



**Business Efficiency Board**

**Wednesday, 9 March 2011 at 6.30 p.m.  
Civic Suite, Town Hall, Runcorn**



**Chief Executive**

**BOARD MEMBERSHIP**

|  |                         |
|--|-------------------------|
| <b>Councillor Dave Leadbetter<br/>(Chairman)</b>         | <b>Labour</b>           |
| <b>Councillor Martha Lloyd Jones<br/>(Vice-Chairman)</b> | <b>Labour</b>           |
| <b>Councillor Harry Howard</b>                           | <b>Labour</b>           |
| <b>Councillor Diane Inch</b>                             | <b>Liberal Democrat</b> |
| <b>Councillor Alan Lowe</b>                              | <b>Labour</b>           |
| <b>Councillor Andrew MacManus</b>                        | <b>Labour</b>           |
| <b>Councillor Tony McDermott</b>                         | <b>Labour</b>           |
| <b>Councillor Peter Murray</b>                           | <b>Conservative</b>     |
| <b>Councillor Ulfar Norddahl</b>                         | <b>Liberal Democrat</b> |
| <b>Councillor Ged Philbin</b>                            | <b>Labour</b>           |
| <b>Councillor Joe Roberts</b>                            | <b>Labour</b>           |

*Please contact Michelle Simpson on 0151 471 7394 or e-mail [michelle.simpson@halton.gov.uk](mailto:michelle.simpson@halton.gov.uk) for further information.*

*The next meeting of the Board is To be Confirmed*

**ITEMS TO BE DEALT WITH  
IN THE PRESENCE OF THE PRESS AND PUBLIC**

**Part I**

| <b>Item No.</b>   | <b>Page No.</b> |
|---|-----------------|
| <b>1. MINUTES</b>   |                 |
| <b>2. DECLARATION OF INTEREST</b>   |                 |
| <p>Members are reminded of their responsibility to declare any personal or personal and prejudicial interest which they have in any item of business on the agenda, no later than when that item is reached and, with personal and prejudicial interests (subject to certain exceptions in the Code of Conduct for Members), to leave the meeting prior to discussion and voting on the item.</p> |                 |
| <b>3. INTERNAL AUDIT PLAN FOR 2011/12</b>   | <b>1 - 12</b>   |
| <b>4. PROGRESS WITH THE IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)</b>  | <b>13 - 37</b>  |

***In accordance with the Health and Safety at Work Act the Council is required to notify those attending meetings of the fire evacuation procedures. A copy has previously been circulated to Members and instructions are located in all rooms within the Civic block.***

**REPORT TO:** Business Efficiency Board

**DATE:** 9 March 2011

**REPORTING OFFICER:** Operational Director – Finance

**SUBJECT:** Internal Audit Plan for 2011/12

**WARDS:** Borough-wide

### **1.0 PURPOSE OF THE REPORT**

- 1.1 This report provides details of the proposed Internal Audit Plan for 2011/12. The Audit Plan outlines the likely programme of work to be completed by Internal Audit during the year.
- 1.2 The Code of Practice for Internal Audit in Local Government requires that the annual Audit Plan is considered and approved by the Council's Audit Committee.

### **2.0 RECOMMENDATION:**

**The Business Efficiency Board is recommended to approve the proposed Internal Audit Plan for 2011/12.**

### **3.0 SUPPORTING INFORMATION**

- 3.1 In order to comply with best professional practice, Internal Audit is required to produce a programme of work (the Audit Plan) which outlines the likely areas of activity for the coming year.
- 3.2 The Audit Plan should be designed to provide sufficient coverage across the organisation to enable Internal Audit to deliver an overall opinion on the Council's risk management, control and governance arrangements. The work of Internal Audit therefore assists the Operational Director – Finance in discharging his statutory responsibilities as s151 officer in terms of ensuring the proper administration of the Council's financial affairs.
- 3.3 The work undertaken by Internal Audit also provides one of the key sources of assurance to the Chief Executive and Leader of the Council who are jointly required to sign the Annual Governance Statement (AGS). The purpose of the AGS is to declare the extent to which the Council complies with the principles of good governance.

- 3.4 The draft 2011/12 Internal Audit Plan is attached at Appendix A. This document provides a summary of how the Council's internal audit resources are to be utilised during the year. The plan is based on a resource input of 6.52 FTE auditors and comprises 1,260 days.
- 3.5 As audit resources are not sufficient to provide assurance over all areas of Council activity, a risk-based approach is adopted to prioritise coverage. In compiling the programme of work for 2011/12, account has therefore been taken of:
- The need to provide a robust annual opinion on the Council's risk management, control and governance arrangements;
  - The wider assurance framework (which includes risk and performance management, corporate support and monitoring functions, and other sources of independent assurance, such as external audit) and the need to ensure coverage of key risks without duplication of effort;
  - The results of consultation with Strategic Directors and the s151 officer;
  - The Council's corporate and directorate risk registers;
  - Changes in the operating environment of the Council; in particular, the changes arising from the funding constraints the Council faces;
  - Internal Audit's cumulative knowledge of the Council; and
  - The results of previous internal audit work.
- 3.6 The reduction in audit resource combined with the imposition of severe funding constraints on the Council has necessitated a slight change in the audit strategy, which was previously approved by the Board in February 2009. As opposed to auditing schools on an individual cyclical basis, work on schools in 2011/12 will be delivered through thematic reviews. This will allow audit coverage of schools to be maintained whilst freeing up audit resources to examine areas where there is greater potential to add value.
- 3.7 The Audit Plan will be kept under review throughout the year and quarterly progress reports will be provided to the Business Efficiency Board. Changes to planned work may be necessary to reflect the Council's changing risks and priorities. Minor amendments to planned work will be agreed with the Operational Director – Finance. Any significant matters that jeopardise completion of the plan or require substantial changes to it will be reported to members.

#### **4.0 POLICY IMPLICATIONS**

One of the responsibilities of Internal Audit is to provide assurance that policies and procedures established by management are complied with, are appropriate in the current circumstances, and are not wasteful.

#### **5.0 OTHER IMPLICATIONS**

- 5.1 Internal Audit is a statutory function as detailed in:

- Audit and Accounts Regulations 2006 (England).
- Section 151 of the Local Government Act 1972.

5.2 There are no additional resource implications arising from this report.

## **6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES**

6.1 CIPFA defines Internal Audit as being 'an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives'.

6.2 Internal Audit therefore supports the Council in achieving all the aims and objectives set out in the Sustainable Community Strategy and the Corporate Plan.

## **7.0 RISK ANALYSIS**

The work of Internal Audit forms a key element of the Council's overall system of internal control. An effective internal audit service also helps to promote and implement best practice and process improvements in the management of risks.

## **8.0 EQUALITY AND DIVERSITY ISSUES**

None identified

## **9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

CIPFA Code of Practice for Internal Audit in Local Government in the UK  
- 2006



**APPENDIX A**

**INTERNAL AUDIT PLAN**

**2011/12**

## 1. Purpose of the Audit Plan

- 1.1 This plan summarises the results of Internal Audit's planning work. It sets out details of:
- The responsibilities and scope of Internal Audit;
  - Internal Audit's reporting arrangements;
  - The proposed programme of work for 2011/12 (the Audit Plan).

## 2. Internal Audit – Responsibilities & Scope

### Responsibilities

- 2.1 Internal Audit is an independent appraisal function within an organisation.
- 2.2 The internal audit function is responsible for:
- a) Providing assurance to management that:
    - Internal control systems (including risk management and governance arrangements) are adequate and functioning efficiently and effectively;
    - The policies and procedures established by management are complied with, are appropriate in current circumstances, and are not wasteful;
    - The accounting records and associated financial systems form a reliable basis for the production of the financial statements.
  - b) Drawing the attention of management to, and recommending remedial action to address:
    - Deficiencies in the systems of internal control; and
    - Instances of duplicated functions, wastage and inefficiency.
  - c) Providing advice on audit related matters, including suspected fraud or corruption.
  - d) Providing advice on risk and control issues in regard to systems development.
  - e) Providing assurance to the Council's s151 officer on the Council's system of internal control in support of the Council's Annual Governance Statement.

## **Scope**

2.3 The scope of the internal audit function includes:

- The whole internal control system of the Council including all its operations, resources, services and responsibilities for other bodies; and
- Reviewing controls that protect the interests of the Council in its dealings with partnerships in which the Council has an interest.

2.4 The establishment and maintenance of adequate control systems is the responsibility of management. Recommendations made by Internal Audit can reduce risk and lead to systems of control being considered adequate. However, the implementation of audit recommendations cannot eliminate risk altogether.

2.5 Whilst it is not the role or responsibility of Internal Audit to detect fraud, the risk of fraud will be considered in each audit assignment.

## **3. Reporting arrangements**

3.1 At the conclusion of each individual audit assignment, a Draft Report is issued to the appropriate manager within the Council. Once the report has been agreed, a Final Report is then issued to:

- The Chief Executive;
- The Strategic Director – Policy and Resources;
- The Operational Director – Finance (s151 officer);
- The Strategic Director responsible for the area reviewed;
- The Operational Director responsible for the area reviewed;
- Audit Commission.

3.2 In each audit report, an overall opinion will be provided on the area audited. The opinion is based on an assessment of the effectiveness of the control environment in the area audited and the likelihood of objectives being met. The scale of opinions is set out in the following table:

| <b>Opinion type</b> | <b>Assurance Level</b> | <b>Description</b>   |
|---------------------|------------------------|--|
| Positive            | Substantial            | A robust framework of controls ensures objectives are likely to be achieved. Controls are applied continuously or with minor lapses.                               |
|                     | Adequate               | There is basically a sound system of controls for objectives to be achieved. However, there are weaknesses and evidence of non-compliance or ineffective controls. |
| Negative            | Limited                | A risk of objectives not being achieved due to the absence of key internal controls. Where controls do exist, there is significant non-compliance.                 |



- 3.3 On a quarterly basis, Internal Audit produces a Progress Report for the Business Efficiency Board detailing the key issues arising from audit work and progress made against the Audit Plan.
- 3.4 An Annual Report is presented to the Business Efficiency Board to provide assurance or otherwise on the effectiveness of the internal control framework of the Council.

#### 4. Internal Audit Plan - 2011/12

- 4.1 The Audit Plan is stated in terms of the number of days input which is estimated as accurately as possible based on existing staff numbers. However, the resources available and the exact time required for each piece of audit work cannot be estimated precisely at this stage. The plan therefore represents the best estimate of the audit resources available and the ways in which they will be deployed.
- 4.2 The analysis below summarises the planned coverage for 2011/12.

|   | <u>Area</u>                              | <u>Coverage</u>                  | <u>Days</u> |
|---|--|----------------------------------|-------------|
| A | Governance arrangements                  | All directorates                 | 65          |
| B | Anti-fraud and corruption                | All directorates                 | 53          |
| C | Operational systems and services         | Communities                      | 250         |
|   |  | Children & Enterprise            | 177         |
|   |  | Policy & Resources               | 125         |
| D | Financial systems                        | Policy & Resources               | 170         |
| E | ICT systems                              | Policy & Resources               | 80          |
| F | Procurement                              | All directorates                 | 110         |
| G | Advice and support                       | All directorates                 | 48          |
| H | Follow up work                           | All directorates                 | 25          |
| I | External work                            | Manchester Port Health Authority | 3           |
| J | Provision - completion of 2010/11 audits |                                  | 50          |
|   | Contingency                              |                                  | 104         |
|   | <b>Total Planned Audit Days</b>          |                                  | <b>1260</b> |

- 4.3 The following pages provide a more detailed breakdown of the specific work that will be carried out under each area of audit activity. Detailed terms of reference for each piece of work will be agreed with the appropriate manager(s) prior to the audit commencing.

## **A Governance arrangements**

The Council's governance arrangements are set out in the Local Code of Corporate Governance, which forms part of the Council's Constitution.

Internal audit will examine governance arrangements in much of its work, but we also undertake specific pieces of work relating to aspects of the Council's governance framework. Work planned in 2011/12 is:

- Preparing the Annual Governance Statement;
- Contributing to the annual review of the Council Constitution;
- Reporting to the Council's Audit Committee (Business Efficiency Board);
- Maintaining of the Council's Scheme of Delegation;
- Reviewing the operation of the Council's risk management framework;
- Reviewing how the Council deals with complaints.

## **B Anti-Fraud & Corruption work**

Internal Audit has a pro-active programme of counter fraud work. This work is undertaken to help ensure that the Council has adequate arrangements to highlight potential instances of fraud and corruption, and to maintain a strong counter fraud culture.

Planned anti-fraud and corruption work includes:

- Participation in the National Fraud Initiative 2011
- Participation in the Greater Manchester Anti-Fraud Group
- Targeted anti-fraud and corruption data mining

## **C Operational systems and services**

Reviews of operational systems and services provide assurance as to whether management has established satisfactory systems of control to ensure:

- Compliance with statutory requirements and Council / departmental policies and procedures;
- Achievement of objectives in directorate plans;
- Safeguarding of assets;
- Maintenance of complete and accurate records;
- Efficient, economic and effective use of resources;

Work is planned across all three directorates to ensure that Internal Audit can provide an annual opinion on the whole of the Council's control environment. Particular emphasis in the 2011/12 reviews will be on examining opportunities for additional income generation and cost minimisation.

### **Communities**

- Civic Catering
- Crematorium & Cemeteries (including extension work at Runcorn Cemetery)
- Industrial Units
- Grants to voluntary organisations
- Personalisation
- Continuing Health Care
- Homelessness Service
- Disabled Facilities Grants
- Re-ablement
- Oakmeadow (Older People provision)

### **Children & Enterprise**

- Children's Centres
- Children with Disabilities Pooled Budget
- Education Business Partnership
- Schools - Local Bank Accounts
- Schools - Transfer process to Academy status
- MyPlace
- KS4 PRU Gateway
- Adoption Service/permanence
- Edinburgh Road
- Sports Grant
- Building Cleaning
- Property Maintenance

### **Policy & Resources**

- Corporate credit cards
- Overtime and honoraria payments
- Financial assessments & charging (Adult Social Care service users)
- Car allowances and mileage claims
- Highways Maintenance (including footways)
- Mayor's Fund

## **D Financial systems**

Whilst Internal Audit has adopted a risk-based approach to prioritising audit coverage, there are areas of work where work is required on an annual basis. One such area is the Council's main financial systems.

As part of Internal Audit's joint working agreement with the Audit Commission, annual reviews are undertaken on all the systems that compile material disclosures for the Council's financial statements.

Internal Audit will therefore carry out 'key control' reviews on the systems listed below. These reviews are intended to provide assurance that systems are operating effectively and to identify and evaluate any changes that might affect the operation of the identified system controls.

- Payroll
- Business rates
- Council Tax
- Housing Benefit
- Purchase to Pay
- Loans & Investments
- Cash & Bank
- Accounting journals
- Sundry debtors
- Fixed assets

Additionally, all key financial systems are reviewed in detail on a cyclical basis. More in depth work will therefore be undertaken on the following systems:

- Council Tax
- NNDR
- Budgetary Control
- Income Control and Cash Collection

## **E ICT systems**

ICT audit involves the audit of the technological aspects of an organisation's business processes. In particular, it involves reviewing and testing the organisation's practices and procedures relating to:

- The secure provision of business processing;
- The processes for developing and acquiring new systems and facilities;
- The economy, efficiency and effectiveness of the use and exploitation of IT facilities.

Planned ICT related work in 2011/12 comprises:

- Application management
- Management of third party services
- Project management – Implementation of LYNC IP Telephony system
- PCI DSS (Payment Card Industry Data Security Standard) Compliance
- ICT Service Delivery (Compliance with 'Information Technology Infrastructure Library' (ITIL) service management framework)

## **F Procurement**

The term 'procurement' relates to the processes by which organisations acquire the goods, works and services they need from third parties. These processes span the whole life cycle, from the initial definition of business needs right the way through to the point when the goods are used or disposed

of, or when an asset reaches the end of its useful life, or the day when a service contract expires.

Whilst procurement arrangements and issues are examined in the audit of specific operational areas, audit work is also planned on the following specific procurement activities:

- Control of agency staff
- Use of consultants
- Mersey Gateway – Land acquisitions
- Building Schools for the Future
- Due North (E-tendering system)

## **G Advice & Support**

Internal Audit has an advisory role in addition to its assurance role. This includes providing advice on control analysis and design, guidance in developing new systems and the sharing of knowledge and best practice across the Council.

In 2011/12, Internal Audit will contribute to the following corporate issues:

- Corporate Risk Management Group
- Advice to schools
- Information Governance Group

## **H Follow up**

Internal audit routinely carries out follow up work to provide assurance that all previous audit recommendations that were agreed are actually implemented. Follow up reviews are normally undertaken shortly after the date agreed in the Action Plan for the implementation of recommendations has passed.

## **I External work**

Internal Audit undertakes an annual internal audit for Manchester Port Health Authority.

## **J Provision – Completion of 2010/11 audits**

Due to the vacancy on the team and the impact of unplanned work, not all planned work for the year will be completed by year-end. A provision is therefore made in the 2011/12 plan to allow time for the completion of audit reviews carried over from 2010/11:

- Carers' Strategy
- Community Safety
- Libraries and Bibliographical Services
- The Village - Castlefields
- Teachers' Pay

**K Contingency – Unplanned Work**

The Council is downsizing and undergoing major structural change and Internal Audit can play an important role in providing assurance that adequate controls are maintained throughout this process. Consequently, an increased contingency provision has been made in the Audit Plan to accommodate any unplanned work that may arise during this period of change.

**REPORT TO:** Business Efficiency Board

**DATE:** 9 March 2011

**REPORTING OFFICER:** Operational Director – Finance

**SUBJECT:** Progress with the Implementation of International Financial Reporting Standards (IFRS)

**WARD(S):** Borough-wide

## **1.0 PURPOSE OF REPORT**

1.1 To provide the Board with an update of progress with the implementation of International Financial Reporting Standards (IFRS), to present the accounting policies to be used when preparing the Council's 2010/11 Statement of Accounts, and to outline forthcoming changes arising from the 2011 Accounts and Audit Regulations.

## **2.0 RECOMMENDED: That;**

- (i) the Statement of Accounting Policies set out in Appendix 1 be noted and the Operational Director, Finance be authorised, in consultation with the Chairman of the Business Efficiency Board, to make any further amendments;**
- (ii) progress with the implementation of IFRS be noted;**
- (iii) forthcoming changes arising from the 2011 Accounts and Audit Regulations be noted.**

## **3.0 BACKGROUND**

3.1 The Council will be required to prepare its Statement of Accounts (The Abstract) for the year ended 31 March 2011, on the basis of International Financial Reporting Standards (IFRS) in compliance with the IFRS Accounting Code of Practice (IFRS Code).

3.2 In order to prepare the 2010/11 year-end accounts on this basis, it has been necessary to restate the 2009/10 accounts in order to provide comparative figures and also to restate the 2008/09 balance sheet to provide the opening balances.

3.3 The implications of compliance with the IFRS Code are wide-ranging and affect all areas of the Council. Additional information will be required from all Directorates in order to prepare the year-end accounts in accordance with the IFRS Code and therefore systems will need to be in place to gather appropriate information.

#### **4.0 RESTATEMENT OF THE 2009/10 ACCOUNTS**

- 4.1 A significant amount of additional information has been gathered relating to those areas of the accounts which are affected by the introduction of the IFRS Code. The accounting treatment of a number of types of income and expenditure, including leases, property valuations and government grants, have been changed in accordance with the requirements of the IFRS Code.
- 4.2 As a result, the key financial statements within the 2009/10 Abstract of Accounts have now been restated onto an IFRS basis, along with the supporting notes to the accounts. The Audit Commission are currently reviewing the working papers relating to all the changes, in order to provide an agreed starting point for preparation of the 2010/11 accounts.
- 4.3 Work is now underway with colleagues from all Directorates to plan for preparation of the 2010/11 accounts on a full IFRS basis.

#### **5.0 THE COUNCIL'S ACCOUNTING POLICIES**

- 5.1 Accounting policies are the principles, bases, conventions, rules and practices applied by the Council to reflect how its financial transactions are shown in its accounting records and financial statements. The Council's Accounting Policies from 2010/11 are based on the requirements and principles of the IFRS Code.
- 5.2 These principles require that the Council's accounting statements should ensure relevance, reliability, comparability, materiality and be understandable. In addition, there are three general concepts that underpin the financial statements and each of the individual accounting policies:
- *Accruals*: Costs and income are accounted for when goods and services are utilised, rather than when cash is paid or received.
  - *Going Concern*: The accounts assume that the Council will continue in existence for the foreseeable future and that there is no intention to significantly reduce operations.
  - *Primacy of Legislative Requirements*: Where there is a conflict between specific legislative requirements and accounting principles, then legislative requirements are applied.
- 5.3 As a result of the changes in accounting practice brought about by the introduction of the IFRS Code, the Council's Accounting Policies have been updated. A draft of the updated Accounting Policies is presented in Appendix 1, with the changes highlighted in bold italics. As certain policies are still being finalised, it is proposed that the Operational Director, Finance be authorised, in consultation with the Chairman of the Business Efficiency Board, to make any further amendments necessary to the Council's Accounting Policies. These will then be used as the basis for preparing the 2010/11 year-end accounts.



## **6.0 2011 ACCOUNTS AND AUDIT REGULATIONS**

- 6.1 The Accounts and Audit Regulations provide the statutory basis for preparing the Council's year-end Statement of Accounts (The Abstract). The current 2003 Regulations have been amended a number of times and therefore it is proposed to consolidate the amendments within the Regulations and issue a 2011 version. The draft 2011 Regulations have recently completed their consultation period and will now move through the statutory processes in order to take effect from 31<sup>st</sup> March 2011. They will thereby apply to preparation of the 2010/11 final accounts.
- 6.2 In addition to providing consolidation, the 2011 Regulations will change the requirement for the draft Abstract to be approved by the Board prior to being audited by the Audit Commission. The draft Abstract will instead be certified by the Operational Director, Finance by 30<sup>th</sup> June each year. This is intended to bring Council's into line with approval requirements for the private sector and elsewhere in the public sector.
- 6.3 The 2011 Regulations will also change the requirement for the Statement of Internal Control to form part of the Council's Abstract but instead the Statement will accompany the published accounts.
- 6.4 The final audited Abstract of Accounts, along with the Statement of Internal Control and the Audit Commission's report of their findings from the audit of accounts, will therefore be presented at the Board's meeting on 28<sup>th</sup> September 2011,

## **7.0 BRIEFING**

- 7.1 A briefing will be provided at the Board's meeting on 29th June 2011, regarding the implications of compliance with the IFRS Code upon the Council's 2010/11 Abstract of Accounts.

## **8.0 POLICY AND OTHER IMPLICATIONS**

- 8.1 None.

## **9.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES**

- 9.1 There are no direct implications.

## **10.0 RISK ANALYSIS**

- 10.1 If the requirements of the IFRS Code are not met, the Council will fail to meet its statutory obligations in terms of accounting requirements for the 2010/11 final accounts.
- 10.2 The IFRS Project Implementation Plan has been risk assessed in terms of the key actions, to ensure they are prioritised and properly resourced throughout the implementation process.

**11.0 EQUALITY AND DIVERSITY ISSUES**

11.1 None.

**12.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

| <b>Document</b>  | <b>Place of Inspection</b>                       | <b>Contact Officer</b> |
|--|--|------------------------|
| Revision and Consolidation of the Accounts and Audit Regulations 2003 (SI 2003 No 533) as amended (consultation)   | Financial Management<br>Kingsway House<br>Widnes | Ed Dawson              |
| The Code of Practice on Local Authority Accounting in the United Kingdom 2010/11: Based on International Standards | Financial Management<br>Kingsway House, Widnes   | Ed Dawson              |

# Statement of Accounting Policies

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## 1. General

The accounts have been prepared in accordance with “Code of Practice on Local Authority Accounting in the United Kingdom 2010/11: Based on International Financial Reporting Standards” (IFRS Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). They have been prepared on historical cost conventions, and give a true and fair view of the Council’s transactions and financial position.

## 2. Changes to 2010/11 Accounting Policies from 2009/10

The Council’s accounting policies are subject to regular review arising from changes in the way costs are accounted for and reported. However, the 2010/11 accounts have for the first time been prepared in accordance with the IFRS Code, therefore a full review of the accounting policies has been undertaken and significant changes made to reflect the requirements of the IFRS Code.

## 3. Accruals of Income and Expenditure

### 3(a) Customer and Client Receipts

Customer and client receipts in the form of sales, fees, charges and rents are accrued and accounted for in the period to which they relate.

### 3(b) Employee Costs

The full cost of employees is charged to the account of the period within which the employees worked. Accruals are made for wages earned but unpaid and pay awards awaiting settlement at the year end. ***Short term benefits arising from leave, flexitime and time off in lieu which remain unpaid at the end of the financial year are accrued into the cost of services in that year. To ensure that the actual costs to the Council falls in the year in which they are paid a transfer is made to an Employee Benefit Reserve.***

### 3(c) Capital Receipts Income

Amounts to be treated as capital receipts are defined by statute and usually arise from disposal of an interest in a fixed asset. However, some statutorily defined capital receipts do not arise from the disposal of an interest in a fixed asset and under the general provisions of the **Code** may be income (e.g. the repayment of a grant awarded by the authority to acquire a fixed asset by the recipient) or a transaction within the Balance Sheet (e.g. the repayment of a loan advanced to a third party to acquire a fixed asset).

### 3(d) Interest

Interest payable on external borrowings and interest income is accrued and accounted for in the accounts of the period to which it relates on a basis which reflects the actual costs and income receivable during the period.

## **Statement of Accounting Policies continued**

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### **3. Accruals of Income and Expenditure (Continued)**

#### **3(e) Supplies and Services**

Supplies and services are accrued and accounted for during the period in which they are consumed or received. Accruals are made for all material sums unpaid at year end for goods or services received or works completed.

#### **3(f) Cash Equivalents**

*Cash Equivalent for the purposes of determining movement in cash and cash equivalents will be:*

*Amounts held in the Natwest PLC (Liquid Account) as at 31 March for any financial year.*

*Investments held as at 31 March for any financial year which were made for a period of three months or less at the outset of the investment.*

### **4. Acquired/Discontinued Operations**

Income and expenditure directly related to either acquired or discontinued operations will be shown separately on the face of the Comprehensive Income and Expenditure Statement under the heading of acquired/discontinued operations. Any liabilities in respect of discontinued operations should be disclosed separately in the notes to the Balance Sheet.

### **5. Area Based Grants**

ABG is a non-ringfenced general grant which replaced Local Area Agreement Grant from 2008/09. No conditions on use is imposed as part of the grant determination ensuring full local control over how funding can be used. This means that, unlike LAA grant, its use is not restricted to supporting the achievements of LAA targets. ABG is included in the Comprehensive Income and Expenditure Statement within the Taxation and non-specific grant income figure.

### **6. Equal Pay Claims**

Following the implementation of the Single Status Agreement the Council has received a number of claims for equal pay. An earmarked reserve has been made for the future cost.

As per note 21 a provision was created for the Equal Pay Claims when it is recognised there will be a transfer of economic benefits and a reliable estimate can be made of the amount of the obligation.

## **Statement of Accounting Policies continued**

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## **7. Contingent Assets**

Contingent assets are not recognised in the accounting statements, they are disclosed by way of notes if the inflow of a receipt or an economic benefit is probable. The note will indicate the nature of the contingent asset and estimate its financial effect.

## **8. Contingent Liabilities**

Contingent liabilities are not recognised in the accounting statements. They are disclosed by way of the notes to the accounts (see notes to the core financial statements) if there is a possible obligation which may require a payment or transfer of economic benefits. For each class of contingent liability the Council discloses the nature of the contingency, a brief description, an estimate of its financial effect, an indication of the uncertainties relating to the amount or timing of any outflow and the possibility of any reimbursement.

## **9. Council Tax Income**

### **9(a) The Collection Fund**

The Council is required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates. The funds key features relevant to accounting for council tax in the core financial statements are:

- In its capacity as a billing authority the council acts as an agent: it collects Council tax income on behalf of the major preceptors and itself.
- While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the General Fund. The amount credited to the General Fund under statute is the Councils demand for the year plus the Councils share of the surplus (or less its share of the deficit) on the Collection Fund for the year.

### **9(b) Accounting for Council Tax in the Core Financial Statements**

The Council Tax included in the Comprehensive Income and Expenditure Statement for the year is the accrued income for the year.

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement within Adjustments between Accounting Basis and Funding Basis under regulations.

## **Statement of Accounting Policies continued**

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### **9. Council Tax Income (Continued)**

The Councils Cash Flow Statement includes in Net cash flows from Operating Activities cash flows only its share of Council Tax net cash collected from the Council Tax debtors in the year; and the amount included for precepts shall exclude amounts paid to major preceptors.

**9(c) Prior Year Adjustment**

The change of accounting policy for Council Tax requires a prior year adjustment to the 2008/09 corresponding amounts. The prior year adjustments included are as per points 9(d) to 9(f).

**9(d) Comprehensive Income and Expenditure Statement and Movement in Reserves Statement**

The Council Tax Income credited to the Comprehensive Income and Expenditure Statement is the accrued amount for 2008/09. In addition, the Movement in Reserves Statement is re-stated accordingly, with the change in the Comprehensive Income and Expenditure Statement for the year being exactly matched by the inclusion of an additional reconciling item in respect of the transfer to or from the Collection Fund Adjustment Account.

**9(e) Balance Sheet**

In the Councils re-stated Balance Sheet for 2008/09, the part of the Council Tax debtor and creditor balances and impairment allowance for doubtful debts attributable to major preceptors are derecognised.

The Councils recognises a creditor in its re-stated 2008/09 Balance Sheet for cash collected from taxpayers on behalf of major preceptors but not yet paid to them, or a debtor for cash paid to major preceptors in advance of it receiving the cash from Council Tax debtors/creditors.

**9(f) Cash Flow Statement**

The Council's 2008/09 Cash Flow Statement has been restated to exclude from Net cash flows from Operating Activities:

- Major Preceptor's precept payments and cash paid to or received from major preceptors in respect of the previous years Collection fund Surplus or Deficit.
- The major preceptor's share of the net cash received from Council Tax debtors in the year.

The Cash Flow statement includes only the Councils own share of Council Tax debtors or creditors net cash received in the year.

## **Statement of Accounting Policies continued**

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**9. Council Tax Income (Continued)**

**9(g) Other Comprehensive Income and Expenditure within Comprehensive Income and Expenditure Account**

The changes made in 9a to 9f obviate the need to show collection fund items in the statement.

**10 Events After the Balance Sheet Date**

Where a material post balance sheet event occurs, an appropriate change will be included in the Statement of Accounts. A disclosure will state the nature of the event and an estimate of the financial effect.

**11. Exceptional Items and Prior Year Adjustments**

All of the above will be included in the cost of services or on the face of the **Comprehensive** Income and Expenditure Statement if a degree of prominence is necessary to give a fair presentation of the accounts. Additional notes will be provided if necessary.

**12. Financial Instruments**

The Council invests and borrows money as part of its day to day business and Treasury Management Strategy. It is required to present on the balance sheet at fair value its outstanding financial obligations and assets in relation to these transactions. **Assets exclude short term investments i.e. invested for periods of less than 3 months at inception and not due for repayment at balance sheet date. These investments are treated as cash equivalents due to their liquid nature.**

The Council has used Sector Treasury Services Limited to provide independent valuations of the position at the period end.

Sector used the Net Present Value valuation technique to value the borrowings. The discount rate used within the calculation was the Public Works Loans Board new borrowing rate. The fair value calculations also included accrued interest.

**12(a) 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. Financial liabilities due to be settled within 12 months of the Balance Sheet date are presented on the Balance Sheet as a current liability, accrued unpaid interest on all financial liabilities is also shown as a current liability.

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**Statement of Accounting Policies continued**

**12. Financial Instruments (Continued)**

**12(b) Financial Assets**

Financial assets are classified into two types:

Loans and receivables – assets that have fixed or determinable payments but are not quoted in an Active market.

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

### **12(c) Receivables**

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

### **13. Foreign Currency Translation**

Income and expenditure arising from transactions denominated in a foreign currency are translated into £ sterling at the exchange rate in operation at the date of the transaction.

### **14. Government Grants, Other Contributions and Donated Assets**

*All government revenue grants and other revenue contributions are credited to the appropriate service revenue account when they are received/receivable, unless there is a possibility that the monies will be repayable if conditions are not met. Where conditions are outstanding monies received are treated as creditors. When the conditions are met then the monies will be credited to the revenue account. Revenue grants are accounted for on an accruals basis.*

*All government capital grants and other capital contributions are credited to Capital Grants and Contributions in the Comprehensive Income and Expenditure Statement when they are received/receivable unless there is a possibility that the monies will be repayable if conditions are not met. Where conditions are outstanding monies received will be treated as Capital Grants Receipts In Advance. When the conditions are met then the monies will be credited to Capital Grants and Contributions.*

*Amounts credited to Capital Grants and Contributions will be charged out, through Movement in Reserves, to either the Capital Adjustment Account to fund capital expenditure or to Capital Grant Unapplied to be available to fund future capital expenditure.*

*Where donated assets are received they are brought in at fair value and credited to the Comprehensive Income and Expenditure Statement if there are no conditions outstanding. If conditions are outstanding then there is a credit to the Donated Assets Account.*

## **Statement of Accounting Policies continued**

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### **14. Government Grants, Other Contributions and Donated Assets (Continued)**

*When the conditions are satisfied the Donated Assets Account is debited and the Comprehensive Income and Expenditure Statement credited.*



***To meet controls in respect of capital the amounts credited to the Comprehensive Income and Expenditure Statement are reversed out through Movement in Reserves to the Capital Adjustment Account.***

**15. Group Accounts**

The Council has adopted the Statement of Recommended Practice in relation to the presentation of Group Accounts

**16. Intangible Assets**

These are regularly included on Balance Sheets and cover, in the main, Goodwill and Research and Development Expenditure, neither of which are likely items for a Council, and acquisition of software licences. The software licences acquired are capitalized as Intangible Assets. The assets are amortised out of the Balance Sheet over their economic life, with due recourse to disposal and/or impairment, and charges to revenue.

**17. Landfill Allowance Trading Scheme**

The Landfill Allowance Trading Scheme, like certain Emission Rights schemes, is a 'cap and trade' scheme, which allocates tradeable landfill allowances to each Waste Disposal Authority (WDA) up to the amount of the WDA's 'cap'. There is at present no UK Financial Reporting Standard or Urgent Issues Task Force (UITF) Abstract covering the cap and trade schemes.

However, the Council has adopted the proposed UITF Abstract *Emission Rights*, and as such the Landfill Allowances Trading Scheme (LATS) gives rise to:

- an asset for allowances held
- LATS grant income; and
- a liability for actual Biodegradable Municipal Waste (BMW) landfill usage.

## **Statement of Accounting Policies continued**

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**17. Landfill Allowance Trading Scheme (continued)**

Allowances, whether allocated by DEFRA or purchased from another WDA, have been recognised as assets and classified as current assets. They are measured initially at their fair value.

Landfill allowances are issued free by DEFRA. Accordingly, the grant is initially recognised as deferred income in the Balance Sheet and subsequently recognised as income on a systematic basis over the compliance year for which the allowances were allocated.

As landfill is used, a liability is recognised for actual BMW landfill usage. The liability is discharged by using allowances to meet the liability, paying a cash penalty to DEFRA or a combination of both. Any liability is measured at the

best estimate of the expenditure required to meet the obligation at the Balance Sheet date.

Under proposed UITF Abstract Emission Rights, two accounting policies for remeasuring the value of landfill allowances after initial recognition are permitted:

- the lower of cost and net realisable value; and
- revaluation to market value.

The Council has adopted a 'lower of cost and net realisable value' accounting policy.

## 18. Leases

### 18(a) Finance Leases

*Leases are classified as Finance Leases if they meet the criteria identified in the Code. Although the Code is not definitive it gives examples of situations which would lead to a lease being classified as a finance lease. These are:*

- 1. the lease transfers ownership of the asset to the lessee by the end of the lease term*
- 2. the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value so as to make it reasonably certain the option will be exercised*
- 3. the lease term is for the major part of the economic life of the asset*
- 4. the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset, and*

## Statement of Accounting Policies continued

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### 18. Leases (Continued)

- 5. the leased assets are of such a specialised nature that only the lessee can use them without major modifications.*

*For the purposes of assessment of finance leases for plant, vehicles and equipment it is taken that consumption of greater than 75% of the economic life of the asset*

*will constitute the major part of the economic life of the asset. There is also a deminimis of £5,000 net present value of the future lease payments at the inception of the lease where the lease will not be treated as a finance lease.*

*In relation to land and buildings they will be classified taking account of the examples from the Code. This means that all land, since it does not depreciate or pass to the lessee, will be treated as an operating lease. In addition should the lease be for a period of 10 years or less, does not consume more than 75% of the economic life of the asset, or has a capitalised value below the deminimus value of £50,000 will not be capitalised and therefore treated as an operating lease.*

*Rental payments under finance leases are apportioned between the finance charge and the reduction of the outstanding liability, with the finance charge being allocated and charged to Finance and Investment Income in the CIES over the term of the lease. Minimum revenue provision is made in respect of the write down of the outstanding liability through the Movement in Reserves and the Capital Adjustment Account. Depreciation is charged to cost of services over the life of the asset. Any receipts are subject to the same test, whereby the writing down of the debtor's obligation will, with effect from 1 April 2010 for leases granted from that date be a capital receipt.*

#### **18(b) Operating Leases**

*Operating leases are all leases which are not categorised as finance leases following guidance in the Code. Rentals payable under operating leases are charged to Net Cost of Services on a straight line basis over the term of the lease. Receipts are treated as revenue income.*

#### **19. National Non Domestic Rates**

The Council collects NNDR under what is in substance an agency agreement with the Government.

NNDR income is not income of the Council and is not included in the Comprehensive Income and Expenditure Statement; the exception is the cost of collection allowance which is included.

NNDR debtor and creditor balances with taxpayers are not recognised in the Balance Sheet, whereas cash collected and not yet paid over to the Government will be recognised in the Balance Sheet as a creditor.

## **Statement of Accounting Policies continued**

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#### **19. National Non Domestic Rates (Continued)**

Cash collected from NNDR taxpayers is not included in the Cash Flow Statement as a cash inflow or outflow with the exception of the cost of collection allowance which is included.

#### **20. Overheads**

Charges or apportionments covering all support service costs are made to all services, trading undertakings and capital accounts. The costs are allocated based on time allocation for staff, floor area for administrative buildings and usage for computers and telephones.

The costs of the Corporate and Democratic Core and non-distributed costs as defined by CIPFA's Best Value Accounting Code of Practice are allocated to separate objective expenditure heads and are not apportioned to other divisions of service. These items are clearly disclosed in the Comprehensive Income and Expenditure Statement.

## **21. Pension Costs**

### **General**

The cost of providing pensions for employees is charged in accordance with the requirements of FRS17 Retirement Benefits subject to the interpretation set out in the Statement of Recommended Practice governing the pension schemes. The Council pays an employer's contribution to the Cheshire Pension Fund; Teachers' Pension Agency and National Health Service Pension Scheme.

### **Pensions Reserve**

Where there is a difference between the amount charged to the Comprehensive Income and Expenditure Statement in the year and the amount payable to the pension funds, that sum is taken to the Pension Reserve. This additional debit or credit to the services is shown as a reconciling item in the Movement in Reserves Statement within the Adjustments between Accounting Basis and Funding Basis under regulations note.

### **Classification of Schemes**

#### *Defined Benefit Schemes*

Accounting policies set out as below apply in respect of pension costs arising from the Local Government Pension Scheme and unfunded discretionary benefits paid (irrespective of the scheme to which it relates):

## **Statement of Accounting Policies continued**

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### **21. Pension Costs (continued)**

- (i) the attributable assets of each Scheme are measured at their fair value at the Balance Sheet date. Scheme assets include current assets as well as investments. Any liabilities, such as accrued expenses are deducted. The attributable scheme liabilities are measured on an actuarial basis using the projected unit method. The Scheme liabilities comprise:

- (a) any benefits promised under the formal terms of the Scheme, and
  - (b) any constructive obligations for further benefits where a public statement or past practice by the Council created a valid expectation in the employees that such benefits will be granted.
- (ii) the surplus/deficit in a Scheme is the excess/shortfall of the value of assets in the Scheme over/below the present value of the Scheme liabilities. The Council recognises assets to the extent that it is able
- (iii) to recover a surplus either through reduced contributions in the future or through refunds from the Scheme. The Council recognises a liability to the extent that it reflects its legal or constructive obligation;
- (iii) any unpaid contributions to the scheme are presented in the Balance Sheet as a creditor due within one year;
- (iv) the change in the defined benefit asset or liability (other than that arising from contributions to the Scheme) is analysed into the following components:
- (a) Periodic Costs
    - 1. Current Service Cost - the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services to which the employees worked.
    - 2. 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 (Surplus) or Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement.
    - 3. Expected Return on 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 (Surplus) or Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement.

## **Statement of Accounting Policies continued**

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### **21. Pension Costs (continued)**

- 4. 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 Comprehensive Income and Expenditure Statement.
- 5. Contributions paid to the Cheshire pension Fund – cash paid as employer's contributions to the pension fund.

- (b) Non-periodic Costs
1. Past Service Costs - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
  2. Gains and 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 Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- (v) the current service cost is included within the Cost of Services. Both the interest and the expected return on assets are included within Operating Expenditure. Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the Balance Sheet date are recognised in the Comprehensive Income and Expenditure Statement for the period;
- (vi) past service costs are recognised in Cost of Services on a straight-line basis over the period in which the benefits vest. To the extent that the benefits vest immediately, the past service cost is recognised immediately;
- (vii) losses arising on a settlement or curtailment not allowed in actuarial assumptions are measured at the date on which the Council becomes demonstrably committed to the transaction and recognised in the Cost of Services at that date. Gains arising on a settlement or curtailment not allowed for in the actuarial assumptions are measured at the date on which all parties whose consent is required are irrevocably committed to the transaction and are recognised in the Cost of Services at that date.

## **Statement of Accounting Policies continued**

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### **21. Pension Costs (continued)**

#### **Defined Contribution Schemes**

Whilst meeting the definition of a defined benefit pension scheme, the Teachers' Pension Scheme, as administered by the DCSF, needs to be accounted for as if it were a defined contribution scheme since the Council is unable to identify its share of the underlying assets and liabilities in the Scheme on a consistent and reasonable basis.

As a result, the pensions cost reported for the year is equal to the contributions payable to the scheme for the accounting period. The cost is recognised in the Cost of Services. An asset

or liability is recognised within the Cost of Services only to the extent to which there are prepaid or outstanding contributions at the Balance Sheet date.

## **22. Officers Emoluments**

A note is provided within the Statement of Accounts which details the number of senior officers and officers whose remuneration falls in each bracket of a scale in multiples of £5,000 starting with £50,000. Remuneration means all amounts paid to or receivable by an employee (inclusive of car benefit but excluding pension contributions). Information is also published on senior pay information covering, salary; bonuses; expenses allowances; compensation payments; pensions and any other benefits.

## **23. Provisions**

The Council set aside provisions for any liabilities of uncertain timing or amount that have been incurred. Provisions are reviewed annually and adjusted to reflect the current best estimate. Provisions are created by a charge to a service and as such appear in the Comprehensive Income and Expenditure Statement in the Cost of Services. (See Notes to the core Financial Statements).

Provisions are charged to the Cost of Services. When payments for expenditure are incurred to which the provision relates they are charged direct to the provision.

Provisions are required to be recognised when there is a present obligation as a result of a past event or it is possible that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

## **24. Provisions for Bad and Doubtful Debts**

The value of debtors is adjusted for doubtful debts whilst known uncollectable debt is written-off.

## **25. Repurchase of Borrowing**

Gains or losses arising on the repurchase or early settlement are charged in the Comprehensive Income and Expenditure Statement in the period during which the repurchase is made. If the repurchase was coupled with refinancing or restructuring, gains or losses are charged over the life of the replacement loan.

# **Statement of Accounting Policies continued**

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## **26. Reserves**

*The Council maintains two kinds of reserve, Useable or Unusable.*

*Useable reserves comprise:*

*Usable Capital Receipts Reserve  
General Fund Balance  
Schools Balance  
Earmarked Reserves  
Capital Grant Unapplied*

*Unusable reserves comprise:*

*Revaluation Reserve  
Available for sale Financial Instruments Reserve  
Capital Adjustment Account  
Financial Instruments Adjustment Account  
Pensions Reserve  
Unequal Back Pay Account  
Collection Fund Adjustment Account  
Deferred Capital Receipts Reserve  
Employee Benefit Reserve*

*Useable reserves are available to fund expenditure, either revenue or capital incurred by the Council. Unusable reserves are not available to fund expenditure since they do not represent new resources available to the Council.*

*Reserves are set up by a charge against the appropriation section of the Comprehensive Income and Expenditure Statement.*

*Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for general contingencies and cashflow management. Capital reserves are not available for revenue purposes. Future revenue expenditure met by reserves will go through the Cost of Services and the offsetting credit through the Movement in Reserves.*

## **27. Revenue Expenditure Funded From Capital under Statute**

Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a fixed asset. Such expenditure is charged to the to the appropriate service account within the Comprehensive Income and Expenditure Statement in accordance with the provisions of the Code.

Funding is provided by crediting income receivable into the appropriate service account with any additional funding being met by a transfer from the Capital Adjustment Account

## **28. Service Concessions**

IFRIC12 Service Concessions is an early adoption of IFRS accounting applicable to 2009/10 which aims to identify public sector services performed by private sector organisations. Essentially assets need to be brought 'on balance sheet' as a PFI type arrangements and accounted for differently from any other asset held on the balance sheet.

## **Statement of Accounting Policies continued**

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### **28. Service Concessions (Continued)**

Halton Borough Council has conducted a review of its services and has found no examples of IFRIC 12 service concessions in existence during 2009/10.

### **29. Stocks**

Stocks and stores held by the Council at the year end are included in the accounts on the basis of lower of cost or net realisable value.

### **30. Non-Current Assets, Property, Plant and Equipment**



**30(a) Recognition**

**Non current assets** are assets that have physical substance and are held in the provision of services or for administrative purposes on a continuing basis.

Expenditure on the acquisition, creation or enhancement of a **non current asset** is capitalised on an accruals basis. Expenditure is only capitalised when it adds to or extends, and not merely maintains the value of an existing asset.

This will include the laying out and reclamation of land, enhancement or replacement of roads/buildings as well as the installation/replacement of plant/machinery.

**30(b) Measurement**

**Acquired non current** assets are initially measured at cost, but only the costs that are directly attributable to bringing the asset into working condition for its intended use. **Non current assets acquired by finance lease are valued at discounted present value of future lease payments using PWLB rates for annuities at the date of acquisition.** Whilst **acquired** infrastructure assets, **vehicles, plant, equipment** and community assets remain in the balance sheet at historical costs net of depreciation, other assets will be subject to periodic revaluation of no more than five years using the appropriate method for that class of asset.

The method of valuing assets is as follows:

- **Fair Value - Market Value (MV) - Investment Properties, Investment Land and Buildings in the course of development (where fair value of the investment property can be reliably measured) See separate Note 30.h**
- **Fair Value - Existing Use Value (EUV) – operational and non-specialised property and non specialised surplus land and buildings.**
- **Fair Value - Depreciated Replacement Cost (DRC) – specialised operational assets and specialised surplus land and buildings**
- Historic cost (HC) – Infrastructure assets, vehicles, plant & equipment and community assets
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## **Statement of Accounting Policies continued**

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**30. Non-Current Assets, Property, Plant and Equipment (continued)**

- **Historic cost – Assets under construction excluding , Investment Land and Buildings in the course of development where fair value of the investment property can be reliably measured**
- **Fair Value (lease interest) – Finance Leases**
- **For Sale Assets – Lower of Carrying Amount and Fair Value (MV) less disposal costs. See separate Note 30.i**

In the absence of historical information regarding the cost of acquisition or construction of various community assets, they have been reclassified and given a zero valuation from 1<sup>st</sup> April 2005.

The Council operates a de-minimis level of £35,000, **in respect of land and property**, and a qualified valuer certifies the valuation. **In respect of vehicles, plant & equipment these are carried at depreciated historic cost subject to an initial recognition de-minimis of £5,000.**

### 30(c) Impairment

Because the assets are only revalued periodically, the Council's valuer prepares annually a certificate confirming he has reviewed the assets for impairment. If it has been established that there has been impairment to an asset, then each case will be reviewed to decide if a debit should be made to the relevant service's total cost.

### 30(d) Accounting for Disposals of Non Current Assets PPE

Receipts from the disposal of fixed assets greater than £10,000 are credited to the usable capital receipts reserve on an accruals basis. **Lower amounts are treated as de-minimis and credited to the revenue account.**

#### (i) **Comprehensive Income and Expenditure Statement**

The gain or loss of a tangible asset is the amount by which the disposal proceeds are more (gain) or less (loss) than the carrying amount of the fixed asset. With the entries being debit cash/debtors and credit the **Comprehensive Income and Expenditure Statement** with the disposal proceeds and credit the fixed asset account and debit the **Comprehensive Income and Expenditure Statement** with the carrying amount of the tangible fixed asset. The carrying amount is the amount at which the asset is recorded in the accounting records at a particular date. Carrying amount means the net amount after deducting accumulated depreciation or amortisation.

#### (ii) **Movement in Reserves**

In order to comply with statutory/proper practices restrictions on the use of capital receipts:

## **Statement of Accounting Policies continued**

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### 30. Non-Current Assets, Property, Plant and Equipment (continued)

- **Comprehensive Income and Expenditure Statement**, the General Fund should be debited (in the case of a gain) or credited (in the case of a loss) with the amount equal to the gain or loss on disposal of the tangible fixed asset, with the double entries being:
  - a credit to the Usable Capital Receipts Reserve of an amount equal to the disposal proceeds;
  - a debit to the Capital Adjustment Account of an amount equal to the carrying amount of the fixed asset disposal.

The gain or loss on disposal of the tangible fixed asset should be a reconciling item in the ***Movement in Reserves***. If the asset disposed of was carried at current value, in addition to the above entries the balance on the Revaluation Reserve in respect of asset disposals is written off the Capital Adjustment Account.

The proportion that is required to be paid over to Central Government as a 'housing pooled capital receipt' should be charged in the ***Other Operating Expenditure Section of the Comprehensive Income and Expenditure Statement*** and the same amount appropriated from Usable Capital Receipts Reserve and credited to the General Fund.

### 30(e) Depreciation

Depreciation is provided for on all fixed assets with a finite useful life. The provision for depreciation is calculated by allocating the cost less any estimated residual value of the asset over its useful life. The useful lives of assets are estimated on a realistic basis and reviewed regularly, and where necessary revised.

The estimated useful lives of assets by class are as follows:

- |  |   |
|--|---|
| • Buildings & Other Operational Properties                         | <b><i>Up to 60 years</i></b>                      |
| • Infrastructure and Community Assets                              | 15 years  |
| • Vehicles, Plant & Equipment                                      | 5-10 years  |
| • Intangible Assets  | 5-10 years  |
| • <b><i>Finance Leases –vehicle, plant and equipment lease</i></b> | <b><i>3-10 years equal to length of lease</i></b> |
| • <b><i>Finance Leases – buildings</i></b>                         | <b><i>Up to 60 years</i></b>                      |

All assets are depreciated on a straight line basis, with depreciation commencing the year after acquisition. In exceptional circumstances, for example, if a particularly expensive asset is acquired with a short life expectancy, then a charge may be levied in the year of acquisition to ensure the charge to the service is more in line with the consumption of the asset.

Land has an infinite life and is therefore not depreciated.

## Statement of Accounting Policies continued

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### 30. Non-Current Assets, Property, Plant and Equipment (continued)

#### 30(f) Charges to the Comprehensive Income and Expenditure Statement

As defined in CIPFA's Best Value Accounting Code of Practice, each service is charged with a capital charge for the consumption of all fixed assets used in the provision of the service. The charge is the annual provision for depreciation or impairment.

Finance costs (interest payable) are a direct charge to ***Financing and Investment Income within the Comprehensive Income and Expenditure Statement***, whilst repairs and maintenance are charged to the appropriate service revenue account.

#### 30(g) Revaluations

Assets are subject to an annual impairment check. A proportion of the assets will be subject to revaluation each year to allow for the workload of revaluation to be more evenly spread and the balance sheet to be more accurate. Each asset will be revalued on a 5 year cycle.

Gains and losses resulting from revaluations are accounted for as follows.

The ***Comprehensive Income and Expenditure Statement - Other Comprehensive Income and Expenditure*** should be:

- Credited with revaluation gains, except to the extent that they reverse previous revaluation losses (after allowing for depreciation) on the same assets that were charged to the ***Comprehensive Income and Expenditure Statement***.
- Debited with revaluation losses (***either arising from general reduction in prices or an impairment related to a clear consumption of economic benefit***) up to the balance on the Revaluation Reserve in respect of that asset.

The ***Comprehensive Income and Expenditure Statement – Cost of Service*** should be:

- Credited with any revaluation gains ***except to the extent that they reverse previous revaluation losses (after allowing for depreciation) on the same assets that were charged to the Comprehensive Income and Expenditure Statement.***
- Debited with revaluation losses (***either arising from general reduction in prices or an impairment related to a clear consumption of economic benefit***) up to the balance on the Revaluation Reserve in respect of that asset.

#### 30(h) ***Investment Property***

***Investment property is property (land or a building – or part of a building – or both) held solely to earn rentals or for capital appreciation or both, rather than for:***

- (a) Use in the production or supply of goods or services or for administrative purposes; or***
- (b) Sale in the ordinary course of operations.***

## **Statement of Accounting Policies continued**

### 30. **Non-Current Assets, Property, Plant and Equipment (continued)**

***Investment property on which a decision has been made to sell can not be reclassified as Held for Sale under the Code.***

***Investment Property is valued at Fair Value – Market Value. It is not subject to depreciation. Fair value of investment properties shall reflect market conditions as at the Balance Sheet date. This means that a periodic revaluation approach may only be used where the carrying amount does not differ materially from that which would be determined using fair value at the Balance Sheet date.***

*An investment property under construction shall be measured at fair value once it is able to measure reliably the fair value of the investment property, and at cost before that date.*

*A gain or loss arising from a change in the fair value of investment property shall be recognised in Surplus or Deficit on the Provision of Services for the period in which it arises.*

**30(i) Non Current Assets Held for Sale**

*To be classified as held for sale an asset must meet the all of the following criteria:*

- *The asset (or disposal group) must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets (or disposal groups).*
- *The sale must be highly probable; the appropriate level of management must be committed to a plan to sell the asset (or disposal group) and an active programme to locate a buyer and complete the plan must have been initiated.*
- *The asset (or disposal group) must be actively marketed for a sale at a price that is reasonable in relation to its current fair value.*
- *The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification and action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.*

*A non-current asset classified as held for sale shall be measured at the lower of its carrying value and fair value less costs to sell at initial reclassification and at the end of each reporting date (ie 31 March), subject to recognising any gains. Gains or losses will be recognised in the CIES however recognition of gains will be limited to reversal of previous recognised losses.*

## **Statement of Accounting Policies continued**

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**30. Non-Current Assets, Property, Plant and Equipment (continued)**

*When the sale is expected to occur beyond one year, the costs to sell shall be measured at their present value. Any increase in the present value of the costs to sell that arises from the passage of time represents the unwinding of the discounting and shall be presented in Surplus or Deficit on the Provision of Services as a financing cost.*

*Immediately before the initial classification of an asset as held for sale, the carrying amount of the asset shall be measured in accordance with the relevant section of the Code.*

*Revaluation gains for any initial or subsequent increase in fair value less costs to sell an asset following reclassification shall be recognised, but not in excess of the cumulative impairment loss or revaluation loss (adjusted for depreciation) that have*

*been recognised in the Surplus or Deficit on the Provision of Services under the Code or previously in accordance with section 4.7 or section 4.1 of the Code.*

*Impairment loss or revaluation loss for any initial or subsequent decrease to fair value less costs to sell following reclassification shall be recognised in the Surplus or Deficit on the Provision of Services (even where there is a balance on the Revaluation Reserve)*

**30(j) Componentisation.**

*The objective of component accounting is to follow proper accounting practice by ensuring that items of Property, Plant and Equipment are accurately and fairly included in the Balance Sheet and the Comprehensive Income and Expenditure Statement properly reflects the consumption of economic benefits of those assets (i.e.: the cost of their use) over their individual useful lives, through depreciation charges*

*In order to achieve this, the overall value of an asset must be fairly apportioned over significant components, which need to be accounted for separately, with their useful lives and the method of depreciation being determined on a reasonable and consistent basis.*

*Having identified individual material assets or groups of similar assets with similar characteristics, each component part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the asset shall be depreciated separately. The Council has set a de-minimis threshold of £500,000 above which it will consider assets for componentisation..*

*Once individual material assets and asset groups have been identified, items of Property, Plant and Equipment will be categorised as follows based on their significance, useful life and depreciation method:*

## **Statement of Accounting Policies continued**

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**30. Non-Current Assets, Property, Plant and Equipment (continued)**

| <i>Component</i>   | <i>Detail</i>   |
|--|---|
| <ul style="list-style-type: none"> <li>• <i>Superstructure and Substructure</i></li> </ul>                           | <p><i>Frame, upper floors, roof, stairs, external walls, external windows and doors, internal walls and partitions, internal doors</i></p>  |
| <ul style="list-style-type: none"> <li>• <i>Internal Finishes and Fittings</i></li> <li>• <i>Services</i></li> </ul> | <p><i>Wall, floor, ceiling finishes, fittings and furnishings</i><br/> <i>Sanitary appliances, services equipment, disposal installations, water installations, heat source, space heating and air conditioning, ventilating systems, electrical installations, fuel installations, fire and lightening protection, communications and security installations, builders work in connection and management and commissioning of services</i></p> |
| <ul style="list-style-type: none"> <li>• <i>Land</i></li> </ul>  | <p><i>Land upon which the property is constructed.</i></p>  |

*The basis upon which the calculation of the value of components will be made is replacement cost. In general, the expected split for components would be 50-60% for Superstructure and Substructure, 20% for Internal Finishes and Fittings and 20-30% for Services. The actual split will be determined following individual valuation of the property.*

*Land is a separate component in its own right, but is not considered for depreciation purposes as generally land is considered to have an infinite life.*

*When an asset is enhanced or replaced, the cost of the replacement component is compared with the cost of the total asset. If the cost of the enhancement or replacement is above 10% or £35,000 of the overall cost of the asset, a proportion of the relevant component's carrying value is derecognised and replaced by the cost of the new replacement asset.*

*When an asset is acquired or revalued, the cost of its component parts will be broken down into Superstructure and Substructure, Internal Finishes and Fittings and Services providing that the asset exceeds the de-minimis threshold of £500,000. Land will be identified as a separate component in its own right.*

### **31. Value Added Tax**

VAT is included in income and expenditure accounts, whether of a capital or revenue nature, only to the extent that it is irrecoverable.