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GA.43 16/17
Governance & Audit Committee
17 January 2017

Subject: CLOSURE OF ACCOUNTS 2016/17 – ACCOUNTING MATTERS

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Report by:	Tracey Bircumshaw
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Purpose / Summary:	To review and approve the accounting policies actuary assumptions and materiality levels that will be used for the preparation of the 2016/17 accounts.

RECOMMENDATION(S):

1. Members are recommended to approve the proposed Accounting Policies (as included at Appendix 1)
2. Members consider and make comment on the Actuary's Report and pension assumptions (as included at Appendix 2, 3)
3. Members are recommended to approve the proposed materiality levels as included at section 4 including the revisions detailed at 4.7.
4. Members consider and make comment on the risk assessment (at Appendix 4)
5. Members consider and make comment on the key closedown dates at Section 6.

6. Members should accept the main accounting changes for 2016/17 and onwards as shown at section 7.

7. That members accept that in future years due to the earlier deadline the the Unaudited Statement of Accounts will be circulated **after** issue by the S151 Officer.

IMPLICATIONS

Legal: None arising as a result of this report.

Financial FIN/85/17: None directly from this report. However, the accounting policies and actuarial assumptions used for the accounts will have an impact on the amounts contained within the Statement of Accounts for 2016/17. The levels of materiality set will have minimal impact.

Staffing: None arising as a result of this report.

Equality and Diversity including Human Rights: None arising as a result of this report.

Risk Assessment: There is a risk of material errors should incorrect accounting policies be applied or if the actuary uses wildly inaccurate assumptions. An assessment of all risks is attached at Appendix 5.

Climate Related Risks and Opportunities: None arising as a result of this report.

Title and Location of any Background Papers used in the preparation of this report: No background papers were used in the preparation of this report.

Call in and Urgency:

Is the decision one which Rule 14 of the Scrutiny Procedure Rules apply?

Yes		**No**	**x**

Key Decision:

Yes		**No**	**x**

1.0 Background

1.1 The Council is required to produce, by 30th June annually, a Statement of Accounts that draws together all the financial statements for the accounts for the previous financial year.

1.2 In producing the Statement of Accounts the Council follows the CIPFA Code of Practice on Local Authority Accounting 2016/17 (the Code).

1.3 The Council is required to ensure that the Statement of Accounts provides a true and fair view of the financial positon, financial performance and cash flows of the authority. A true and fair presentation requires a faithful representation of the effects of transactions, other events and conditions in accordance with the definitions criteria for assets and liabilities, income and expenses set out in the Code. Compliance with the Code will therefore meet this requirement.

1.4 This report is asking for Members to review a number of matters such as accounting policies, materiality and actuarial assumptions (used for determining the pensions estimates) that will be used for drawing up the financial statements for the year. This review then forms part of the scrutiny process for the Statement of Accounts 2016/17.

2. Accounting Policies

2.1 The proposed accounting policies are as detailed at Appendix 1. These have been reviewed to ensure that they reflect the requirements of the latest Code and that they are still appropriate, accurately reflect what has occurred during the year and have been consistently applied.

2.2 The recommended policies are closely aligned to the model accounting policies as included within the Code guidance.

2.3 Members should note only material accounting policies will be included within the Statement of Accounts.

2.4 The following changes of accounting policies have been made since the production of the 2015/16 financial statements:

- The addition of a policy for heritage assets since a number of assets have recently been identified and reclassified as heritage assets this includes the Civic chains and War Memorial.

3.0 Actuarial Report and Assumptions

3.1 The Councils pension scheme is administered by Lincolnshire Council with pension contributions included in the county wide pension fund.

3.2 The County Council uses Hymans as the actuary for assessing the year end assets and liabilities of the pension fund and the use of these assumptions determines the estimates of its share of the pension fund that the Council is required to reflect within its accounts.

3.3 The actuary also does a formal valuation of the pension fund every three years, with 2016 being the valuation year. The purpose of the review is to:

- calculate the Councils funding position within the fund
- determine the contributions that the Council will pay from April 2017 to March 2020.

The valuation report and its assumptions are included at Appendix 2 and the results for this Council are attached at Appendix 3. However, a further report will be due from the actuary for the valuation as at the 31 March 2016 position

3.4 The results of the review require an increase in the annual cash sum but this will be offset by a reduction in the employer's percentage contributions rate to 16.2% for each of the next three financial years. The Medium Term Financial Plan percentage contribution rates had been estimated at 18.1% for 2017/18, 19.1% for 2018/19 and 20.1% for 2019/20. The overall impact on the Councils MTFP budget can therefore be summarised as follows:

Pressure/(Savings) on MTFP 2017/18 to 2021/22					
	Actual 2017/18 £	**Actual 2018/19 £**	**Actual 2019/20 £**	**Estimate 2020/21 £**	**Estimate 2021/22 £**
Pension deficit contributions-cumulative	86,400	140,900	197,500	263,200	363,200
annual impact for budget model	*86,400*	*54,500*	*56,600*	*65,700*	*100,000*
Superan % Rate-cumulative £	(105,800)	(162,200)	(220,600)	(280,800)	(280,800)
annual impact for budget model	*(105,800)*	*(56,400)*	*(58,400)*	*(60,200)*	*0*
Total (Saving)/Cost	**(19,400)**	**(21,300)**	**(23,100)**	**(17,600)**	**82,400**

3.5 The pension values are comparatively large when taken in the context of the Councils overall budget and spend levels, so any assumptions used for these values will inevitably have a major impact on the Councils accounts, albeit this is a long term liability which is projected to be funded within 20 years. It is right therefore that they should receive special scrutiny.

3.6 Although the assumptions have been determined by Hymans, ultimately it is the Council that is responsible for ensuring that any assumptions used are accurate and will lead to the best estimates possible for use in the accounts for 2016/17.

3.7 The actuarial assumptions report as provided by Hymans has yet to be received. However we will consider if these assumptions are appropriate having regard to local circumstances. Matters that could impact on any assumptions used usually relate to proposals that may have a major impact on the future makeup of the workforce, such as pay increases in excess of 3% or outsourcing more than 5% of the workforce.

3.8 At this point in time there are no known proposals in the near future that could impact and therefore it is not recommended that the actuary’s assumptions are challenged.

3.9 Estimated values of contributions and deficit reduction payments are submitted to the Actuary to take into account when calculating the final IAS19 report for inclusion within the Accounts.

4.0 Materiality Levels for 2016/17

4.1 Members may be aware of the earlier closedown requirement from next year i.e. for the closure of the 2017/18 accounts. In readiness for that, Members should consider approving materiality levels that will be applied as part of the closedown process with the expectation that these will greatly assist with speeding up the closedown process and meeting the new statutory deadline of 31 May 2018.

4.2 Information is said to be material if omitting it or misstating it could influence decisions that users make on the basis of an entity's financial statements. There are no set materiality levels and each organisation needs to set levels having regard to the size and any special circumstances of the organisation.

- Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and

- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

4.3 Materiality is an amount that makes a difference to the users- an audit never provides 100% assurance- only “reasonable assurance." For instance, if a company has overstated its revenues by £5 million when its total revenues are £4 billion, then this £5 million is considered 'immaterial.' However, if the company's total revenues are only £50 million, then this £5 million overstatement would be considered 'Material."

4.4 External Audit set a materiality level for the Council of around £600,000 for 2015/16 and amounts less than £30,000 were considered trivial (ie not significant)

4.5 The financial effect of applying these materiality levels cannot be accurately assessed since some could result in a revenue budget underspend and some could result in a revenue budget overspend. There will be equal and opposite under and over spends in the following financial year.

4.6 In order to meet the very tight statutory deadline there is a fine balance to strike between having absolute accuracy and accepting that there may be minor adjustments to make as part of the audit which would be included in the ISA260 Audit Report. Overall, it would be worth accepting the risk of small under/overspends year on year and possible minor audit adjustments to the accounts since they will not materially affect the Councils overall financial position or the financial statements that will still show “a true and fair view”.

4.7 The following levels of materiality are therefore suggested for particular classes of transactions, account balances or disclosures:

1. Disclosure of material items of income and expenditure (Note 5) £750,000 being ½% of total revenue (reduced from £1m)
2. Manual Accruals - limit of £2,000 (increased from £1,000)
3. Disclosures - £750,000 (reduced from £1m)
4. 5% of income for continuing operations
5. Related party transactions increase from £2,000k to £10,000k
6. Stocks – anything less than £10,000 is charged to revenue in year

7. Fixed assets (Property, Plant & Equipment) – Major components £500,000. Only assets with a value greater than £500,000 will be subject to the componentisation rules as per our policy.

4.8 The Council has for some years in place a capital de minimis level of £10k (i.e. all sums below this value are treated as revenue) and it is proposed that this sum remain unchanged.

5.0 Risk Assessment

5.1 An assessment of the risks associated with closing the Councils accounts and producing the Financial Statements has identified a number of risks. The assessment is attached at Appendix 5.

5.2 Each risk has been scored in terms of the likelihood that the event will happen and the severity of the impact if the event happens. Multiplying these two scores together then gives the calculated risk severity. A traffic light colouring system is used to highlight the level of severity.

5.2 These risks are then scored again after applying any actions to be taken to mitigate the risk.

5.3 Members should note that after applying the planned mitigation the majority of risks are coloured green (low risk) with only one risk having an amber rating and no risks identified as being high (red).

6.0 Key Closedown Timetable

6.1 In order to achieve the earlier closedown for the 2017/18 accounts, officers have been working hard over the last two years to reduce the length of time to achieve tasks and also to bring forward the deadlines.

6.2 Tasks and work practices have been reviewed to take on board both accounting changes and the need to streamline/reduce workload and work more efficiently.

6.3 For last year’s closedown the timetable was revised to test if we could achieve the 31 May deadline. The actual achievement was the deadline was exceeded by 17 days. This has enabled us to see where we need to focus our efforts and resources going forward.

6.4 A detailed timetable is produced (with some 230+ tasks) for officers' use that not only produces the Statement of Accounts but is also used to produce the working papers as required by the Councils external auditors.

6.5 Within the detailed timetable there are certain key dates that represent those key milestones that we need to focus on achieving.

6.6 The following table shows those key tasks and dates for the 2016/17 closedown process.

TASK	Key Dates
Planning and Preparation	1.11.2016 - 31.12.2016
KPMG Audit Liaison Meeting (TBC)	16.11.2016
Balance Sheet Review at 30.12.2016	31.1.2017
Finance Team Closedown Briefing	6.1.2017
Interim Audit (TBC)	13.3.2017
Budget Managers/SLT Briefings/Training	18.1.2017
Report to G&A Committee – Accounts Closedown Matters	17.1.2017
Narrative Report draft	31.3.2017
Close the period 12	1.4.2017
Accruals/Prepayments input to system	7.4.2017
All Accounts Closed	**30.4.2017**
Balance Sheet and CIES completed	2.5.2017
Statement of Accounts completed	24.5.2017
Review of Statement of Accounts	30.5.2017
Authorised for Issue by S151 Officer	**31.5.2017**
Send Statement of Accounts to Auditors	31.5.2017
Out-turn position Report to CP&R	15.6.2017
Audit of Accounts (TBC)	20.6.2017(tbc)
Unaudited Statement of Accounts to Audit and Governance Committee	20.6.2017
WGA (subject to date of issue)	31.5.2017
G&A Approval of Statement of Accounts and AGS	14.9.2017
Publish Statement of Accounts on website and issue notice	**30.9.2017**

7.0 Accounting Changes 2016/17

7.1 There are a number of accounting changes that will affect the 2016/17 Statement of Accounts and onwards with the majority being minor and having little significance to Members. However, as a result of the "Telling the Story" review of the presentation of local authority financial statements there are a number of major changes.

7.2 For Members reading the annual financial statements, the most important issue will be whether the Council has a surplus or deficit on General Fund balances against what it expected in the budget. This was difficult to determine from the Consolidated Income and Expenditure Statement.

7.3 Additionally, the service reporting within the Consolidated Income and Expenditure statement does not reflect the Councils budget setting or financial monitoring formats.

7.4 The new changes to the financial statements should enable Councils to demonstrate performance in a way in which they organise themselves and more importantly how they budget against the General Fund to provide services. We are currently in discussion with our Auditors in relation to these new statements as their prescribed format is not reflective of how we currently report to Members.

8.0 2017/18 Statutory Deadline (moved to 31 May 2018 and Audited by 31 July 2018)

8.1 Due to new statutory deadlines for the 2017/18 Statement of Accounts, it will no longer be possible to report to the Governance and Audit Committee prior to authorisation for issue of the unaudited statements by the Director of Resources (Chief Finance Officer S151). They will however, be issued to Members of the Governance and Audit Committee at the earliest opportunity.

APPENDIX 1

1 ACCOUNTING POLICIES

i General Principles

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (The Code) and the *Service Reporting Code of Practice 2016/17*, supported by the International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the Local Government Act 2003.

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

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption 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. Expenses incurred, which relate to employees, are not accrued for as they are considered to be relatively stable year on year and omitting them would not result in a material error

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

- Where income 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 **Acquired Operations**

All operations acquired in year will be treated in line with the Council's accounting policies and if material disclosed separately on the face of the Comprehensive Income and Expenditure Statement.

iv ***Cash and Cash Equivalents***

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

v ***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 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.

vi ***Charges to Revenues for Non-Current Assets***

Services and support services are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service

- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off

- amortisation of intangible fixed assets attributable to the relevant 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 requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance.

The Council has assessed the Minimum Revenue Provision (MRP) in accordance with the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. Any charge in 2016/17 relates to the Council's current credit arrangements for Finance Leases for which the outstanding liabilities are repaid over the term of the agreement.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Vii Council Tax and Non-Domestic Rates

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 (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.

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

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

viii Employee Benefits

The Council accounts for employment and post-employment benefits when employees earn them and the Council is committed to providing them, even if the actual provision might be many years into the future. Employee benefits are accounted for in the following four categories:

a) ***Benefits Payable During Employment***

Short-term employee benefits are those due to be settled wholly within twelve months of the Balance Sheet date and include, wages, salaries, social security contributions, paid annual leave and paid sick leave, bonuses and non-monetary benefits, and similar payments and are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the holiday entitlements (or any form of leave, eg time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

b) ***Termination Benefits***

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line (or in discontinued operations) in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

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

c) ***Post – Employment Benefits***

Employees of the Council are eligible to be members of the Local Government Pension Scheme (LGPS), administered by Lincolnshire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

d) ***The Local Government Pension Scheme***

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

- Liabilities of the Lincolnshire 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 of x% (determined by reference to market yields at the end of the reporting period on high quality corporate bonds (iBoxx AA over 15 year index).

- The assets of the Lincolnshire Pension Fund attributable to the Council are included in the Balance Sheet at fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value

The assessment process takes the most recent triennial actuarial valuation and updates it to reflect current conditions.

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

Service cost comprising:

Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

Past Service Costs – the increase in liabilities as a result of a scheme amendment or a decision whose effect relates to years of service earned in earlier years (curtailment) – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

Net Interest – on the net defined benefit liability/asset, i.e. net interest expense for the Council – the change during the period in the net defined benefit liability/asset that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/asset at the beginning of the period taking into account any changes in the net defined benefit liability/asset during the period as a result of contribution and benefit payments.

Remeasurement comprising:

Return on scheme assets – excluding amounts included in net interest on the net defined benefit liability/asset – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Actuarial gains and losses - changes in net pension 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 Pension Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the Lincolnshire CC Pension Fund

Cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Further information can be found in the Lincolnshire Local Government Pension Fund Annual Report. Which is available from:

The Resources Directorate
Lincolnshire County Council,

County Offices
Newland,
Lincoln, LN1 1YG

ix Events after the Reporting Period

Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are authorised for issue. Two types of events can be identified:

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

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

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

x 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 Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

The Council currently has no borrowing.

Financial liabilities are classified into two types:

- amortised cost – liabilities that are not held for trading, such as operational creditors and borrowings; and

- fair value through profit or loss – liabilities held for trading.

The Council currently only has liabilities carried at amortised cost relating to Finance Leases, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the lease agreement.

Financial Assets

Financial assets are classified into two types;

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and

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

Loans and receivables

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

Where assets are impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

Available for Sale Assets

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

Where the asset has fixed or determinable payments, annual credits to the Financing and Investing Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument.

Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.
Assets are maintained in the Balance Sheet at fair value. Values are based on the following

principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

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

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

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

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

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

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

xi Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xii Government Grants and Contributions

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

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

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

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

xiii Heritage Assets-General

The council holds two heritage assets, Civic Regalia and the Cenotaph

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

- Civic Regalia
  These items are reported in the Balance Sheet at insurance valuation which is based on market values. These insurance valuations are updated on an annual basis. These items are deemed to have indeterminate lives and a high residual value; hence the authority does not consider it appropriate to charge depreciation. The collection is static and acquistions and donations would not occur.
- Cenotaph
  The authority does not consider that reliable cost or valuation information can be obtained for this item. This is because of the lack of comparable market values. Consequently the council does not recognise this asset on the balance sheet

The carrying amount of heritage assets are reviewed where there is evidence of impairment for heritage assets, eg where an item has suffered physical deterioration or breakage or where doubts arise as to it's authenticity. Any impairment is recognised and measured in accordance with the council's general policies on impairment – (see Accounting Policy xx Property Plant and Equipment) in this summary of significant accounting policies. The council will occasionally dispose of heritage assets. The proceeds of such items are accounted for in accordance with the council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts – see note xx in this summary of significant accounting policies

xiv 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 (eg software licences, rights to use land) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council. All such expenditure is accounted for on an accruals basis and capitalised as a non-current asset.

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 Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Xv Inventories and long-term contracts

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

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

xvi Investment Properties

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

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

xvii Joint Operations

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

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly

xviii 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 Comprehensive Income and Expenditure Statement).

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

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation 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 Movement in Reserves Statement for the difference between the two.

Operating Leases

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

The Council as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element of 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 fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

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

xix *Overheads and Support Services*

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the Council's arrangements for accounting and accountability. They are based on the total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.

Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale, or unused IT/property costs.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

xx *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 possible 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 assets potential to deliver future economic benefits or service potential (e.g. 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 initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the 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 Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- infrastructure assets, community assets and assets under construction – depreciated historical cost
- surplus assets - the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- all other assets –current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

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

Assets included in the Balance Sheet at current value are re valued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. 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 there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

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

Impairment

Assets are assessed at each year–end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

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

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives commencing in the first full year that the asset is included in the Council’s accounts. An exception is made for assets without a determinable useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings– straight line allocation over the life of the property as estimated by the valuer with the exception of a number of leased shops, where the remaining term of the lease has been used

- Vehicles, plant and equipment – straight line allocation over the life of the asset, as advised by a suitably qualified officer

- Infrastructure – straight line allocation.

Asset Useful Economic Lives assumed

Assets	Useful Life Range (years)
Offices/Leisure Centre	**20 to 60**
Depots and Stores	**50**
Shops	**50**
Public Conveniences	**41**
CCTV system/IT Equipment/Wheeled Bins/Office Equipment	**1 to 15**
Vehicles/Bin Lifters	**1 to 6**
Infrastructure Assets	**22 to 33**
Dwellings	**44 to 46**

Where an item PPE asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Materiality levels have been assessed and a materiality level of £0.5m for major components has been applied.

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 Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the 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 and credited to the Capital Receipts Reserve. The balance on the Capital Receipts Reserve can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Xxi 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. For instance the Council may be involved in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

Where some or all of the payment required to settle a provision is expected to be recovered from another party, 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 when an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the 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 authority a possible asset whose existence will only be confirmed only 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.

xxii Reserves

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

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

xxiii Revenue Expenditure Funded From Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but 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 or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

xxiv *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.

Xxv *Fair Value Measurement*

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

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

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

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

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

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