99 years |

Land is not depreciated as this is deemed as having an infinite life. Where assets, such as buildings, have land attached the values are separated and depreciated accordingly. 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.

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 into the Capital Adjustment Account.

**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 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 and 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 not to sell.

**Disposals**

Assets that are abandoned or scrapped are not classified 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 (that is, 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.

**Receipts Arising from the Sale of Fixed Assets**

Amounts received for a disposal of an asset in excess of £10,000 (the Council’s de-minimus level) are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the government. The balance of receipts remains within the Capital Receipts Reserve, and can then only be used for new capital investment, or set aside to reduce the Council’s underlying need to borrow (the capital financing requirement). Receipts are 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 fixed 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. **Provisions, Contingent Liabilities and Contingent Assets**

**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 benefit 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 when the Council has an 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 the financial year, where it becomes less than probable that a transfer of economic benefit will now be required (or a lower settlement than anticipated is made) the provision is reversed and credited back to the relevant service revenue.

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

**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 the notes to the Accounts.

**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 of uncertain future events not wholly within the control of the Council.

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

1. **Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the net cost of services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund 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 relevant policies.

1. **Revenue Expenditure Funded from Capital under Statute**

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 there is no impact on the level of council tax.

1. **Value Added Tax (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.

1. **Fair Value Measurement of non-current assets**

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

* in the principal market for the asset or liability, or
* in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council’s financial statements are categorised within the fair value hierarchy, as follows:

* Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
* Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
* Level 3 – unobservable inputs for the asset or liability.
1. **Exceptional Items**

When items of income and expenditure are material, their nature is disclosed separately, on the face of the Comprehensive Income and Expenditure statement and in the relevant Note to the accounts, depending on how significant the items are to an understanding of the Council’s financial performance.

1. **Fundamental Accounting Concepts**

This Statement of Accounts has been prepared according with the International Accounting Standards Board (IASB) Framework for the Preparation and Presentation of Financial Statements (the IASB Framework) as interpreted by the Code.

**Relevance -** The objective of the Statement of Accounts is to provide information about the Council’s financial performance and position that is useful for assessing the stewardship of public funds and for making economic decisions.

**Reliability -** The key requirement of this statement is that users are able to rely on the information contained within the Statement of Accounts. A number of fundamental accounting concepts are applied in order to ensure this reliability:

* the Statement of Accounts have been prepared to reflect the reality or substance of each transaction rather than their formal legal character
* the Statement of Accounts is free from deliberate or systematic bias. The financial analyses contained within the accounts are based on fact, and do not support any particular view point
* the Statement of Accounts are free from material error, containing no misstatement that would influence the conclusions of any user
* the Statement of Accounts have been produced within the bounds of materiality, meaning that nothing has been omitted that may have assisted users in gaining an understanding of the Council’s activities

Where uncertainty exists, the statements have been prepared prudently and caution has been applied with exercising judgement and making necessary estimates.

This is an important mechanism for ensuring the usefulness of financial information and is an essential element of the best value accounting framework. The Code assists comparability in many areas by making particular accounting policies mandatory.

**Understandability -** The accounting principles of the Code includes accounting concepts, treatments and terminology which require reasonable knowledge of accounting and local government and reasonable diligence in reading the Statement of Accounts if they are to be properly understood. However all reasonable efforts have been taken in the preparation of the Statement of Accounts to ensure they are as easy to understand as possible.

**Going Concern -** This statement has been prepared on a **‘going concern’** basis, under the assumption that the Council will continue to exist and operate on its current basis for the foreseeable future.

**Primacy of Legislative Requirements -** Local authorities derive their powers from statute and their financial and accounting framework is closely controlled by primary and secondary legislation. To the extent that treatments are prescribed by law the accounting concepts outlined above may not apply in all cases. It is a fundamental principle of local authority accounting that, where specific legislative requirements and accounting principles conflict, legislative requirements shall apply.