# report

Nottinghamshire County Council

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| meeting | **AUDIT COMMITTEE** | | |
| date | **17 May 2011** | agenda item number | **5** |

## STATEMENT OF ACCOUNTS 2010/11

## ACCOUNTING POLICIES

### 1. Purpose of Report

To allow the Audit Committee to review and approve the proposed accounting policies used in creating the Authority's Statement of Accounts for 2010/11.

### 2. Background

2.1 The Statement of Accounts includes a section explaining the accounting policies used in producing the main statements for the benefit of the reader. The External Auditors have indicated that these policies should be reviewed and approved by the Audit Committee prior to inclusion in the final Statement of Accounts.

### 3. Summary

3.1 For the 2010/11 Statement of Accounts, the Authority will be implementing International Financial Reporting Standards (IFRS) for the first time.

3.2 The move to IFRS has resulted in a number of changes to accounting policies. CIPFA has therefore issued a new code of practice and revised guidance for the production of the Statement of Accounts. This guidance includes a new set of indicative accounting policies. The Service Manager (Financial Planning and Accounting) has therefore revised the existing policies in line with the new guidance.

3.3 The changes to the policies are shown in the attached Appendix A. The changes are substantial, so, the original policies are shown in normal type and are then followed by the revisions in bold and italics. Where policies have been deleted these are shown with a "strike-through".

3.4 The major changes in the policies relate to:

i. Accruals for employee benefits (holiday pay and redundancies)
ii. Treatment of grants
iii. Non Local Authority Maintained Schools

### 4 Recommendation

The changes in accounting policies are approved

**Alan Sumby**
Service Director (Finance)

**Background Papers available for inspection**

Code of Practice on Local Authority Accounting in the United Kingdom

**Electoral Divisions Affected**

Not applicable

**Legal Services Comments (KK 20/4/2011)**

The proposal in this report is within the remit of the Audit Committee.

**Financial Comments of Service Director – Finance (BD 14/4/2011)**

The impact of implementing IFRS will be reflected in the year end management and statement of accounts.

# STATEMENT OF ACCOUNTING POLICIES

## 1. GENERAL POLICIES

The Statement of Accounts has been prepared in accordance with the appropriate Code of Practice on Local Authority Accounting (a Statement of Recommended Practice (SORP)) and the Best Value Accounting Code of Practice (BVACOP), both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The statements also comply with appropriate guidance notes issued by CIPFA covering the Statements of Standard Accounting Practice (SSAPs), Financial Reporting Standards (FRSs) and Urgent Issues Task Force Abstracts (UITFA) as they apply to local authorities. Any variations are shown in Notes to the Accounts or in the policies set out below. The Statement of Accounts has been prepared on an historical cost basis, modified for certain fixed assets held at valuation.

***General Principles***

***The Statement of Accounts summarises the Authority's transactions for the 2009/10 financial year and its position at the year-end of 31 March 2010. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those Regulations require 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 2010/11 and the Best Value Accounting Code of Practice 2010/11, 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.***

## *2. 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 accounts, depending on how significant the items are to an understanding of the Authority's financial performance.***

## 3. PRIOR PERIOD ADJUSTMENTS, CHANGING 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, ie 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 Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.***

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

## 4. 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 Authority 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 authority in accordance with statutory guidance.***

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

## 5. COSTS OF SUPPORT SERVICES

All costs of support services are fully allocated. The costs of office accommodation are recharged in proportion to floor area occupied. Other central administrative expenses are recharged on the basis of allocation of staff time. The costs of the Democratic Representation and Management, Corporate Management and Non-Distributed Costs are identified separately in the Income and Expenditure Account. Architectural and Engineering Services provided by the Corporate Director of Corporate Services and the Corporate Director of Communities relating to the Capital Programme are recharged to capital accounts on the basis of professional scale fees.

***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 costing principles of the CIPFA Best Value Accounting Code of Practice 2010/11 (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users as follows:***

- ***Office Accommodation – in proportion to floor area occupied***
- ***Other central administrative expenses – allocation of staff time***
- ***Architectural Engineering Services for Capital Programme – recharged to capital using professional scale fees***

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

- ***Corporate and Democratic Core – costs relating to the Authority's status as a multifunctional, democratic organisation.***
- ***Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.***

## 6. EMPLOYEE BENEFITS & PENSIONS

***Benefits Payable During Employment***

***Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (eg cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of 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.***

***Termination Benefits***

***Termination benefits are amounts payable as a result of a decision by the Authority 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 discontinued operations) in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.***

***Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority 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.***

The County Council participates in two different pension schemes which meet the needs of employees in particular services. The net pension costs included in the Accounts have been determined in accordance with relevant statutory regulations and are unchanged by FRS17. The requirements of FRS17 have been complied with and are set out in the Pensions Note to the Statement of Accounts. Both schemes are classed as defined benefit schemes, providing members with defined benefits related to pay and service. The schemes are as follows:

**a)** **Teachers Pension Scheme**
This is an unfunded scheme administered by the Teachers Pension Agency. The pension cost charged to the Children's and Education Services is the contribution rate set by the Department for Children, Schools and Families (DCSF) on the basis of a notional fund. This scheme is accounted for on a defined contribution basis.

**b)** **Local Government Pension Scheme**
This is a funded pension scheme. Non-teaching employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. The Council's Actuary calculates, every three years, the amount of the Employer's Contribution Rate for each of the following three financial years. This is the statutory amount charged to the Accounts each year and paid over in full to the Pension Fund.
FRS17 requires an annual snapshot of the assets and liabilities of the Fund. This is undertaken by the Council's Actuary. The Actuary also calculates the charges to be made to the Revenue Accounts under FRS17. These are split into the Current Service Cost (CSC), the Past Service Cost

(PSC), the Interest Cost (IC) and the Expected Return on Assets (ERA). The CSC is charged to the Service Revenue Accounts with the PSC charged to Non-Distributed Costs, both of which are grouped within the Net Cost of Services. The IC and ERA are charged to Net Operating Expenditure. The Balance Sheet shows the calculated actuarial position of the assets and liabilities of the Fund as at 31 March each year. The bases for the actuarial calculations are set out in the Notes to the Accounts.

For both teachers and other employees, further costs arise in respect of certain pensions paid on an unfunded basis and these amounts are charged to Non-Distributed Costs in the Income and Expenditure Account in the financial year to which they relate. The Council's Actuary has also calculated the Authority's liabilities in accordance with FRS17 for these unfunded amounts and these are included in the Accounts and the Notes to the Accounts.

In assessing liabilities for retirement benefits at 31 March 2010 for the 2009/10 Statement of Accounts, the actuary made a number of changes in the assumptions underlying the present value of the scheme liabilities. These include changes in the assumed discount rate and inflation. Application of these revised assumptions has resulted in an increase in liabilities measured at today's prices of £644.1 million (£630.3 million LGPS, £13.8 million Teachers). These adjustments together with other actuarial gains and losses are recognised for the year in the Statement of Total Recognised Gains and Losses.

***Post Employment Benefits***

***Employees of the Authority are members of two separate pension schemes:***

- ***The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).***
- ***The Local Government Pensions Scheme, administered by Nottinghamshire County Council***

***Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Authority. However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.***

***The Local Government Pension Scheme***

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

- ***The liabilities of the pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – ie 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. In assessing these liabilities at 31 March 2010 for the 2009/10 Statement of Accounts, the actuary made a number of changes in the assumptions underlying the present value of the scheme liabilities. These include a change in the assumed discount rate from 6.7% to 5.5% and inflation. Application of these revised assumptions has resulted in an increase in liabilities measured at today's prices of £644.1 million (£630.3 million LGPS, £13.8 million Teachers)***
- ***The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value:***
    - ***quoted securities – current bid price***
    - ***unquoted securities – professional estimate***

- *unitised securities – current bid price*
- *property – market value.*

- *The change in the net pensions liability is analysed into seven components:*
  - *current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked*
  - *past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs*
  - *interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement*
  - *expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement*
  - *gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs*
  - *actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve*
  - *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.*

*In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority 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 Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.*

*Discretionary Benefits*

*The Authority 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 (including teachers) 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.*

## ~~4. DEPRECIATION~~

~~All operational assets, other than land, are depreciated over their useful economic lives. Where depreciation is provided for, assets are depreciated using the straight line method. The lives of the assets vary and are within the following ranges:~~

| ~~Asset Type~~ | ~~Useful Life (In Years)~~ |
|---|---|
| ~~Buildings~~ | ~~1 – 50~~ |
| ~~Vehicles and plant~~ | ~~1 - 20~~ |
| ~~Infrastructure~~ | ~~40~~ |
| ~~IT and other equipment~~ | ~~3 – 5~~ |
| ~~Intangible~~ | ~~3 – 5~~ |
| ~~Furniture & Fittings~~ | ~~5 -15~~ |

## 7. REVENUE EXPENDITURE FINANCED FROM CAPITAL UNDER STATUTE

Revenue expenditure financed from capital under statute (REFfCUS) comprise capital grants to other bodies and revenue expenditure capitalised by permission of the Secretary of State. These amounts do not result in the creation of a fixed asset and are therefore charged to the relevant Service revenue account in the year. For such expenditure funded from capital resources, a contribution from the Capital Adjustment Account to the Income and Expenditure Account ensures that costs amortised to revenue do not affect the amount to be met from government grants and local taxpayers.

Capital grants made to other bodies are written off to the appropriate Service revenue account during the financial year because they do not represent value to the Authority beyond the end of the financial year. This includes grants made to bodies where the Authority is the accountable body and exercises control over grant distribution.

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

***Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority 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.***

***Capital grants made to other bodies are written off to the appropriate Service revenue account during the financial year because they do not represent value for money to the Authority beyond the end of the financial year. This includes grants made to bodies where the Authority is the accountable body and exercises control over grant distribution.***

## 6. ~~CAPITAL EXPENDITURE~~

~~The de minimis level for expenditure to be classified as capital is set at £6,000 for capital financing purposes. Amounts below this are classified as revenue expenditure.~~

## 8. FIXED ASSETS

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis. This includes assets acquired under finance leases which have been capitalised on the same basis as assets acquired by other methods of financing.

Operational assets are fixed assets held and used by the Authority in the direct delivery of services or used for functions which are directly related to the support of such services.

Asset values have been included in the Balance Sheet as follows:

a) The current land and building values used in the Statement of Accounts are based upon a certificate as at 31 March 2009 issued by the Council's Head of Service (Estate Management & Valuation), D. Buckland MRICS, on 31 May 2010. A rolling five year revaluation programme is in place to maintain the accuracy of the valuations and when significant changes occur in any year they are included in the revaluation work undertaken during that year. Operational assets have been included in the Balance Sheet at the lower of net current replacement cost and net realisable value in existing use. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income & Expenditure Account where they arise from the reversal of an impairment loss previously charged to a Service revenue account. 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. Non-operational assets have been included at the lower of net current replacement cost and net realisable value.

b) Infrastructure and equipment have been included at debt outstanding at 31 March 1994 plus actual expenditure since that date.

c) Vehicles and plant have been included at written down valuation at 1 April 1994 with subsequent acquisitions included at cost as an appropriate approximation of valuation.

d) Intangible assets comprise software licences which are included at cost and are not subject to revaluation. They are amortised in equal amounts over their useful lives.

e) Furniture and fittings are included at cost, plus the value of items as at 31 March 2004 which are still in operational use.

f) Assets under construction are included at actual cost.

g) Community assets are included at nil except recent acquisitions which are held at cost.

The asset amounts shown in the Balance Sheet are the net values after depreciation.

The de minimis levels used for 2009/10 in compiling the assets are as follows:

| | |
|---|---|
| Land and Buildings | £10,000 |
| Infrastructure | All are included |
| Community Assets | £10,000 |
| Vehicles and Plant | £ 6,000 |
| Intangible | £ 6,000 |
| IT and Communications Equipment | £ 6,000 |
| Finance Leased Equipment | £ 6,000 |
| Other Equipment | £ 6,000 |
| Furniture and Fittings | £ 6,000 |
| Under Construction | All are included |

***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 Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred.*

*Assets are, however, only recognised when they exceed the de minimus levels for 2009/10 set out below:*

| | |
|---|---|
| *Land and Buildings* | *£10,000* |
| *Community Assets* | *£10,000* |
| *Infrastructure* | *All are included* |
| *Under Construction* | *All are included* |
| *All other Assets* | *£6,000* |

***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 Authority 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 (ie it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.*

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

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

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

***The current land and building values used in the Statement of Accounts are based upon a certificate as at 31 March 2010 issued by the Council's Head of Service (Estate Management and Valuation), D. Buckland MRICS, on 31 May 2010. A rolling 5 year revaluation programme is in place to maintain the accuracy of the valuations. When significant changes occur in any year they are included in the revaluation work undertaken during that year.***

***Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. [Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement 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(s) in the Comprehensive Income and Expenditure Statement.***

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

### *Impairment*

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

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

- ***where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)***
- ***where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.***

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

### *Depreciation*

All operational assets, other than land, are depreciated over their useful economic lives. Where depreciation is provided for, assets are depreciated using the straight line method. The lives of the assets vary and are within the following ranges:

| **Asset Type** | **Useful Life (In Years)** |
|---|---|
| Buildings | 1 - 50 |
| Vehicles and plant | 1 - 20 |
| Infrastructure | 40 |

| | |
|---|---|
| IT and other equipment | 3 - 5 |
| Intangible | 3 - 5 |
| Furniture & Fittings | 5 -15 |

***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 (ie freehold land and certain Community Assets) and assets that are not yet available for use (ie assets under construction).***

***Depreciation is charged in the year after acquisition or construction. Where depreciation is provided for, assets are depreciated using the straight line method. The lives of the assets vary and fall within the following ranges:***

| ***Asset Type*** | ***Useful Life (In Years)*** |
|---|---|
| ***Buildings*** | ***1 – 50*** |
| ***Vehicles and plant*** | ***1 – 20*** |
| ***Infrastructure*** | ***40*** |
| ***IT and other equipment*** | ***3 – 5*** |
| ***Intangibles*** | ***3 – 5*** |
| ***Furniture and Fittings*** | ***5 - 15*** |

***Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. For the 2009/10 Statement of Accounts the Authority has not identified any components to be depreciated separately.***

***Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.***

***Disposals and Non-current Assets Held for Sale***

***When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.***

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

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

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

***Capital receipts are 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 Authority'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.***

## 9. 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 initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account 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 and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

However, the Council for policy reasons can make loans to voluntary organisations etc. at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the external 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 Income and Expenditure Account 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 Statement of Movement on the General Fund Balance.

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 Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account.

**Available-for-sale Assets**

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account 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) are credited to the Income and Expenditure Account when they become receivable by the Council.

Dividends are credited to revenue when the Authority has a right to receive them. For dividends from quoted securities, this is when they are quoted ex-dividend. For unquoted securities, this is when the dividend is declared, unless the security is sold before it becomes receivable.

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 Reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses (STRGL). The exception is where impairment losses have been incurred – these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the Reserve. In the case of Economic Development, investments are written off to the Income and Expenditure Account in the year of advance to reflect the high risk of the investment but the nominal value is shown in the Notes to the Accounts.

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 Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL.

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

***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 on the Balance Sheet when the Authority 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 Authority 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 Authority, for policy reasons, can make 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***

***foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the 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 specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.***

***Any gains and losses that arise on the de-recognition of an asset are credited or debited 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 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 (eg 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.***

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

***Any gains and losses that arise on the de-recognition of the asset are credited or debited to the 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).***

## 10. CASH AND CASH EQUIVALENTS

***Amounts held in call accounts or money market funds are highly liquid and readily convertible. These can be held for relatively long periods as call account rates are currently attractive. However, these accounts are used to cover short-term cash flow needs and so will be classed as cash equivalents.***

***Fixed term investments, of whatever duration, are not readily convertible to known amounts of cash. Fixed deals can be broken but only through negotiation with the borrower and at a penalty depending on the fair value of the loan at the time of break. All fixed term investments will not therefore be classed as cash equivalents.***

***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 Authority's cash management.***

## *11. OTHER ASSETS*

***Intangible Assets***

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

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

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

*Interests in Companies and Other Entities*

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

*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.*

*Investment Property*

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

*Investment properties are measured initially at cost and subsequently at fair value, based on the 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 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 the Capital Receipts Reserve.*

*Jointly Controlled Operations and Jointly Controlled Assets*

*Jointly controlled operations are activities undertaken by the Authority in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure its incurs and the share of income it earns from the activity of the operation.*

*Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Authority and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.*

## 12. STOCKS AND WORK IN PROGRESS

These are valued at the lower of cost and net realisable value.

## 13. DEBTORS AND CREDITORS

Revenue and capital transactions during the year are recorded on an income and expenditure basis. In order to comply with the accruals concept of FRS18, year end debtors and creditors are raised where goods are supplied or services rendered by the County Council in the financial year, but payment or receipt does not occur until the following financial year. Accounting instructions require accruals to be raised where amounts are in excess of £1,000. Schools are asked to take responsibility for accruing for employee costs where individual amounts owing are in excess of £1,000.

In addition to debtors and creditors for goods supplied and services rendered, significant debtors and creditors can arise from such items as government grants and pay awards. The approach adopted in these cases is to make estimates on the basis of the best information that is presently available, or make forecasts of the cost of pay awards that are not yet settled but likely to apply to part of the financial year to which the accounts relate.

## *14. 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 Authority 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 Authority.***
- ***Revenue from the provision of services is recognised when the Authority 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 Authority.***
- ***Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.***
- ***Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.***
- ***Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.***
- ***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.***
- ***Where significant debtors or creditors arise from such items as government grants and pay awards that are not yet finalised, estimates are made on the basis of best information that is currently available.***

***Accounting instructions require accruals to be raised where amounts are in excess of £1,000. Schools are asked to take responsibility for accruing for employee costs where individual amounts owing are in excess of £1,000.***

## 15. FINANCIAL LIABILITIES

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For all the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

The Authority makes provision each year for scheduled debt repayments. The amount of these repayments is dependent upon the type and period of loans raised. The Authority may also redeem or restructure debt early to make most effective use of available resources.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account 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 Income and Expenditure Account 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 Income and Expenditure Account, 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 the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Income and Expenditure Account 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 Statement of Movement on the General Fund Balance.

## 16. FINANCIAL INSTRUMENTS

***Financial Liabilities***

***Financial liabilities are recognised on the Balance Sheet when the Authority 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.***

***For most of the borrowings that the Authority 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 Authority has a policy of spreading the gain or loss over the term that was remaining 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.***

## 17. LEASING OF VEHICLES, PLANT AND EQUIPMENT

Where assets are acquired under finance leases, the assets are capitalised above the de minimis level of £6,000 and the related outstanding lease commitment shown as a deferred credit liability in the Balance Sheet in accordance with SSAP21. The leasing rentals payable are split with the interest element charged to the Income and Expenditure Account and the capital element reducing the deferred credit liability.

Lease rentals payable under operating leases are charged to the Income and Expenditure Account in the financial year to which they relate.

***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 Authority as Lessee***

***Finance Leases***

***Property, plant and equipment held under finance leases are 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), where the fair value exceeds the £6,000 de minimus limit. The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Where material, 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 are 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 authority at the end of the lease period).***

***The Authority 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 (eg there is a rent-free period at the commencement of the lease).*

*The Authority as Lessor*

*Finance Leases*

*Where the Authority 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 Authority'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 (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.*

*Lease rentals receivable are apportioned between:*

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

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

*The written-off value of disposals is not a charge against council tax, as the cost of 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 Authority 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 (eg 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. PRIVATE FINANCE INITIATIVE (PFI)

The Authority has entered a number of Private Finance Partnerships. PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the service passes to the PFI contractor. As the County Council is deemed to control the services that are provided under its PFI schemes and as ownership of the fixed assets will pass to the County Council at the end of the contracts for no additional charge, the County Council carries the fixed assets used under the contracts on the Balance Sheet.

The original recognition of these assets was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. For the Bassetlaw Schools PFI scheme and East Leake Schools PFI scheme, the liability was written down by an initial capital contribution of £9.0 million and £2.9 million respectively.

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

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

- fair value of the services received during the year – debited to the relevant service in the Income and Expenditure Account
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Interest Payable and Similar Charges in the Income and Expenditure Accounts
- contingent rent – increase in the amount to be paid for the property arising during the contract, debited to Interest Payable and Similar Charges in the Income and expenditure Account
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator
- lifecycle replacement costs – where possible these are recognised as fixed assets on the Balance Sheet.

***Private Finance Initiative (PFI) and Similar Contracts (Including Non Local Authority Maintained Schools)***

***The Authority has entered into a number of Private Finance Partnerships. 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 Authority 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 Authority at the end of the contracts for no additional charge, the Authority 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. For the Bassetlaw Schools PFI scheme and East Leake Schools PFI scheme, the liability was written down by an initial capital contribution of £9.0 million and £2.9 million respectively.***

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

***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 on 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 towards 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.**

***Non Local Authority Maintained Schools***

***All non Local Authority Maintained Schools have also been assessed under IFRIC12 to determine whether their assets should appear on the Local Authority's Balance Sheet. The following groups of schools' assets have been included in the Local Authority's Balance Sheet:***

- ***Voluntary Controlled Schools which pass the control tests within IFRIC 12***

***Prior to 2010/11 some Foundation Schools where the property could transfer back to the Authority were included in the Balance Sheet, however, these schools are no longer assessed as passing the control tests within IFRIC12.***

## 19. GRANTS RECEIVED

Grants received for capital purposes are taken to the Government Grants Deferred Account. Where the associated asset is depreciated the grant is amortised over its useful life through a contribution to service revenue accounts. The zero impact on the Income and Expenditure Account is achieved by a transfer to the Capital Adjustment Account.

Specific revenue grants are matched to the expenditure to which they relate. General revenue grants are included in the Income and Expenditure Account in the period in which they are payable.

***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 Authority when there is reasonable assurance that:***

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

***Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement.***

***Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.***

***Area Based Grant***

***Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.***

## 20. PROVISIONS AND RESERVES

The Authority makes appropriate provisions for bad debts. Provisions are made for any liabilities which have been incurred using the best estimate of the amount and timing. Provisions are utilised for the purposes for which they were established. All other amounts set aside are classified as reserves. Expenditure incurred is charged to the appropriate provision or to the revenue account where a contribution is made from a reserve.

***Provisions***

***Provisions are made where an event has taken place that gives the Authority 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 Authority 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 authority 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.***

***Landfill Allowance Schemes***

***Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value.***

***Landfill allowances allocated by DEFRA are accounted for as a government grant. After initial recognition, allowances are measured at the lower of cost and net realisable value.***

***As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.***

***The fair value of landfill allowances is currently assessed at zero and the Authority has not incurred any cash penalty, so no values are recorded for use of landfill during the 2009/10 financial year.***

***Contingent Liabilities***

***A contingent liability arises where 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 authority. 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 by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.***

***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.***

***No contingent assets have been identified for the Authority at 31st March 2010.***

***Reserves***

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

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

**~~CAPITAL RECEIPTS~~**

~~When assets are sold or disposed of, the capital receipt is held in a reserve account (Capital Receipts Unapplied) until it is used to finance further capital expenditure. Interest earned on cash from capital receipts unapplied is credited to the General Fund.~~

**~~LIQUID RESOURCES~~**

~~Liquid resources are identified and accounted for in accordance with FRS1 and comprise current asset investments.~~

**21. VAT**

The Income & Expenditure Account excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from it. At the year end any amounts outstanding are represented by a debtor or creditor on the Balance Sheet.

***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.***

## *22. Events After the Balance Sheet Date*

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

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

## *23. Foreign Currency Translation*

***Where the Authority 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.***