

Supplementary Papers



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Listening Learning Leading

FOR THE MEETING OF

Joint Audit and Governance Committee

held in the Northbourne Room, Didcot Civic Hall, Britwell Road, Didcot OX11 7JN

on Monday 25 March 2019 at 6.30 pm

Open to the public including the press

The reports marked 'to follow' on the agenda published on Date Not Specified are attached. Please bring these with you to the meeting.

- 6 **2017/18 Year end audit: lessons learned and corrective action** (Pages 2 - 6)
To consider the report of the head of finance (attached).

- 7 **Statement of accounts 2018/19** (Pages 7 - 42)
To consider the report of the head of finance (attached).

Joint Audit and Governance Committee



Report of Head of Finance/Strategic Finance Manager/Finance Business

Partner

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To: Joint Audit and Governance Committee

DATE: 25 March 2019

2017/18 Year End Audit: Lessons Learned and Corrective Actions

Recommendation

To note the report.

Purpose of Report

1. To provide a summary of the factors which resulted in the external auditors Ernst and Young (EY) not completing their planned audits in June 2018 and consequently not signing the financial statements for either council in accordance with the new reporting deadline of 31 July.
2. To highlight the corrective actions being taken to ensure the 2018/19 and future year statements are audited and signed in accordance with the statutory reporting deadline.

Background

3. The draft financial statements were required to be prepared and published one month earlier than previously on 31 May, in accordance with the new statutory deadline. The new deadline for signature of the financial statements by the auditors is 31 July. In practice however the deadline was reduced by a further month in 2018 because the external audit was timetabled for the four-week period 4 to 29 June.
4. When EY completed their four-week audit on 29 June 2018, they had not received sufficient evidence and backing documentation. Due to other client commitments EY were unable to extend their audit into July and could not return until September. Consequently, the financial statements of both councils were not signed in accordance with the new reporting deadline (31 July) and were signed after the audit was finally completed at the end of September 2018.
5. The financial statements were prepared by Capita Accountancy (CA) at that time based in Milton Park. The audit was also managed by Capita Accountancy. The financial accounting function has since moved to Mendip.
6. In December 2018 the finance business partnering team which included the chief accountant (Richard Spraggett) mentioned below was transferred back into the councils as part of the strategic finance team.

Problems encountered during the 2018 audit

7. The new deadline dates were always going to be challenging for all, especially so for South and Vale because their audit was timetabled to finish at the end of June effectively shortening the deadline by another month. Areas which caused significant audit delays are highlighted below.
8. **Finance reorganisation and staffing.** Capita Accountancy announced a restructure of the finance function on 21 March. The onsite financial accounts team had a head count of nine staff, one principal accountant had already left (in February) and another was working her notice and due to leave on 9 April. Of the remaining seven staff, six were made redundant on 31 May, four days before the audit started, leaving the chief accountant as the only permanent staff member during the audit. Three of the experienced redundant staff agreed to return on a consultancy basis the following week to assist with audit queries and two others returned intermittently to assist. An experienced local government finance contractor was appointed in late April.
9. In its 'Audit results report' EY said 'reduction in staff capacity at both the Councils and Capita has had a detrimental effect on the timeliness and quality of the evidence provided for audit'.
10. **WGA (Whole of Government Accounts) return.** This statutory return was due at the end of the first week of the audit. Staff recruited to assist with the audit had to focus fully on preparing these returns rather than responding to audit queries.
11. **Debtors and creditors reconciliation.** Although a summary reconciliation was prepared by the Capita accounts receivable team, a detailed line item report suitable for audit was not supplied until later in April and this report balanced to a mid-April total not the year end one. The chief accountant had to rework and

remove April transactions from the later report before it balanced back to the year end figure and could be used for audit sampling.

12. **Accounting for the 5 Councils' contract.** An error by the councils in accruing for the '5 Councils' Contract' in South affected the grossing up of income. Although this had zero effect on South's net results, the grossing up significantly changed costs and income and necessitated additional and new audit testing of debtor and creditor balances.
13. **Property and valuations - timing.** The councils contracted with a third-party Sanderson Weatherall (SA) to receive property valuations. CA completed all depreciation calculations in February and these were available for audit review pre-31 March potentially as an interim audit item. Valuations were received from SA in early March and the full fixed asset statements were completed (by CA) and available for audit in mid-March. The audit of these statements however did not start until well into the final audit in June.
14. **Property and valuations – accuracy.** EY put significant emphasis on the property valuations, the SW reports were analysed by a specialist EY department who asked a number of searching questions. This in itself was a time-consuming process because questions went from the EY property team to the EY audit team to the CA chief accountant to the councils' contracted property specialist. Many of the assumptions were challenged as were the valuations themselves.
15. EY found errors with the valuations, some property plans did not agree with the records held at the land registry. Property valuations were finally agreed on Tuesday 25 September 2018 resulting in the chief accountant having to rework a number of statements two days before the JAGC on Thursday 27 September 2018.
16. **Communication from EY.** Although CA were aware the audit was progressing slowly they were not aware until the last week of how behind the auditors were with their timetable. In particular CA had a list of outstanding audit requests which was also circulated to the strategic finance manager, but they were not aware of audit testing that had not been started or reviewed. Had this been communicated by EY urgent action would have been taken before the end of the audit to increase resources.
17. **Audit planning and resourcing.** Certain audit tests were carried out at year end which could have been carried out during the interim audit. Such as; testing of lease documentation and analysis of contracts. Answering these queries was time consuming because this data is often held offsite and has to be retrieved from storage. Given the very limited time available at year end and the constraint on EY resources in June and July, consideration should be given to carrying out this testing as part of an interim audit.

Corrective action

18. The councils' strategic finance team have discussed with the Capita senior financial accountant (who was not in post last year) what went wrong and agreed improvements itemised in appendix 1.

Financial Implications

19. As advised to JAGC in September, EY incurred additional costs which they have invoiced to the council. There are no statutory penalties for the late signature of accounts and no implications for the cost of future audits.

Legal Implications

20. Approval of the statement of accounts by the committee in accordance with statutory dates fulfils the requirements of the Accounts and Audit (England) Regulations 2015.

Risks

21. Not achieving the new accelerated timetable was reputationally detrimental to both councils, however a number of councils (in the region of 15 per cent) did not achieve the new timetable and like South and Vale, filed in September, consequently this risk is considered to be minimal.

Other Implications

22. None

Conclusion

23. The councils' finance staff have worked in partnership with Capita to reflect on the issues raised which resulted in the late signing of the accounts and the agreed corrective action that should help prevent issues arising in future.

Appendix 1

Improvements to the year end finance process agreed by Capita Accountancy and S&V strategic finance

- 1) The auditors Ernst and Young (EY) will be encouraged to increase the scope of their interim audit to cover as much testing as possible alleviating the workload in the final audit.
- 2) Property accounting to be completed and audited before the end of the interim audit. (The Interim audit for 2018/19 will take place during the first two weeks of April). Any delays in the delivery of property valuations will be escalated by the head of finance to the appropriate head of service.
- 3) Capita Accountancy (CA) staff will run their own debtors & creditors listings on 1 April (no reliance on other departments).
- 4) Debtor and creditor listings will be sent to EY by the end of first week in April. EY will request a sample a week later which can be provided on day one of the final audit. (Due to the timing of the 2018/19 audit it may be possible to complete this testing before EY finish their interim on 12 April).
- 5) We will seek to establish regular communication between the councils' strategic finance team (SF), CA and EY on the status, progression and completion of the audit programme. SF and CA need to understand what work is still outstanding not just outstanding requested deliverables. Updates will need to be daily with a weekly summary.
- 6) Members of the councils' finance business partnering team will be trained on the workings of the 5C Contract to ensure the final accrual can be checked and provided earlier.
- 7) Where EY disagreed with or require further clarification of S&V accounting policies, (e.g. lease accounting on investment properties) these queries are raised/revisited and closed off before the year end audit.
- 8) The Whole of Government Accounts (WGA) return will be worked upon during May not left to the first week in June. The CA team are fully trained in the workings and requirements of this report.
- 9) The CA financial accounts team, now based in Shepton Mallett is currently fully staffed with trained accounting personal. The financial accountant also has very experienced colleagues on site working in finance for other councils in the 5C Contract. In addition, the four person finance business partnering team based locally in Milton park which reports into the Strategic Finance Manager, will be working closely with CA to facilitate the audit.

Richard Spraggett
Senior Finance Business Partner

8 March 2019

Joint Audit and Governance Committee



Report of Head of Finance/Senior Accountant (Capita)

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To: Joint Audit and Governance Committee

DATE: 25 March 2019

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Statement of accounts 2018/19

Recommendations

(a) To note progress on completing the 2018/19 statement of accounts

(b) To approve the revised statements of accounting policies as shown in Appendix 1 (South Oxfordshire District Council) and Appendix 2 (Vale of White Horse District Council).

Purpose of Report

1. To update councillors on progress being made towards the completion of the 2018/19 statement of accounts, and to present revised statements of accounting policies for approval.

Strategic Objectives

2. South – unqualified final accounts helps us demonstrate that finances are effectively controlled and show the council's strong financial position.
3. Vale – unqualified final accounts helps us demonstrate that we run an efficient council.

Background

4. The draft financial accounts for both councils need to be completed and signed by the head of finance by 31 May 2019. Following the audit, and approval by this committee, the final accounts are required to be published by 31 July 2019.
5. The external auditors Ernst and Young (EY) continue to be the assigned auditors for 2018/19 closedown. A two-week interim audit is due to start on 8 April with the intention of completing an element of year end work in advance. Walkthroughs of the processes and accounts have already commenced.
6. The 2018/19 closedown will be primarily undertaken offsite by the Capita financial accounting team based in Mendip in conjunction with the councils' finance business partners, and visits will be organised directly with the auditors to take place on council's site at Milton Park.
7. Valuations of council's properties have been received from Surveyors Sanderson Wetherall. The valuations are being reviewed by the councils' property manager prior to issue to the financial accounting team.

Changes to the accounts for 2018/19

8. There are two main changes in accounting policies this year. This is due to changes in IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. The financial accounting team and the councils' strategic finance manager attended CIPFA training which outlined the changes and the accounting treatment for these changes.

IFRS 9 Financial Instruments

9. The introduction of IFRS 9 will have implications for the classification and measurement of financial assets, and results in new classifications of financial assets:
 - amortised cost,
 - fair value through profit and loss, and
 - fair value through other comprehensive income.
10. Most of the councils' investments will be classified as amortised cost, which will mean that there is no change to their accounting. The current classification of "available for sale" financial instruments has been removed. This was used for the CCLA pooled property fund holdings at both councils, and South's unit trust holdings. These investments will now be classified as "fair value through profit and loss".
11. This re-classification means that changes in fair value of these investments should be charged to the councils' general fund balances. However, a statutory override is in place for five years which means that such changes in value will continue to be reflected in an unusable reserve.
12. Overall, our analysis of these changes suggests there will be minimal effect on either councils' financial statements.

IFRS 15 Revenue from contracts

13. There has been a change in accounting standard IFRS 15 Revenue from contracts with customers. Much of the councils' activity, such as council tax and business rates collection, is outside the scope of this accounting standard. An initial review of other revenue from contracts has suggested there is no need for further action as a result of this change, but the effect of any amendments to services or contractual arrangements will be considered going forward.

Closedown Timetable

14. The draft final accounts deadline is for sign off by the Head of Finance by 31 May 2019. Audited accounts are to be approved by committee and published by 31 July 2019. For practical purposes, a target deadline of Monday 20 May 2019 for first draft of accounts to Head of Finance has been set with a final draft to be provided by the 28 May 2019 for approval in line with the statutory deadline of 31 May 2019.

15. The Capita financial accounting team has timetabled its work around these deadlines. For the team to adhere to the deadlines, parties outside of finance must provide information strictly according to timetabled dates. The crucial deadlines which require support from the council managers and third parties are:

- Year end budget monitoring reports to be reviewed by budget holders and year end accruals and adjustments to be submitted by budget holders by close of play 5 April 2019,
- Pensions liability information from Oxfordshire County Council (expected on 12 April 2019),
- Council tax and business rates information from Capita's revenues and benefits service by 5 April 2019.

16. The timetable and guidance were circulated on 14 March 2019 and a reminder of key deadlines was sent on 22 March 2019.

Financial Implications

17. There are no direct financial implications arising from this report.

Legal Implications

18. Approval of the statement of accounts by the committee in accordance with statutory dates fulfils the requirements of the Accounts and Audit (England) Regulations 2015.

Risks

19. None

Other Implications

20. None

Conclusion

21. Draft 2018/19 accounting policies are attached for approval by the committee.
22. The 2018/19 final accounts closedown has been timetabled in line with the accelerated reporting deadlines and opening work has already started. Critical deadlines have been communicated and must be understood and kept to by all parties to ensure the target delivery dates for the statutory accounts are met.

Statement of accounting policies

(i) General principles

The statement of accounts summarises the council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The council is required to prepare an annual statement of accounts by 31 May 2019 and for the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Council Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under the Accounts and Audit Regulations 2015.

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.

(ii) 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 receipts, 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 - 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 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; and
- 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.

(iii) 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 defined as follows:

- cash and cash equivalents shall include bank overdrafts that are an integral part of the council's cash management;
- cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes; and
- investments that can be liquidated or accessed within 30 days i.e. money market funds, call accounts and deposit accounts with a notice period of 30 days or less.

Equity investments are excluded from the definition.

(iv) Prior period adjustments, changes in accounting policies and estimates and errors

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

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

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

(v) 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; and
- amortisation of intangible fixed assets attributable to the service.

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing required. As at 31 March 2019 this council has no borrowing requirement, so this contribution is not required. Depreciation, revaluation and impairment losses and amortisations are replaced by the contribution in the general fund balance, by way of an adjusting transaction with the capital adjustment account in the MiRS.

(vi) 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 and paid sick leave, bonuses and non-monetary benefits for current employees. They 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 and additional hours earned by employees but not taken as time off before the year-end which employees can carry forward into the next financial year. The accrual is charged to surplus or deficit on the provision of services, but then reversed out through the MiRS so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination benefits

Termination benefits are amounts payable either 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. Such benefits are charged on an accruals basis to relevant service in the CIES when the council is demonstrably committed to the termination of the employment of an officer or group of officers or to making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the general fund balance to be charged with the amount payable by the council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the MiRS, 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.

Post -employment Benefits

Employees of the authority are members of the Local Government Pension Scheme administered by Oxfordshire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions).

The Local Government Pension Scheme (LGPS)

The LGPS is accounted for as a defined benefits scheme:

- The liabilities of the Oxfordshire 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. and projections of projected earnings for current employees;
- Liabilities are discounted to their value at current prices, using a discount rate based on the yield at the 18 year point on the Merrill Lynch AA rated corporate bond yield curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Council's liabilities. This is consistent with the approach used at the last accounting date.
- The assets of Oxfordshire County Council pension fund attributable to the council are included in the balance sheet at their fair value:
 - Quoted securities - current bid price
 - Unquoted 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 CIES to the services for which the employees worked.

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- Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the surplus or deficit on the provision of services in the CIES.
 - net interest on the Net Defined Benefit Liability (NDBL), i.e. net interest for the council – the change during the period in the net defined benefit liability that arises from the passage of time charged to the CIES – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
- the return on scheme assets – excluding amounts included in the NDBL – charged to the pensions reserve as other CIES.
 - 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 reserves as other CIES.
- Contributions paid to the Oxfordshire 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 MiRS this means that there are appropriations to and from the pensions 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 LGPS.

(vii) Events after the balance sheet date

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; and
- 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.

(viii) 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 are carried at their amortised cost. Annual charges to the income and expenditure account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The only financial liabilities the council has are trade creditors.

The council currently has no borrowings and has issued no bonds to bond holders.

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 and Loss (FVPL);
- Fair Value Through Other Comprehensive Income (FVOCI).

The council has no investments measured at FVOCI

Financial instruments measured at amortised cost

Financial instruments 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 CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the 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 CIES is the amount receivable for the year in the loan agreement.

However, if the council has made loans at less than market rates (soft loans), then a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the financing and investment income and expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the balance sheet.

Statutory provisions require that the impact of soft loans on the general fund balance is the interest receivable for the financial year. However, the loss attributable to a loan of less than £20,000 is not material and at the current date the council has no material loans.

Expected credit loss

The council recognises expected credit losses on all of its financial assets held at amortised costs, 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 and loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services except where a statutory override applies in which case they will be recognised in an unusable financial instruments reserve.

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

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

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

Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date,

Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly,

Level 3 inputs – unobservable inputs for the asset.

For instruments where the statutory override applies, changes in fair value are balanced by an entry in the unusable financial instrument reserve and the gain/loss is recognised in the surplus or deficit on revaluation of the assets. The exception is where impairment losses have been incurred - these are debited to the financing and investment income and expenditure line in the CIES, along with any net gain or loss for the asset accumulated in the unusable financial instrument reserve.

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

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the financing and investment income and expenditure line in the CIES, along with any accumulated gains or losses previously recognised in the unusable financial instrument reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

(ix) Foreign currency translation

The council makes a number of small purchases in foreign currency. However the transaction is made at the current prevailing exchange rate, the goods or services are received immediately and, therefore, there are no gains or losses as a result of variances in the exchange rate required to be recorded.

(x) Government grants and contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations, including Community Infrastructure Levy (CIL) contributions, 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 CIES 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 acquired using the grant or contribution are required to be consumed by the recipient as specified. If this is not the case then future economic benefits or service potential must be returned to the transferor.

Monies advanced 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 (non-ring fenced revenue grants and all capital grants) in the CIES.

Where capital grants are credited to the CIES, they are reversed out of the general fund balance in the MiRS. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. When it has been applied, it is posted to the capital adjustment account.

Community Infrastructure Levy

The council has elected to charge a Community Infrastructure levy (CIL). The levy will be charged on new builds (chargeable developments for the authority) 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 CIES 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, a proportion of the charges may be used to fund revenue expenditure.

(xi) 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.

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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 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 CIES. 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 CIES. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the other operating expenditure line in the CIES.

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 MiRS and posted to the capital adjustment account and (for any sale proceeds greater than £10,000) the capital receipts reserve.

(xii) Interests in companies and other entities – jointly controlled operations and jointly controlled assets

The council has no material interests in other companies or entities that have the nature of subsidiaries, associates or jointly controlled entities and there is therefore no requirement to prepare group accounts.

Jointly controlled operations are classified as activities undertaken by the council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. They are items of property, plant or equipment that are jointly controlled by the council and other venturers, with the assets being used to obtain benefits for the venturers. Whilst the council has entered into joint arrangements on the provision of services with other councils, none of the assets of those councils can be said to be under joint control of the councils.

(xiii) Inventories and long term contracts

Inventories are included in the balance sheet at the lower of cost and net realisable value.

Long term contracts are accounted for on the basis of charging the CIES with the value of works and services received under the contract during the financial year.

(xiv) 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, based on the highest and best use value of the asset from the market participants' perspective. Investment

properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the financing and investment income and expenditure line in the CIES. 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 MiRS and posted to the capital adjustment account and (for any sale proceeds greater than £10,000) the capital receipts reserve.

(xv) 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 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 CIES).

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 and revaluation and 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 MiRS for the difference between the two.

Operating leases

Rentals paid under operating leases are charged to the CIES 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.

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 CIES 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 CIES 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 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 CIES).

The gain credited to the CIES on disposal is not permitted by statute to increase the general fund balance and 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 MiRS.

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 a creditor to the other operating expenditure line in the CIES. Credits are made on a straight-line basis over the life of the lease.

(xvi) Overheads and support services

The costs of overheads and support services are charged to services in accordance with the authority's arrangements for accountability and financial performance.

(xvii) 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.

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 council would not capitalise borrowing costs if required to be incurred for assets 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 council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the council.

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 CIES, 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 CIES, they are reversed out of the general fund balance to the capital adjustment account in the MiRS.

Assets are then carried in the balance sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction - depreciated historical cost;
- Surplus assets – fair value, estimated at highest and best use from a market participant's perspective;
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use.

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost 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 CIES where they arise from the reversal of a loss previously charged to a service.

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 the balance on the revaluation reserve is less than the decrease in value the carrying amount of the asset is written down firstly against the balance on the revaluation reserve and the remaining balance against the relevant service line(s) in the CIES;
- where there is no balance in the revaluation reserve the carrying amount of the asset is written down straight to the relevant service line(s) in the CIES.

When assets are formally revalued, the accumulated depreciation and impairment balances are written down. 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 the balance on the revaluation reserve is less than the impairment the carrying amount of the asset is written down firstly against the balance on the revaluation reserve and the remaining balance against the relevant service line(s) in the CIES;
- Where there is no balance in the revaluation reserve the carrying amount of the asset is written down straight to the relevant service line(s) in the CIES.
- Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the CIES, 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:

- Buildings and infrastructure assets – straight line allocation over the useful life of the property as estimated by the valuer;
- Vehicles, plant, furniture and equipment – on a straight line basis, generally over the useful life of the asset.

More detail on depreciation rates for asset categories is included in note 5 to the accounts. 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 to the capital adjustment account.

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 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 CIES. Gains in fair value are recognised only up to the amount of any previous loss 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.

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 CIES 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. Receipts are appropriated to the reserve from the general fund balance in the MiRS.

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 MiRS.

(xviii) 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 benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the CIES when the authority 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 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.

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.

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.

(xix) 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 CIES. The reserve is then appropriated back into the general fund balance in the MiRS 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, local taxation, retirement and employee benefits and do not represent usable resources for the council - these reserves are explained in the relevant note.

(xx) 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 CIES in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources, a transfer in the MiRS 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.

(xxi) 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.

(xxii) Fair Value Measurement

The council measures some of its assets and liabilities at fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The council uses external valuers to provide a valuation of its assets and liabilities in line with the highest and best use definition within the accounting standard. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant.

Inputs to the valuation techniques in respect of the council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority 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.

(xxiii) Council Tax and Non-Domestic Rates (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 (i.e. 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 authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority'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 authority'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 collection fund. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

Statement of accounting policies

(i) General principles

The statement of accounts summarises the council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The council is required to prepare an annual statement of accounts by 31 May 2019 and for the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Council Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under the Accounts and Audit Regulations 2015.

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.

(ii) 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 receipts, 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 - 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 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; and
- 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.

(iii) 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 defined as follows:

- cash and cash equivalents shall include bank overdrafts that are an integral part of the council's cash management;
- cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes; and
- investments that can be liquidated or accessed within 30 days i.e. money market funds, call accounts and deposit accounts with a notice period of 30 days or less.

Equity investments are excluded from the definition.

(iv) Prior period adjustments, changes in accounting policies and estimates and errors

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

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

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

(v) 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; and
- amortisation of intangible fixed assets attributable to the service.

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing required. As at 31 March 2019 this council has no borrowing requirement, so this contribution is not required. Depreciation, revaluation and impairment losses and amortisations are replaced by the contribution in the general fund balance, by way of an adjusting transaction with the capital adjustment account in the MiRS.

(vi) 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 and paid sick leave, bonuses and non-monetary benefits for current employees. They 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 and additional hours earned by employees but not taken as time off before the year-end which employees can carry forward into the next financial year. The accrual is charged to surplus or deficit on the provision of services, but then reversed out through the MiRS so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination benefits

Termination benefits are amounts payable either 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. Such benefits are charged on an accruals basis to relevant service in the CIES when the council is demonstrably committed to the termination of the employment of an officer or group of officers or to making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the general fund balance to be charged with the amount payable by the council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the MiRS, 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.

Post -employment Benefits

Employees of the authority are members of the Local Government Pension Scheme administered by Oxfordshire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions).

The Local Government Pension Scheme (LGPS)

The LGPS is accounted for as a defined benefits scheme:

- The liabilities of the Oxfordshire 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. and projections of projected earnings for current employees;
- Liabilities are discounted to their value at current prices, using a discount rate based on the yield at the 18 year point on the Merrill Lynch AA rated corporate bond yield curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Council's liabilities. This is consistent with the approach used at the last accounting date.
- The assets of Oxfordshire County Council pension fund attributable to the council are included in the balance sheet at their fair value:
 - Quoted securities - current bid price
 - Unquoted 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 CIES to the services for which the employees worked.

- Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the surplus or deficit on the provision of services in the CIES.
- net interest on the Net Defined Benefit Liability (NDBL), i.e. net interest for the council – the change during the period in the net defined benefit liability that arises from the passage of time charged to the CIES – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
 - the return on scheme assets – excluding amounts included in the NDBL – charged to the pensions reserve as other CIES.
 - 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 reserves as other CIES.
- Contributions paid to the Oxfordshire 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 MiRS this means that there are appropriations to and from the pensions 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 LGPS.

(vii) Events after the balance sheet date

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; and
- 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.

(viii) 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 are carried at their amortised cost. Annual charges to the income and expenditure account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The only financial liabilities the council has are trade creditors.

The council currently has no borrowings and has issued no bonds to bond holders.

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 and Loss (FVPL);
- Fair Value Through Other Comprehensive Income (FVOCI).

The council has no investments measured at FVOCI.

Financial instruments measured at amortised cost

Financial instruments measure 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 CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the 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 CIES is the amount receivable for the year in the loan agreement.

However, if the council has made loans at less than market rates (soft loans), then a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the financing and investment income and expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the balance sheet.

Statutory provisions require that the impact of soft loans on the general fund balance is the interest receivable for the financial year. However, the loss attributable to a loan of less than £20,000 is not material and at the current date the council has no material loans.

Expected credit loss

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 and loss

Financial assets that are measured at FVPL are recognised on the balance sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services except where a statutory override applies in which case they will be recognised in an unusable financial instruments reserve.

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

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

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

Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date,

Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly,

Level 3 inputs – unobservable inputs for the asset.

For instruments where the statutory override applies, changes in fair value are balanced by an entry in the unusable reserve financial instrument reserve and the gain/loss is recognised in the surplus or deficit on revaluation of the assets. The exception is where impairment losses have been incurred - these are debited to the financing and investment income and expenditure line in the CIES, along with any net gain or loss for the asset accumulated in the unusable financial instrument reserve.

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

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the financing and investment income and expenditure line in the CIES, along with any accumulated gains or losses previously recognised in the unusable financial instruments reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

(ix) Foreign currency translation

The council makes a number of small purchases in foreign currency. However the transaction is made at the current prevailing exchange rate, the goods or services are received immediately and, therefore, there are no gains or losses as a result of variances in the exchange rate required to be recorded.

(x) Government grants and contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations, including Community Infrastructure Levy (CIL) contributions, 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 CIES 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 acquired using the grant or contribution are required to be consumed by the recipient as specified. If this is not the case then future economic benefits or service potential must be returned to the transferor.

Monies advanced 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 (non-ring fenced revenue grants and all capital grants) in the CIES.

Where capital grants are credited to the CIES, they are reversed out of the general fund balance in the MiRS. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. When it has been applied, it is posted to the capital adjustment account.

Business Improvement Districts

A Business Improvement District (BID) scheme applies to an area within the authority. The scheme is funded by a BID levy paid by non-domestic ratepayers. The authority acts as the billing authority under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant service within the CIES

Community Infrastructure Levy

The council has elected to charge a Community Infrastructure levy (CIL). The levy will be charged on new builds (chargeable developments for the authority) 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 CIES 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, a proportion of the charges may be used to fund revenue expenditure.

(xi) 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 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 CIES. 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 CIES. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the other operating expenditure line in the CIES.

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 MiRS and posted to the capital adjustment account and (for any sale proceeds greater than £10,000) the capital receipts reserve.

(xii) Interests in companies and other entities – jointly controlled operations and jointly controlled assets

The council has no material interests in other companies or entities that have the nature of subsidiaries, associates or jointly controlled entities and there is therefore no requirement to prepare group accounts.

Jointly controlled operations are classified as activities undertaken by the council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. They are items of property, plant or equipment that are jointly controlled by the council and other venturers, with the assets being used to obtain benefits for the venturers. Whilst the council has entered into joint arrangements on the provision of services with other councils, none of the assets of those councils can be said to be under joint control of the councils.

(xiii) Inventories and long term contracts

Inventories are included in the balance sheet at the lower of cost and net realisable value.

Long term contracts are accounted for on the basis of charging the CIES with the value of works and services received under the contract during the financial year.

(xiv) 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, based on the highest and best use value of the asset from the market participants' perspective. Investment properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the financing and investment income and expenditure line in the CIES. 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 MiRS and posted to the capital adjustment account and (for any sale proceeds greater than £10,000) the capital receipts reserve.

(xv) 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 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 CIES).

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 and revaluation and 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 MiRS for the difference between the two.

Operating leases

Rentals paid under operating leases are charged to the CIES 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.

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 CIES 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 CIES 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 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 CIES).

The gain credited to the CIES on disposal is not permitted by statute to increase the general fund balance and 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 MiRS.

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 a creditor to the other operating expenditure line in the CIES. Credits are made on a straight-line basis over the life of the lease.

(xvi) Overheads and support services

The costs of overheads and support services are charged to services in accordance with the authority's arrangements for accountability and financial performance.

(xvii) 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.

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 council would not capitalise borrowing costs if required to be incurred for assets 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 council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the council.

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 CIES, 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 CIES, they are reversed out of the general fund balance to the capital adjustment account in the MiRS.

Assets are then carried in the balance sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction - depreciated historical cost;
- Surplus assets – fair value, estimated at highest and best use from a market participant's perspective;

- All other assets – current value, determined as the amount that would be paid for the asset in its existing use.

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost 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 CIES where they arise from the reversal of a loss previously charged to a service.

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 the balance on the revaluation reserve is less than the decrease in value the carrying amount of the asset is written down firstly against the balance on the revaluation reserve and the remaining balance against the relevant service line(s) in the CIES;
- where there is no balance in the revaluation reserve the carrying amount of the asset is written down straight to the relevant service line(s) in the CIES.

When assets are formally revalued, the accumulated depreciation and impairment balances are written down. 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 the balance on the revaluation reserve is less than the impairment the carrying amount of the asset is written down firstly against the balance on the revaluation reserve and the remaining balance against the relevant service line(s) in the CIES;
- Where there is no balance in the revaluation reserve the carrying amount of the asset is written down straight to the relevant service line(s) in the CIES.

- Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the CIES, 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:

- Buildings and infrastructure assets – straight line allocation over the useful life of the property as estimated by the valuer;
- Vehicles, plant, furniture and equipment – on a straight line basis, generally over the useful life of the asset.

More detail on depreciation rates for asset categories is included in note 5 to the accounts.

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 to the capital adjustment account.

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 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 CIES. Gains in fair value are recognised only up to the amount of any previous loss 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.

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 CIES 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. Receipts are appropriated to the reserve from the general fund balance in the MiRS.

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 MiRS.

(xviii) 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 benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the CIES when the authority 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 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.

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.

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.

(xix) 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 CIES. The reserve is then appropriated back into the general fund balance in the MiRS 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, local taxation, retirement and employee benefits and do not represent usable resources for the council - these reserves are explained in the relevant note.

(xx) 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 CIES in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources, a transfer in the MiRS 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.

(xxi) 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.

(xxii) Fair Value Measurement

The council measures some of its assets and liabilities at fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The council uses external valuers to provide a valuation of its assets and liabilities in line with the highest and best use definition within the accounting standard. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant.

Inputs to the valuation techniques in respect of the council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority 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.

(xxiii) Council Tax and Non-Domestic Rates (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 (i.e. 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 authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority'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 authority'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 collection fund. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.