North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

6 April 2017

Accounting Policies 2015/16

This report is Public

Report of the Executive Director - Operations

Purpose of Report

To request approval by the Audit and Corporate Governance Scrutiny Committee of the accounting policies that it is proposed to adopt for the current financial year in the preparation of the Statement of Accounts 2016/17.

1 Report Details

1.1 The Accounting Policies adopted by the Council determine the accounting treatment that is applied to transactions during the financial year and in the preparation of the Statement of Accounts at the year end. They determine the specific principles, bases, conventions, rules and practices that will be applied by the Council in preparing and presenting its financial statements. The accounting policies themselves are published within the Statement of Accounts in accordance with the Code of Practice on Local Government Accounting and incorporate the requirements of International Financial Reporting Standards (IFRS).

1.2 The approval of the accounting policies to be applied by the Council demonstrates that due consideration is being given to which policies to adopt and apply and that those charged with corporate governance are fully informed prior to the commencement of the Statement of Accounts preparation of the policies that are being adopted.

1.3 This report therefore presents the accounting policies that the Council will apply in the preparation of the Statement of Accounts 2016/17.

Accounting Policies

1.4 Officers have assessed the accounting policies that are deemed necessary to explain clearly and underpin the accounting treatment of transactions within the Council's Statement of Accounts for 2016/17. In undertaking this assessment a review of all accounting policies previously agreed has been undertaken to check their relevance, clarity, legislative compliance and that they are in accordance with the latest version of the code of practice and IFRS requirements. With regard to the policies proposed in respect of 2016/17 there have been a limited number of minor changes which are seeking to clarify the policies adopted in respect of 2015/16 and one more significant amendment; costs for overheads and support services are now charged to directorates in the Comprehensive Income and Expenditure Statement in accordance with the Council's internal reporting arrangements. Full details of all the proposed accounting policies for the current financial year are provided at **Appendix 1**.

1.5 As the Statement of Accounts for 2016/17 are prepared it may be necessary to amend a policy in order to adopt a more appropriate accounting policy. If this occurs, the change and the reason for the change will be reported back to the Audit Committee at its next available meeting.

2 Conclusions and Reasons for Recommendation

2.1 This report sets out the Accounting Policies which it is proposed to adopt in respect of the 2016/17 Statement of Accounts for consideration by the Audit and Corporate Governance Scrutiny Committee. Given that the policies adopted have a significant influence upon the Accounting Statements it is important that these are given appropriate consideration at the outset of the preparation of the Statement of Accounts. This helps ensure that they are applied consistently in the preparation of the Accounts. The Policies which are recommended for adoption are in line with those that were used in the previous financial year (2015/16) with only one amendment; accounting for costs relating to overheads and support services.

3 Consultation and Equality Impact

3.1 This report to Audit and Corporate Governance Scrutiny Committee is essentially the consultation process concerning the proposed Accounting Policies for this financial year (2016/17). It is largely a technical document but it is important that those charged with governance have the opportunity to review and shape the document.

3.2 There are no equalities issues arising directly from this report.

4 Alternative Options and Reasons for Rejection

4.1 The Council is required to have appropriate Accounting Policies within its Statement of Accounts. Officers have developed what they consider to be an appropriate set of policies based upon those adopted in previous financial years and taking account of changes as required by current legislation. The preparation and consideration of this reports is part of a process intended to ensure that alternative options are given appropriate consideration.

5 Implications

5.1 Financial and Risk Implications

- There are no direct financial implications arising from this report. The accounting policies will however be used to determine the accounting treatment of the financial transactions of the Council for 2016/17 and will therefore influence the presentation and understanding of the financial position of the Council as at 31 March 2017.

- None of the policies outlined in **Appendix 1** are considered to be in conflict with legislative or IFRS requirements therefore the risk of adopting a policy that contravenes good practice is considered minimal. The greater risk is the failure to ensure that the policy and the actual accounting treatment are consistent. To minimise this risk the final accounts timetable for 2016/17 has officer review time built in to cross check the policies to the actual treatment of items within the accounts.

5.2 Legal Implications including Data Protection

- The agreement of appropriate Accounting Policies is part of the process of ensuring that the Council satisfies its legal obligation to prepare a Statement of Accounts. The accounting policies adopted by the Council must comply with current legislation, the Code of Practice on Local Government Accounting and IFRS requirements. Officers have given careful consideration to the policies detailed at **Appendix 1** to ensure that they meet all these requirements.

- There are no data protection issues arising directly from this report.

6 Recommendation(s)

6.1 That the Audit & Corporate Governance Committee approves the Accounting Policies detailed at Appendix 1 to this report.

6.2 Members are requested to note that any proposed amendments or changes to these policies will be reported back to this Committee, together with an explanation for the reasons a change is considered to be appropriate and detailing any financial implications of the amendments.

7 Decision Information

Is the decision a Key Decision? (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No
District Wards Affected	None Directly
Links to Corporate Plan priorities or Policy Framework	All priorities

8 Document Information

Appendix No	Title
1	Accounting Policies

Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
Report Author	**Contact Number**
Dawn Clarke Assistant Director - Finance & Revenues	(01246) 217658

AGIN 7a – Accounting Policies

APPENDIX 1

ACCOUNTING POLICIES 2016/17

1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31st March 2017. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 which require them to be prepared in accordance with proper accounting practices. These practices primarily consist of the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 supported by International Financial Reporting Standards (IFRS).

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

The Council has followed the requirements of International Accounting Standard (IAS) 1 in preparing the Statement of Accounts. Its objectives are to ensure that for all material items the Council:

- Adopts accounting policies most appropriate to its particular circumstances for the purpose of giving a true and fair view;
- Reviews the accounting policies regularly to ensure that they remain appropriate, and changes them when a new policy becomes more appropriate;
- Ensures that sufficient information is disclosed in the financial statements to enable users to understand the accounting policies adopted and how they have been implemented.

The general principles adopted in compiling the accounts are those set out by CIPFA in the Code of Practice on Local Authority Accounting in the United Kingdom, which is recognised by statute as representing proper accounting practice. In addition the Local Authority Accounting Panel Standards Committee periodically issue bulletins on accounting practice. These accounting policies conform with those principles, which are applicable to Local Authorities.

2 Accounting Concepts

The concepts used in selecting and applying the most appropriate policies and estimation techniques are as follows:

- The qualitative characteristics of financial information – relevance, reliability, comparability, and understanding;
- Materiality (all major transactions and events are included);
- The accounting concepts of accruals, going concern and primacy of legislative requirements.

3 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:

- Revenue from fees, charges and rents due from customers are recognised when the Authority transfers the risk and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

- 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;

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for in the year to which it relates and are based on an effective interest rate for the relevant financial instrument rather than the cash flow fixed or determined by the contract;

- Where income and expenditure has been recognised but cash has not been received or paid a debtor or creditor for the relevant amount is recorded in the Balance Sheet. 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.

An exception to this principle relates to electricity and other similar periodic payments which are charged at the date of meter reading rather than being apportioned between financial years. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

Grant claims are submitted on an actual basis wherever possible, however if the information to do this is not available then a best estimate basis is adopted.

4 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are short-term, highly liquid investments that mature within three months and are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

5 Charge to revenue for Non Current Assets

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

- depreciation – attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which losses 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 contribution from revenue towards 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 costs are therefore replaced by the contribution in the General Fund of a Minimum Revenue Provision (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

The Council's policy for the calculation of the statutory provision for the repayment of debt is determined each year by the Council. The Council has decided that for 2015/16 the outstanding general fund debt prior to 1 April 2007 will be repaid at a rate of £200,000 per year until the debt is extinguished. Any prudential borrowing for the General Fund is repaid based on the life of the asset.

6 Collection Fund

The transactions of the Collection Fund are wholly prescribed by legislation. Billing authorities have no discretion to determine which receipts and payments are accounted for within the fund and which outside.

<u>NNDR - Impairment of Appeals</u>
The Council has commissioned an independent assessment at 31 March 2016 of the outstanding appeals lodged with the Valuation Office. The assessment has reviewed every individual appeal and estimate of the likelihood of the appeal succeeding based on the category of appeal and previous appeal determinations.

The rateable value and the period covered by the appeal have been used to establish a prudent provision to meet the estimated costs of successful appeals.

7 Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent assets are not recognised in the accounting statements; they are disclosed by way of notes where it is probable that there will be an inflow of economic benefit or service potential.

8 Contingent Liabilities

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

9 Doubtful Debts

Provisions for doubtful debts are made to ensure that the Council can finance any sums due to the Council which are subsequently deemed to be irrecoverable after all recovery measures have been exhausted. This sum is reduced annually by sums written off and increased by any contributions from the revenue account. The provision is netted off against debtors in the Balance Sheet and not included in the provisions total.

The provision for doubtful debts in respect of overdue council tax, housing benefit overpayments, rents and NNDR is calculated by category on a percentage basis based upon previous experience of the recovery of debts of that type. The provision for other sundry debts is calculated by reference to the age of the debt involved, and the Council's previous experience of recovering such debt.

10 Employee Benefits

Benefits Payable during Employment

Short term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end but which can be carried forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, as this is the period in which the employee takes the benefit. The accrual is charged to the relevant service area of the Comprehensive Income and Expenditure Statement, but then is reversed out through the Movement in Reserves Statement so that the annual leave is charged to revenue in the financial year in which the annual leave occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund or pensioner in year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with accrued debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year end.

Post Employment Benefits

Employees of the Council are members of the Local Government Pension Scheme administered on behalf of the Council by Derbyshire County Council. The scheme provides defined benefits to members (lump sums and pensions) earned as employees working for the Council.

The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefit scheme:

- The liabilities of the Derbyshire County Council Pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings for current employees.

- Liabilities are discounted to their value at current prices using a discount rate.

- The assets of the Derbyshire 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 – average of the bid and offer rates;
    - property – market value.

The change in the net pension's liability is analysed into the following components:

- Current Service Cost - the increase in liabilities as result of years of service earned this year. This is allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

- Past Service Cost - the increase in liabilities arising as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years. These costs are 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 Costs - the expected increase in the present value of liabilities during the year as they move one year closer to being paid. The cost is debited to the

Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Remeasurements – comprising:

- The Return on Plan Assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pension Reserve as Other Comprehensive Income and Expenditure.

- Actuarial Gains and Losses – change in the net pension 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 Pensions Reserve as Other Comprehensive Income and Expenditure.

- Contributions paid to the County Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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 amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pension Reserve therefore measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows, rather than as benefits are earned by employees.

<u>Discretionary Benefits</u>

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

11 Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.

- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial impact.

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

12 Exceptional Items

Exceptional items are included in the cost of the service to which they relate or on the face of the Comprehensive Income and Expenditure Statement if that degree of prominence is necessary in order to give a fair presentation of the accounts. An adequate description of each exceptional item is given within the notes to the accounts.

13 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result in a change of accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected 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 Authority's financial position or financial performance. Where a change is made it is applied retrospectively by adjusting the opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

14 Financial Instruments

The Council is required to recognise, measure, present and disclose information about any financial instruments. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability of another. Typical financial assets include bank deposits, trade receivables and other receivables, loans receivable and advances. Typical financial liabilities include trade payables and other payables, borrowings and financial guarantees.

<u>Financial Liabilities</u>

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Financial Liabilities held by the Council

- Borrowings (PWLB loans, temporary borrowing, cash overdrawn);
- Trade and Other Payables (creditors and receipts in advance).

Financial Assets

Financial Assets are classified into two types:

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

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

Loans and receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

The Council has made a small number of loans at less than market rates (soft loans). The interest cost of these soft loans is deemed to be immaterial and therefore no adjustments have been made.

Where Financial Assets are identified as impaired because the likelihood arising from past event that payments due under the contract will not be made, the financial 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 and Expenditure Statement. 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 financial assets original effective interest rate.

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

Financial Assets held by the Council – Loans and receivables
- Bank deposits (cash balances);
- Trade receivables (debtors);
- Loans receivable (council house mortgages, car loans to employees);
- Investments (overnight investments, temporary investments);

Available for Sale Assets

The Council does not hold any Available for Sale assets

15 Government Grants and Contributions

Whether paid on account , by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that: -

- The Council will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

16 Heritage Assets

Heritage assets are a distinct class of asset which are reported separately from property, plant and equipment and intangible assets.

Recognition

Heritage assets are classed as “a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge or culture” or “an intangible asset with cultural, environmental or historical significance”. A general de-minimis limit of £10,000 is applied to all fixed assets.

Measurement

Only heritage assets that have a cost or value available are required to be entered into the Balance Sheet. Where information on the cost or value is not available and the cost of obtaining the information outweighs the benefits to the user of the statements, the code does not require that the asset is recognised in the Balance Sheet, although appropriate disclosure is needed where heritage assets are not recognised in the Balance Sheet.

Unlike other assets, a full valuation every five years is not required. Valuations can be done whenever the Council requires. The valuations may be made by any method that is appropriate and relevant, this may include insurance valuations.

However, the code does require that authorities review the carrying amounts of heritage assets with sufficient regularity to ensure they remain current. Because of this the Council has determined that a five year review will be carried out.

<u>Impairment</u>

Impairment reviews are only required in limited circumstances. However, the Council has determined that a five year review will be carried out. An immediate review will need to be carried out where an asset has suffered physical deterioration or breakage of a heritage asset; or where new doubts arise as to the authenticity of a heritage asset.

Where impairment is identified as part of this review and it is deemed material, or as a result of a valuation exercise, this is accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the accumulated gains).

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

<u>Depreciation</u>

Depreciation is provided for on some heritage assets, ones with a definite life, by the systematic allocation of their depreciable amounts over their useful lives.

- Depreciation is calculated on a straight-line allocation over the useful life of the asset.

For any heritage assets with indefinite lives no depreciation is required.

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

<u>Disposals</u>

When it becomes probable that an asset is to be sold it is reclassified as an Asset Held for Sale. The asset is revalued before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to the fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the

Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classed as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as assets held for sale. They are adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale.

Assets that are abandoned or scrapped are not classified as Assets Held for Sale.

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

Amounts received from disposal proceeds in excess of £10,000 are categorised as capital receipts. The balance of receipts is credited to the Capital Receipts Reserve and can only be used either to finance new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are appropriated to the Reserve from the Movement on 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 appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

17 Intangible Fixed Assets

Expenditure on assets that do not have a physical substance but are identifiable and controlled by the Council (for example computer software) are capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible Assets are initially measured at cost. Amounts are only re-valued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice no intangible asset, held by the Council, meets this criterion and they are therefore carried at amortised cost.

The depreciable amount of an intangible asset is amortised over its useful life to the relevant service lines in the Comprehensive Income and Expenditure Statement.

Each intangible asset is tested for impairment each year to see if there is an indication that the asset might be impaired; any losses recognised are posted to the relevant service lines in the Comprehensive Income and Expenditure Statement. Any gain or loss arising from the disposal of an intangible fixed asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains or losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for sale proceeds above £10,000) the Capital Receipts Reserve.

18 Interests in Companies and Other Entities

The Council has a material interest in Rykneld Homes Limited, a company limited by guarantee, which is an Arms Length Management Organisation (ALMO).

The ALMO is a wholly owned subsidiary, which was formed on 1 April 2007 and as a result the Council are required to prepare Group Accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as investments, i.e. at cost, less any provision for losses.

19 Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

20 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of service or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are re-valued according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income and Expenditure line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement on Reserves Statement and posted to the Capital Adjustment Account and (for sale proceeds above £10,000) the Capital Receipts Reserve.

21 Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Council in conjunction with other ventures' that involve the use of assets and resources of the ventures' rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the share of expenditure it incurs and the share of income it earns from the operation.

Jointly controlled assets are items of property, plant and equipment that are jointly controlled by the Authority and other ventures', with the assets being used to obtain benefits for the ventures'. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

The Council has the following jointly controlled operations:

Building Control - with Bolsover District Council and Chesterfield Borough Council

Internal Audit Services - with Bolsover District Council and Chesterfield Borough Council, and Derbyshire Dales District Council

Procurement Services – with Bolsover District Council and Derbyshire Dales District Council and Chesterfield Royal Hospital.

ICT Services – with Bolsover District Council and Derbyshire Dales District Council

Environmental Health Services – with Bolsover District Council

The Council does have jointly controlled assets with Chesterfield Borough Council and Bolsover District Council regarding the operation of a crematorium. The Council's share of the crematorium's assets and income and expenditure for 2015/16 is 30%, (2014/15, 30%). On the basis of materiality, the Council does not include any figures for the joint crematorium within the Statement of Accounts.

22 Leases

The Council accounts for leases as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee (the Council). All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey the right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

<u>The Council as Lessee</u>

Finance Leases

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease inception. The asset recognised is matched by a liability for the obligation to pay the lessor.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment and applied to write down the lease liability;
- A finance charge (debited to the Finance and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the assets estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

The Council also has operating leases where the risk and rewards relating to the leased property remains with the lessor. 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.

<u>The Council as Lessor</u>

Finance Leases

Where the Council grants a finance lease over a property the relevant asset is written out of the Balance Sheet as a disposal. It is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of a gain or loss on disposal.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received); and
- Finance income credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund balance and is required to be treated as a capital receipt.

The Council currently has no finance leases for property where this policy applies.

Operating Leases

Where the Council grants an operating lease over a property the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments e.g. there is a premium paid at the start of the lease. Initial and direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the asset and charged as an expense over the lease term.

23 Overheads and Support Services

The costs of overheads and support services are charged to directorates in the Comprehensive Income and Expenditure Statement in accordance with the Council's internal reporting arrangements.

24 Property, Plant and Equipment

Property, Plant and Equipment are non-current assets that have physical substance are held for use in the provision of services, for rental to others, or for administrative purposes and are expected to be used during more than one financial year.

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 is for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of the asset (e.g. repairs and maintenance) is charged to revenue as it is incurred. A general de-minimis limit of £10,000 is applied to non-current assets.

Measurement

Assets are initially measured at cost, comprising the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its current value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). If an asset is acquired via an exchange the cost of acquisition is the carrying amount of the asset exchanged by the Council.

Donated assets are measured at current value. The difference between current value and the consideration paid is credited to the Taxation and Non Specific Grant income line of the Comprehensive Income and Expenditure Statement, unless the donated asset has been made conditionally. Until all conditions are met the gain is held in the Donated Assets Account. Gains that are credited to the Comprehensive Income and Expenditure Statement are reversed out of the General Fund balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost;

- Dwellings – current value, determined using the basis of existing use for social housing;
- Surplus assets – fair value, estimated at the highest and best use from a market participant's perspective;
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use.

Where there is no market based evidence for the current value of an asset because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are re-valued where there have been material changes in the value, but as a minimum every five years. Valuations are undertaken by a professionally qualified valuer. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance, up to the value of the accumulated gains;

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since April 2007, 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 is made of whether there is any indication that an asset may be impaired. If there is an indication of impairment, and it is deemed material. The recoverable amount of the asset is estimated to determine the impairment loss.

Where impairment losses are identified they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance, up to the value of accumulated gains;

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception for assets without a determinable finite useful life (i.e. freehold land) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases: -

- Land – Not depreciated
- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- Infrastructure Assets - Straight-line allocation over life of asset

- Vehicles, plant furniture and equipment – straight-line allocation over the useful life of the asset.
- Community assets – are not depreciated.
- Council Dwellings – Straight Line allocation over the life of the property (also, subject to componentisation)

Items of property, plant and equipment are not depreciated until they become available for use (i.e. when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management). Depreciation ceases at the earlier of the date that items of property, plant and equipment are classified as held for sale and the date they are derecognised.

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.

Where an item of Property, Plant and Equipment exceed £1m in value and has major components whose costs are significant in relation to the total cost of the item, the components are depreciated separately. The Council deems “significant” to be 25% or more of the total cost of the asset. The Council also applies the following de minimis levels with regard to component accounting.

Components are not separately identified where:

- The useful life of the asset is less than 10 years
- The depreciation charge based on the life of the component would differ from that for the total asset by less than £10,000.
- The component life must be materially different to the main asset to be treated as a component.

For grouped assets such as Council Dwellings a practical level of componentisation has been applied which links to the work programmes carried out within capital programme. An appropriate life has been assigned to each of these components.

Disposals

When it becomes probable that an asset is to be sold it is reclassified as an Asset Held for Sale. The asset is re-valued before reclassification at its existing use value then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to the fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

- The asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets;
- 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 and complete the plan must have been initiated;
- The asset must be actively marketed for sale at a price that is reasonable in relation to its current value;
- The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification and action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

If assets no longer meet the criteria to be classed as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as assets held for sale. They are adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale.

Assets that are abandoned or scrapped are not classified as Assets Held for Sale.

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

Amounts received from disposal proceeds 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 credited to the Capital Receipts Reserve and can only be used either to finance new capital investment or set aside to reduce the Council’s underlying need to borrow.

The gain or loss on the sale of assets is not a charge against council tax. Amounts are appropriated to the Capital Adjustment Account in the Movement in Reserves Statement

25 Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation.

Provisions are charged to the appropriate service revenue account in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured as a best estimate at the

balance sheet date of the expenditure required to settle the obligation taking into account relevant risks and uncertainties.

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 the financial year – where it becomes more likely than not that a transfer of economic benefit will not be required (or lower settlement anticipated) the provision is reversed and credited back to the relevant service revenue account.

26 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance 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 count 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 so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage accounting processes for non-current assets, financial instruments, and retirement and employee benefits and do not represent usable resources for the Council.

27 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year which may be capitalised under statutory provisions but does not result in the creation of a non current asset has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of council tax.

28 Trust Funds

Details of the nature and amount of trust funds where the Authority acts as the sole trustee are disclosed as a note to the Balance Sheet.

29 Value Added Tax (VAT)

The Council is normally able to recover all VAT. Where this is the case VAT is not included in the income and expenditure statements. Where the Council is unable to recover VAT it is charged to the appropriate account.
