



BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT BOARD

THURSDAY 15TH MARCH 2012, AT 6.00 P.M.

THE COUNCIL HOUSE, BURCOT LANE, BROMSGROVE

SUPPLEMENTARY DOCUMENTATION

The attached papers are an additional item to be added to the Agenda previously distributed relating to the above mentioned meeting.

11a Statement of Accounting Policies (Pages 1 - 24)

K. DICKS
Chief Executive

The Council House
Burcot Lane
BROMSGROVE
Worcestershire
B60 1AA

12th March 2012

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BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

15th March 2012

ACCOUNTING STANDARDS FOR INCLUSION WITHIN 2011/12 FINAL ACCOUNTS

Relevant Portfolio Holder	Roger Hollingworth
Portfolio Holder Consulted	Yes
Relevant Head of Service	Teresa Kristunas
Wards Affected	All
Ward Councillor Consulted	None specific

1. SUMMARY OF PROPOSALS

- 1.1 To approve the proposed Accounting Standards in preparation for the 2011/12 Accounts.

2. RECOMMENDATIONS

- 2.1 That the Audit Board approve the Accounting Policies, detailed at Appendix 1.

3. KEY ISSUES

Financial Implications

- 3.1 The Council has a statutory requirement to produce a Statement of Accounts each financial year (Accounts and Audit Regulations 2011). The Statement of Accounts presents the overall financial position of Bromsgrove District Council for the year ended 31 March 2012. The format of the Accounts is stipulated by the Chartered Institute of Public Finance and Accountancy (CIPFA) in accordance with the International Financial Reporting Standards.
- 3.2 The Accounting Policies form part of the required Statement of Accounts, and are defined as the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting the financial

Legal Implications

- 3.3 The Council has a statutory requirement to produce a Statement of Accounts each financial year (Accounts and Audit Regulations 2011).
- 3.4 Approval of the Accounting Policies on which the bases of the Accounts are prepared is required.

AUDIT BOARD

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Service/Operational Issues

3.5 None as a direct result of this report.

Customer/ Equalities and Diversity

3.6 None as a direct result of this report.

4. RISK MANAGEMENT

4.1 None.

5. APPENDICES

Appendix 1 – Accounting Policies

AUTHOR OF REPORT

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STATEMENT OF ACCOUNTING POLICIES

This section provides a summary of the significant accounting policies and estimation techniques used in the preparation of Bromsgrove District Council's accounts.

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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

2. 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 for the provision of goods and services due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided on 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 respectively as income and expenditure 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 revenue 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 debts may not be settled, the

balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Accruals will be made for items of income and expenditure in excess of £500, lower amounts will only be actioned at the request of the relevant budget holder.

3. 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 investments that are short-term highly liquid investments held at the Balance Sheet date that are readily convertible to known amounts of cash on the Balance Sheet date and which are subject to an insignificant risk of changes 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.

4. Exceptional Items

Exceptional items are ones that are material in terms of the Council's overall expenditure and are not expected to recur frequently or regularly. Exceptional items are included in the cost of the service to which they relate (or on the face of the Income and Expenditure Account if that degree of prominence is necessary in order to give a fair presentation of the accounts). A full explanation of each exceptional item is given in the Notes to the Core Financial Statements.

5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, ie in current and future years affected by the change. Changes in accounting estimates do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or if the change provides more reliable or relevant information about the Council's financial position or performance. Changes are applied retrospectively (unless stated otherwise) by adjusting opening balances with an additional balance sheet presented at the beginning of the earliest comparative period.

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

6. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed 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 fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the 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.

7. 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 wages and salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year. An accrual is made for the cost of holiday entitlement, flexitime and time off in lieu not taken by employees before the year-end. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the absence occurs. These are measured at the undiscounted amount that the Council expects to pay as a result of the unused entitlement.

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. They are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination or making an offer to encourage voluntary redundancy.

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 the 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 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 Pensions Scheme, administered by Worcestershire County Council.

The Scheme provides defined benefits to members (retirement lump sum and pensions), earned as employees working for the Council.

The Local Government Scheme is accounted for as a defined benefits scheme:-

- The liabilities of the Worcestershire County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using projected unit method, i.e. an assessment of the 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 projections of projected earnings for current employees.
- The assets of Worcestershire County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value.
- The change in the net pensions liabilities is analysed in seven components:-
 - i) Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - ii) 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.
 - iii) Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
 - iv) Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected

long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

v) 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 or employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

vi) Actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve.

vii) Contributions paid to the Worcestershire County Council 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 in the year, not the amount calculated according to the relevant accounting standards. In the Statement of Movement on the General Fund Balance, this means there are appropriations to and from the Pension reserve to remove the notional debits and credits for retirement benefits and replace them with debits for cash paid to the pension fund and any amounts payable to the fund but unpaid at the year end.

An independent actuary, based on triennial valuations, determines the employers' contributions. The review carried out as at 31 March 2010 was implemented with effect from 1 April 2011 and may revise the contribution rates payable by the Council in future years.

There is no impact on the revenue account of the authority as a result of the application of IAS19 requirements as the effects are statutorily removed in the Statement of Movement in the General Fund Balance when calculating amounts chargeable to Council Tax payers. The resulting pension costs charged to the Council's accounts in respect of its employees are equal to the contributions paid to the funded pension scheme for these employees. Further costs arise in respect of certain pensions paid to retired employees on an unfunded basis.

Further information can be found in Worcestershire County Council's Superannuation Fund Annual Report, available on request from:

Mr. P Birch CPFA
Director of Resources
Worcestershire County Council
County Hall, Spetchley Road,
Worcester WR5 2NP

8. 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 authorized 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 is 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 effect.

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

9. Financial Instruments Review

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Recognition

Financial assets and liabilities are recognised in the Balance Sheet when the council becomes a party to the contractual provisions of the instrument.

De-recognition

All financial assets are de-recognised when the rights to receive cashflows from the assets have expired or the trust has transferred substantially all of the risks and rewards of ownership.

Financial liabilities are de-recognised when the obligation is discharged, cancelled or expires.

Classification and measurement

For the purpose of subsequent measurement, financial assets and liabilities other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through income and expenditure;
- held to maturity investments; and
- available-for-sale financial assets.
- Other financial liabilities

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. They are included in current assets.

The Council's loans and receivables comprise: Fixed deposits, principally comprising funds held with banks and other financial institutions, cash and cash equivalents, trade receivables, accrued income, 'other debtors', borrowings and trade payables.

Loans and receivables are recognised initially at fair value, net of transaction costs, and are measured subsequently at amortised cost, using the effective interest method, less provision for impairment.

Financial assets at fair value through profit or loss

Financial assets and financial liabilities at 'fair value through income and expenditure' are financial assets or financial liabilities held for trading. A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling in the short term.

Derivatives are also categorised as held for trading unless they are designated as hedges.

Derivatives which are embedded in other contracts but which are not 'closely-related' to those contracts are separated out from those contracts and measured in this category. Assets and liabilities in this category are classified as current assets and current liabilities.

The Council's financial assets and liabilities at fair value through income and expenditure comprise: Investments managed as a single portfolio by an appointed fund manager

These financial assets and financial liabilities are recognised initially at fair value, with transaction costs expensed in the income and expenditure account. Subsequent movements in the fair value are recognised as gains or losses in the comprehensive income and expenditure statement.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as held-to-maturity if the Group has the intention and ability to hold them until maturity. The Council currently no assets designated into this category.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Council currently no assets designated into this category.

Other financial liabilities

All other financial liabilities are recognised initially at fair value, net of transaction costs incurred, and measured subsequently at amortised cost using the effective interest method.

The Council's other financial liabilities comprise: borrowings and trade payables are classified as amortised cost. The comprehensive income and expenditure statement is charged with interest receivable/payable, impairment losses and any gain or loss on disposal/maturity.

10. Grants and Contributions

Grants and contributions are recognised when there is reasonable assurance that the council will comply with the conditions attached to them and the grants or contributions will be received. Grants and contributions are accounted for on an accruals basis and are recognised immediately in the Comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has a condition that the council has not satisfied.

Revenue Grants and contributions are accounted for as follows:-

- Revenue grants received with no conditions outstanding are credited to the Comprehensive Income and Expenditure account. As the expenditure to be financed by that grant has not been incurred the grant or contribution is transferred to Earmarked Reserves reflecting its status as a revenue resource available to finance expenditure.
- Revenue grants and contributions received where conditions remain outstanding are recognised as part of the Revenue Grants Receipts in Advance on the balance sheet. Once the condition is met, the grant or contribution will be treated as a revenue grant received with no conditions as above.

Capital grants and contributions are accounted for as follows:-

- Capital grants and contributions received where expenditure has been incurred, where there are no conditions outstanding, are accounted for on an accruals basis and recognised immediately in the Comprehensive Income and Expenditure Statement.
- Capital grants and contributions received where expenditure has not yet been incurred, where there are no conditions outstanding, are accounted for on an accruals basis and recognised immediately in the Comprehensive Income and Expenditure Statement. As the expenditure to be financed by that grant has not been incurred the grant or contribution is transferred to the Capital Receipts Reserve reflecting its status as a capital resource available to finance expenditure.
- Capital grants and contributions received where conditions remain outstanding are recognised as part of the Capital Grants Receipts in Advance on the balance sheet. Once the condition is met, the grant or contribution will be treated as a capital grant received with no conditions as above.
- 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 Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

11. Heritage Assets

The Council has undertaken a full review of all service areas to identify any collections of Heritage Assets which are held in support of the primary objective of the service provision. The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, eg where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment. Sale proceeds are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment.

12. Intangible Assets

Intangible Assets represent expenditure that has been properly capitalised but which does not create a tangible asset for the Council. Intangible assets include acquired and internally developed software used in the services provided or administration that qualify for recognition as an intangible asset. They are accounted for using the cost model whereby capitalised costs are amortised over

a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and estimated useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing as described in note **** . There is a corresponding transfer from the Capital Adjustment Account to neutralise the effect of the amortisation charges on the General Fund Balance. The useful life applied to this classification of assets is 3 – 7 years.

Acquired software licences are capitalised on the basis of the costs incurred to acquire and install the specific software.

Costs associated with maintaining computer software, ie expenditure relating to patches and other minor updates as well as their installation are expensed as incurred.

Expenditure on research (or the research stage of an internal project) is recognised as an expense in the period in which it is incurred.

Costs that are attributable to the development phase of new customised software for IT and telecommunication systems are recognised as intangible assets provided they meet the following recognition requirements:-

- Completion of the intangible asset is technically feasible so that it will be available for use or sale;
- the council intends to complete the intangible asset and use or sell it;
- the council has the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, it is to be used internally,
- the asset will be used in generating such benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting these criteria for capitalisation are expensed as incurred.

Directly attributable costs include employee (other than directors) costs incurred on software development along with an appropriate portion of relevant overheads. Internally generated software developments recognised as intangible assets are subject to the same subsequent measurement method as externally acquired software licences. However, until completion of the development project, the assets are subject to impairment testing only as described below in note *****

13. Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using:-

- The lower of cost and net realisable value, except where inventories are acquired through a non-exchange transaction in which case their cost is deemed to be fair value as at the date of acquisition or;
- The lower of costs and current replacement cost where they are held for distribution at no charge or for a nominal charge, or the consumption in the production process of goods to be distributed at no charge or for a nominal charge.

The council's inventories comprise items for Central Depot Stores, Vending Machine Stock, Pest Control Stock and the Postal Franking Machine.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial

14. Investment Property

Investment properties are those that are used solely to earn rentals and/or capital appreciation. The definition is not met if the property is used in the delivery of services, the 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 revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Comprehensive Income and Expenditure Statement to the Financing and Investment Income and Expenditure line. The same treatment is applied to gains and losses on disposals. Revaluation gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance in the Movement in Reserves Statement and are posted to the Capital Adjustment Account and, for sale proceeds greater than £10,000 the Capital Receipts Reserve.

Rentals received for investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance.

15. Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure

Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

The Council is responsible for hosting Worcestershire Regulatory Services under a contractual arrangement which is defined as a Jointly Controlled Operation. Under this arrangement, each participant accounts separately for its own transactions arising within the agreement including the assets, liabilities, income expenditure and cash flows. As host to the Regulatory Shared Service, the Council accounts for the expenditure incurred for Redditch Borough Council, Wyre Forest District Council, Worcester City Council, Wychavon District Council, Malvern Hills District Council and Worcestershire County Council, its partners in the arrangement. However assets and liabilities of the pension scheme are the joint responsibility of the partnership. These have been accounted for in the full accounts of the Council as host and the notes to the Pension Scheme give details of the amounts attributable to the partners as defined in the partnership agreement.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Authority and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that 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.

16. Shared Services

The Council has entered into shared services with various other local Councils for the provision of services to ensure economical and efficient service provision. This arrangement is agreed by each of the partner Councils. Under the arrangement each Council accounts separately for its own transactions arising within the agreement including the assets, liabilities, income, expenditure and cash flows. The host for the shared service accounts for the income and expenditure incurred, including income from each of the partners to the arrangement.

17. Leasing

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to the ownership of the property, plant and equipment from the lessor to the lessee. All other leases are classified as operating leases.

The council as lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down a lease liability, and
- a finance charge (debited to the Financing 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 asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

Operating leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as a cost to the services benefiting from the use of the lease property, plant or equipment. Charges are made on a straight line basis over the life of the lease.

The council as lessor

Finance leases

Where the Council grants a finance lease over a property, plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal and the carrying amount is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease debtor
- finance income (credited to the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement, or the write off of the value of disposals, is not to be adjusted against council tax. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund in the Movement in Reserves Statement.

Operating leases

Where the Council grants an operating lease over property, plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and expenditure Statement.

18. Overheads and 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 Practice 2010/11* (BVACOP). 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 and 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 and any depreciation and impairment losses on non-operational properties.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement.

19. Property, Plant and Equipment

Recognition

Property, plant and equipment shall be recognised as an asset on the councils balance sheet if:

- It is probable that the future economic benefits or service potential associated with the item will flow to the council,

- The cost of the item can be measured reliably,
- The item has a cost of at least £10,000; or
- Collectively, a number of items have a cost of at least £10,000, where the assets are functionally independent, they had broadly simultaneous purchase dates, are anticipated to have simultaneous disposal dates and are under single managerial control.

Where a large asset, for example a building, includes a number of components with significantly different asset lives, e.g. plant and equipment, then these components are treated as separate assets and depreciated over their own useful economic lives.

Measurement

All property, plant and equipment assets are measured initially at cost, representing the costs directly attributable to acquiring or constructing the asset and bringing it to the location and condition necessary for it to be capable of operating in the manner intended by management.

Following initial recognition assets shall be valued as follows:-

- Infrastructure, community assets and assets under construction shall be measured at historical cost.
- All other classes of assets are measured at fair value using a valuation method appropriate for the asset in accordance with IAS 16 and the 2010 SORP.

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

- Operational land and buildings, other than low cost housing and rent to mortgage properties (see below), are included at existing use value in accordance with the 2011 SORP.
- Low cost housing and rent to mortgage properties are included at market value.
- Infrastructure assets such as environmental improvements (eg footbridges, highways furniture and bus shelters) are included at depreciated historical cost.
- Vehicles, Plant and Equipment, other than park equipment and play areas (see below), are included at fair value. The council has adopted a historical cost basis as a proxy for fair value as the assets have short useful lives or low values or both.
- Specialised operational assets such as the skateboard park and equipment in play areas and parks where there is no established market value, have been valued on a depreciated replacement cost basis.
- Community assets, such as Parks and Recreation Grounds, are included at depreciated historical costs

- Investment Properties, which are assets that are not directly used in the delivery of a service and are held for investment potential with any rental income being negotiated at arms length, such as Industrial Properties, are included at market value.
- Assets under Construction are new capital works that will result in the creation of a new asset but will involve expenditure over several years are carried on the Balance Sheet at cost and classified as non-operational until they are finished and brought into operational use.

A programme of valuations, to be carried out by the County Council's Valuation Officer (under an SLA), is in place to ensure all appropriate fixed assets are revalued every 5 years. The County Council's Valuation Officer has been asked to review the impact of the current economic climate on the Council's fixed assets and has confirmed that there is no material impact on their value in the financial year.

Depreciation

Depreciation is charged on all assets used in the provision of services. It represents the use of capital assets by that service. It is calculated on a straight line basis by writing off the cost or revalued amount for assets, less the residual value for each asset, over the useful life of each asset.

Depreciation is provided for on all Property, Plant and Equipment assets with a determinable finite life (except for investment properties), by allocating the value of the assets in the Balance Sheet over the periods expected to benefit from their use.

Depreciation is charged on the asset values at the beginning of the financial year. All assets have now been revalued within the last four years. No depreciation is charged on assets in the year of acquisition or enhancement. No charge is made for non operational assets.

The useful life of assets is based on individual assets but generally is based on:

	Estimated useful life
Other Land and Buildings	5-50 years
Vehicles, Plant and Equipment	2-15 years
Infrastructure	5-20 years

Disposals

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 disposals are credited to the same line in the Comprehensive Income and Expenditure

Statement as part of the gain or loss on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received 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 then only be used for new investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

As the cost of fixed assets is fully provided for under separate arrangements for capital financing, the written-off value of disposals is not a charge against Council Tax; amounts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement for the written off value of disposals.

Componentisation

Where an item of PPE has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. The Council has established a threshold of £1 million for determining whether an asset needs to be componentised and a component value of more than 20% of the total asset value to determine if part of an asset is considered as a component.

Residual values

Where assets are held past their estimated useful life their residual values are usually immaterial or below the £10,000 de minimus level for inclusion on the balance sheet. Where an asset has reached the end of its estimated life and is still used, its value is reviewed to confirm that its value is immaterial. This is done annually at the end of the accounting year.

De minimus capital expenditure

Purchases of assets or enhancement work with a value of £10,000 or lower are not recorded in the asset register. De minimus assets financed from capital resources are written off to the service in the year that expenditure is incurred. Credits are made from the Capital Adjustment Account to ensure the written down assets do not have an impact on Council Tax.

20. Impairment testing of intangible assets and property, plant and equipment

At each reporting period end, the Authority checks whether there is any indication that any of its tangible or intangible non-current assets have suffered an impairment loss. If there is indication of an impairment loss, the recoverable

amount of the asset is estimated to determine whether there has been a loss and, if so, its amount.

If there has been an impairment loss, the asset is written down to its recoverable amount, with the loss charged to the revaluation reserve to the extent that there is a balance on the reserve for the asset and, thereafter, to expenditure. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount but capped at the amount that would have been determined had there been no initial impairment loss. The reversal of the impairment loss is credited to expenditure to the extent of the decrease previously charged there and thereafter to the revaluation reserve.

21. Non-current assets and liabilities classified as held for sale and discontinued operations

Assets intended for disposal are reclassified as 'held for sale' once all of the following criteria are met:

- The asset (or disposal group) is available for immediate sale in its present condition subject only to terms which are usual and customary for such sales, and
- The sale is highly probable and sale should be expected to be completed within 12 months of the date of classification as 'held for sale', and
- The asset (or disposal group) must be actively marketed for a sale price that is reasonable in relation to its fair value.

When these conditions have been met, the asset or disposal group is classified as 'held for sale' and presented separately in the statement of financial position.

Liabilities are classified as 'held for sale' and presented as such in the statement of financial position if they are directly associated with a disposal group.

Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as 'held for sale' and their fair value less costs to sell. No assets classified as 'held for sale' are subject to depreciation or amortisation, subsequent to their classification as 'held for sale'.

22. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council 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. 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 as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the 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 carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council 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 Council. Contingent liabilities also arise in the 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 Balance Sheet but disclosed in a note to the accounts.

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 Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an outflow of economic benefits or service potential.

23. 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 the reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

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

24. Revenue Expenditure Funded from Capital under Statute

Revenue expenditure funded from capital under statute represents expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets. Revenue expenditure funded from capital under statute incurred during the year have been written off as expenditure to the relevant service line in the Comprehensive Income and Expenditure Statement.

Where the Council has determined to meet the cost of the Revenue expenditure funded from capital under statute from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged to the Statement of Movement on the General Fund Balance so there is no impact on the level of council tax.

25. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

26. Accounting for Council Tax

As a billing authority, the Council acts as an agent, collecting and distributing Council Tax income on behalf of its major preceptors – Worcestershire County Council, West Mercia Police Authority, Hereford and Worcester Fire and Rescue Authority and itself.

Council Tax income for the year is the Council's accrued income for the year and not the amount required by legislation to be transferred from the Collection Fund. The difference between the amount included in the Income and Expenditure account and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund.

The cash collected by the Council from Council Tax debtors belongs proportionately to the billing authority and major preceptors. This results in a debtor/creditor position between the Council and major preceptors for the difference between the cash collected from Council Tax debtors and the precept paid over during the year. The Balance Sheet includes the Council's share of Council Tax arrears and associated impairment for bad debts, Council Tax overpayments and prepayments and the debtor/creditor position with the precepting bodies.

27. Accounting for National Non-Domestic Rates (NNDR)

The Council acts as an agent in the collection of National Non-Domestic Rates on behalf of Central Government. The cost of collection allowance is included as income within the Council's Income and Expenditure Account.

The Council does not include NNDR debtors in the Balance Sheet but instead shows a creditor or debtor for cash collected from NNDR debtors as agent of the Government but not paid to the Government or overpaid to the Government, at the Balance Sheet date.

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