Derby City Council

AUDIT & ACCOUNTS COMMITTEE
29 March 2012

ITEM 9

Report of the Strategic Director of Resources

Statement of Accounts process and Accounting Policies 2011/12

SUMMARY

1.1 As a move towards current best practice, the Council is proposing to bring the Statement of Accounts timetable forward. The External Audit will start earlier and the authorisation of the final Statement of Accounts by Audit and Accounts Committee will also be brought forward.

1.2 There are three key areas for consideration for the 2011/12 accounts, heritage assets, accounting for schools, and the Carbon Reduction Commitment. Details of these considerations are included in section 4 below, and two changes in accounting policy are proposed for the 2011/12 accounts:

- to bring heritage assets onto the Council's Balance Sheet, in accordance with the latest guidance available from CIPFA;
- to include a provision in the accounts for Carbon Reduction Commitment allowances, in line with the treatment described in Local Authority Accounting Panel Bulletin 91 issued by CIPFA.

RECOMMENDATION

2.1 To note the revised timetable for the 2011/12 Statement of Accounts process.

2.2 To approve the 2011/12 Accounting Policies outlined in Appendix 2.

REASONS FOR RECOMMENDATION

3.1 The Audit and Accounts Committee are required to approve the accounting policies on an annual basis.

3.2 The changes to the 2011/12 Statement of Accounts process timetable will have an impact on the timing and the content of information presented to Audit and Accounts Committee.

SUPPORTING INFORMATION

Statement of Accounts Process

4.1 The Council has a statutory duty to prepare a draft set of accounts by 30 June and publish thes final approved accounts by 30 September. Changes to legislation in 2011 mean that it is no longer necessary for the Audit and Accounts Committee to approve the Council's draft accounts.

4.2 It is therefore proposed that the draft statement of accounts are presented to the June Audit and Accounts Committee meeting for information, and that focus is instead given to the key changes arising in this year's closure requirements. Detailed discussion of the whole Statement of Accounts in June is not proposed, but will be presented for full discussion and approval in September after the completion of the audit of the accounts.

4.3 The Audit Commission's report 'Auditing the Accounts 2010/11' identified 10 public bodies , of which 3 were Councils, where auditors were able to issue an unqualified opinion on the 2010/11 Accounts by 31 July 2011 and the audited accounts were published by 2 August 2011. This has been recognised by the Audit Commission as a notable achievement and underlines current best practice in the Statement of Accounts for Local Government.

4.4 It is proposed that the Statement of Accounts timetable is brought forward to allow Grant Thornton to start their external audit earlier, provisionally set at 25 June 2012, two weeks earlier than last year. This should allow the work of external audit to be completed earlier and allow the presentation of the final Statement of Accounts to the Audit and Accounts Committee for authorisation, currently scheduled for the end of September 2012, to also be brought forward. A special meeting of the Committee to review and approve the accounts has been provisionally proposed for 6 September 2012.

4.5 In order to deliver the earlier timetable for the Statement of Accounts process, the Council will need to place a greater reliance on estimates in the accounts. For example, the Council is currently proposing to estimate the value of accruals, based on available information such as order values, rather than waiting for invoices to be received. The Finance Department are in detailed discussions with External Audit about the planned areas and methodologies for estimation. Any areas of estimation will be reported as part of the accounts in the Note on Assumptions made about the future and other major sources of estimation uncertainty. This note will be subject to normal audit procedures.

4.6 As well as being in line with best practice, finalising the Statement of Accounts earlier will have several other benefits for the Council, and most notably the finance function. The high degree of uncertainty about future levels of funding from central government, especially in the context of the Local Government Resource Review, means that the Council's annual budget setting process is becoming more challenging. Finishing the Statement of Accounts earlier will allow greater allocation of resources to support the budget process.

Accounting Policies

4.7 The Council prepares its annual accounts in accordance with its accounting policies which are presented as part of the main Statement of Accounts document. A copy of the Council's accounting policies is included in Appendix 2 to this report.

4.8 Standard policies for all Local Authorities are provided by the Chartered Institute of Public Finance and Accountancy – CIPFA – within the Code of Practice on Local

Authority Accounting in the UK 2011/12 – the Code. The Code requires the Council to determine its accounting policies with direct reference to the requirements stipulated by the Code. The Council therefore has only limited opportunity to deviate from these standard policies.

4.9 Heritage Assets (Appendix 2, note xii)

From 2011/12 the Code requires Council's to account for tangible and intangible heritage assets in accordance with FRS 30 Heritage Assets, as there is no equivalent International Accounting Standard. Heritage assets are assets that are intended to be preserved in trust for future generations due to their cultural, environmental or historical associations. The principal collections of heritage assets held by the Council include:

- Art collection, including Joseph Wright collection
- Decorative art collection, including ceramics and porcelain works
- Industrial collection
- Natural history collection
- Military Collection
- Civic regalia
- Sculptures and monuments

4.10 The Council keeps detailed records on heritage assets including insurance valuation information; however, these collections are not currently recognised in the Statement of Accounts. This change in accounting policy for heritage assets will be applied retrospectively, and mean that the opening 2010/11 balance sheet position will be restated to recognise the values of these assets (except where valuations are not available and the cost of obtaining valuations would be disproportionate to the benefits to the users of the Statement of Accounts).

4.11 In the majority of cases, valuations will be based on insurance valuations. Most valuations are determined internally by subject experts, although the Joseph Wright collection of paintings was valued by Sothebys in 2011/12. The valuations are reviewed on an annual basis to reflect any changes for damage / deterioration in condition etc.

4.12 Where the Council's heritage assets are recognised on the balance sheet, they are deemed to have indeterminate lives and a high residual value and therefore the Council does not consider it appropriate to charge depreciation.

4.13 The draft accounting policy for heritage assets is detailed in Appendix 2, note xii. However, this may be subject to change during the final accounts process as the information gathering process for heritage assets is not yet complete and additional information arising may need to be reflected in a change to the draft policy. Any amendments which are made will be specifically highlighted to Audit and Accounts Committee in June.

4.14 Accounting for Schools (Appendix 2, note xxviii)

The Council has a complex School portfolio consisting of, as at 31 March 2011:

73 Community Schools (including 2 PFI)
3 Voluntary Controlled School (including 2 PFI)
8 Foundation Schools (including 1 PFI)
11 Voluntary Aided Schools

Community, Voluntary Controlled (VC) and Foundation Schools are fully funded by the Council. Voluntary Aided (VA) schools are only partially funded by the Council. Currently, all Community, VC and Foundation Schools are recognised in the Council's Balance Sheet, including all PFI schools. For VA schools, Council-owned playing fields and kitchens only are recognised.

4.15 The current Code of Practice on Local Authority Accounting does not include detailed guidance on the accounting for schools and CIPFA have identified that there is currently a degree of inconsistency in the treatment applied by different local authorities. Discussions between CIPFA, the Treasury and the DfE are ongoing to develop a consistent approach. It is expected that the Code of Practice on Local Authority Accounting will be updated in 2013/14 to reflect the agreement reached.

4.16 Under the Education Act, the Council is required to secure sufficient schools for the provision of education for compulsory school-aged persons within their area. All fully-Council funded schools within the Derby City area are considered to ensure the Council meets this requirement, and therefore provide the Council with the service potential associated with these schools. This includes all Community, VC and Foundation schools. Therefore, the PPE assets of all the Council's Community, VC and Foundation schools are considered to meet the IFRS definition for recognition and are included in the Council's balance sheet.

4.17 VA schools are not fully funded by the Council and are therefore not considered to be solely in place to ensure the Council delivers against its requirement for school provision. The Council also does not control VA school admissions policies and is not responsible for the employment of staff, both of which are the responsibility of the governing body. Therefore, the main flow of service potential is not considered to go to the Council and the PPE school assets are not recognised in the Council's balance sheet. In some cases, the Council does own specific assets associated with VA schools (namely playing fields and kitchens) and these are recognised as the Council's legal ownership meaning that future economic benefits would flow to the Council.

4.18 Given this uncertainty and lack of clarity over the correct accounting treatment, no changes are currently proposed by the Council to its accounting treatment for schools. This treatment will promote consistency within the Council's accounts and has been agreed with Grant Thornton. The treatment can be summaries as:

- Community, voluntary controlled and foundation schools are included on the Council's balance sheet
- Voluntary aided schools, free schools and Academies are not included within the Council's accounts.

4.19 Grant Thornton are currently advising that the Council's judgement not to record VA schools on the balance sheet during 2011/12 is acceptable in order to promote consistency with 2010/11 because the accounting principles for schools has not changed.

4.20 Future changes may be required if the interpretation of International Accounting Standard 16 (Property, Plant and Equipment) presented in the Code of Practice for Local Authority Accounting is clarified. The Capital Accountancy team will continue to monitor future guidance regarding this issue to ensure the Council's treatment of school assets remains compliant with current guidance.

4.21 Accounting for the Carbon Reduction Commitment Scheme (Appendix 2, note xxv)

CIPFA's Local Authority Accounting Panel (LAAP) has issued a bulletin report detailing the recommended accounting treatment for the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. The 2011/12 financial year is the first year for which there will be an obligation to purchase and surrender CRC Allowances in relation to carbon dioxide emissions and therefore a new accounting policy detailing the Council's treatment of these transactions is required.

4.22 The LAAP bulletin provides detailed guidance of the recommended treatment for CRC allowances, and includes an example accounting policy for this area. This policy requires the inclusion of a new provision for CRC allowances in the Statement of Accounts. The Council is proposing to adopt this policy and follow the guidance set out in the bulletin report, with the exception of basing the apportionment of cost on budgeted energy consumption, rather than actual costs incurred.

OTHER OPTIONS CONSIDERED

5.1 The Council could continue to follow a closure timetable consistent with prior years, with the audit commencing in July and the accounts sign off at the end of September. This is not recommended as adoption of an early closure process will allow additional resource to be allocated within the finance function to budget planning and development during the Autumn.

5.2 No other options considered with regards to the Council's Accounting Policies, except for heritage assets. The Council has only limited opportunity to deviate from the standard policies set out within the Code of Practice on Local Authority Accounting.

5.3 As there is currently no formal guidance in place for the treatment of schools, the Council could choose to apply the draft CIPFA proposals described in paragraph 4.15. However, this approach is not recommended as the Council's current approach is consistent with prior years. Under the code of practice, a change in accounting policy is only permitted if it is required by the Code or if it will result in the financial statements providing more reliable and relevant financial information about the Council. Given the uncertainty and lack of formal guidance on this issue, the Council still considers its current approach to provide reliable and relevant financial information. This view is supported by Grant Thornton.

This report has been approved by the following officers:

Legal officer **Financial officer** **Human Resources officer** **Service Director(s)** **Other(s)**	Martyn Marples, Director of Finance and Procurement

For more information contact: **Background papers:** **List of appendices:**	Chloe Kenny tel: 01332 643369 e-mail: chloe.kenny@derby.gov.uk None Appendix 1 – Implications Appendix 2 – 2011/12 Statement of Accounts Timetable Appendix 3 – Accounting Policies 2011/12

IMPLICATIONS

Financial and Value for Money

1.1 As outlined in the report

Legal

2.1 Under Regulation 8 of the Accounts and Audit (England) Regulations 2011 the responsible financial officer is required by 30 June to certify that it presents a true and fair view of the financial position of the Council at the end of the year and its income and expenditure. The responsible financial officer at Derby City Council is the Strategic Director of Resources.

2.2 Regulation 8 of the Accounts and Audit (England) Regulations 2011 also requires that the audited Statement of Accounts is re-certified by the responsible financial officers and then approved by the relevant body, in this case the Audit and Accounts Committee. Approval is required to take place no later than 30 September in the relevant financial year.

Personnel

3.1 None directly arising

Equalities Impact

4.1 None directly arising

Health and Safety

5.1 None directly arising

Environmental Sustainability

6.1 None directly arising

Asset Management

7.1 None directly arising

Risk Management

8.1 None directly arising

Corporate objectives and priorities for change

9.1 None directly arising

Appendix 2

2011/12 STATEMENT OF ACCOUNTS TIMETABLE

Key Deadline	**2011/12 Process**	**2010/11 Process for Comparison**
Draft Statement of Accounts reviewed and approved by Strategic Director of Resources	15 June 2012	30 June 2011
Statutory Deadline for Approval by Strategic Director of Resources	**30 June 2012**	**30 June 2011**
External Audit Commences	25 June 2012	11 July 2011
Audit and Accounts Committee	28 June 2012	30 June 2011
External Audit Finalisation meeting	3 August 2012 (provisional)	6 September 2011
Audit and Accounts Committee review and approved final audited Statement of Accounts	6 September 2012 (provisional)	29 September 2011
Statutory Deadline for Approval by Audit and Accounts Committee	**30 September 2012**	**30 September 2011**

ACCOUNTING POLICIES 2011/12

i. 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 (England) Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The Statement of Accounts has been prepared on a going concern basis.

ii. 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:

1) Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser, it is probable that economic benefits or service potential associated with the transaction will flow to the Council; and the amount of revenue can be measured reliably.

2) Revenue from the provision of services is recognised when the Council 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 Council.

3) 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.

4) 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.

5) Interest receivable on investments and payable on borrowing 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.

6) 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.

iii. 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 highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with 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.

iv. Exceptional Items

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

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

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

vi. 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 the 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 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 are therefore replaced by the contribution in the General Fund Balance (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.

vii. 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, bonuses and non-monetary benefits 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 (or any form of leave, e.g. untaken flexi leave) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefits. 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 benefits are charged to revenue in the financial year in which the holiday absence 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 in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers 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 two separate pension schemes:

1) The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).

2) The Local Government Pensions Scheme, administered by Derbyshire County Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it was a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Education and Children's Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits 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 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.

Liabilities are discounted to their value at current prices, using a discount rate in 2011/12 of 4.7% (5.5% in 2010/11)

The assets of 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 - current bid price
- Property - market value.

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

1) Current Service Cost - the increases 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.

2) Past Service Cost - the increase in liabilities arising from current year decisions whose effect relates to years of service 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.

3) 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.

4) 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 returns - credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

5) Gains and Losses on Settlements and Curtailments - the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees - debited 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.

6) 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.

7) Contributions paid to the Derbyshire 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 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 appropriations 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 Pensions Reserve thereby 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.

Discretionary Benefits

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

viii. Events After the Balance Sheet Date

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:

1) 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.

2) 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.

ix. Financial Instruments

Financial Liabilities

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 are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in 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. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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 according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustments Account in the Movement in Reserves Statement.

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/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. They are subsequently measured 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.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that 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 asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, 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 amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices - the market price
- Other instruments with fixed and determinable payments - discounted cash flow analysis
- Equity shares with no quoted market prices - independent appraisal of company valuations (unless deemed not to be material then held at historical cost).

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred - these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive

Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

x. Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xi. 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 in the form of 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 (attributable revenue grants and contributions) 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.

Business Improvement Districts (BID)

The Council acts as an agent for the Cathedral Quarter Business Improvement District Company and the St Peter's Quarter Business Improvement District Company. The only amounts recognised in the Council's Comprehensive Income and Expenditure Statement for the BID schemes are contributions made by the Council and BID levy collection costs and are shown within the relevant service line(s) of the Cost of Services section.

xii. Heritage Assets

Tangible and Intangible Heritage Assets (described in this summary of significant accounting policies as heritage assets)

Heritage assets are assets that are held by the Council principally for their contribution to knowledge or culture. Most of the heritage assets held by the Council are included in the collections of assets and artefacts either exhibited or stored in the Council's Museums and Art Galleries.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The accounting policies in relation to heritage assets that are deemed to include elements of intangible heritage assets are also presented below.

The Council's heritage asset collections are relatively static and acquisitions and donations are rare. Where they do occur acquisitions are initially recognised at cost and donations are recognised at valuation, using the appropriate methodology for the specific collection. Single item acquisitions below £10,000 are not recognised on the Council’s Balance Sheet in line with the Council’s de minimis threshold for capitalisation.

Unless otherwise detailed below for a specific collection, all heritage assets are reported in the Balance Sheet at insurance valuation. These insurance valuations are reviewed by internal subject experts on an annual basis to reflect any changes for damage, authenticity or deterioration in condition.

Where valuations are not available and the cost of obtaining valuations would be disproportionate to the benefits to the users of the Statement of Accounts, the assets are not recognised on the Balance sheet.

Where the Council's heritage assets are recognised on the balance sheet, they are deemed to have indeterminate lives and a high residual value and therefore the Council does not consider it appropriate to charge depreciation.

The Council's most significant collections of heritage assets are accounted for as follows:

- **Art Collection**

The art collection includes paintings, drawings and sculptures and is reported in the Balance Sheet at insurance valuations. The most significant element of the Council's art collection is its collection of Joseph Wright oil paintings. These were revalued for insurance purposes in 2011/12 by Sotherbys.

- **Decorative Art Collection**

The Council's collection of decorative art includes a wide range of pieces such as textiles, ceramics and porcelain works. These items are reported in the Balance Sheet at insurance valuation.

- **Industrial Collection**

The Council has a collection of industrial heritage artefacts, most notably to do with the city’s aeronautical and engineering history. These items are included in the Balance

Sheet at insurance valuation.

- **Natural History Collection**

The natural history collection includes a range of flora and fauna artefacts and a biological records database. The collection is included on the Balance Sheet at insurance valuation.

- **Military Collection**

The Council also has a collection of historic military artefacts, including a collection of 9th and 12th Century Lances. These items are reported in the Balance Sheet at insurance valuation.

- **Civic Regalia**

The Council owns a collection of civic regalia, including items such as the Mayor's chain and mace, as well as dinner services and other decorative items. These items are included in the Balance Sheet using insurance valuations and are revalued on a periodic basis. The next valuation is due to take place in 2013.

- **Sculptures/Monuments**

The Council's Sculptures/Monuments collection includes items from various locations across the city, such as parks and public areas. The Council does not consider that reliable cost or valuation information can be obtained for the items held in its sculptures/monuments collection. This is because of the diverse nature of the assets held and lack of comparable market values. Consequently, the Council does not recognise these assets on the balance sheet.

- **Other Collections**

The Council has a number of other minor collections of heritage artefacts, including archaeological artefacts, historic coinage and costumes. Where reliable information is available, these items are reported in the Balance Sheet at insurance valuation.

Heritage Assets - General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. 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 Council's general policies on impairment - see note xxii in this summary of significant accounting policies.

The trustees of the Council's Museums and Art Galleries will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (see notes xxii and xxvii in this summary of significant accounting policies).

xiii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licenses) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential be being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued 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 line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired. Any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible 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 and 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 any sale proceed greater than £10,000) the Capital Receipts Reserve.

xiv. Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries associates and jointly controlled entities and require it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

xv. 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 either an average cost or first in first out (FIFO) costing formula, depending on which method is most appropriate.

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 year.

xvi. 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 any way to facilitate the delivery of services of 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 valued annually 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 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 in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xvii. 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 Council 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 its incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other ventures, 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 if its interest in the joint venture and income that it earns from the venture.

xviii. Leases

Leases are classified 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. 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 a 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.

xix. 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 the 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 assets recognised under finance leases are 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 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 leaded 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

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges 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. if there is a rent-free period at the commencement of the lease).

xx. The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of the disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

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. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of 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. 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 commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xxi. 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 Service Reporting Code of Practice 2011/12 (SeRCOP). 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:
1) Corporate and Democratic Core - costs relating to the Council's status as a multi-functional, democratic organisation.
2) Non Distributed Costs - the cost of discretionary benefits awarded to the employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

xxii. Property, Plant and Equipment

Assets that have physical substance and are held for use in production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment - PPE.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains, but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Where the Council incurs capital spend on or revalues any property, plant and equipment this is reviewed to determine whether there are any material components. An identifiable component within a main asset (e.g. a lift within a building) is recognised separately and accounted for like any other piece of property, plant and equipment. The Council only reviews material components where the main asset has a gross book value of £3 million or greater. Individual components are only recognised where they represent a significant proportion (25% or greater) of the main asset.

In accordance with the Code of Practice 2011/12, Property, Plant and Equipment assets are only recognised if it is probable that future economic benefits or service potential associated with the item will flow to the Council. The PPE assets of the Council's Community, Voluntary Controlled and Foundation schools are considered to meet the IFRS definition for recognition and are included in the Council's balance sheet. As Voluntary Aided and Academy schools are not owned or fully funded by the Council, they are not considered to meet the recognition criteria and are therefore not included in the Council's Balance Sheet.

Measurement

Assets are initially measured at cost, comprising:
1) The purchase price
2) Any costs attributable to bringing the asset to the location and condition necessary for it to
be capable of operating in the manner intended by management
3) Where relevant, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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 fair 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). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they 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 - fair value, determined using the basis of existing use value for social housing (EUVSH)
- All other assets - fair value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

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

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are 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 amount of the accumulated gains).
- Where there is no balance in the Revaluation Reverse or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are 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 amount of the accumulated gains)
- Where there is no balance in the Revaluation Reverse or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) 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 is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction). Depreciation is not charged in the year of acquisition but is applied in the year of disposal.

Depreciation is calculated on the following bases:
- Dwellings and other buildings - straight-line allocation over the useful life of the property as estimated by the Valuer (usually 50 years)
- Vehicles, plant, furniture and equipment - a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer (usually between 3 and 20 years)
- Infrastructure - straight-line allocation over 40 years.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately 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 fair value less costs to sell, the loss is posted to the Other Operating Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously 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 classified 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 held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not be classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also 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 accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement) Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xxiii. Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on is Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For the Schools PFI scheme the liability was written down by an initial capital contribution of £10.8m and for the Street Lighting PFI scheme the liability was written down by an initial capital contribution of £1.2m.

Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year - debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost - an interest charge of 5.21% - 5.31% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent - increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability - applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a

finance lease).

- Lifecycle replacement costs - proportionof the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

xxiv. Provisions, Contingent Liabilities and Contingents 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 an 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 (e.g. 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 give 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 circumstance where a provision would otherwise be made but either is not probable than 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 inflow of economic benefits or service potential.

xxv. Carbon Reduction Allowances

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of budgeted energy consumption.

xxvi. Reserves

The Council sets aside specific amounts as reserves for future policy purposes 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 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, retirement and employee benefits, and do not represent usable resources for the Council - these unusable reserves are explained in the relevant policies.

xxvii. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions, but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement 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 that there is no impact on the level of council tax.

xxviii. Accounting for Local Government Schools

The treatment of land and buildings for each type of school is based on the legal framework underlying each type of school. The Council controls the management and running of community, special and voluntary controlled schools and therefore the land and buildings of those schools are separately shown on the Council's balance sheet. The land and buildings of foundation schools are shown on the balance sheet of the Council as the Council fully funds the school and is responsible for financial reporting. The land and buildings of voluntary aided schools are owned and controlled by the trustees of the schools and are therefore not shown on the Council's balance sheet.

All activities of community, special, foundation and voluntary controlled schools are accounted for by the Council. For example, capital expenditure is added to the balances for those schools. Capital expenditure on voluntary aided schools is treated as "REFCUS" (Revenue from Capital under Statute") expenditure and written off each year to the Comprehensive Income and Expenditure Statement within Education and Children's services.

The Dedicated Schools Grant is allocated between central Council Budget and budgets allocated to individual schools ("delegated school budgets"). Expenditure from central Council budgets and delegated schools budgets is charged to the Comprehensive Income and Expenditure Statement under Education and Children's services.

Individual schools' balances at 31st March 2011 are included in the balance sheet of the Council as any unspent delegated schools budgets remain the property of the Council.

PFI Schemes

The Council has a number of schools subject to PFI contracts. The PFI buildings for community, foundation and voluntary controlled schools are shown on the Council's balance sheet.

The PFI liabilities in respect of all PFI schools remain on the Council's balance sheet as the Council is the party to the contract with the PFI Operator.

xxix. 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.