

# NORTHUMBERLAND

Northumberland County Council

## AUDIT COMMITTEE

24 January 2018

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Northumberland County Council – Statement of Accounts 2017-18

Report of Alison Elsdon Director of Finance

Cabinet Member: Councillor Nicholas Oliver – Portfolio Holder for Corporate Services

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### Purpose of the Report

The purpose of this report is to provide the Audit Committee with:

- an overview of the changes to the timetable for publishing the 2017-18 Statement of Accounts and reporting to Audit Committee;
- the Accounting Policies to be adopted; and,
- an update regarding the anticipated outturn position for the Council.

### Recommendations

**It is recommended that the Members of the Audit Committee:**

- **Note the changes to the timetable for publishing the 2017-18 Statement of Accounts and the reporting to Audit Committee.**
- **Agree the Accounting Policies to be adopted for the 2017-18 Statement of Accounts**
- **Note the anticipated outturn position for the Council and the anticipated movement on reserves and provisions.**

### Key Issues

The Statement of Accounts for 2017-18 is the first year where the statutory timescales have moved. The date for publishing the draft Statement of Accounts is now 31 May 2018 and the final audited Statement of Accounts needs to be published on or before 31 July 2018. This requires changes to the dates when reports are presented to the Audit Committee. In addition it is proposed to hold a workshop for Audit Committee members in June 2018 to review the draft Statement of Accounts.

The Accounting Policies that will be adopted for the 2017-18 Statement of Accounts are required to be approved annually. No significant changes are proposed to those policies adopted in producing the 2016-17 Statements.

The forecast outturn position for the Council is showing that there will be a net contribution to general reserves of £15.20 million.

Overall reserves and provisions are expected to increase from £213.53 million to £214 .00 million.

## **BACKGROUND**

1. The Accounts and Audit Regulations 2015 contain a key change to the timetable for the production of Local Authority Accounts. From the 2017-18 financial year the timetable for the preparation and approval of accounts has been brought forward. Draft accounts must be published by 31 May (previously 30 June) and final audited accounts published by 31 July (previously 30 September). The Government believes that this change will reduce the burden of the closure process, enabling finance staff to give more time to in-year financial management.
2. The Council has been working towards this new deadline in the previous two financial years and has worked closely with the Council's External Auditors to prepare and plan in order to achieve the earlier deadlines.
3. A key area of change will be reporting to the Audit Committee. Previously the draft Statement of Accounts has been presented to Audit Committee in July, recommending that the Audit Committee note the key issues. The final Statement of Accounts has been presented in September.
4. In future it is proposed to move away from presenting the draft accounts to Audit Committee. Regulations do not require Member 'approval' of the draft accounts. It is proposed that the following process takes place annually:
  - **January Audit Committee**  
Approve accounting policies.  
Receive update with anticipated outturn position and any key transactions.
  - **March Audit Committee**  
Approve Annual Governance Statement.
  - **June – Workshop for Audit Committee Members**  
Corporate Finance staff will deliver a workshop for members of the Audit Committee to run through the draft Statement of Accounts and highlight any key issues.

- **July Audit Committee**

Receive a report with the Accounts for approval. The accounts will have been subject to audit, and the auditor's report will be available to read alongside the financial statements.

## **ACCOUNTING POLICIES**

1. The Accounts and Audit (England) Regulations 2015 require the Council to prepare an Annual Statement of Accounts in accordance with proper practices. The Accounting Policies that are proposed to be adopted for the Statement of Accounts for the 2017-18 financial year are shown within Appendix A. There have been no significant changes to the policies which were used for producing the 2016-17 Statements.
2. Members of the Audit Committee are requested to approve the Accounting Policies as shown within Appendix A.

## **ANTICIPATED OUTTURN POSITION**

### **Income and Expenditure**

3. In February 2017 the Council set its 2017-18 budget and identified savings of £6.00 million which avoided the need to draw on the Council's reserves. The projected outturn for the Council is that there will be a net contribution to general reserves of £15.20 million. The main reasons for the forecast underspend is a forecast underspend of £12.30 million from the general contingency and £2.90 million from other service areas.

The projected net underspend is reflected within the General Fund balance shown below:

	<b>£m</b>
Balance as at 1 April 2017	53.04
Estimated Balance as at 31 March 2018	68.24
<b>2017-18 Estimated Movement on the General Fund</b>	<b>15.20</b>

### **Reserves and Provisions**

4. Details of the anticipated movement in reserves and provisions are contained within Appendix B. Overall total reserves and provisions are expected to increase by £0.47 million to £214.00 million.

Earmarked General Fund reserves are anticipated to reduce from £100.59 million to £85.22 million. The key anticipated movements are:

- Balances held by schools – estimated reduction of £3.12 million mainly due to significant financial pressure on schools requiring them to utilise their balances held in reserve.

- Estates Rationalisation – estimated reduction of £3.70 million partly following a review of the future requirement from the reserve and anticipated spending during the year.
- Invest to save reserve – estimated reduction of £2.09 million through expenditure during the year.
- Section 106 reserve – estimated reduction of £2.14 million as a large part of the reserve is committed to affordable housing schemes throughout the County.
- Strategic Management Reserve – estimated reduction of £2.81 million partly due to an increase of £1.2 million following an in year review of all reserves and the planned transfer of £4.04 million in relation to the prior year's collection fund surplus.
- Collingwood Manor Affordable Housing Contribution (S106) – estimated reduction of £1.20 million for expenditure on affordable housing schemes.

Provisions are estimated to move from £13.57 million to £11.73 million. The key anticipated movements are:

- Unequal Pay Back Pay – estimated reduction of £0.99 million on the assumption that the HMRC liability is settled during the 2017-18 financial year.

## IMPLICATIONS ARISING OUT OF THE REPORT

<b>Policy:</b>	None.
<b>Finance and value for money:</b>	The Statement of Accounts summarises the financial performance of the Council for the 2017-18 financial year.
<b>Human Resources:</b>	None.
<b>Legal:</b>	None.
<b>Procurement:</b>	None.
<b>Property:</b>	None.
<b>Equalities:</b>	None.
<b>Risk Assessment:</b>	The risks within the preparation of the Statement of Accounts are well managed through the embedded processes in place.
<b>Crime &amp; Disorder:</b>	None.
<b>Customer Considerations:</b>	None.
<b>Carbon Reduction:</b>	None.
<b>Consultation:</b>	Portfolio Holder for Corporate Services.
<b>Wards:</b>	All.

### Background Papers:

Northumberland County Council Statement of Accounts 2016-17

### Report sign off:

Finance	Alison Elsdon
Chief Executive	Daljit Lally
Portfolio Holder	Nick Oliver

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### Accounting Policies to be adopted for the Statement of Accounts 2017-18

#### 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2017-18 financial year and its position at the year-end of 31 March 2018. The Accounts and Audit (England) Regulations 2015 require the Council to prepare an Annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 and the Service Reporting Code of Practice 2017-18, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is, principally, historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. Other than the Cash Flow Statement, the core statements are prepared on an accruals basis. Income and expenditure is recognised in the accounts in the period in which it is earned or incurred not as the cash is received or paid.

The Code requires that a Local Authority's Statement of Accounts are prepared on a Going Concern basis. This means that the accounts are prepared based on the assumption that the Authority will continue in operational existence for the foreseeable future.

#### 2. 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.

- Interest receivable on investments and payable on borrowings are accounted for respectively on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

The only exception to the adoption of accruals relates to accounting for income and expenditure by those schools that do not use the full functionality of the Council's finance systems and therefore account on a cash basis. This exception does not have a material impact on the accounts.

Where the Council is acting as an agent for another party (e.g. in the collection of National Non-Domestic Rates), income and expenditure are recognised only to the extent that commission is receivable by the Council for the agency services rendered or the Council incurs expenses directly on its own behalf in rendering the services.

### **3. Exceptional Items**

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the financial statements, depending on how significant the items are to aid an understanding of the Council's financial performance.

### **4. 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 three months or less from the date of acquisition and 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.

### **5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policy 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.

## **6. 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 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 service.

The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue to contribute 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. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction. This is shown within the Capital Adjustment Account and the Movement in Reserves Statement for the difference between the two.

## **7. Employee Benefits**

### **Benefits Payable during Employment**

Short-term employee benefits (those that fall due wholly within 12 months of the year-end), such as wages and salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, are recognised as an expense in the year in which employees render service to the Council. An accrual is made against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable at the 31<sup>st</sup> March. Any accrual made is charged to the 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.

#### 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 appropriate service 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 termination benefits related to pensions 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

The Council operates nine pension schemes:

- **The Local Government Pension Scheme (LGPS)** administered by Northumberland County Council.
- **The LGPS Unfunded Scheme** administered by Northumberland County Council.
- **The Teachers' Unfunded Scheme** administered by Northumberland County Council.
- **The Firefighters' Pension Scheme (FPS)** administered by Northumberland County Council.
- **The New Firefighters' Pension Scheme (NFPS)** administered by Northumberland County Council.
- **The 2015 Firefighters' Pension Scheme** administered by Northumberland County Council.
- **The Firefighters' Injury Pensions and non-scheme III-Health Pensions** administered by Northumberland County Council.
- **Teachers' Pension Scheme** administered by the Teachers' Pensions Agency.
- **The NHS Pension Scheme** administered by NHS Pensions.

All of the schemes provide members with defined benefits, earned as employees working for the Council.

However, the arrangements for the Teachers' and NHS Pension Schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payment of benefits is recognised in the Balance Sheet. The relevant service lines in the Comprehensive Income and Expenditure Statement are charged with the employer's contributions payable to these schemes in the year.

The other seven schemes are accounted for as defined benefit schemes:

- The liabilities of these seven schemes attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit credit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, and former employees, based on assumptions about mortality rates, commutation rates, and projected earnings for current employees, etc.
- Liabilities are discounted to their current value, using the appropriate discount rate (based on the rate of return on high quality corporate bonds).
- The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities at current bid price
  - unquoted securities at professional estimate
  - unitised securities at current bid price
  - property at market value.
- The change in the Net Pensions Liability is analysed into the following components:

Component	Description
<i>Service cost comprising:</i>	
Current service cost	The increase in liabilities as a result of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
Past service cost	The increase in liabilities arising as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.
Net interest on the net defined benefit liability (asset), i.e. net interest expense for the authority	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

Component	Description
	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.
<b>Remeasurement comprising:</b>	
Return on plan assets	Excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
Actuarial gains and losses	Changes in the Net Pensions Liability that arise because of changes in the actuarial assumptions from the previous year – charged to the Pensions Reserve as Other Comprehensive income and Expenditure.
Contributions paid to the pension fund	Cash paid as employer's contributions to the pension fund in settlement of liabilities – not accounted for as an expense.

Statutory provisions require the General Fund Balance to be charged with the amount payable by the Council in the year not the amount calculated in accordance with relevant accounting standards. There are appropriations to and from the Pensions Reserve in the Movement in Reserves Statement to remove the notional debits and credits for retirement benefits and replace them with debits for the employer contributions paid or payable in the year. 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.

## 8. Events after the Reporting Period

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

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

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

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

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over either the term of the replacement loan or the remaining term on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### Financial Assets

Financial assets are classified into two types:

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

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

### Loans and Receivables

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

However, the Council has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be forgone 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 Comprehensive Income and Expenditure Statement 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 – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

Any gains and losses that arise on the de-recognition of an asset are credited/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 Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

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.

Changes in fair value are balanced by an entry in the Available-for-Sale Financial Instruments Reserve and the gain or loss is recognised in the Surplus or Deficit on the Revaluation of Available-for-Sale Financial Assets line in the Comprehensive Income and Expenditure Statement. 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/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 due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains/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).

#### **10. 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 recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

#### **11. 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 attaching 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 and contributions for which conditions have not been satisfied are carried in the Balance Sheet as Revenue Grants Receipts in Advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital



Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

## **12. Heritage Assets**

### **Tangible and Intangible Heritage Assets (described here as “Heritage Assets”)**

The Council’s Heritage Assets are held with the aim of increasing the knowledge, understanding and appreciation of the Council’s history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council’s accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The accounting policies in relation to heritage assets that are deemed to include elements of intangible heritage assets are also presented below. The Council’s collections of heritage assets are accounted for as follows.

#### **Museum, Art and Artefact Collection**

- The Council’s museum and art collections are reported on the Balance Sheet on the basis of their insurance valuations. These valuations are periodically reviewed.
- The Council does not consider it appropriate to charge depreciation on the assets as they have high residual values and indeterminate lives.
- The collection is relatively static and acquisitions and donations are rare. Where these do occur, acquisitions are initially recognised at cost and donations are recognised at valuation.

#### **Public Sculptures and Memorials**

- The Council considers that obtaining valuations for the vast majority of Public Sculptures & Memorials would involve a disproportionate cost in comparison to the benefits to the users of the Council’s financial statements. This is because of the nature of the assets held and the lack of comparable values. Other than the recently acquired public art, which is held at cost, the Council does not recognise these heritage assets on the Balance Sheet.
- These assets have indeterminate lives hence the Council does not consider it appropriate to charge depreciation.

#### **Historic Buildings**

- Similar to community assets, the Council considers that obtaining valuations for this type of asset would involve a disproportionate cost in comparison to the benefits to the users of the Council’s financial statements. The Council holds this class of asset at cost on the Balance Sheet.



### Archaeology

- The Council does not consider that reliable cost or valuation information can be obtained for archaeological assets. This is because of the diverse nature of the assets held and lack of comparable market values. Consequently, the Council does not recognise these assets on the balance sheet.
- The Council's acquisitions principally relate to previously donated assets. The Council does not make any purchases of archaeological items.

### Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment. Heritage assets which have a doubtful provenance or are unsuitable for public display may be disposed of. 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.

### 13. 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) are 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 restricted to that incurred during the development phase (research expenditure is not 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. 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.

#### **14. Interests in Companies and Other Entities**

The Council has material interests in companies that have the nature of subsidiaries and is required to prepare group accounts. In the Council's own single entity accounts the interests are recorded as financial assets at cost, less any provision for losses. In preparing the Group accounts, the following have been applied:

- All relationships within the scope of the Group accounts have been assessed;
- Transactions between the Council and its subsidiaries have been eliminated from the Group statement of accounts and accompanying notes; and,
- The financial statements of the subsidiaries are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 The Financial Reporting standard and this may give rise to difference in accounting treatment. Where material differences are identified, the subsidiary accounts are aligned to the accounting policy of the Council upon consolidation.

#### **15. Inventories**

Inventories are included in the Balance Sheet at current replacement cost.

#### **16. Investment Properties**

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged

between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income 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 and Expenditure 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.

## **17. 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 years 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 provision is made from revenue towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore replaced by revenue provision in the General Fund Balance, by way of an adjusting transaction within 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 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 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 will be required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are 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.

#### **18. Overheads and Support Services**

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

#### **19. 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. For General Fund items of property, plant and equipment, a de minimis level of £10,000 is applied below which expenditure is charged directly to the Comprehensive Income and Expenditure Statement as it is incurred.

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost;

- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);
- surplus assets - current value, determined using the fair value approach by the measurement of the highest and best use value.
- all other assets – current value, determined using the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

Where increases in value are identified, the increase is accounted for either by:

- Matching the increase with a credit to the Revaluation Reserve to recognise unrealised gains; or,
- where the increase reverses a revaluation decrease on the same asset that was charged to the Comprehensive Income and Expenditure Statement, the revaluation gain is credited to the Comprehensive Income and Expenditure Statement up to the amount of the previously recognised loss, net of depreciation that would have been charged had the loss not been recognised.

Where decreases in value are identified, the revaluation loss is accounted for by:

- first of all writing down the carrying amount of the asset against any balance of revaluation gains for the asset, held in the Revaluation Reserve, then;
- writing down any remaining carrying amount balance against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

#### Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the



asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

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

- first of all writing down the carrying amount of the asset against any balance of revaluation gains for the asset, held in the Revaluation Reserve, then;
- writing down any remaining carrying amount balance against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

#### **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.

Subsequent decreases in fair value less costs to sell are charged directly to the Comprehensive Income and Expenditure Account. Gains in fair value are only recognised to the extent that they reverse a loss previously recognised in the surplus or deficit on provision of services. No depreciation is charged on assets held for sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified as non-current assets and valued at the lower of either:

- their carrying amount before classification as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, or,
- their recoverable amount at the date of the decision not to sell.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for



the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

### 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).

It is the view of management that depreciation on Council dwellings within the Housing Revenue Account is equivalent to the Major Repairs Allowance received in year.

The depreciation charge is applied on a straight line basis over the following periods:

Asset	Depreciation Period
Land & Buildings & Community Assets (after deducting residual value)	10 to 45 years (as determined by the valuation officers)
<b>Infrastructure:</b>	
Other	40 years
Surface Dressing	10 years
<b>Vehicles, Plant and Equipment:</b>	
CCTV equipment	3 to 30 years
Fire engines	10 to 15 years
Mobile Accommodation	10 years
Other Equipment	3 to 10 years
Other vehicles	5 to 10 years
Salt Barns	25 years

Asset	Depreciation Period
Solar Panels	25 years
Vehicles and equipment under finance lease	10 years
<b>PFI Assets:</b>	
Buildings and Infrastructure	25 to 40 years
Waste Plant Shell & Equipment	3 to 50 years

Where an item of Property, Plant and Equipment has major components where the 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.

## 20. Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge (with the exception of the energy from waste plant as it is deemed to have negligible value at the end of the period), the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- finance cost – an interest charge applied to the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- payment towards liability – applied to write down the Balance Sheet liability due to the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

## **21. 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 a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and 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.

## **22. 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 against the Surplus/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 and retirement benefits and do not represent usable resources for the Council – these reserves are explained therefore in the relevant policies below.

## **23. 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 Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

## **24. 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.

**25. Accounting for the Costs of the Carbon Reduction Commitment Scheme**

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in the fourth year of its second phase, which ends on 31 March 2019. The Council is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

**26. Revenue Recognition**

Revenue is defined as the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth.

Revenue is measured at the fair value of the consideration received or receivable. In most cases, the consideration receivable is in the form of cash and cash equivalents and the amount of revenue is the amount of cash and cash equivalents receivable. Where the Council is acting as an agent of another organisation the amounts collected for that organisation are excluded from revenue.

Revenue relating to the sale of goods is recognised when the amount of revenue can be measured reliably, it is probable the revenue will be received by the Council and the risks and rewards of ownership have passed to the purchaser. Revenue relating to the provision of services is recognised when the amount of revenue can be measured reliably, it is probable the revenue will be received by the Council and the stage of completion of the service can be measured.

**27. Tax Income**

Tax Income (Council Tax, National Non Domestic Rates (NNDR)).

**National Non Domestic Rates (NNDR)**

Retained Business Rates and Top-up income included in the Comprehensive Income and Expenditure Statement for the year will be treated as accrued income.

**Council Tax**

Council Tax income included in the Comprehensive Income and Expenditure Statement for the year will be treated as accrued income.

NNDR, Top-up and Council Tax income will be recognised in the Comprehensive Income and Expenditure Statement within the Taxation and Non-Specific Grant Income line. As a Billing Authority, the difference between the NNDR and Council Tax included in the Comprehensive Income and Expenditure Statement and the amount required by regulation credited to the General Fund is taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement.

NNDR and Council Tax income is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council, and the amount of revenue can be measured reliably.

Revenue relating to Council Tax and general rates is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

## **28. Accounting for Schools**

In line with accounting standards and the Code on group accounts and consolidation, all maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) are considered to be entities controlled by the Council and are recognised in the Council's single entity accounts. Therefore all schools' transactions, cash flows and balances are recognised in each of the financial statements.

Schools' non-current assets (school buildings and playing fields) are recognised on the Balance Sheet where the Council directly owns the assets, where the Council holds the balance of control of the assets or where the school or the school governing body own the assets or have had rights to use the assets transferred to them through a licence arrangement.

When a maintained school converts to an Academy, the schools non-current assets held on the Council's balance sheet are treated as a disposal. The carrying value of the asset is written off to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The written-off asset value is not a charge against the General Fund, as the cost of non-current asset disposals resulting from schools transferring to an Academy 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.

## 29. Fair Value

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

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

The measurement 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 valuation of these assets and liabilities, use appropriate techniques for each circumstance, maximising the use, relevant known data, and minimising the use of estimates.

To increase consistency and comparability in fair value measurement and related disclosures, the inputs to valuation techniques used to measure fair value are categorised into three levels:

- **Level 1** inputs - unadjusted quoted prices in active markets for items identical to the asset being measured.
- **Level 2** inputs – inputs other than those in level 1 that are directly or indirectly observable.
- **Level 3** inputs – unobservable inputs for the asset or liability.



## Appendix B

## Estimated Reserves and Provisions Position at 31 March 2018

Description	Balance at 1 April 2017 £000	Estimated (Increase)/ decrease £000	Movement following review £000	Forecast balance at 31 March 2018 £000
<b>General Reserves / Balances</b>				
General Fund Reserve	-53,036	-15,203	0	-68,239
<b>Total General Reserve</b>	<b>-53,036</b>	<b>-15,203</b>	<b>0</b>	<b>-68,239</b>
<b>Ring Fenced Reserves / Balances</b>				
HRA	-23,552	-2,566	0	-26,118
Earmarked Reserves - HRA	-2,139	95	0	-2,044
<b>Total Ring Fenced Reserve / Balances</b>	<b>-25,691</b>	<b>-2,471</b>	<b>0</b>	<b>-28,162</b>
<b>Specific Reserves / Balances</b>				
Capital Receipts - GF	-263	0	0	-263
Capital Receipts - HRA	0	-7	0	-7
Capital Grants Unapplied	-20,383	0	0	-20,383
<b>Total Specific Reserves / Balances</b>	<b>-20,646</b>	<b>-7</b>	<b>0</b>	<b>-20,653</b>
<b>Earmarked Reserves</b>				
Balances held by schools	-6,588	3,116	0	-3,472
Estates Rationalisation	-13,592	2,567	1,134	-9,891
Homefinders	-28	28	0	0
Insurance Reserve	-6,545	0	0	-6,545
Invest to Save	-3,242	2,087	0	-1,155
Local Authority Mortgage Scheme	-425	0	0	-425
Market Traders Levy	-3	3	0	0
NCC Economic Regeneration Reserve	-642	170	0	-472
Planning Delivery Grant	-453	0	0	-453
Revenue Grants	-8,342	0	0	-8,342
Rural Growth Network	-57	0	0	-57
Section 106 Reserve	-3,349	2,142	0	-1,207
Severe Weather Reserve	-2,500	0	0	-2,500
Strategic Management Reserve	-52,164	4,000	-1,192	-49,356
ADC Section 106 Monies	-81	2	0	-79
ADC Parks & Open Spaces	-64	11	0	-53
Community Led Housing	-1,315	100	0	-1,215
Collingwood Manor Affordable Housing Contribution (S106)	-1,200	1,200	0	0
<b>Total Earmarked Reserves</b>	<b>-100,590</b>	<b>15,426</b>	<b>-58</b>	<b>-85,222</b>
<b>Total Usable Reserves</b>	<b>-199,963</b>	<b>-2,255</b>	<b>-58</b>	<b>-202,276</b>



Description	Balance at 1 April 2017 £000	Estimated (Increase)/ decrease £000	Movement following review £000	Forecast balance at 31 March 2018 £000
<b>Provisions</b>				
Redundancy Costs	-271	181	0	-90
Unequal Pay Back Pay	-1,083	989	0	-94
MMI Liability	-78	0	0	-78
Repairs & Maintenance	-6,045	15	0	-6,030
NNDR Appeals	-4,229	0	0	-4,229
Estate Rationalisation	-1,717	453	58	-1,206
GB Building Solutions	-147	147	0	0
<b>Total Provisions</b>	<b>-13,570</b>	<b>1,785</b>	<b>58</b>	<b>-11,727</b>
<b>Total Reserves and Provisions</b>	<b>-213,533</b>	<b>-470</b>	<b>0</b>	<b>-214,003</b>