

## **1. Draft Accounting Policies 2010/11**

### **1.1 General Principles**

The Statement of Accounts summarise the Authority's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003 in accordance with proper accounting practices. These practices 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 underlying concepts of the accounts include the:

- Council being a 'going concern' – all operations continuing
- accrual of income and expenditure – placing items in the year they relate to rather than the year they take place.
- primacy of legislative requirements – legislation overrides standard accounting practice

The concepts of consistency and prudence are also followed where they do not conflict with the application of these underlying concepts. The accounting statements are prepared with the objective of presenting a true and fair view of the financial position and transactions of the authority.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### **1.2 Accruals of Income and Expenditure**

Income and expenditure is accounted for in the year to which they relate, not simply when cash payments are made or received, by the creation of debtors and creditors which are recorded in the balance sheet. Where it is doubtful that bad debts will be settled, the balance of debtors is written down and a charge made to expenditure for the income that might not be collected.

Where the Authority is acting as an agent for another party (e.g., in the collection of NNDR and council tax), income and expenditure are recognised only to the extent that commission is receivable by the Authority for the agency services provided or the Authority incurs expenses directly on its own behalf in providing the services.

### **1.3 Cash**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

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

## **1.4 Changes in Accounting Policies and Estimates and Errors**

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 or other events on the Authority'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.

Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change.

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

## **1.5 Depreciation and other 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 (annual charge) of intangible fixed assets attributable to the service.

The Authority is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual provision from revenue, minimum revenue provision (MRP), to contribute towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by MRP in the General Fund Balance, by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserves Statement to reflect the difference between the two.

MRP – the basis for this provision is restricted by legislation and the policy has to be approved by the Council. The policy for 2010/11 is that MRP is on an annuity basis. This results in the MRP increasing over the life of the asset to match the fall in the interest cost as the debt is “notionally” repaid. The net result is a consistent charge to the Council's accounts over the assumed life of the asset.

## **1.6 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 and 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 provide services to the Authority.

An accrual is made against services in the Consolidated Income and Expenditure Account 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. Any accrual made is required under statute to be reversed out of the General Fund Balance by a credit to the Accumulating Compensated Absences Adjustment Account in the Movement in Reserves Statement. Thus there is no impact on the Council Tax.

### 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.

They are charged to the Non Distributed Costs line in the Comprehensive Income and Expenditure Account when the Authority can demonstrate that it is committed to either terminating the employment of an officer or has made an offer of voluntary redundancy even if the officer has not left the Authority by the 31<sup>st</sup> March

Where termination benefits involve the enhancement of pensions, the contribution to the pension fund is charged to the General Fund over a period of years. However accounting standards require the costs to be debited to the Comprehensive Income and Expenditure Account in one year. Adjustments are made through the Pensions Reserve in the Movement in Reserve Statement

### Post Employment Benefits (Pensions)

Employees of the Authority are members of the Local Government Pensions Scheme, administered by Cambridgeshire County Council. This scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees working for the Authority. The accounting policy is to recognise the full liability that the Authority has for meeting the future cost of retirement benefits arising from years of service earned by employees up to the balance sheet date, net of the contributions paid into the fund and the investment income they have generated; this meets the requirements of IAS 19.

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, rather than 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 any such amounts payable but unpaid at the year-end. The balance (currently negative) that arises on the Pensions Reserve thereby measures the beneficial impact on 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.

## **1.7 Events after the Reporting Period**

Events taking place after the 'date of authorisation for issue' (the date of the Corporate Governance Panel that approves the audited accounts) are not reflected in the Statement of Accounts.

## **1.8 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. For most purposes 'material' is defined as £1.6m or more.

## **1.9 Financial Assets**

Financial assets that are applicable to the Council are loans and receivables which are assets with a fixed or determinable payment but not quoted in an active market (e.g. trade debtors, fixed term investments). These are initially measured at fair value and carried at their amortised costs. The Council has the following loans and receivables:

### *Debtors*

Debtors are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts at the year-end, taking into account the nature, value and age of debts and historic losses for similar groups of assets. Bad debts are written off when they are identified. Debtors falling due after more than one year are classified as long-term assets, which include housing improvement loans and housing advances.

### *Cash and equivalents*

Cash and equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash. Due to their nature and short-term maturity, the fair values for debtors and cash and equivalents are estimated using their carrying values.

### *Investments*

The Council has both long and short-term investments with various financial institutions. Investments are carried at their amortised cost. The fair value of investments is determined by discounting the future cash flows using a relevant market rate of interest comparable to the rate for the same investment from a comparable institution, available at the balance sheet date.

The Council has made loans for home improvement which are interest-free (soft loans). It gives rental deposits to tenants which are repaid over a period of up to 2 years. A change in accounting policy has treated these as soft loans for the first time in 2009/10. 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. Statutory provisions require that the impact of soft loans in the Income and Expenditure Account is managed by a transfer to the Financial Instruments

Adjustment Account in the Statement of Movement on the General Fund Balance thus resulting in no impact on the Council Tax..

### **1.10 Financial Liabilities**

Financial liabilities are initially measured at fair value and are generally carried at their amortised cost The Council has the following liabilities:

#### *Creditors*

Creditors are carried at their original invoice amount

#### *Bank overdrafts*

Bank overdrafts comprise amounts owed to banks and similar institutions and are repayable on demand.

#### *Long term loan*

Loans with the Public Works Loans Board are carried at their amortised cost but with the fair value disclosed as a note

Due to their nature and short-term maturity, the fair values for creditors and bank overdrafts are estimated using their carrying values

### **1.11 Government Grants and Contributions**

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 Authority are credited to the Comprehensive Income and Expenditure Account if the conditions attaching to the grant or contribution have been met. However if the conditions may require that the grant or contribution is returned, it cannot be credited to the Comprehensive Income and Expenditure Account.

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 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.

## **1.12 Intangible Assets**

Expenditure, on an accruals basis, for assets that do not have physical substance but are identifiable and controlled by the council (e.g. software licences) are capitalised where they will bring benefit for more than one year. The balance is amortised (charged) to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

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. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service lines 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 lines 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.

## **1.13 Interest Receipts**

Interest receipts credited to the General Fund include all amounts received in respect of balances held and invested externally, except for interest earned on the S106 reserve (one of the earmarked reserves) which is credited to that reserve.

## **1.14 Inventories (Stock)**

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

## **1.15 Investment Properties**

The Authority does not hold any properties that are used solely to earn rentals or for capital appreciation

## **1.16 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.

### The Authority as Lessee

**Finance leases.** The Council has no finance leases in primary rental. The leases are for industrial units and certain items of equipment leased from Finance Companies. They are capitalised and included in the fixed assets shown on the balance sheet. They are accounted for using the policies applied to tangible fixed assets. The rental payments are apportioned between the finance charge (interest) and the principal element. The finance element of rentals is charged to the revenue account over the term of the lease and the principal element is treated as capital expenditure.

**Operating leases.** The Council leases cars for individual employees and for pool cars. Operating lease rental is charged to revenue in the year it is payable under the terms of the lease.

### The Authority as Lessor

**Operating Leases.** Where the Authority grants an operating lease over a property 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.

## **1.17 Overheads and Support Services**

The costs of overheads and support services are charged to services on the basis of use in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice 2010 (BVACOP)*. The basis of the charge varies according to the nature of the support service provided (e.g. administrative buildings are apportioned on the basis of area occupied). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the council's status as a multi-functional, democratic organisation.
- Non-Distributable Costs – for example the cost of discretionary benefits awarded to employees retiring early.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement.

Accounting standards requires part of the overheads relating to staff time spent on capital projects being treated as a revenue charge to the service rather than a charge to the capital project.

## 1.18 Property, Plant and Equipment

Assets that have physical substance and are held for use in the provision 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 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 (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

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 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 is used as an estimate of fair value.

Where decreases in value are identified, the revaluation loss is 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 insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

Assets included in the balance sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account. Thus there is no impact on the Council Tax.

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

### Impairment

Impairment is where an asset has lost value. 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 there 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 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.

### Disposals

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 recognised losses. Depreciation is not charged on Assets Held for Sale.

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 (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. 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 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.

### Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by allocating the value of the asset over their useful lives. An exception is made for assets where the finite useful life cannot be determined, (i.e. land and certain Community Assets) and assets that are not yet available for use (i.e., assets under construction).

Depreciation is calculated on the following bases:

- operational buildings – straight-line allocation over 50 years (unless there is evidence to the contrary)
- vehicles – 25% reducing balance
- plant and equipment – straight line basis
- infrastructure – variable depending on the asset to a maximum of 40 years

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.

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.

## **1.19 Provisions, Contingent Liabilities and Contingent Assets**

### Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that requires settlement by a transfer of economic benefits and a reliable estimate can be made of the amount of the obligation. For instance this includes redundancy payments for staff leaving after the Balance Sheet date, but where their redundancy has been agreed before the Balance Sheet date. 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 measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

### Contingent Liabilities

If a liability arises from an event which is too uncertain or the amount of the obligation cannot be reliably estimated, the liability is disclosed as a contingent liability as 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

## **1.20 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; they are included in the balance sheet as the General Fund Balance, Capital Reserve and Earmarked Reserves

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to count 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.

However, there are other reserves, the Capital Adjustment Account, Revaluation Reserve, Financial Instruments Adjustment Account, Collection Fund Adjustment Account and Pensions Reserve, that cannot be used to finance expenditure.

- Capital Adjustment Account – these are capital resources set aside to meet past expenditure
- Revaluation reserve – the gains of valuation of assets not yet realised by sales
- Financial Instruments Adjustment Account – balancing account to allow for differences in statutory requirements and accounting requirements for borrowings and investments
- Collection Fund Adjustment Account – holds the difference between the income included in the Income and Expenditure Account and the amount required by regulation to be credited to the General Fund
- Pensions Reserve – balancing account to allow the pensions liability to be included in the balance sheet
- Accumulated Compensated Absences Adjustment Account – the value of untaken leave and other employee benefits
- Capital Grants Unapplied Account – capital grants that have been received but not used to offset expenditure

### **1.21 Revenue Expenditure funded from Capital under Statute**

Revenue expenditure funded from capital under statute represents expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets. Items incurred during the year have been written off as expenditure to the relevant service revenue account in the year. Where it has been determined to meet the cost of the item from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance.

### **1.22 VAT**

VAT is not included in the Comprehensive Income and Expenditure Account unless it is not recoverable, in which case it is charged to the relevant service. Historically some VAT relating to exempt services has not been recoverable;