

REPORT TO GOVERNANCE AND AUDIT COMMITTEE

REPORT OF: CORPORATE HEAD, FINANCE & CUSTOMER SERVICES

REPORT NO: CHFCS97

DATE: 18th March 2010

TITLE:	Update on Transition to International Financial Reporting Standards	
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 Service Manager 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	CHFCS35, CHFCS68 & CHFCS82	

1. RECOMMENDATIONS

It is recommended that Governance & Audit Committee:

- a. Approve the accounting policies used to produce financial statements in accordance with International Financial Reporting Standards. (IFRS)
- b. Note the restated Balance Sheet under IFRS as at 31st March 2009.

2. PURPOSE OF THE REPORT/DECISION REQUIRED

The purpose of this report is to update the Committee on progress made towards preparing the Annual Statement of Accounts in compliance with IFRS from 2010/11, seek their approval of the new accounting policies and to present the restated Balance Sheet as at 31st March 2009.

3. DETAILS OF REPORT

The balance sheet produced as at 31st March 2009 under UK GAAP, our current reporting regime, has been restated in accordance with IFRS1 – *First Time Adoption of International Financial Reporting Standards*. The restated balance sheet with the UK GAAP comparative figures is attached at Appendix A.

The main changes between the two are as follows:

Non-Current Assets decreased by	£702K
Current Assets increased by	£1,114K
Current Liabilities increased by	£478K
Long-Term Liabilities decreased by	£3,629K

The overall effect is that the net worth of the Council has increased by £3.563 million.

The main reason behind this change is that capital grants worth £3.593 million received for the purchase of assets are no longer permitted to be held in the Balance Sheet as a financial liability. They will in future be reported as income in the Comprehensive Income & Expenditure Statement when they are received. The existing balance has been transferred to the Capital Adjustment Account.

The accounting policies used in the production of the restated balance sheet are attached at Appendix B. Many of these are very similar to those used under UK GAAP. New policies are included for Revenue Recognition, Employee Benefits, Events after the Reporting Period, Prior Period Adjustments, Investment Property, Assets Held For Sale, Leases, Contingent Assets & Liabilities and Principal & Agent Transactions. The other policies have been reviewed and changed where necessary to give details of the accounting treatment applied under IFRS.

Work is continuing to collect the increased data required for disclosures under IFRS. The main areas where gaps still exist are Leases, Related Party Transactions and Service Concessions. Extra resource is being used to close this gap to ensure that the restatement of the complete 2009/10 accounts can be carried out as soon as they are complete.

4. OTHER OPTIONS CONSIDERED

None.

5. RESOURCE IMPLICATIONS

The additional work involved in preparing the Authority's accounts and accounting practices has been met from existing resources, apart from the initial high-level impact assessment. Part-time temporary support is being used for a period of approximately six weeks to ensure that the IFRS implementation continues while existing staff work to prepare the 2009/10 Statement of Accounts.

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 SECTION 151 OFFICER

My comments are included in the report.

10. COMMENTS OF MONITORING OFFICER

The Council has no other alternative but to meet the new accounting standards within the timescale detailed in the report. It is important that Members are aware of the changes and the progress of the work required to meet those standards.

11. COMMENTS OF OTHER RELEVANT SERVICE MANAGER

None

12. APPENDICES:

Appendix A Restated Balance Sheet showing comparison between IFRS and UK GAAP as at 31 March 2009.

Appendix B Accounting Policies for IFRS

APPENDIX A
RESTATED BALANCE SHEET AS AT 31/03/09

	IFRS £000	UK GAAP £000
Non Current Assets		
Property Plant & Equipment		
- Owned	321,320	321,559
- Surplus	198	2,390
Intangible Assets	141	123
Investment Property	2,413	644
Financial assets	6,697	6,756
Total Non Current Assets	330,769	331,471
Current Assets		
Inventories	28	28
Trade & Other Receivables	8,199	8,199
Financial assets	21,566	21,478
Cash & cash equivalents	714	714
Total Current Assets	30,507	30,419
Assets held for sale	1,026	0
Total Assets	362,302	361,890
Current Liabilities		
Trade and Other Payables	-8,188	-8,188
Borrowings	-2,001	-2,001
Provisions	-36	
Other Liabilities	-442	
Total Current Liabilities	-10,667	-10,189
Non Current Liabilities		
Borrowings	-4,159	-4,159
Provisions	-19	-55
Other Liabilities	-20,361	-23,954
Total Non Current Liabilities	-24,539	-28,168
Total Liabilities	-35,126	-38,357
Total Assets Employed	327,096	323,533
Financed By:		
Capital adjustment account	314,265	311,220
Revaluation reserve	3,698	2,654
Pension Reserve	-20,107	-20,107
Usable Capital Receipts Reserve	7,413	7,413
Deferred Capital Receipts	104	104
Major Repairs Reserve	6,173	6,173
Specific Reserves		
- Revenue	3,593	3,593
- Capital	2,946	2,946
Balances		
- General Fund	1,714	2,239
- Housing Revenue Account	7,176	7,176
- Collection Fund	122	122
Total Net Worth	327,096	323,533

APPENDIX B

STATEMENT OF ACCOUNTING POLICIES

The Statement of Accounts summarises the Council's transactions for the 20XX/YY financial year and its position at the year-end of 31 March 20YY. It has been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 20XX/YY – Based on International Reporting Standards* (the Code). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

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 authority has transferred to the purchaser the significant risks and rewards of ownership of the goods.
- The authority retains neither continuing managerial involvement nor 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 authority.
- 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 authority.
- 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 – revenue 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 authority.

Where an amount is received that does not meet the recognition criteria above, it is treated as a creditor

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 stocks 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 accounts are 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 accounts will be adjusted to reflect these.
- Those that are indicative of conditions that arose after the reporting period (non-adjusting events). Disclosures will be made giving details of the nature of the event and an estimate of its financial effect.

PRIOR PERIOD ADJUSTMENTS

Material prior period errors or misstatements are corrected in the first set of financial statements authorised for issue after their discovery. The comparative amounts for prior periods are restated. If the error occurred before the earliest prior period presented, the opening balances of assets, liabilities and net worth are restated. Disclosures are made relating to the nature of the error, the amount of the correction for each financial statement line in each period presented and the amount of the correction at the beginning of the earliest period presented.

When changes in accounting policies occur, that have a material effect on past transactions, each financial statement line affected is adjusted for the current and prior period

GOVERNMENT GRANTS & 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 on an accruals basis at the date that the authority satisfies the conditions of entitlement to the grant/contribution; there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. 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 the foot of the Comprehensive Income and Expenditure Statement. Area Based Grant is accounted for on an accruals basis and recognised as income at the foot of the Comprehensive Income & Expenditure Statement.

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 *Best Value Accounting Code of Practice 20XX (BVACOP)* (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, any revaluation gains or impairment losses chargeable on investment properties and impairment losses on assets held-for-sale.

These two cost categories are defined in BVACOP 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 on an accruals basis.

Paid annual leave, flexi-time, maternity and paternity pay that have been earned but not taken by the reporting date are measured as the additional amount the authority expects to pay and are recognised as an expense in Surplus or Deficit on Provision of Services.

Bonuses and similar payments are recognised when the authority 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 an employer'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.

Termination benefits are recognised as a liability and an expense when the authority 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 expected 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 of X.X% (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 Surplus or Deficit on the Provision of Services 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 Surplus or Deficit on the Provision of Services 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 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 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.

INTANGIBLE ASSETS

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it will bring benefits to the council for more than one financial year. Intangible assets are initially measured and subsequently carried at cost as there is no active market. They are amortised to the relevant service revenue accounts over the life of the investment on the straight line basis. The amount in the balance sheet is the cost net of amortisation. 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 provision of services or for administrative purposes on a continuing basis.

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

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 using existing use value for social housing (EUVSH). The social housing discount applied in 20XX/YY is 50%.
- Infrastructure assets, 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 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 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, any further impairment is charged to the relevant service revenue account in Surplus or Deficit on Provision of Services.

When the assessment identifies that a previous impairment loss no longer exists or has decreased, any previous loss charged to Surplus or Deficit on Provision of Services 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 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 in excess of £10,000 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 Reserves Statement.

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

Depreciation: This is provided for on all assets with a determinable finite life (except for investment properties and non-current assets held-for sale), 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.
- 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. When a component is replaced, the carrying amount of the old component is derecognised and the new component is recognised.

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 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 Reserves Statement.

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

- The authority 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 Reserves Statement. When the expenditure is eventually incurred, the grant is transferred to the Capital Adjustment Account and again this is reported in the 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 authority.
- 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 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 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.

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.

If 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.

Assets held for sale are measured at the lower of carrying amount and fair value less costs to sell. Fair value is interpreted as market value. These assets are not depreciated.

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 Reserves Statement.

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 fixed assets is 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 Reserves Statement so there is no impact on the level of council tax.

CHARGES TO REVENUE FOR FIXED ASSETS

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

- Depreciation attributable to the assets used by the relevant service.
- Impairment and revaluation losses on tangible fixed 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 fixed assets attributable to the service.

The council is not required to raise council tax to cover depreciation, 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 either an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance, or loans fund principal charges). Depreciation, impairment losses and amortisation are therefore replaced by revenue provision in the 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. Assets 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. Assets 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.

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. Payments received are split between repayment of principal and interest. Interest is recognised in the Comprehensive Income & expenditure Statement. 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. Amounts received as part of the repayment of the lease are treated as capital receipts.

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: 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.

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, but where the timing of the transfer is uncertain. For instance, the council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that the authority 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 set up 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 (e.g. 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 inflow of economic benefits or service potential is probable.
- The inflow can be reliably measured.

When the inflow and the amount becomes certain they are recognised as a debtor or as revenue in the Comprehensive Income & Expenditure Statement if the income has been received

Contingent Liabilities: are not recognised in the financial statements but are disclosed as a note to the accounts. They are disclosed when:

- An outflow of economic benefits or service potential is probable.
- The amount of the outflow can be reliably measured.

When it becomes probable that an outflow of economic benefits will be required, a provision is recognised.

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 on 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 Net Cost of Services in the Comprehensive Income and Expenditure Account. The reserve is then appropriated back into the Movement on Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and do not represent usable resources for the council – these reserves are explained in the relevant policies.

FINANCIAL LIABILITIES

Financial Liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income & Expenditure Account 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 borrowings 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 Comprehensive 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 to make early settlement of these loans.

FINANCIAL ASSETS

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 Comprehensive 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.

When assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income & Expenditure Account.

Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Comprehensive 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. This is a change from previous years when the amount included was determined by regulations and consisted of the demand on the collection fund (as per the budget) and the Council's share of the surplus or deficit on the Collection Fund for the previous year.