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| **REPORT TO:** | Business Efficiency Board |
| **DATE:** | 26 March 2010 |
| **REPORTING OFFICER:** | Operational Director – Finance |
| **SUBJECT:** | Accounting Policies for the 2009/10 Abstract of Accounts |
| **WARD(S):** | Borough-wide |

## 1.0 PURPOSE OF REPORT

**1.1** To inform the Board of the accounting policies to be used when preparing the Council's Statement of Accounts (The Abstract). The report also highlights some key changes arising from the annual Statement of Recommended Practice (SORP) and the phased implementation of International Financial Reporting Standards (IFRS), and indicates where these will affect the 2009/10 Abstract.

## 2.0 RECOMMENDED: That

**(1) the Council's accounting policies set out in Appendix 1, be endorsed;**

**(2) the impact of updates to the Statement of Recommended Practice outlined in Section 5, be noted.**

## 3.0 BACKGROUND

3.1 The Council's Abstract must comply with the requirements of the Code of Practice on Local Authority Accounting – A Statement of Recommended Practice (SORP). The SORP is amended annually for changes in statute and accounting practice. It seeks to ensure that all Councils compile their accounts in a consistent manner.

## 4.0 BASIS FOR THE COUNCIL'S ACCOUNTING POLICIES

4.1 Accounting policies are the principles and practices applied by the Council to reflect how its financial transactions are shown in its records and statements. The Council's Accounting Policies are based on the requirements of the SORP, which in turn reflect the fundamental principles of UK Generally Accepted Accounting Principles (UK GAAP).

4.2 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.

## 5.0 CHANGES TO THE 2009/10 SORP

5.1 The 2009/10 SORP includes a number of changes that will affect the content of the 2009/10 Abstract. These are summarised below. Full details of the resultant accounting policies that will be used to prepare the Council's 2009/10 accounts, are attached at Appendix 1.

5.1.1 <u>True and Fair View</u>

In previous years the Operational Director, Finance has been required to certify that the accounts "present fairly" the financial position of the Council as at 31 March. However, there is now a new requirement for the Operational Director, Finance to certify that the accounts present a "true and fair view". This change has no practical effect on the preparation of the accounts, and simply reflects convergence of local authority accounting requirements with UK GAAP.

5.1.2 <u>Private Finance Initiative (PFI) Schemes</u>

As part of the transition to adopt IFRS, the 2009/10 SORP requires all PFI schemes to be prepared under international standards. As a result, the emphasis is now on control of the asset rather than ownership. If control lies with the Council then the value of the PFI asset should be shown on the Council's balance sheet. The Council does not currently have any assets constructed under PFI arrangements. However, the Mersey Gateway and Building Schools for the Future schemes will both use PFI arrangements, which will therefore lead to a significant increase in the value of fixed assets held on the Council's Balance Sheet in future.

5.1.3 <u>Collection Fund</u>

Billing authorities for Council Tax and National Non Domestic Rates (NNDR) such as Halton Borough Council, are now classified as agents of the major precepting authorities and collect income on their behalf. Therefore the Council's accounts must now only reflect the proportion of Council Tax that is due to Halton Borough Council, rather than the total amount collected. The major precepting authorities such as Cheshire Fire and Rescue Service and Cheshire Police must also reflect their proportion in their accounts. As all NNDR is collected by the Council as an agent of the Government, this will be removed from the Collection Fund completely.

5.1.4 Employee Remuneration
In addition to the changes in the 2009/10 SORP, further amendments have been introduced by the Government to the disclosure requirements for employee remuneration. These are intended to improve transparency of reporting of senior officer remuneration in public bodies. A breakdown of remuneration details will be disclosed for all employees having total remuneration over £50,000 listed by post title. Employees with remuneration over £150,000 will be named. The numbers of employees with total remuneration over £50,000 will still be disclosed but this will now be presented in bands of £5,000 rather than £10,000.

5.2 The Council will be required to prepare its statutory 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). A separate report on the Agenda details progress with the implementation of IFRS.

5.3 The Council's updated accounting policies are presented in Appendix 1, with the changes for 2009/10 highlighted in bold italics. The 2009/10 draft Abstract of Accounts will be presented to the Board at its meeting on 30th June 2010.

## 6.0 POLICY AND OTHER IMPLICATIONS

6.1 None.

## 7.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

7.1 None.

## 8.0 RISK ANALYSIS

8.1 The Accounts and Audit Regulations 2003 (2006 amendments) require that the Statement of Accounts complies with the SORP. If the Council's accounts are not compliant then they would be liable to qualification by the external auditors. This would also have a significant adverse impact on the Council's overall Use of Resources Assessment.

8.2 These risks are mitigated by ensuring that the SORP requirements are reflected within the Council's accounting policies. The Council also monitors consultations on revisions to the SORP and draws upon guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Council's external auditors.

## 9.0 EQUALITY AND DIVERSITY ISSUES

9.1 None.

## 10.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1072

10.1 There are no background papers under the meaning of the Act.

# Statement of Accounting Policies

## 1. General

The accounts have been prepared in accordance with "The Code of Practice on Local Authority Accounting in the United Kingdom 2009 a statement of recommended practice", issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). They have been prepared on the historical cost conventions, and give a true and fair view of the Council's transactions and financial position.

## 2. Accruals of Income and Expenditure

### 2(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.

### 2(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.

### 2(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 SORP 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).***

### 2(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.***

### 2(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. Acquired/Discontinued Operations

Income and expenditure directly related to either acquired or discontinued operations will be shown separately on the face of the Income and Expenditure Account 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.

## 4. 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 income and expenditure account within the General Government Grants figure.

## 5. 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 will be 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.***

## 6. Business Improvement District Schemes

Business Improvement District (BID) projects for the benefit of a particular area are financed (in whole or in part) by a BID levy paid by the non-domestic ratepayers, or a class of such ratepayers, in the BID area. There are two key participants, the billing authority for the area and the BID Body. What determines the appropriate accounting treatment for the billing authority is whether it acts as the principal or agent. If the billing authority acts as principal, the income received and expenditure incurred by the billing authority is included in the Net Cost of Services under the appropriate service heads. Halton acts as an agent for two BID projects (Halebank and Astmoor), the following amounts are recognised in the Income and Expenditure Account:

- A contribution made by HBC to the BID project (i.e. grant-in-aid), which is shown as service expenditure under the relevant service in the Income and Expenditure Account;

- BID levy collection costs and associated (reimbursed) income, which is shown in Net Cost of Services under the relevant service in the Income and Expenditure Account;

- Income from services supplied by HBC to the BID project on a paid basis, which is accounted for as a trading activity as part of Net Operating Costs in the Income and Expenditure Account. However, where the service supplied for charge is a function of the Council, e.g. a planning application, it is accounted for in the same way as other income of that function.

*The 2009 SORP removed the requirement to publish the BID Revenue account within the notes to the accounts.*

## 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 Income and Expenditure Account for the year is the accrued income for the year.***

***The difference between the income included in the Income and Expenditure Account 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 Statement in movement on the General Fund Balance.***

***The Councils Cash Flow Statement includes in 'Revenue 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) Income and Expenditure Account and Statement of Movement on the General Fund Balance*

***The Council Tax Income credited to the Income and Expenditure account is the accrued amount for 2008/09. In addition, the Statement of movement on the General Fund Balance is re-stated accordingly, with the change in the Income and Expenditure Account 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 Council's 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 Revenue 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.***

### *9(g) Statement of Total Recognised Gains and Losses*

***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, Extraordinary Items and Prior Year Adjustments

All of the above will be included in the cost of services or on the face of the Income and Expenditure account 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.

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.

The charge and credit to the Income and Expenditure account is based on the accruals concept.

## 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

Revenue grants are accounted for on an accruals basis, with the credit shown in the appropriate revenue account. Whatever their basis of payment, revenue grants are matched with the expenditure to which they relate.

For capital grants where acquisition is financed either wholly or in part by a government grant or ***non-government*** contribution, the amount of grant or contribution is credited initially to government grants – deferred account. Amounts are written off in the service revenue account over the useful life of the asset to match the depreciation of the asset to which it relates.

## 15. 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. A more likely cost would be, for example, the capitalisation of software licences. The assets would be amortised out of the Balance Sheet over its economic life, with due recourse to disposal and/or impairment, and charges to revenue.

## 16. Landfill Allowance Trading Scheme

The Landfill Allowance Trading Scheme, like certain Emission Rights schemes, is a 'cap and trade' scheme, which allocates tradable 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.

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.

## 17. Leases

### 17(a) Finance Leases

Rental payments under finance leases are apportioned between the finance charge and the reduction of the outstanding obligation, with the finance charge being allocated and charged to revenue over the term of the lease. Any receipts are subject to the same test, whereby the writing down of the debtor’s obligation will be a capital receipt.

### 17(b) Operating Leases

Rentals payable under operating leases are charged to revenue on a straight line basis over the life of the lease. Receipts are treated as revenue income.

## *18. 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 Income and Expenditure Account; 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.***

***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.***

## 19. 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 Income and Expenditure Account.

## 20. 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 and the Teachers' Pension Agency.

### Pensions Reserve

Where there is a difference between the amount charged to the Income and Expenditure Account 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 Statement of Movement on the General Fund.

### 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):

(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 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 Income & Expenditure Account 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 Net Operating Expenditure in the Income and Expenditure Account.

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 Net Operating Expenditure in the Income and Expenditure Account.

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 Statement of Total Recognised Gains and Losses.

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 Net Cost of Services in the Income and Expenditure Account 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 Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.

(v) the current service cost is included within the Net Cost of Services. Both the interest and the expected return on assets are included within Net 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 Statement of Total Recognised Gains and Losses for the period;

(vi) past service costs are recognised in Net 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 Net 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 Net Cost of Services at that date.

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

## 21. 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 Income and Expenditure Account in the Net Cost of Services. (See Notes to the core Financial Statements).

Provisions are charged to the appropriate revenue account; 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.

## 22. Provisions for Bad and Doubtful Debts

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

## 23. Repurchase of Borrowing

Gains or losses arising on the repurchase or early settlement are charged in the Income and Expenditure Account 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.

## 24. Reserves

The Council maintains certain reserves to meet general, rather than specific, future expenditure. Reserves are set up by a charge against the appropriation section of the Income and Expenditure Account. 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. The requirement of FRS17 has meant the introduction of a Pension Reserve onto the Balance Sheet offset by a Pension Asset/Liability Account. The Statement of Total Recognised Gains and Losses brings together ***movement on*** all reserves divided into revenue and capital. Future expenditure met by reserve will go through the net cost of services and the offsetting credit through the Statement of Movement on the General Fund.

## 25. 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 Income and Expenditure account in accordance with the general provisions of the SORP.

## 26. 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.

## 27. Tangible Fixed Assets

### 27(a) Recognition

Expenditure on the acquisition, creation or enhancement of a tangible fixed 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.

### 27(b) Measurement

All 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. Whilst infrastructure assets 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. 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 1st April 2005. The Council operates a de-minimus level of £35,000 (Land & Buildings only), and a qualified valuer certifies the valuation.

## 27(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.

## 27(d) Accounting for Disposals of Tangible Fixed Assets

Receipts from the disposal of fixed assets greater than £10,000 are credited to the usable capital receipts reserve on an accruals basis.

(i) Income and Expenditure Account

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 Income and Expenditure Account with the disposal proceeds and credit the fixed asset account and debit the Income and Expenditure Account with the carrying amount of the tangible fixed asset.

(ii) Statement of Movement in the General Fund

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

- Expenditure Account, 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 fixed 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 Statement of Movement on the General Fund. 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 Net Operating Cost Section of the Income and Expenditure Account and the same amount appropriated from Usable Capital Receipts Reserve and credited to the General Fund.

### 27(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 on a regular basis and where necessary revised. Depreciation charges usually commence in the year after acquisition. In exceptional circumstances, for example if a particularly expensive asset is acquired which has 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. In the case of infrastructure assets, the depreciation charge is calculated over a straight line 15 year period.

### 27(f) Charges to the Income and Expenditure Account and STRGL

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 Net Operating Costs; whilst repairs and maintenance are charged to the appropriate service revenue account.

### 27(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 Statement of Total Recognised Gains and Losses 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 Income and Expenditure Account.
- Debited with revaluation losses not associated with an impairment related to a clear consumption of economic benefit up to the balance on the Revaluation Reserve in respect of that asset.

The Income and Expenditure Account should be:

- Credited with any revaluation gains that reverse revaluation losses (after allowing for depreciation) on the same assets that were charged to services.
- Debited with revaluation losses associated with an impairment related to a clear consumption of economic benefit.
- Debited with revaluation losses not associated with a clear consumption of economic benefit in excess of the balance on the Revaluation Reserve in respect of that asset (ie in excess of the amount allowed to be debited to the STRGL).

## 28. 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.