



# Statement of Accounting Policies

## For the Year Commencing 1 April 2017

<b>Version History</b>			
<b>Version</b>	<b>Date</b>	<b>Detail</b>	<b>Author</b>
0.01	20 10 2016	First draft of Audit Committee Accounting Policies 2017-18 with changes tracked from 2016-17 accounting policies	E Scriven
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<b>This document has been prepared using the following ISO27001:2013 standard controls as reference:</b>			
<b>ISO Control</b>	<b>Description</b>		
A.8.2	Information classification		
A.7.2.2	Information security awareness, education and training		
A.18.1.1	Identification of applicable legislation and contractual requirements		

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**APPENDIX TWO – 2017-18 ACCOUNTING POLICIES**


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A.18.1.3	Protection of records
A.18.1.4	Privacy and protection of personally identifiable information

## Contents

<b>INTRODUCTION</b> .....	4
<b>ACCOUNTING PRINCIPLES</b> .....	5
1.1. <b>Going Concern</b> .....	5
1.2. <b>Accruals Concept</b> .....	5
1.3. <b>Cost of Services</b> .....	5
1.4. <b>Value Added Tax</b> .....	5
1.5. <b>Changes in Accounting Policy</b> .....	5
1.6. <b>Prior Year Adjustments</b> .....	6
1.7. <b>Unidentified Income</b> .....	6
1.8. <b>Events after the Balance Sheet Date</b> .....	7
1.9. <b>Exceptional Items</b> .....	7
1.10. <b>Contingent Assets and Liabilities</b> .....	7
<b>CAPITAL ACCOUNTING</b> .....	7
1.11. <b>Recognition of Capital Expenditure (de-minimis Policy)</b> .....	7
1.12. <b>Donated Assets</b> .....	9
1.13. <b>Non-Current Asset Classification</b> .....	9
1.14. <b>Non-Current Asset Valuation Methodology</b> .....	13
1.15. <b>Impairment of Non-Current Assets</b> .....	15
1.16. <b>Disposal of Non-Current Assets</b> .....	15
1.17. <b>Depreciation / Amortisation Methodology</b> .....	16
1.18. <b>Leases</b> .....	17
1.19. <b>Defining a Finance Lease</b> .....	17
1.20. <b>Defining an Operating Lease</b> .....	18
1.21. <b>Lessee Accounting for a Finance Lease</b> .....	18
1.22. <b>Lessor Accounting for a Finance Lease</b> .....	18
1.23. <b>Lessor Accounting for an Operating Lease</b> .....	18
1.24. <b>Service Concession Agreements (Private Finance Initiative (PFI) and other similar contracts)</b> .....	18
1.25. <b>Capital Grants and Contributions</b> .....	19
1.26. <b>Revenue Expenditure Funded from Capital Under Statute (REFCUS)</b> .....	20
1.27. <b>Minimum Revenue Provision (MRP)</b> .....	20
1.28. <b>Capital Reserves</b> .....	20
<b>REVENUE ACCOUNTING</b> .....	20
1.29. <b>Recognition of Revenue Expenditure</b> .....	20
1.30. <b>Employee Costs</b> .....	20
1.31. <b>Lessee Accounting for an Operating Lease</b> .....	23
1.32. <b>Revenue Grants and Contributions</b> .....	23
1.33. <b>Provisions</b> .....	24
1.34. <b>Revenue Reserves</b> .....	24
1.35. <b>Research Costs</b> .....	24
1.36. <b>Members Allowances</b> .....	24

---

**APPENDIX TWO – 2017-18 ACCOUNTING POLICIES**

---

1.37.	<b>Council Tax and Business Rates Recognition</b> .....	25
1.38.	<b>Inventories and Work in Progress</b> .....	25
1.39.	<b>Provisions for bad and doubtful debts</b> .....	25
<b>TREASURY MANAGEMENT</b> .....		26
1.40.	<b>Definition of Treasury Management Activities</b> .....	26
1.41.	<b>Cash and Cash Equivalents</b> .....	26
1.42.	<b>Financial Liabilities</b> .....	26
1.43.	<b>Financial Assets</b> .....	27
1.44.	<b>Interests in Companies and Other Entities</b> .....	29
<b>GLOSSARY OF TERMS</b>		

## **INTRODUCTION**

The Accounting Policies for Derbyshire County Council (the Council) have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code for Local Authority Accounting (the Code). Where there is no specific guidance in the Code, the Council has developed its own accounting policy which is aimed at creating information which is:

- Relevant to the decision making needs of users; and
- Reliable, in that the financial statements:
  - Represent fairly the financial position, financial performance and cash flows of the entity;
  - Reflect the economic substance of transactions, other events and conditions and not merely the legal form;
  - Are neutral i.e. free from bias;
  - Are prudent; and
  - Are complete in all material respects.

This document outlines how the Council will account for all income, expenditure, assets and liabilities held and incurred during the 2017-18 financial year.

The accounting policies of the Council are updated annually to reflect any changes in IFRS, including changes in International Public Sector Accounting Standards (IPSAS), HM Treasury guidance, CIPFA guidance or any other change in statute, guidance or framework impacting on the authority's accounts.

The Accounting Policies of the Council as far as possible have been developed to ensure that the accounts of the Council are understandable, relevant, free from material error or misstatement, reliable and comparable. A Glossary of Terms can be found at the end of this document.

The document has been divided into four distinct categories which are Accounting Principles, Capital Accounting, Revenue Accounting and Treasury Management, with each policy being assigned a policy number.

## ACCOUNTING PRINCIPLES

### 1.1. Going Concern

The Council prepares its accounts on the basis that it remains a going concern; that is that there is the assumption that the functions of the Council will continue in operational existence. In the case of a pending local government reorganisation, where assets and liabilities are due to be redistributed, the Council would still account on the basis of going concern as the provision of services would continue in another Council.

### 1.2. Accruals Concept

The Council accounts for income and expenditure in the period to which the service has taken place, rather than when cash payments are received or made.

Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Equally, where cash has been received or paid which is not yet recognised as income or expenditure, a creditor (income in advance) or debtor (payment in advance) is recorded in the Balance Sheet.

### 1.3. Cost of Services

Internal support service costs (e.g. Human Resources) are apportioned across the core service areas to represent the total cost of delivering that service to the public, in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2017-18 (SerCOP).

Where possible the full cost of support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties, or any other operational cost that cannot be reasonably attributed to a specific service.

### 1.4. Value Added Tax

Income and expenditure treated as either capital or revenue, excludes any amounts related to VAT. All VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from the same. Any amounts outstanding (payment or receipt) at the year-end date is held as a creditor or debtor after netting off the amounts either due or owed.

### 1.5. Changes in Accounting Policy

Where there is a known future change in accounting policy required by the CIPFA Code, the Council will disclose the following in the notes to the accounts:

- The nature of the change in accounting policy;

- The reasons why applying the new accounting policy provides reliable and more relevant information;
- For both the current reporting period, and the previous year comparatives reported, the extent to which the change in accounting policy would have impacted on the financial statements if it had been adopted in that year;
- The amount of adjustment relating to years previous to those reported in the set of financial statements, had the proposed policy been adopted retrospectively;
- If retrospective application is impracticable for a particular period, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

The Council will also disclose information relating to an accounting standard which has been issued but not yet adopted.

### **1.6. Prior Year Adjustments**

These typically arise from omissions and misstatements in the Council's financial statements for one or more prior periods. For the error to be a prior year adjustment, it would need to have arisen from a failure to use or misuse, reliable information that:

- a) Was available when financial statements for those periods were authorised for issue; and
- b) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, misunderstanding in applying accounting policies, oversights or misinterpretations of facts, and fraud.

They may also arise for reasons such as changes in Statutory Accounting Standards, which are required to be applied retrospectively.

Where required changes are thought to be significant, an adjustment will be entered into the financial statement's comparative year balances, and the columns headed 'restated'. In addition full disclosure as to the nature, circumstance and value of the adjustment will be disclosed in the notes to the accounts.

Errors which are found and are not significant (this includes material errors) will not result in a prior year adjustment and will be corrected as a current year entry. In addition, errors as a result of information which was not known to the Council, or could not have reasonably been obtained by the Council when the accounts were authorised for issue will also be treated as an in year adjustment.

### **1.7. Unidentified Income**

All unidentified income received is initially coded to an income suspense account. Individual amounts below £10 are written off due to immateriality. Weekly updates of the content of the suspense accounts are circulated to finance departments, to ensure the balances are cleared quickly. Any items of income below £10,000 which

remain unidentified for six months will be written off. Items above £10,000 will be written off after 12 months.

### **1.8. Events after the Balance Sheet Date**

Where there is a material post balance sheet event before the date the accounts are authorised for issue, a disclosure in the notes to the accounts will be included. If this event provides additional evidence of conditions that existed at the Balance Sheet date, and materially affects the amounts to be included in the accounts; adjusting items will be shown in the accounts.

### **1.9. Exceptional Items**

Exceptional items will have been disclosed separately on the face of the Comprehensive Income and Expenditure Statement and details will be disclosed in the notes to the accounts.

### **1.10. Contingent Assets and Liabilities**

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. They are not recognised in the Balance Sheet but disclosed in a note to the accounts.

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

## **CAPITAL ACCOUNTING**

### **1.11. Recognition of Capital Expenditure (de-minimis Policy)**

In accordance with International Accounting Standard 16 (IAS 16), the Council recognises non-current assets as:

- Assets where it is expected that future economic benefit will flow to the Council.
- Assets where the cost can be measured reliably.

and defines them as :-

- Assets held for use in the production or supply of goods or services, rental to others, or for administrative purposes.
- Assets expected to be used for more than one financial periods.

The initial measurement of an asset is recognised to be:

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**APPENDIX TWO – 2017-18 ACCOUNTING POLICIES**

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- Purchase price, construction cost, minimum lease payments or equivalent including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- Costs associated with bringing the asset to the location and condition necessary for it to be capable of operating in the manner required by management.
- Initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located, the obligation for which the Council incurred either when the asset was acquired or as a consequence of having used the asset during a particular period for purposes other than producing inventories during that period.

Subsequent expenditure are costs incurred to add to, replace part of, or service the asset, but do not include day-to-day repairs and maintenance and are treated as capital when

- The expenditure will substantially increase the market value of the asset.
- The expenditure will substantially increase the extent to which the Council can use the asset for the purpose, or in conjunction with the functions of the Council.

Where a component is replaced, the carrying amount of the old component shall be derecognised to avoid double counting and the new component reflected in the carrying amount, subject to the recognition principles as set out above.

The Council has two levels of de-minimis for recognition of capital expenditure, £10,000 and £500,000:

- £10,000 and below – all expenditure at this level is deemed to be non-enhancing unless funded by a Capital grant, and therefore is charged to revenue as it is incurred. This includes initial recognition of assets and subsequent asset expenditure.
- Above £500,000 - expenditure meeting the definitions above will be treated as capital expenditure, either as initial recognition or as an enhancement. However, in order to ensure that the subsequent asset expenditure is enhancing the value of the asset, the Council will instruct a valuation of the asset by a Royal Institute of Chartered Surveyors (RICS) qualified valuer, and any impairment or additional enhancement recognised as necessary.
- Any expenditure above £10,000 and below £500,000 will be treated as capital expenditure as the amount is significant enough to increase the useful life of an asset, however is not material enough to warrant individual impairment review, until the time the asset would normally be valued.

Capital Assets are held on the balance sheet as non-current assets, unless otherwise stated.

The Code of Practice on Local Authority Accounting in the UK – Guidance Notes for Practitioners 2014-15, included detail on the recognition of schools transactions and consolidation issues relating to schools. The Council has assessed whether Voluntary Aided, Voluntary Controlled and Foundation Schools should be included



within the balance sheet, based upon an assessment of ownership and control of the assets. Maintained schools are already held on the balance sheet as the Council controls these entities and therefore all transactions relating to maintained schools are recognised in these accounts. Other types of schools such as Voluntary Aided, Voluntary Controlled and Foundation schools are subject to a test of ownership. The Council recognises a school's assets on its balance sheet where it directly owns them and/or the Council retains substantive rights over the assets and the future economic benefits/service potential of school assets flow to the Council or rights to use the assets have been transferred from another entity.

### 1.12. Donated Assets

These are acquired at less than fair value or transferred for nil consideration. When the Council receives a donated non-current asset, the initial recognition of the asset will be at fair value.

Once any condition attached to the donation has been satisfied, the credit which is the difference between any cash payment and fair value will be treated as income in the relevant service in the Comprehensive Income and Expenditure Statement. To ensure there is no impact on Council Tax this will then be reversed in the Movement in Reserves Statement and credited to the Capital Adjustment Account.

Until the condition has been satisfied the credit will be recognised in the Donated Assets account. If there is no condition, the recognition of the credit in the Comprehensive Income and Expenditure Statement will occur upon acquisition of the asset.

The fair value of an asset will be assessed upon acquisition; this will be provided by a RICS qualified valuer for property assets and another relevant valuation specialist for other types of asset. After initial recognition, donated assets are treated in the same way as similar owned assets.

### 1.13. Non-Current Asset Classification

The Council manages its assets in the following categories:

#### ➤ **Intangible Assets**

In line with International Accounting Standard 38 (IAS 38), the Council recognises intangible assets as non-monetary assets without physical substance, where that asset meets the capital expenditure criteria set out in Accounting Policy 11.

#### ➤ **Property, Plant and Equipment Assets**

Property Plant and Equipment Assets are subcategorised into Operational Land & Buildings, Community Assets, Vehicles Plant & Equipment, Highways Network Asset, Other Infrastructure Assets, and Non-Operational Assets, these being Surplus Assets and Assets under Construction

- Land and/or Buildings Assets.

These assets are recorded, valued and accounted for based on their significant components in line with IAS 16. The Council recognises a significant asset to be 25% of the total asset base. A component would be recognised if its expenditure in a given financial year exceeds 25% of the total value of the significant asset and has a substantially different life to the overall asset:

- Combined Group containing Flat Roof & Mechanical Engineering (Internal Works i.e. boiler system)
- Land
- Temporary Buildings (sheds / portacabins)
- Combined group containing permanent structure, external works (i.e. car park), pitched roof and components of less than 25% of the overall structure value
- Other unique features (e.g. a swimming pool)

○ Community Assets

These are assets that the Authority intends to hold in perpetuity, that have no determinable useful life and which may, in addition, have restrictions on their disposal. There is little prospect for sale or change of use.

If the asset is used for a specific operational purpose, it does not qualify as a community asset and should be valued accordingly.

○ Highways Network Asset

A network and grouping of inalienable components, expenditure on which is only recoverable by continued use of the asset created i.e. there is no prospect of sale or alternative use. The inalienable components include carriageways, footways, cycle tracks, structures, street furniture, street lighting, traffic management systems and land.

○ Other Infrastructure Assets

These include all tangible (physical) assets that are not connected to the Council's Highways Network Asset. There is no prospect for sale of infrastructure assets; expenditure is only recoverable through continued use of the asset.

○ Vehicles, Plant and Equipment Assets and Assets Under Construction

These assets are also classified as Property Plant and Equipment where they do not meet the criteria for Investment Property Assets or Assets Held for Sale.

○ Non-Operational (Surplus) Assets

Surplus assets are assets that are not being used to deliver services, and do not meet the criteria to be classified as either investment properties or held for sale. All surplus assets under IFRS13 which came into effect and

adopted by the Council from 1 April 2015 are to be valued at Fair Value and depreciated accordingly.

The Council, as per the reporting standard, values its assets and liabilities in accordance with section 2.10 of the Code of Practice on Local Authority Accounting in the United Kingdom to reflect the adoption of IFRS13 Fair Value Measurement at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

Fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

IFRS13 requires all assets to be measured at Current Value and the basis of valuation will be determined using the following criteria:

Existing use value for the following assets:

- Depreciated replacement cost – specialised assets
- Existing use value – non-specialised assets
- Existing use value – social housing

Fair value for the following assets:

- Investment assets
- Surplus assets
- Assets Held for Sale

The Council uses valuation techniques, as required by IFRS13, which maximise the use of relevant observable inputs and minimise the use of unobservable inputs and that are appropriate in the circumstances and for which sufficient data is available.

Observable inputs are inputs that are developed using market data, such as publically available information about actual events or transactions, and that

reflect the assumptions that market participants would use when pricing the asset or liability.

Unobservable inputs are inputs for which market data is not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

The Council follows the fair value hierarchy which categorises inputs to the valuation techniques in respect of assets and liabilities into three levels for which fair value is measured or disclosed in the Council's financial statements, these include:

- Level 1 inputs – unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs – unobservable inputs for the asset or liability

Highest priority is given to Level 1 inputs (unadjusted) in active markets and lowest priority to Level 3.

Upon the revaluation of a Surplus Asset at the 31<sup>st</sup> March of the financial year, based on the inputs available at the date of valuation the valuer will establish the IFRS 13 Valuation Input Level for the valuation and will compare this with the IFRS 13 Valuation Input Level for the previous valuation. Where the Input Level is different from that of the previous valuation this will be specifically reported with the valuation together with a narrative description of the reasons and differing circumstances that have resulted in the change.

➤ **Investment Property Assets**

These are items of land and / or buildings held by the Council solely for the purpose of rental income generation or capital appreciation or both.

As such where there is a service of the Council being delivered from the property, this is not classified as Investment Property Assets. This includes where the intention of the asset is to generate economic growth to an area such as below market value rental.

Some Assets Under Construction may also be classified as Investment Properties where the intended eventual use is rental income generation or capital appreciation.

➤ **Heritage Assets**

Assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations are classified as Heritage Assets.

➤ **Assets Held for Sale**

The Council will classify assets as held for sale where all of the following criteria have been met:

- The asset is in the condition required for sale and is vacant.
- The asset's sale is highly probable.
- The asset has been advertised for sale and a buyer sought.
- The completion of the sale is expected within 12 months.

In situations where it is not necessary to carry out active marketing the advertised for sale test is treated as not applicable rather than failed.

Assets which become non-operational which do not meet all of the criteria set out as assets Held for Sale will be classified as surplus. If at a later point in time the asset no longer meets the criteria of Held for Sale, it is restored to its previous classification and all transactions which would have occurred shall be retrospectively applied as though the asset had never been held for sale. Investment Properties which become available for sale remain as Investment Properties.

Assets meeting the criteria as Held for Sale are held as current assets on the balance sheet as income is expected within 12 months.

It is possible that assets meeting the criteria to be Held for Sale; may undergo a change in circumstance beyond the control of the Council resulting in the sale being delayed beyond 12 months. In these instances the Council follows the policies outlined for assets held for sale; however disclosure of the value for these assets is within non-current assets. Due to the circumstances around the definition, it is expected that this will occur very rarely.

#### **1.14. Non-Current Asset Valuation Methodology**

The various classifications of assets as outlined in Accounting Policy 13 are valued on a differing base. Where not explicitly stated otherwise, property revaluations are completed by a RICS qualified valuer (who is internal to the Council), over a 'short period', interpreted to mean on a five year rolling programme for each class of asset i.e. 20% of the Council's assets are revalued at the 1 April for the financial year. However an impairment review to consider if any material degradation or other impairment has occurred during the financial year is then completed at the Balance Sheet date.

Where there is an upward revaluation, the carrying value is increased and the associated credit charged directly to the Revaluation Reserve. This is then reflected

in the Comprehensive Income and Expenditure Statement as a revaluation gain. Where there is a revaluation resulting in a lower than carrying amount valuation, this is treated in line with Accounting Policy 15 – impairment of Non-Current Assets.

Valuations are completed as follows:

- **Intangible Assets** – the Council recognises Intangible Assets at cost. The Council will revalue intangible assets annually where there is a determinable market value for the asset.
- **Property Plant and Equipment (PPE)** – Property Assets are held at current value which is the amount that would be paid for the asset in its existing use. This requirement is met by providing a valuation on the basis of Existing Use Value (EUV) in accordance with United Kingdom Practice Statement (UKPS) 1.3 of the RICS Valuation Standards. Where no other valuation method can be used, Depreciated Replacement Cost (DRC) is used. Vehicles, Plant and Equipment, IT Hardware, and Assets Under Construction within PPE are held at historic cost (not valued).
- **Highways Network Asset** - in accordance with the Highways Transport Code the Highways Network Asset will be recognised at Depreciable Replacement Cost from the 1 April 2017.
- **Other Infrastructure Assets** – the Council recognises Other Infrastructure Assets at Depreciated Historical Cost.

The Code of Practice on Transport Infrastructure Assets 2010, updated in 2013 following a full review, requires Highways Networks Assets to be valued on a Depreciated Replacement Cost valuation basis within the 2017-18 accounts.

- **Investment Property Assets** – Investment Properties are annually revalued at fair value which is interpreted as the amount that would be paid for the asset in its highest and best use, i.e. market value. This includes Investment Property Under Construction. The fair value of Investment Property held under a lease is the lease interest.
- **Community Assets** – the Council recognises Community Assets at historic cost.
- **Heritage Assets** – where it is possible to determine a valuation for Heritage Assets, then the Council will recognise the asset in the Balance Sheet at that valuation. All Heritage Assets are disclosed in the notes to the accounts, even where they are not held in the Balance Sheet. Where there is evidence of impairment to Heritage Assets e.g. where an item has suffered a physical deterioration or where there is a doubt to the authenticity of a piece of art, any

impairment is recognised and measured in accordance with the Council's general policies on impairment.

- **Assets Held for Sale** – Assets held for sale are, at initial classification and at the end of each reporting year, valued at the lower of carrying amount and fair value less costs to sell.
- **Surplus Assets** - Surplus assets from 1 April 2015 are to be valued at Fair Value in accordance with section 2.10 IFRS 13.

### 1.15. Impairment of Non-Current Assets

This accounting policy has been created in accordance with IAS 36

Impairment is the amount to which the carrying value of an asset exceeds the recoverable amount.

At the end of each reporting period the Council assesses whether there is any indication that an asset may be impaired.

The Council recognises impairment as:

- A significant decline (i.e. more than expected as a result of the passage of time or normal use) in an asset's market value during the period;
- Evidence of obsolescence or physical damage of an asset;
- A commitment by the Council to undertake a significant reorganisation; and
- A significant adverse change in the statutory or other regulatory environment in which the Council operates.

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). Any further impairment or if there has been no previous revaluation, the impairment is charged to revenue. This is then reversed through the Movement in Reserves Statement and charged to the Capital Adjustment Account.

### 1.16. Disposal of Non-Current Assets

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Sale proceeds in excess of £10,000 are categorised as Capital Receipts. Receipts are credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the

Capital Financing Requirement). Receipts are transferred to the Reserve from the movement in reserves statement. The value of the asset is transferred to the Capital Adjustment Account via the Movement in Reserves Statement.

Sale proceeds of £10,000 and below are credited straight to the Comprehensive Income and Expenditure Statement.

### **1.17. Depreciation / Amortisation Methodology**

In order to recognise the total cost of using fixed assets, the Council has a policy to depreciate assets on a straight line basis over their useful economic life, reducing the value of the asset, and charging the relevant revenue service expenditure. However, under statute, depreciation is not chargeable to the tax payer, the Council removes this charge through the Movement in Reserves Statement and charges it to the Capital Adjustment Account.

The economic lives of assets are:

- **Intangible Assets – 5 years.**
  
- **Property Plant and Equipment**
  - Combined Group for Flat Roof and Mechanical Engineering – 20 years
  - Land – not depreciated
  - Temporary Buildings – 15 years
  - Modular Buildings – 25 years
  - Combined group for structure, external works, pitched roof and components of less than 25% of the overall structure value – 40 years
  - Other unique features (i.e. a swimming pool) – as required
  - Fixtures and Fittings – 10 years
  - IT Hardware – 5 years
  - Vehicles – 3 to 10 years
  
- **Highways Network Asset**
  - Carriage ways – 15 to 40 years
  - Footways and cycle tracks – 45 years
  - Structures – 40 years
  - Lighting – 30 to 40 years
  - Traffic management – 20 years
  - Street furniture – 30 years
  
- **Other Infrastructure Assets**
  - Footpaths, Cycleways and Structures not forming part of the Highways Network Asset – 40 years
  
- **Investment Property Assets – not depreciated**



- **Community Assets** – Community Assets are depreciated in line with the normal policy for assets of that nature (i.e. land assets are not depreciated). Under rare circumstances if it is not possible to determine a useful life (such as works of art) in those instances the asset is not depreciated.
- **Assets Held for Sale** – are not depreciated

The Council charges depreciation on a pro-rata basis during the year i.e. from the month of acquisition to the month of disposal.

### 1.18. Leases

In line with IFRIC 4, the Council recognises a lease to be any agreement which transfers the right to use an asset for an agreed period in exchange for payment, or a series of payments.

This includes leases, hire purchase, rental, contracts of service, service level agreements and any other arrangement where the ability to use an asset is conveyed.

### 1.19. Defining a Finance Lease

A finance lease is where substantially all of the risks and rewards relating to ownership transfer to the lessee.

Tests to give an indication of the transfer of risk and reward are:

- If the lessee will gain ownership of the asset at the end of the lease term (e.g. hire purchase)
- If the lessee has an option to purchase the asset at a sufficiently favourable price that it is reasonably certain, at the inception of the lease, that it will be exercised
- If the lease term is for the major part of the economic life of the asset even if the title is not transferred. Measures to identify this are:
  - The economic life of the asset is deemed to be that which is consistent with the class of asset in the depreciation policy.
  - The Council recognises 'major part' to be 75% of the life of the asset, unless on an individual case basis this would not give a true representation of the substance of the transaction.
- At the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset. Measures to identify this are:
  - Fair value of the leased asset is assessed by a RICS qualified valuer.
  - The present value of the minimum lease payments is calculated by discounting at the rate inherent in the lease.
  - If this rate cannot be determined the incremental borrowing rate applicable for that year is used.

- The Council recognises ‘substantially all’ to be 75% of the value of the asset, unless on an individual case basis this would not give a true representation of the substance of the transaction.
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.
- If the lessee cancels the lease, the losses of the lessor, associated with the cancellation are borne by the lessee.
- Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (e.g. in the form of a rent rebate equalling most of the sales proceeds at the end of the lease).
- The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

A suitably experienced accountant, with assistance from qualified valuers, will make a judgement based on the level of risk and reward held by the Council as to whether a lease is operating or finance.

#### **1.20. Defining an Operating Lease**

The Council recognises an operating lease to be a lease which is not a finance lease.

#### **1.21. Lessee Accounting for a Finance Lease**

Where the Council is tenant in a property, or is, by definition of IFRIC 4, leasing an asset which is deemed under IAS 17 to be a finance lease the Council will recognise that asset within the asset register, and account for that asset as though it were an owned asset.

The initial recognition of the asset is at the fair value of the property, or if lower, the present value of the minimum lease payments. A liability is also recognised at this value, which is reduced as lease payments are made.

#### **1.22. Lessor Accounting for a Finance Lease**

Where the Council is the lessor for a finance lease, the asset is not recognised in the asset register; however a long term debtor at the present value of minimum lease payments is recognised. Income received is split between capital - credited against the debtor, and finance income – credited to the Comprehensive Income and Expenditure Statement as interest receivable.

#### **1.23. Lessor Accounting for an Operating Lease**

Where the Council is the lessor for an operating lease, it will retain the property as either an item of Property Plant and Equipment or as an Investment Property on the Balance Sheet. Any rental income is credited to the relevant service income.

#### **1.24. Service Concession Agreements (Private Finance Initiative (PFI) and other similar contracts)**

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI

contractor. PFI and similar contracts are assessed against criteria within IFRIC 12 Service Concession Arrangements to determine whether the risks and rewards incidental to ownership lie with the Council or the contractor.

Those which lie with the contractor – payments made during the life of the contract are chargeable to revenue as incurred.

Those which lie with the Council – are recognised as an asset in the Balance Sheet for the construction costs of the asset. Once recognised this asset is treated in line with all capital assets. A corresponding long term liability is also recognised at the construction value. Payments made during the life of the contract are split into finance costs, capital costs and service costs. Determining the split of payments is calculated at the inception of the contract and is based on the inherent interest rate within the original agreement. Finance costs are chargeable to the Comprehensive Income and Expenditure Statement as Interest payable. Capital Costs reduce the level of liability in the Balance Sheet. Service costs are chargeable to the relevant revenue service expenditure. Pre-payments or Dowry payments reduce the level of liability at the start of the contract.

PFI Credits are treated as general revenue government grants.

### **1.25. Capital Grants and Contributions**

The Council recognises capital grants and contributions as being related to capital assets and uses them to fund capital expenditure on those assets. Grants, contributions and donations are recognised as income at the date that the Council has satisfied the conditions of entitlement, and there is reasonable assurance that the monies will be received.

Any grant received before these recognition criteria were satisfied would be held as a creditor. Any grant which had met the recognition criteria but had not been received would be shown as a debtor. This is in line with the Accruals Concept Policy.

Once the recognition criteria above have been satisfied, capital grants are recognised as income in the Comprehensive Income and Expenditure Statement.

In order to not impact on the level of Council Tax, the Council removes the credit from the General Reserves through the Movement in Reserves Statement, and makes a credit to the Capital Grants Unapplied Reserve.

Once expenditure has been incurred on the related asset, the credit is removed from the Capital Grants Unapplied Reserve and credited to the Capital Adjustment Account.

**1.26. Revenue Expenditure Funded from Capital Under Statute (REFCUS)**

Expenditure incurred that either may be capitalised under statutory provisions or is capital in nature but does not result in the creation of a fixed asset that is owned by the Council. REFCUS is charged as expenditure to the Comprehensive Income and Expenditure Statement in the year, however is financed from existing capital resources or by borrowing. A transfer between the Capital Adjustment Account and the Movement in Reserves Statement then reverses out the impact on the general fund balance.

**1.27. Minimum Revenue Provision (MRP)**

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement.

The Council will provide for 2.5% of debt outstanding on all debt as at 31 March 2008. On any new debt since this date the Council will provide 2.5% of the balance on all borrowing, unless any unsupported borrowing relates to any significant assets with a life of less than 20 years. In this case an annual amount based on the expected useful life of the individual assets is used and where those assets are vehicles then an average life of five years is used.

As a result of the changes introduced by International Financial Reporting Standards, some PFI and leased assets now classified as finance leases are being brought onto the Balance Sheet. As a result, the Council has adopted the policy of charging MRP for these assets at the value of the associated loan liability repayment each year, thus mitigating the impact to the General Reserve.

**1.28. Capital Reserves**

The Council holds Capital Reserves for the purpose of financing capital expenditure. Reserves will be disclosed as either usable (available to fund capital expenditure) or unusable (reserves held as a result of timing differences associated with recognition of capital expenditure and related financing).

Movements in capital reserves are accounted through the Movement in Reserves Statement.

**REVENUE ACCOUNTING****1.29. Recognition of Revenue Expenditure**

The Council recognises revenue expenditure as expenditure which is not capital.

**1.30. Employee Costs**

In accordance with IAS 19, the Council accounts for the total benefit earned by employees during the financial year.

Employee Costs are split into 3 categories; short term benefits, termination benefits and pensions costs.

### **Short Term Employee Benefits**

- **Salaries and Wages** – The total salary and wages earned by employees during the financial year are charged to the Comprehensive Income and Expenditure Statement. Where the amount accrued exceeds the amount paid at the 31 March, a creditor will be reflected in the accounts.
- **Leave Owed, Accumulating Absences** – The Council allows employees to earn time off in one period with the resulting cost to the Council in a later period when that time is either taken off or paid to the employee. Examples of this accumulating leave are annual leave, flexi-time and time off in lieu.

If an employee were to leave the Council, cash payment would be made for entitlements such as annual leave; this leave is termed vesting. Where no cash payment would be due, the leave is termed non-vesting.

In order to correctly reflect the cost of time owed to staff, a charge has been made to the Comprehensive Income and Expenditure Statement and a creditor accrual has been reflected in the Balance Sheet. This charge is reflective of the estimated time cost value of all accumulating leave owed to employees. Vesting leave will be charged in full; however non-vesting leave has been adjusted to reflect the turnover of staff.

- **Easter Bank Holiday** – When Good Friday and/or Easter Monday fall in April, the preceding financial year only accounts for 6 or 7 bank holidays rather than the statutory 8. When this occurs a charge is made to the Comprehensive Income and Expenditure Statement and a creditor accrual is reflected in the Balance Sheet.
- **Non-accumulating Absences** – are periods of leave that cannot be carried forward for use in future periods. Examples include Maternity Leave, Special Leave, Sick Leave and Jury Service. The Council does not recognise non-accumulating compensated absences until the time that the absence occurs.
- **Non-monetary Benefits** – Where employees have non-monetary benefits (e.g. retirement benefits or life insurance), the associated cost of providing that benefit has been charged to the Comprehensive Income and Expenditure Statement.

### **Termination Benefits**

- **Redundancy Costs** – The obligation to pay redundancy costs occurs when there is a formal plan to create redundancies. The plan would include the location, function and approximate number of employees affected; the termination benefits offered; and the time of implementation. When these recognition criteria have been met the Council recognises the costs associated

with this in the service revenue expenditure and creates a creditor in the Balance Sheet. Where the payable amount is due in more than 12 months from the year end date, the costs are discounted at the rate determined by reference to market yields. In the case of an offer to encourage voluntary redundancy, the Council has recognised the estimated cost based on the expected number of employees taking the offer.

The Council will disclose details of exit packages within the notes to the accounts.

### **Pensions Costs**

- **Teachers' Pension Scheme** – is a defined benefit scheme administered by the Department for Education. The assets and liabilities of the Teachers' Pension Scheme are not attributable to the Council, therefore the Council accounts for the scheme as if it were a defined contribution scheme. This means that the Children and Education Services line in the Comprehensive Income and Expenditure Statement will only include the Council's contributions payable to the scheme.
- **Local Government Pension Scheme** – is a defined benefit scheme. The liabilities of the scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions such as mortality rates and employee turnover rates, and projections of earnings for current employees.

Pension liabilities are measured using the projected unit method, discounted using the rate on high quality corporate bonds of equivalent term to the liabilities. The discount rate is the weighted average of "spot yields" on AA rated corporate bonds.

The change in the net pension 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 within the relevant service area dependant on staff employed at the Council. The current service cost includes an allowance for administration expenses
- 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 Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- Gains/Losses on Settlements and Curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost 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 Net Operating Expenditure in the Comprehensive Income and Expenditure Statement
- Interest Income on Plan Assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement
- 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 Movement in Reserves Statement.
- Employer Contributions – cash paid by the Council to the Pension Fund.

In relation to retirement benefits, statutory provisions require the General Reserve to be charged with the amount payable by the Council to the Pension Fund in the year, not the amount calculated according to the relevant accounting standards. Adjustments are therefore made in the Movement in Reserves Statement.

- **Early Retirement, Discretionary Payments** – the Council 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 which are applied to the Local Government Pension Scheme.

### 1.31. Lessee Accounting for an Operating Lease

Costs associated with operating leased assets where the Council is the lessee are charged immediately to the Comprehensive Income and Expenditure Statement within the Net Cost of Services on an accruals basis.

### 1.32. Revenue Grants and Contributions

Grants, contributions and donations (referred to as grants for the purposes of this policy) are recognised as income at the date that the Council has satisfied the conditions of entitlement, and there is reasonable assurance that the monies will be received. Any grant received before these recognition criteria were satisfied would be held as a creditor (income in advance). Any grant which had met the recognition criteria but had not been received would be shown as a debtor.

Revenue grants will either be received to be used only for a specific purpose, or can be used for general purpose. Those for a specific purpose are recognised in the Comprehensive Income and Expenditure Statement within the Net Cost of Services. Those which are for general purpose are shown within Other Operating (Income) and Expenditure in the Comprehensive Expenditure and Income Statement.

### **1.33. Provisions**

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain.

Provisions are charged to the appropriate service revenue account in the year that the Council recognises an obligation, based on the best estimate of the likely settlement. When payments are eventually made, it is charged to the provision. Where payment is not expected for more than 365 days after the balance sheet date, the provision has been discounted using the rate of a high quality corporate bond.

Estimated settlements are reviewed at the end of each financial year and adjustments with the Comprehensive Income and Expenditure Statement are made as required.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income if it is virtually certain that reimbursement will be received if the obligation is settled.

The Council does not hold any general provisions.

### **1.34. Revenue Reserves**

The Council holds usable revenue reserves for the purpose of funding future expenditure. The General Reserve represents the balance of reserves to meet short term, unforeseeable expenditure and to enable significant changes in resources or expenditure to be properly managed over the period of the Five Year Financial Plan. Earmarked Reserves represent balances where approval has been received to use the reserve for a specific purpose.

Unusable revenue reserves represent timing differences such as those associated with the recognition of retirement benefits, Council tax income and financial instruments.

Movement in reserves are accounted through the Movement in Reserves Statement.

The Council publishes a separate Reserves Policy document, which is reviewed by Cabinet at least annually.

### **1.35. Research Costs**

Research costs should be treated as revenue expenditure at the point in which they are incurred, and charged to the Comprehensive Income and Expenditure Statement.

### **1.36. Members Allowances**

The Council in exercise of the powers and duties conferred by the Local Authorities (Members' Allowances) (England) Regulations 2003, has established a Members Allowance Scheme, outlining the allowances payable to Members of the Council.



Members are reminded of the need to keep detailed supporting information, such as a diary, about every attendance for which they claim. This information should be available for scrutiny by the Council's Auditors or other relevant persons as and when required. The scheme is updated annually, and full details are available on the Council's website.

The total amount paid in terms of Members Allowances is disclosed in the notes to the accounts.

### **1.37. Council Tax and Business Rates Recognition**

Council Tax and Business Rates income included in the Comprehensive Income and Expenditure Statement includes the Council's share of accrued income recognised by billing authorities in the production of the Collection Fund Statements.

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Reserve is taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement.

### **1.38. Inventories and Work in Progress**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. Inventory is recorded in terms of average cost.

Work in progress is subject to an interim valuation at the year-end and recorded in the Balance Sheet at cost plus any profit reasonably attributable to the works.

### **1.39. Provisions for bad and doubtful debts**

The Council maintains a bad debt provision for any potential non-payment of debtors. At each Balance Sheet date the Council makes a two-stage assessment as to whether impairment losses need to be recognised:

- Firstly, whether there is evidence of impairment for individual debtors that are significant, and
- Secondly, whether there is evidence of impairment for groups of similar debtors.

Assessment is made based on the risk of debtors' ability to pay future cash flows due under the contractual terms. This risk is estimated where possible based on historical loss experience, credit rating for a debtor and other impacting factors.

Provisions for bad debts are offset against the debtor amount shown as an asset, the movement in the provision is charged against the relevant service line in the Comprehensive Income and Expenditure Statement.

## TREASURY MANAGEMENT

### 1.40. Definition of Treasury Management Activities

The Council has adopted the following definition of Treasury Management activities:

The management of the Council's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.

The Council acknowledges that effective treasury management will provide support towards the achievement of its service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

### 1.41. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in the value.

### 1.42. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost.

Annual charges to 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. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable plus any interest accrued to 31 March and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure 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 Reserves to be spread over future years.

The Council has a policy of spreading the gain/loss over the term of the replacement loan subject to a minimum period of 10 years with the case of discounts. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Reserves is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### 1.43. Financial Assets

Financial assets are classified into two types:

- 1) Loans and Receivables** – assets that have fixed or determinable payments but are not quoted in an active market

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus any interest accrued to 31 March and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement. However, the Council could make loans to organisations at less than market rates (soft loans).

When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement 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 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 Reserves 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 Reserves 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 Comprehensive Income and Expenditure Statement.

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

Investments are represented on the balance sheet depending on their remaining life at the Balance Sheet date:

- Investments entered into for 90 days or less - debited to the cash balance as cash equivalents and represented within the cash flow statement.
- Investments entered into for more than 90, with less than 365 days until maturity – debited to current asset investments
- Investments due to expire in more than 365 days – debited to non-current asset investments

**2) Available for Sale Financial Assets** – assets that have a quoted market price and/or do not have fixed or determinable payments. These are non-derivative financial assets that are designated as available for sale or are not classified as

- a. Loans and receivables
- b. Held to maturity investments
- c. Financial assets at fair value through profit or loss

Available For Sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to 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.

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

Changes in fair value are balanced by an entry in the Available For Sale Reserve and the gain/loss is recognised in the Movement in Reserves Statement. The exception is where impairment losses have been incurred – these are debited to the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the 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, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. Any gains and losses that arise on de-recognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

**1.44. Interests in Companies and Other Entities**

Where the Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures, it is required to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as investments, i.e. at cost, less any provision for losses.

**AA rated corporate bonds**

Financial indicator of very good quality, low risk debt securities. These are assigned by credit rating agencies such as Moody's, Standard & Poor's and Fitch Ratings to have letter designations (such as AAA, B, CC).

**Account**

A group of expenditure items or balances with similar qualities will be summated into an 'account' balance such as an individual reserve account, or revenue expenditure account.

**Accounting Policies**

The Councils document outlining how it will account for all of its operations.

**Accounting Principles**

Commonly accepted set of concepts or assumptions that have to be followed when producing financial statements.

**Accounting Standard**

Statutory guidelines which explain how to treat financial activities in the financial statements. See International Financial Reporting Standards (IFRS).

**Accrual**

The accruals concept requires that the cost or benefit of a transaction is shown in the period to which the goods or services are received or provided, rather than when the cash is paid or received.

**Accruals Concept**

Requires operations of the Council to be reported in the financial statements at the point which they took place, rather than when the cash was paid or received.

**Accumulating Absences**

Types of leave which employees are entitled to each year; which if untaken in one financial year will be added to the entitlement for the following year.

**Acquired / Acquisition**

Operations or assets which have become the responsibility of the Council, such as through purchase, a Government reorganisation, donation or merger.

**Actuarial**

The estimation technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements of an organisation.

**Actuaries**

An actuary is a professional who deals with the financial impact of risk and uncertainty. Actuaries provide assessments of financial systems and balances.

**Amortisation**

The term used to describe the charge made for the cost of using intangible fixed assets. The charge for the year will represent the amount of economic benefits consumed aka wear and tear.

**Amortised Cost**

The cost of intangible assets reduced by the amount of amortisation charged to date.

**Annual Leave**

Yearly entitlement of paid time off for Council staff.

**Asset Register**

Listing of all property (for example land, buildings, furniture, infrastructure, software) owned by the Council. The register holds all financial information relating to the asset.

**Assets**

Right or other access to future economic benefits.

**Assets Held For Sale**

Non-Current Assets which meet the relevant criteria to be classified as held for sale.

**Assets Under Construction**

Property (buildings) which is currently being built or changed to the degree that it would be classed as a different property.

**Associates**

An entity (including partnerships) which is not a subsidiary or joint venture, where the Council has significant influence.

**Authorised For Issue**

The date which the financial statements have been certified by External Audit and signed the relevant Officers and Members of the Council.

**Available For Sale Financial Asset**

An available for sale security is a debt or equity security that is not classified as held-for-trading or held-to-maturity security. Available for sale securities are purchased with the intent of selling before they reach maturity.

**Balance Sheet**

Shows all balances including reserves, long-term debt, fixed and net current assets, together with summarised information on the fixed assets held.

**Balance Sheet Date**

The date at which the Council reports its financial statements. For Derbyshire County Council, this date is the 31 March.

**Bias**

Influence or direction.

**Billing Authorities**

Councils who are responsible for issuing Council Tax Invoices and collection of income from local residents. The relevant share of that income is then transferred to the Council.

**Borrowing Requirement**

The amount required to be loaned from Money Markets or other financial institutions or Councils in order to support capital expenditure.

**Business Rates**

Local property taxation issued to businesses, similar to Council Tax on residential properties. Also known as National Non Domestic Rates (NNDR).

**Cabinet**

Sub-committee of elected Councillors representing the functions and portfolios of the Council.

## **Capital**

Assets which have a long term value to the Council such as Buildings.

### **Capital Adjustment Account**

Capital reserve largely comprising of resource applied to capital financing and is not available to the Council to support new investment.

### **Capital Appreciation**

Increase in the worth of assets over time due to changes in market conditions or enhancements to the asset.

### **Capital Costs**

Reflects the element of annual payment for PFI or Leased assets which is in relation to the reduction in the long term debt associated with the asset.

### **Capital Expenditure**

Expenditure on the acquisition of, or enhancement to fixed assets. This cannot be merely to maintain the value of an existing asset.

### **Capital Financing Requirement**

The Capital Financing Requirement measures the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. It is a measure of the underlying need to borrow for a capital purpose.

### **Capital Grant**

Grant which is intended to fund capital expenditure.

### **Capital Grants Unapplied Reserve**

Balance of capital grants received which is available to finance future capital expenditure.

### **Capital Receipts**

Income received from the sale or utilisation of property, such as sale proceeds or rental income on finance leases.

### **Capital Reserves**

Reserve balances held for capital purposes.

### **Carrying Value**

The value held in the Asset Register for property at the balance sheet date, is what the property is deemed to be worth on that day.

### **Cash Flow Statement**

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

### **Cash Flows**

Monies received or paid either as cash or bank transactions. Cash inflow denotes money received, cash outflow denotes money paid.

### **Chartered Institute of Public Finance And Accountancy (CIPFA)**

The main authority on accountancy and financial management for the public services in the UK.

### **CIPFA Code**

A publication produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) that provides comprehensive guidance on the content of a Council's Statement of Accounts.



**Collection Fund**

The fund maintained by authorities who have responsibility to bill Council Tax and Non-Domestic Rate payers (billing authorities).

**Collection Fund Adjustment Account**

Revenue reserve to represent the difference between the income received by a local authority in Council Tax and the amount attributable to them.

**Collection Fund Statements**

The statutory financial statements produced as part of the Statement of Accounts by authorities who have responsibility to bill Council Tax and Non-Domestic Rate payers (billing authorities).

**Community Assets**

Assets which are held for the benefit of the community where there is no determinable useful life, such as works of art.

**Comparative Year**

The previous year to that which is being reported.

**Component Accounting**

The concept that individual parts of an asset (such as land, brick building, roof, sheds) should be treated differently in the financial statements dependent on the expected useful life or value of those individual parts. The concept expects that some parts of an asset require repair or replacement sooner than others.

**Comprehensive Income And Expenditure Statement**

Financial Statement detailing the revenue operations of the Council. This represents the private sector equivalent of a Profit and Loss Statement.

**Condition**

A requirement which must be met for an asset or liability to be recognised by the Council. For example, a donation which can only be spent within a specific service area such as museums or to support children.

**Contingent Assets And Liabilities**

Potential income or costs that the Council may incur in the future because of something that happened in the past, but there is no certainty that a cost will occur.

**Contributions**

Income received by the council which is not a grant, donation, fine, or in direct exchange for goods or services.

**Core Service Areas**

The services provided by the Council externally, such as education, highway maintenance and adult social care.

**Corporate And Democratic Core**

Costs associated with maintaining a democratic representation and management within the Council. For example Members Allowances and administrative costs associated with supporting elected Members.

**Council**

The Council comprises all of the democratically elected Councillors who represent the various electoral divisions.

**Council Tax**

Council Tax is a local taxation that is levied on dwellings within the local Council area, and funds all Council services.

**Credit**

A credit represents income to a revenue account.

**Creditor**

Represents the amount that the Council owes other parties.

**Current Service Cost**

The current service cost is the increase in the value of the pension schemes future pension liabilities arising from the employees on-going membership of the pension scheme.

**Current Value**

IFRS13 introduces the concept of current value and defines it as the measurements that reflect the economic environment prevailing for a service or function the asset is supporting at the reporting date. Current value can be fair value, existing use value, existing use value – Social Housing and depreciable replacement cost.

**Current Year Entry**

A transaction which has occurred in the financial year being reported.

**Curtailments**

Materially reducing the expected years of future services of current employees or eliminating for a significant number of employees the accrual of defined benefits for some or all of their future services.

**Debit**

A debit represents expenditure against a revenue account.

**Debt Outstanding**

The remaining principal balance owed on a loans or investments at a given point in time.

**Debtors**

Represents the amounts owed to the Council.

**Defined Benefit Scheme**

Also known as a Final Salary Scheme. Pension scheme arrangement where the benefits payable to the members are determined by the scheme rules. In most cases there is a compulsory members' contribution but over and above this all costs of meeting the quoted benefits are the responsibility of the employer.

**Defined Contribution Scheme**

Also known as a Money Purchase Scheme. Pension scheme arrangement where the employer's liability is restricted to the amount that they contribute. Benefits payable to the members depend on the performance of the invested contributions of the members and the employer, the level of contributions invested, the charges deducted by the product provider and the annuity rate at retirement.

**De-Minimis**

Minimum level required. For example expenditure below the capital de-minimis

is below the minimum level required to be treated as a capital expenditure item.

### **Department For Education**

Central Government Department, responsible for education and children's services in England.

### **Depreciable Replacement Cost (DRC)**

DRC is a method of valuation that provides the current cost of replacing an asset with its Modern Equivalent Asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation.

### **Depreciation**

The term used to describe the charge made for the cost of using tangible fixed assets. The charge for the year will represent the amount of economic benefits consumed by, for example, wear and tear.

### **Derecognition**

The process upon which assets are no longer deemed to belong to the Council either by sale, destruction or other form of disposal.

### **Discount**

An allowance received through the early repayment of debt.

### **Discounted**

Reflecting the equivalent value today of a payment or income made or due in the past or future.

### **Discounted Cash Flow**

A method of analysing future cash flows, by removing the impact time has on the value of money, and producing an equivalent current value (present value).

### **Discretionary Benefits**

Benefits given to employees which are not statutorily obliged.

### **Disposal**

Operations or assets which have left the responsibility of the Council, such as through sale, a Government reorganisation, donation or merger

### **Donated Assets**

Assets which have been acquired at below market cost.

### **Dowry**

One off payment made as donation, contribution or pre-payment of an obligation.

### **Earmarked Reserves**

Reserve balances which have been set aside for future spending in a specific area.

### **Economic Life**

The period of time that an asset is deemed to have a value, before wear and tear is to a degree that the asset has no worth.

### **Effective Rate**

The interest rate embedded within a contract or lease, allowing for regular annual payments and the time value of money.

### **Employee**

A person who holds an office within the Council, but does not include a person who is an elected Councillor.

**Employee Benefits**

Monetary or other awards to employees of the Council in exchange for services provided. For example, pay, holidays, and pensions.

**Employee Costs**

The costs directly associated with employees, including but not exhaustively salaries and wages, National Insurance contributions and pension's costs.

**Employer Contributions**

The payments made to an employee's pension scheme by the Council.

**Enhancement Expenditure**

Expenditure which increases the value of an asset.

**Entity**

Something with a legal status such as the Council, a company, or an individual.

**Events After The Balance Sheet Date**

An event which occurs between 31 March and the date that the accounts are signed which would alter the conclusion reached by any reader of the accounts.

**Exceptional Items**

Material items that result from the ordinary activities of the Council, but to a value so significantly abnormal that is not expected to recur at that level.

**Existing Use Value (EUUV)**

The value of an asset based on what it is currently being used for. For example, two identical buildings in construction and design may have different values where one is used as a school and another is used as offices.

**Exit Packages**

The payment made to an employee upon leaving the Council.

**Expenditure**

Payments made of goods or services.

**Extraordinary Items**

Material items possessing a high degree of abnormality which arise from events or transactions that fall outside the ordinary activities of the Council and which are not expected to recur.

**Fair Value**

Usually the amount that would be paid for an asset in an active market, however where there is no market for a certain type of asset (such as schools) other methods to determine fair value are used.

**Finance Income**

Interest receipts.

**Finance Lease**

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

**Financial Assets**

A right to future economic benefits controlled by the Council.

**Financial Instruments**

An umbrella term to describe all financial services and trading with which the Council may operate, including loans, borrowings, bank accounts and debtors.

**Financial Instruments Adjustment Account**

Revenue reserve which records the timing differences between the rate at which gains and losses are recognised and the rate at which debits and credits are required to be made against Council tax.

**Financial Liabilities**

An obligation to transfer economic benefits controlled by the Council.

**Financial Statements**

Published document, consisting of the Balance Sheet, Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Cash Flow Statement and Notes to the Accounts.

**Financial Year**

The current year being reported upon running from 1 April to 31 March.

**Five Year Financial Plan**

The Councils Medium Term Financial Plan, setting out the financial projection for the Council over the coming 5 years.

**Fixed Assets**

See Non-Current Assets.

**Flexi-Time**

Time owed to employees who have worked above the contracted hours.

**Gain**

Where income exceeds expenditure.

**General Provisions**

Money set aside in the Balance Sheet where its future use is not known.

**General Reserve**

The reserve held by the County Council for general purposes, i.e. against which there are no specific commitments.

**General Revenue Government Grants**

Grant income received from Central Government (or Government Department) which is not restricted in its use.

**Going Concern**

The going concern accounting concept assumes that the organisation will not significantly curtail the scale of its operation in the foreseeable future.

**Goods Or Services**

Supplies required by the Council to perform its operations. Examples of goods; paper, bricks or light bulbs, and services; electricity, petrol or agency staff.

**Grants**

Payment towards the cost of local authority services. These are either for particular purposes or services (specific grants) or in aid of local services generally (formula grant).

**Group Accounts**

Where a Council has a controlling interest in another organisation, group accounts have to be produced. These accounts report the financial position of all of the group entities.

**Highways Network Asset**

A network and grouping of inalienable components, expenditure on which is only recoverable by continued use of the asset created i.e. there is no prospect of sale or alternative use.

**Hire Purchase**

A contract for the provision of an asset which becomes the property of the lessee at the end of the contract period.

**Historic Cost**

The cash paid in obtaining an asset in its current form. Inclusive of purchase price and enhancement expenditure.

**HM Revenue & Customs**

Her Majesty's Revenue and Customs is a non-ministerial department of the UK Government responsible for the collection of taxes, the payment of some forms of state support, and the administration of other regulatory regimes including the national minimum wage.

**HM Treasury**

Her Majesty's Treasury, sometimes referred to as the Exchequer, or more informally the Treasury, is the United Kingdom government department responsible for developing and executing the British government's public finance policy and economic policy.

**IFRIC**

International Financial Reporting Interpretation Committee.

**Immateriality**

Immateriality is an expression of the relative insignificance or unimportance of a particular matter in the context of the financial statements as a whole.

**Impairment**

Impairment is the amount by which the carrying amount of an asset exceeds its recoverable amount.

**Inception**

The point in time which something began such as a project, contract or lease.

**Income**

Cash flows into the Council.

**Income In Advance**

Income received before the point at which an obligation to receive it has occurred.

**Intangible Asset**

Non-current assets which do not have physical form such as software.

**Interest Accrued**

Accrued interest is the interest on a bond or loan that has accumulated since the principal investment or since the previous coupon payment if there has been one already.

**Interest Payable**

The amount of interest due for payment within a financial year.

**Interest Rate**

The rate at which interest is calculated on a loan or investment.

**Interest Receivable**

The amount of interest due for receipt within a financial year.

**International Accounting Standards (IAS)**

Regulations outlining the method of accounting for activities, IAS's are currently being replaced with International Financial Reporting Standards (IFRS's) issued by the International Accounting Standards Board.

**International Financial Reporting Standards (IFRS)**

Regulations outlining the method of accounting for activities, issued by the International Accounting Standards Board.

**International Public Sector Accounting Standards (IPSAS)**

Public Sector regulations outlining the method of accounting for activities.

**Inventories**

Goods purchased in advance of their use which are held in store.

**Investment Property**

Assets held solely for the purposes of rental generation or for increasing the value pre-sale (capital appreciation).

**Joint Venture**

An organisation which the Council has partial control and ownership, but decisions require the consent of all participants.

**Lease**

Financial contract for the continuing use of an asset.

**Lease Interest**

The interest rate inherent within a lease allowing for regular rental payments and an adjustment for the time value of money.

**Lease Payments**

Regular payment made in exchange for the use of an asset.

**Leases**

A method of funding expenditure by payment over a defined period of time.

**Lessee**

The person or organisation that is using or occupying an asset under lease (tenant).

**Lessor**

The person or organisation that owns an asset under lease (landlord).

**Liabilities**

An obligation to transfer economic benefits. Current liabilities are payable within one year.

**Loans And Receivables**

Financial assets which are not quoted in an active market and have either a fixed or determinable payment.

**Long Term Debtor**

Income due in more than 365 days of the balance sheet date.

**Long Term Liability**

Payment due in more than 365 days of the balance sheet date.

**Loss**

Where expenditure exceeds income.

**Materiality / Material**

Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.

**Maternity Leave**

Statutory time off due to pregnant women and new mothers.

**Members**

Elected Councillors responsible for the democratic leadership of the Council.

**Members Allowances**

Allowances paid to members in association with their roles and responsibilities.

**Minimum Lease Payments**

The minimum which will be paid or received over the life of a lease agreement.

**Minimum Revenue Provision (MRP)**

A minimum amount, set by law, which the Council must charge to the income and expenditure account, for debt redemption or for the discharge of other credit liabilities (e.g. finance lease).

**Misstatement**

An error whereby something was included in the accounts wrongly.

**Modern Equivalent Asset (MEA)**

The MEA should give the same service and performance as the existing asset, but should use modern materials and technology.

**Movement In Reserves Statement (MiRS)**

The statement detailing the movement in the reserves of the Council.

**Net Cost Of Services**

The direct cost of delivering the Councils services after allowing for specific income received by those services.

**Net Operating Expenditure**

The cost of operational items which are not direct services, such as disposing of the Councils assets, after allowing for specific income received.

**Net Realisable Value**

The value an asset could be worth to the Council after allowing for any required expenditure; for example, how much an inventory item may be sold for.

**Network**

The Highway Network inclusive of all its elements such as roads, segregated footpaths and cycle routes, structures and street lighting.

**Non Distributed Costs**

The value of revenue operating expenditure that is not able to be apportioned to one of the authorities core service areas.

**Non-Accumulating Absences**

Types of leave an employee may take in a financial year, which if are not taken do not get added to the following year's entitlement. For example Sick Leave.

**Non-Current Assets**

Assets that yield benefits to the Council for a period of more than one year, examples include land, buildings and vehicles.



**Non-Vesting**

An obligation which cannot be settled by a monetary payment.

**Notes To The Accounts**

A set of supplementary comments, tables and information which further explains the main Financial Statements.

**Obligation**

The requirement to transfer economic benefits.

**Operating Lease**

A lease where an asset is used only for a small proportion of its economic life.

**Operational**

The normal activities of the Council.

**Other Infrastructure Assets**

Any asset that is not part of the Highway Network Asset e.g. non Highways footpaths, cycle tracks, structures, public rights of way and private permissive paths.

**Past Service Cost**

Past service cost is the change in the present value of defined benefit obligations caused by employee service in prior periods.

**Payment In Advance**

A payment made which is before the point of any obligation.

**Pension Liabilities**

The cost, calculated by an Actuary, of providing the current members of a pension scheme with retirement benefits as set out in the pension scheme rules.

**Pensions Costs**

The benefits paid by the Council which are accrued during the period of employment and paid to ex-employees after retirement.

**PFI**

See Private Finance Initiative.

**PFI Credits**

The financial support provided to Local Authorities to part fund PFI capital projects.

**Premium**

A payment made in association with the early repayment of debt.

**Pre-Payments**

See payment in advance.

**Present Value**

See Discounted.

**Previous Year Adjustments**

These are material adjustments relating to prior year accounts that are reported in subsequent years and arise from changes in accounting policies or from the correction of fundamental errors.

**Principal**

The amount of repayment to a lender which relates to the reduction in the loan,

rather than the interest paid on the loan.

**Private Finance Initiative (PFI)**

A Government initiative that enables, through the provision of financial support, Authorities to carry out capital projects through partnership with the private sector.

**Projected Unit Method**

This is a common actuarial funding method to value pension scheme liabilities.

**Property, Plant And Equipment Assets (PPE)**

Assets with a long Term value and physical substance such as buildings, land, IT equipment or vehicles.

**Provisions**

Potential costs that the Council may incur in the future because of something that happened in the past, which are likely or certain to be incurred and a reliable estimate can be made to the costs.

**Prudent**

A cautious approach to present the Financial Statements without significant risk of failure to achieve the assets presented.

**Quoted Market Prices**

A method of determining the fair value of financial assets via prices quoted on an active market.

**Recognition**

The process upon which assets are deemed to belong to the Council either by purchase, construction or other form of acquisition.

**Residual**

The remaining value in an asset at the end of a contract or lease.

**Retirement Benefits**

Remuneration package received by employees after their retirement from the Council.

**Retrospectively**

Changes made to previous years accounts to alter the treatment which has previously been reported.

**Revaluation Gain**

The increase to the fair value of an asset following a valuation.

**Revaluation Reserve**

This reserve contains revaluation gains on assets recognised since 1 April 2007 only, the date of its formal implementation.

**Revenue**

The cost associated with providing Council services.

**Revenue Expenditure**

Expenditure which is not capital.

**Revenue Expenditure Funded From Capital Under Statute (REFCUS)**

This is expenditure that is classified as capital although it does not result in the creation of a fixed asset.

**Revenue Grant**

Grant which is not capital.

**Risk**

The chance of an asset not coming to fruition or a liability being greater than anticipated.

**Royal Institute Or Chartered Surveyors (RICS)**

An international organisation who represent everything professional and ethical in land, property and construction.

**Salaries And Wages**

Payments made to employees in exchange for service worked at the Council.

**Service Concession Arrangements**

Arrangements which involve the supply and maintenance of assets and service delivery.

**Service Costs**

Reflects the element of annual payment for PFI or Leased assets which is in relation to services provided within the contract.

**Service Expenditure Reporting Code of Practice (SERCOP)**

CIPFA guidelines on reporting revenue expenditure.

**Service Level Agreements**

Contract of service.

**Short Term**

Less than 365 days from the balance sheet date.

**Short Term Benefits**

Employee benefits earned and consumed during employment.

**Significant**

A measure of materiality where the value is deemed to be almost all of the total value in question.

**Soft Loans**

Low interest rate loans.

**Spot Yields**

A calculation of the projected return on bonds if held to maturity.

**Staff**

See employee.

**Statute**

Set out in legislation.

**Straight Line Basis**

The method of calculating depreciation via charging the same amount each year over the life of the asset.

**Support Services**

Indirect costs of providing Council services including HR, Finance, Legal and Property Maintenance.

**Surplus**

Arises when income exceeds expenditure or when expenditure is less than available budget.

**Surplus Assets**

Assets which are no longer in operation.

**Tangible**

Physical, can be touched.

**Tenant**

The person or organisation that is occupying an asset under lease.

**Termination Benefits**

Employee benefits paid upon termination of employment such as redundancy.

**The Code**

CIPFA guidelines on accounting within Local Government.

**Transactions**

Individual items of income or expenditure.

**Treasury Management**

Utilisation of cash flows through investments and loans.

**Unidentified Income**

Income received by the Council where the reason for the income is unknown.

**Unusable**

Balances which are not available to support future spending.

**Usable**

Balances which are available to support future spending.

**Useful Life**

The period with which an asset is expected to be useful to the Council in its current state.

**Value Added Tax**

National taxation charged on goods and services.

**Vesting**

Obligation due which can be paid in cash.

**Work In Progress**

The fair value of incomplete contracts for goods and services which are to be charged to external customers.