

REPORT TO GOVERNANCE AND AUDIT COMMITTEE

REPORT OF: HEAD OF FINANCE

REPORT NO: HOF 190

DATE: 15th March 2012

TITLE:	Statement of Accounting Policies 2011/12	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	None	
PORTFOLIO HOLDER: NAME AND DESIGNATION:	Cllr Mike Taylor Assets and Resources Portfolio Holder	
CONTACT OFFICER:	Nicky Lovely Finance Support Manager (Accountancy) n.lovely@southkesteven.gov.uk Telephone (01476) 406208	
INITIAL IMPACT ASSESSMENT:	Carried out and Referred to in paragraph (7) below:	Full impact assessment Required:
Equality and Diversity	N/A	No
FREEDOM OF INFORMATION ACT:	This report is publicly available via the Local Democracy link on the Council's website: www.southkesteven.gov.uk	
BACKGROUND PAPERS		

1. RECOMMENDATION

It is recommended that Governance & Audit Committee approve the Statement of Accounting Policies to be used in the production of the 2011/12 financial statements.

2. PURPOSE OF THE REPORT

The purpose of this report is to update the Committee on the Accounting Policies to be utilised in the preparation of the annual Statement of Accounts for 2011/12.

There is one new accounting policy relating to Heritage Assets. All other policies have been reviewed and revised where necessary to give more clarity.

When changes are made to the policies, it is a requirement that these are reported to those charged with governance.

3. BACKGROUND

The 2011/12 Statement of Accounts will summarise the Council's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. It will be prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2011-12* (The Code) which is based on International Financial Reporting Standards (IFRS). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non-current assets.

There is one new accounting policy to be applied to the preparation of the 2011/12 financial statements. This relates to Heritage Assets. Heritage assets are required to be included in the Statement of Accounts by FRS 30 (Financial Reporting Standard 30), which has been adopted for the 2011/12 financial year. The policy defines the criteria used to identify heritage assets, to assess the value to be included in the financial statements and the accounting treatments used.

All other accounting policies have been reviewed for the 2011/2012 financial year to ensure that they comply with The Code, that they accurately reflect the transactions that have occurred and that they have been applied consistently. Appendix A outlines the full set of accounting policies to be applied in the statement of accounts preparation.

4. OTHER OPTIONS CONSIDERED

None.

5. RESOURCE IMPLICATIONS

None.

6. RISK AND MITIGATION (INCLUDING HEALTH AND SAFETY AND DATA QUALITY)

None identified at this stage.

7. ISSUES ARISING FROM EQUALITY IMPACT ASSESSMENT

None.

8. CRIME AND DISORDER IMPLICATIONS

None.

9. COMMENTS OF FINANCIAL SERVICES

Prior to the compilation of the statement of accounts for 2011/12 it is important that members of Governance and Audit Committee have the opportunity to discuss and comment on the accounting policies to be used in the production of

the financial statements. These policies if agreed, will be applied to the treatment of all transactions that make up the figures in the Statement of Accounts to ensure that the accounts present a true and fair view of the financial position of the Council at the balance sheet date and of its income and expenditure for the financial year.

10. COMMENTS OF LEGAL & DEMOCRATIC SERVICES

The policies referred to in this report are procedures and guidance and not formal policies adopted by the Council as policy development framework or key decisions made as a matter of local choice. As such there is no formal process for updating and amending. As a matter of good practice, any updates and amendments should be reported to Governance and Audit Committee in accordance with their role to consider whether appropriate accounting policies have been followed.

11. APPENDICES:

Appendix A - Statement of Accounting Policies 2011/12

APPENDIX A

STATEMENT OF ACCOUNTING POLICIES

The Statement of Accounts summarises the Council's transactions for the 2011/2012 financial year and its position at the year-end of 31 March 2012. The Council is required to prepare an annual Statement of Accounts by the Accounts & Audit (England) Regulations 2011, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2011/2012* and the *Service Reporting Code of Practice 2011/12*, supported by International Financial Reporting Standards (IFRS).

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

REVENUE RECOGNITION

Revenue is defined as the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in the Council's net worth. It is measured at the fair value of the amount receivable (except for Financial Assets). Non-contractual, non-exchange transactions such as council tax and business rates are measured at the full amount receivable.

Sale of Goods – revenue is recognised when all of the following conditions have been met:

- The Council has transferred to the purchaser the significant risks and rewards of ownership of the goods.
- The Council retains neither continuing managerial involvement or effective control over the goods sold.
- The amount of revenue can be reliably measured.
- It is probable that economic benefits or service potential will flow to the Council.
- The costs incurred or to be incurred in respect of the transaction can be reliably measured.

Rendering of Services – revenue is measured on the basis of percentage of completion of the service at the reporting date and when the following conditions have been met:

- The amount of revenue can be reliably measured.
- It is probable that economic benefits or service potential will flow to the Council.
- The costs incurred or to be incurred in respect of the transaction can be reliably measured.
- The stage of completion of the transaction can be reliably measured.

Interest – is calculated using the effective interest method and recognised when:

- The amount of revenue can be reliably measured.
- It is probable that economic benefits or service potential will flow to the Council.

Non-Exchange Transactions – revenue is recognised when

- It is probable that economic benefits or service potential will flow to the Council.
- The amount of revenue can be reliably measured.

Where an amount is received that does not meet the recognition criteria above, it is treated as a creditor. When the relevant recognition criteria are met at a later date revenue equal to the reduction in the carrying amount of the liability shall be recognised.

If an uncertainty arises about the collectability of an amount already included in revenue, the amount in respect of which recovery has ceased to be probable is recognised as an expense in the Comprehensive Income & Expenditure Statement.

Where an amount has not yet been received, but the revenue meets the recognition criteria above, it is treated as a debtor in the balance sheet.

ACCRUALS OF INCOME AND EXPENDITURE

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- **Fees, charges and rents** due from customers are accounted for as income at the date the council provides the relevant goods or services.
- **Supplies** are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.
- **Works** are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.
- **Interest** payable on external borrowings and interest receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from them.

EVENTS AFTER THE REPORTING PERIOD

These are events, both favourable and unfavourable that occur between the end of the reporting period (31st March) and the date when the Statement of Accounts is authorised for issue. This date is published within the Statement of Accounts. There are two types of events:

- Those that provide evidence of conditions that existed at the end of the reporting period (adjusting events). The Statement of Accounts will be adjusted to reflect these.
- Those that are indicative of conditions that arose after the reporting period (non-adjusting events). If these events would have a material effect, disclosures will be made in the notes of the nature of the event and an estimate of its financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

EXCEPTIONAL ITEMS

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income & Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES & ESTIMATES AND ERRORS

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for in the current and future years affected by the change and do not give rise to a prior period adjustment. Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, the opening balances and comparative amounts for prior periods are adjusted as if the new policy had always been applied.

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

GOVERNMENT GRANTS & OTHER CONTRIBUTIONS (REVENUE)

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised in the Comprehensive Income & Expenditure Statement (CIES) on an accruals basis at the date that the Council satisfies the conditions of entitlement to the grant/contribution and that there is reasonable assurance that the monies will be received. Conditions are stipulations that specify how the grant or contribution is to be used, and if not met require the return of the grants or contribution to the transferor.

If money has been advanced for which conditions have not been satisfied, these are treated as a creditor in the Balance Sheet. The money is transferred to the CIES once the conditions are met. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to Taxation and Non-Specific Grant Income.

If money has been advanced for a specific purpose, conditions are met, but expenditure has not yet been incurred, these amounts are transferred to earmarked reserves in the balance sheet to meet future expenditure.

OVERHEADS & SUPPORT SERVICES

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2011/12 (SeRCOP)* (for example, charges are based on estimated or actual time allocations with the exception of administrative building costs – floor area basis). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

Corporate & Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.

Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

These two cost categories are defined in SeRCOP (Service Reporting Code of Practice) and have been accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Cost of Services.

EMPLOYEE BENEFITS

Benefits Payable During Employment: include wages, salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits for current employees. A liability to pay employee benefits is recognised as an expense in the Comprehensive Income & Expenditure Statement on an accruals basis.

Paid annual leave, flexi-time, maternity and paternity pay that have been earned but not taken by the reporting date and which employees can carry forward into the next financial year are measured as the additional amount the Council expects to pay and are recognised as an accrual in Surplus or Deficit on Provision of Services. These amounts are reversed out in the Movement in Reserves Statement so that they are charged to revenue in the financial year in which the holiday absence occurs.

Bonuses and similar payments are recognised when the Council has a present obligation to make such payments as a result of past events and a reliable estimate of the amount due can be made.

Termination Benefits: are payable as a result of the Council's decision to terminate an employee's employment before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for those benefits. They are charged on an accruals basis to the relevant service line in the Comprehensive Income & Expenditure Statement.

Termination benefits are recognised as a liability and an expense when the Council is committed to either terminate the employment or to provide termination benefits. The commitment will be demonstrated by a detailed formal plan and there is no realistic possibility of withdrawal.

When termination benefits are in the form of pension enhancements they will be treated as pension costs.

Post-Employment Benefits – The Council recognises the cost of retirement benefits in the revenue account when employees earn them, rather than when the benefits are eventually paid as pensions.

Employees of the Council are offered membership of the Local Government Pension Scheme, administered by Lincolnshire County Council. This is accounted for as a defined benefit scheme (retirement lump sums and pensions) earned as employees worked for the Council.

Local Government Pension Scheme

The liabilities of the pension scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to the retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees. Financial assumptions are based on market expectations at the reporting date for the period over which they are to be settled. The scheme assets and liabilities are subject to a formal actuarial valuation every three years.

Between these formal valuations, values are estimated at each balance sheet date using latest membership data.

- Liabilities are discounted to their value at current prices, using a discount rate calculated by the Actuaries (based on the indicative rate of return on the Bond yields and inflation rates).
- The assets of the Lincolnshire County Council pension fund attributable to the Council are included in the balance sheet at their fair value:

Quoted securities – current bid price
Unquoted securities – professional estimate
Unitised securities – current bid price
Property - market value

The change in the net pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year – charged in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing & Investment Income & Expenditure line in the Comprehensive Income and Expenditure Statement.
- 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 the Financing & Investment Income & Expenditure line in the Comprehensive Income and Expenditure Statement.
- gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumption – debited to Other Comprehensive Income & Expenditure and recognised in the Pensions Reserve.
- contributions paid to the Lincolnshire County Council pension fund – cash paid as employer's contributions to the pension fund.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the future liabilities calculated according to the relevant accounting standards. If the amount charged to Surplus or Deficit on the Provision of Services is larger than the actual contributions paid into the pension fund in the year, the General Fund Balance will be

credited with the difference, with the opposing entry to the Pension Reserve. If the amount charged is smaller the General Fund Balance will be debited with the difference.

Discretionary Benefits - The council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

NON-CURRENT ASSETS

INTANGIBLE ASSETS

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (eg software licences) is capitalised when it will bring benefits to the council for more than one financial year. Expenditure on the development of the Council's website is not capitalised. Where expenditure on intangible assets qualifies as capital expenditure any transactions relating to them are reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

Intangible assets are initially measured and are subsequently carried at amortised cost as there is no active market. They are amortised to the relevant service revenue accounts over the life of the investment on a straight line basis. The amount in the balance sheet is the cost net of amortisation. Any gain or loss arising on the disposal of an intangible asset will be posted to the Other Operating Income & Expenditure line in the Comprehensive Income & Expenditure Statement.

The useful life of intangible assets is assessed by the Chief Finance Officer at the time of acquisition. Intangible assets are derecognised when no future economic benefits are expected from them.

PROPERTY, PLANT & EQUIPMENT

Assets that have physical substance and are held for use in the production or supply of goods and services, for rental to others or for administrative purposes on a continuing basis.

Recognition: Expenditure on the acquisition, creation or enhancement of non-current assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standard of performance of an asset (e.g. repairs & maintenance) is charged to revenue as it is incurred.

Enhancement is expenditure intended to:

- lengthen substantially the useful life of the asset,
- increase substantially the value of the asset,
- increase substantially the extent to which the asset can be used.

The Council has a de-minimis of £10,000 for capital expenditure, with the exception of the purchase of motor vehicles. Where the total cost of an asset is higher than £10,000 but only part of the expenditure has occurred within a financial year, that expenditure would be included in the balance sheet even if it was below the de minimis level.

Measurement: Assets are initially measured at cost on an accruals basis, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

- Dwellings – fair value determined using the basis of existing use value for social housing (EUV-SH). The social housing discount applied in 2011/12 is 34%.
- Community assets and assets under construction –historical cost.
- Plant, Vehicles & Equipment – depreciated historical cost
- All other classes of assets – fair value, unless there is no market-based evidence of fair value because of the specialist nature of the asset. In this case fair value is estimated using the Depreciated Replacement Cost method.

Assets included in the Balance Sheet at fair value are revalued where there have been material changes in the value, but as a minimum every five years. Valuations of property assets are carried out by the District Valuer, an external, qualified valuer, who is independent of the Council. The method of valuations is as recommended by CIPFA and in accordance with the principles and guidance notes issued by the Royal Institute of Chartered Surveyors. Operational assets constructed or acquired during the year will be revalued on 1 April of the following year.

Increases as a result of revaluations are debited to the appropriate asset account, with the opposite entry going to the Revaluation Reserve to recognise unrealised gains, except to the extent where it reverses a previous revaluation loss that was charged to a service revenue account within the Comprehensive Income & Expenditure Statement. In this case the revaluation gain will first be used to offset the previous loss and any further gain is then taken to the Revaluation Reserve. Revaluation gains charged to Surplus or Deficit on Provision of Services are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Decreases as a result of revaluation which are not specific to one asset but affect several are revaluations losses as opposed to impairments. The decrease is recognised in the Revaluation Reserve up to the balance in respect of each asset affected and then in Surplus or Deficit on Provision of Services. Any such charge taken to Surplus or Deficit on Provision of Services is then transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

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

Impairment: At the end of each reporting period an assessment takes place as to whether there is any indication that assets are carried in the balance sheet at higher values than their recoverable amounts. If this occurs it requires the recognition of an impairment loss.

The impairment loss is first written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, then any further impairment is charged to the relevant service revenue account in the Comprehensive Income & Expenditure Statement.

When the assessment identifies that a previous impairment loss no longer exists or has decreased, any previous loss charged to the Comprehensive Income & Expenditure Statement is reversed up to the original carrying amount of the asset and any subsequent increase is taken to the Revaluation Reserve.

Impairment losses and their reversal are not proper charges to the General Fund, so any such charge taken to Surplus or Deficit on Provision of Services is then transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Derecognition: an asset is derecognised on disposal, or when no future economic benefits are expected from its use or disposal. When an asset is disposed of or decommissioned, the difference between the net disposal proceeds and the carrying amount of the asset is the gain or loss on disposal, which is included in Surplus or Deficit on the Provision of Services within the Comprehensive Income & Expenditure Statement. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received on disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are reported in the Movement in Reserves Statement.

The written off value of disposals is not a charge against council tax as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are reported in the Movement in Reserves Statement.

Depreciation: This is provided for on all Property, Plant & Equipment assets with a determinable finite life, by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.

Depreciation is calculated on the following bases:

- Land is not depreciated as it will not have a finite life.
- Council Dwellings and Other Buildings are depreciated using the straight line method. The finite useful life is assessed by the District Valuer at the time of revaluation but for Council Dwellings is usually 50 years, and for other buildings is between 1 and 60 years.
- Plant & Equipment are also depreciated by the straight line method. Useful life is assessed by the Chief Finance Officer at the time of acquisition. usually between 3 and 10 years. Some assets have a longer life span, up to 30 years.
- Vehicles are depreciated using the reducing balance method at a rate of 25% per annum.
- Non-current assets held-for sale are not depreciated.
- Assets under construction and newly acquired assets are depreciated from the date they are brought into use.
- Investment Properties are not depreciated.
- Assets to be disposed of are depreciated until they are reclassified as non-current assets held-for-sale.

Where an asset has major components with different estimated useful lives, these are depreciated separately if this would materially affect the amount of depreciation charged on

that asset. Only assets with a carrying amount more than or equal to £500,000 at the beginning of the financial year are considered for componentisation. To be recognised as a component the value of the part of the asset being considered must be more than or equal to 10% of the value of the asset, and have a life less than or equal to half that of the main asset. When a component is replaced, the carrying amount of the old component is derecognised and the new component is recognised. If the carrying amount of the old component is not known, this is estimated by indexing back from the cost of the new component and adjusting for depreciation and impairment over the old component's useful life. The Building Costs Index will be used.

The depreciation calculated is charged to the service revenue accounts, central support service accounts and trading accounts.

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

Depreciation charges for non-housing assets are not proper charges to the General Fund, so are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement. Depreciation charges for HRA dwellings that are covered by the Major Repairs Allowance (MRA) are real charges and are included in the Comprehensive Income & Expenditure Statement. If the depreciation charged is higher than MRA, an amount equal to the difference is transferred to the HRA from the Major Repairs Reserve. If the depreciation charged is lower than MRA the transfer is from the HRA to the reserve. These transactions are reported in the Movement in Reserves Statement.

Capital Grants and Contributions are recognised when there is reasonable assurance that:

- The Council will comply with the conditions attached to them
- The grant or contribution will be received.

They are accounted for on an accruals basis, and recognised immediately in the Comprehensive Income & Expenditure Statement unless any conditions attached to their receipt have not been met.

Where conditions have been met, but the expenditure has not yet been incurred, the grant is transferred from the Comprehensive Income & Expenditure Statement to the Government Grants Unapplied Account and the movement is reported in the Movement in Reserves Statement. When the expenditure is eventually incurred, the grant is transferred to the Capital Adjustment Account and again this is reported in the Movement in Reserves Statement.

Where conditions remain outstanding at the Balance Sheet date, the grant is recognised as a Capital Receipt in Advance. Once the conditions have been met, the grant will be recognised as income in the Comprehensive Income & Expenditure Statement.

INVESTMENT PROPERTY

An investment property is one that is solely used to earn rentals or for capital appreciation or both. Property that is used to facilitate service delivery as well as earn income or appreciate is classed as Property, Plant & Equipment.

Investment property is recognised initially at cost as for property, plant and equipment and subsequently at fair value which should reflect market conditions at the Balance Sheet date. An investment property is recognised when:

- It is probable that the future economic benefits associated with the property will flow to the Council.
- The cost of the fair value of the property can be reliably measured.

Subsequent capital expenditure is recognised as for property, plant and equipment.

A revaluation gain or loss arising from a change in the fair value of an investment property is recognised in the Surplus or Deficit on Provision of Services in the period in which it arises. It is not a proper charge to the General Fund and is transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Investment properties are not depreciated.

Derecognition of investment properties occurs on disposal or retirement. Gains or losses are recognised in the Surplus or Deficit on Provision of Services and reported in the Movement in Reserves Statement. Gains are treated as capital receipts and taken to the Useable Capital Receipts Reserve with the opposing entry to the Capital Adjustment Account.

Rentals received from investment properties are credited to the Surplus or Deficit on Provision of Services.

NON-CURRENT ASSETS HELD-FOR-SALE

The following criteria must all be met for an asset to be classified as held for sale:

- The asset must be available for immediate sale in its present condition.
- The sale must be highly probable – the appropriate level of management must be committed to a plan to sell the asset, and an active programme to locate a buyer must have been initiated.
- The asset must be actively marketed for a sale at a reasonable price.
- The sale must be expected to be completed within one year.

Assets held for sale are measured at the lower of carrying amount when initially reclassified as held for sale and fair value less costs to sell. Fair value is interpreted as market value. The carrying amount will be compared to the fair value less costs to sell at both the beginning and end of the reporting period.

Revaluation gains when assets are reclassified as held for sale are only recognised to the extent that they reverse previous impairment or revaluation losses charged to Surplus or Deficit on Provision of Services. Any gain above this amount will be recognised as part of a gain on disposal. Revaluation losses or impairments of assets held for sale are charged to the Surplus or Deficit on Provision of Services. Any such charges are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Assets classified as Held-For-Sale are not depreciated.

If any of the criteria cease to be met the asset will be reclassified and valued at the lower of its carrying amount before it was classified as held for sale and its recoverable amount at the date of the decision not to sell.

HERITAGE ASSETS

Heritage assets are held or maintained principally for their contribution to knowledge and culture. They are initially recognised at cost if this is available. If cost is not available, values are only included in the Balance Sheet where the cost of obtaining valuation is not disproportionate to the benefit derived. For most of the Council's heritage assets, insurance valuations are used. Where no market exists or the asset is deemed to be unique, and it is not practicable to obtain a valuation, the asset is not recognised in the Balance Sheet but disclosed in the notes to the accounts.

Heritage assets are depreciated over their useful life if this can be established. If an asset is considered to have an indefinite life, no depreciation is charged. Disposals, revaluation gains and losses and impairments of heritage assets are dealt with in accordance with the Authority's policies relating to property, plant and equipment.

The cost of maintenance and repair of heritage assets is written off in the year incurred.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets has been charged as expenditure to the relevant service revenue account in the year. These items are generally grants. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account is made and reported in the Movement in Reserves Statement so there is no impact on the level of council tax.

CHARGES TO REVENUE FOR NON-CURRENT ASSETS

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year.

- Depreciation attributable to the assets used by the relevant service.
- Impairment and revaluation losses on non-current assets used by the service where there are no accumulated gains in the Revaluation Reserve against which they can be written off.
- Amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual provision from revenue to contribute to the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by revenue provision in the Movement in Reserves Statement, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

LEASES (where the Council is Lessee)

Leases of land and buildings are considered as separate elements. When the land has an indefinite economic life it is classified as an operating lease unless ownership would pass to the lessee at the end of the lease term.

Finance Leases: leases where substantially all the risks and rewards of ownership relating to the leased property transfer to the lessee. Property, plant and equipment held under finance leases are initially recognised on the Balance Sheet at the fair value of the property. A liability equal to the present value of the minimum lease payments is also recognised. The discount rate used in the calculation is the interest rate implicit in the lease. Rental payments under finance leases are apportioned between the finance charge and the reduction of the outstanding obligation. The finance charge is charged to revenue over the term of the lease. Property, plant and equipment held under finance leases are depreciated in accordance with the council's depreciation policy over the shorter of the lease term and the assets useful economic life. They are also subject to revaluation. Contingent rents are charged as expenses in the periods in which they are incurred.

Operating Leases: are leases which do not meet the definition of finance leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

LEASES (where the Council is Lessor)

Where the Council acts as Lessor, assets let under a **finance lease** are recognised as a receivable on the balance sheet. When an asset is let on a finance lease this is treated as a disposal and the gain or loss on disposal is charged to the Comprehensive Income & Expenditure Statement. Payments received are split between repayment of principal and interest. Interest is recognised in the Comprehensive Income & Expenditure Statement. The principle element received in repayment of the lease is treated as a capital receipt, except in the case of leases that were already in existence at 31/03/2010 but were treated as Operating Leases under previous accounting rules. For these leases the principle element continues to be treated as revenue income.

Income from **operating leases** is recognised in the Comprehensive Income & Expenditure Statement on a straight-line basis over the lease term. Assets held for leasing under an operating lease are depreciated in accordance with the council's depreciation policy over the shorter of the lease term and the assets useful economic life. They are also subject to revaluation.

CURRENT ASSETS

Inventories & Long Term Contracts: Inventories are measured at the lower of cost and net realisable value. Where the output is in the form of a service rather than goods, work in progress is measured at the cost of its production, primarily consisting of the labour and other personnel costs incurred in providing the service.

Cash & Cash Equivalents: Cash is defined as cash in hand; cash held in instant access accounts; money market funds and bank overdrafts integral to cash management. Cash equivalents are balances held in accounts which require up to 30 days notice for withdrawal. They are readily convertible to a known amount of cash, hold insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments rather than for investment.

The Council also uses 30 day notice accounts for short-term investments when they provide a better rate of interest than a 3 month deposit. In this case these amounts are classified as investments. An analysis of 30 day notice accounts is done at the balance sheet date to determine the classification relevant to each account.

PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

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

Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

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

The council has made a provision for settling the self-insured element of Public Liability insurance claims.

Contingent Assets: are not recognised in the financial statements but are disclosed as a note to the accounts. They are disclosed when an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence of uncertain future events not within the control of the Council.

Contingent Liabilities: are not recognised in the financial statements but are disclosed as a note to the accounts. They are disclosed when an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence of uncertain future events not within the control of the Council. Contingent liabilities may also arise where a provision would otherwise be made, but either it is not probable that an outflow of resources will be required or the amount cannot be reliably measured.

RESERVES

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

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

FINANCIAL INSTRUMENTS

Financial Liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement for interest payable are based on the

carrying amount of the liability multiplied by the effective rate of interest for the instrument. For all of the borrowing that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principle repayable (plus accrued interest) and interest charged to the Income & Expenditure Account is the amount payable for the year in the loan agreement.

All current borrowing is with the Public Works Loan Board and the Council has no intention at present to make early settlement of these loans. Borrowing costs that relate to these loans are charged to the Comprehensive Income & Expenditure Account as they are incurred.

Financial assets are classified into two types:

- Loans & receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income & Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest of the instrument. For all of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principle receivable (plus accrued interest) and interest credited to the Comprehensive Income & Expenditure Statement is the amount receivable for the year in the loan agreement.

When financial assets are identified as impaired because of a likelihood arising from a past event, that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service or the Financing and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement Income & Expenditure Account. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement Income & Expenditure Account.

The Council does not hold any Available-for-Sale assets.

PRINCIPAL & AGENT TRANSACTIONS

In its capacity as a billing authority the Council acts as an agent - council tax income is collected and distributed by the Council both on its own behalf and as an agent for Lincolnshire County Council and Lincolnshire Police Authority. Non Domestic Rate (NDR) income is collected on behalf of the Government.

Where the Council is acting as an agent, transactions are not reflected in the financial statements, except where cash is collected or expenditure is incurred on behalf of the other bodies. In this case a debtor or creditor will be raised.

Council Tax income is included in the Comprehensive Income & Expenditure Account on an accruals basis.