Report to Audit and Governance Committee

Date: 24th March 2021

Title: Adoption of new Council Accounting Policies

Relevant councillor(s): N/A

Author and/or contact officer: Paul Earley

Ward(s) affected: N/A

Recommendations: Members are requested to

(i) Note and adopt the new accounting policies for the Council.

Content of report

Accounting Policies

1.1 General Overview

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the year-end 31st March 2021. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, 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 2020/21, 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.

1.2 Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods is recognised when the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed and where there is a gap between the date supplies are received and their consumption, these are included as inventories in the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for 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 in the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor/creditor for the 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.

1.3 Provisions

Provisions are made where an event has taken place that gives a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income & Expenditure Statement (CIES) when the Authority has an 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, these are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at each year-end and 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.

1.4 Overheads and Support Services

The cost of overheads and support services are managed separately, therefore these service segments are reported separately in accordance with the Council's arrangements for accountability and financial performance.

1.5 Employee Benefits (Benefits Payable during Employment)

Short-term employee benefits are settled in full within 12 months of the year-end. Benefits include wages and salaries, paid annual leave, paid sick leave bonuses and non-monetary benefits for current employees and are recognised as a service cost in the year in which employees render service. An accrual is made for the holiday entitlement cost (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry to the next financial year. The accrual is made at the wage and salary rates applicable in the following year as the period in which the employee takes the benefit. The accrual is charged to the surplus or deficit on the provision of services, but is then reversed out through the Movement in Reserves Statement (MiRS) so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

1.6 Employee Benefits (Termination)

Termination benefits are due following 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 in exchange for those benefits, and are charged on an accruals basis to the relevant service expense line in the comprehensive income and expenditure statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises restructuring costs. When termination benefits involve pensions enhancement, the general fund balance is charged with the amount payable to the pension fund or pensioner in-year, not the amount calculated according to the relevant accounting standards. In the MiRS, appropriations are required to/from the pensions reserve to remove the notional debits and credits for pension enhancement termination benefits and these are replaced with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at year-end.

1.7 Employee Benefits (Post-Employment Benefits-Local Government Pension Scheme)

Employees of the Council are members of three separate pension schemes:

- the Local Government Pensions Scheme (LGPS), administered by Buckinghamshire Council
- the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education
- the NHS scheme

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

For LGPS members' retirement benefits, statutory provisions require the General Fund to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year as distinct from the amount calculated according to the relevant accounting standards. In the MIRS there are appropriations to and from the Pensions Reserve to remove the debits and credits for retirement benefits charged in the CIES 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 as earned by employees.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the balance sheet.

The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme administered by Buckinghamshire Council.

The liabilities of the Buckinghamshire 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 or projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate determined by the Actuary (based on the market yields on high quality corporate bonds).

The assets of Buckinghamshire Council pension fund attributable to the Council are included in the Balance Sheet at their fair value, using the following methods:

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

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

- Current Service Cost – the increase in liabilities as a result of years of service earned this year, allocated in the CIES to the services for which the employees worked.
- Past Service Cost – the increase in liabilities as a result of a scheme amendment or curtailment, whose effect relates to years of service earned in earlier years, debited or credited to the Surplus or Deficit on the Provision of Services in the CIES.
- Net Interest Cost – the expected change in the present value of net liabilities that arises from the passage of time, charged to the Financial and Investment Income and Expenditure line in the CIES.
- Return on Assets – excluding amounts included in net interest on the net defined benefit liability, charged to the Financial and Investment Income and Expenditure line in the CIES.
- Actuarial Gains and Losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumption, debited/credited to the Pensions Reserve.
- Contributions paid to Buckinghamshire 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 as distinct from the amount calculated according to the relevant accounting standards.

In the MiRS, there are appropriations to and from the Pensions Reserve to remove the debits and credits for retirement benefits charged in the CIES 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 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 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.

1.8 Employee Benefits (Discretionary Benefits)

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

1.9 Property Plant and Equipment - Definition

Assets that have physical substance and are held for use in the 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 PPE.

1.10 Property, Plant and Equipment (PPE) - Recognition

Expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis in the accounts. Expenditure in excess of £10,000 on fixed assets is capitalised. This excludes expenditure on routine repairs and maintenance of fixed assets which is charged direct to service revenue accounts.

1.11 Property, Plant and Equipment (PPE) - Measurement

Assets are initially measured at cost, comprising:

- The purchase price

- Any costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The Council does not capitalise borrowing costs incurred whilst assets are under construction. Assets are then carried into the Balance Sheet using the following measurement basis:

  - Infrastructure, community assets, plant, vehicles and equipment and assets under construction – historical cost
  - 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. Assets 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 booked within the Revaluation Reserve to recognise unrealised gains. In-year gains will be credited to the CIES where they arise from the reversal of a loss previously charged to a service. Where decreases in value are identified, they are accounted for as follows:

- Where there is an opening 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 gain);

- Where there is no balance or an insufficient balance in the Revaluation Reserve, the carrying amount of the asset is written down against the relevant service line

Assets included in the balance sheet at current value below £10m are revalued on a rolling basis within a five-year time-frame. Assets with a current value over £10m are revalued annually. Increases in valuations are matched by credits in the revaluation reserve to recognise unrealised gains. Exceptionally, gains might be credited to the CIES where they arise from the reversal of an impairment loss previously charged to a service revenue account.

1.12 Property, Plant and Equipment (PPE) - Impairment

Material assets are assessed at each year-end for impairment. 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 on the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the relevant CIES line.

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

1.13 Property, Plant and Equipment (PPE) - Depreciation

Depreciation is accounted for on all PPE assets by the systematic allocation of their depreciable amounts over the useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold and certain Community Assets), and assets that are not yet available for use (i.e. assets under construction). Newly acquired or completed assets are depreciated in the year following acquisition or completion.

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

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.

1.14 Property, Plant and Equipment (PPE) - Disposals

When an asset is disposed of or decommissioned, the carrying amount in the Balance Sheet is written off to Other Operating Expenditure in the CIES as part of the gain/loss on disposal. Receipts from disposals (if any) are credited to the same line in the CIES. When a component is replaced, the carrying amount of the old component is derecognised and the new component reflected at cost in the carrying amount of the overall asset. Such recognition and de-recognition takes place regardless of whether the replaced part has been depreciated separately. Any revaluation gains accumulated for the asset or component in the Revaluation Reserve are transferred to the Capital Adjustment Account. Disposal amounts in excess of £10,000 are categorised as capital receipts. 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 underlying borrowing needs. Receipts are appropriated to the Capital

Receipts Reserve from the General Fund in the MiRS. Where the amount due in relation to the asset (including leased assets) is contingent on payments in future financial years, this is posted to the Deferred Capital Receipts Reserve in the MiRS and a long-term trade receivable is created in the Balance Sheet. Such gains are not usable for financing new capital expenditure until backed by cash receipts. When future payments are received, the element of the capital receipt for the asset disposal is used to write down the long-term trade receivable. 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 appropriated to the Capital Adjustment Account from the General Fund in the MiRS.

1.15 Investment Properties

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which an asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are properties with a carrying value over £250k are revalued as part of an annual programme while properties with a value less than £250k are revalued as part of a five-year rolling-programme, according to market conditions at the end of the year. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the CIES. The same treatment is applied to gains and losses on disposal. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund. The gains and losses are therefore reversed out of the General Fund in the MiRS and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve. Rentals received in relation to investment properties are credited to Financial and Investment Income and result in a General Fund gain.

1.16 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 in-year:

- depreciation attributable to the assets used by a service;
- revaluation and impairment losses on assets used by a service where there are no accumulated gains in the revaluation reserve against which the losses can be written off; and
- amortisation of intangible fixed assets attributable to a 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. Depreciation, impairment losses and amortisations are therefore replaced by the MRP in the MiRS on the general fund balance, by way of an adjusting transaction within the capital adjustment account for the difference between the two.

1.17 Intangible Assets

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held can be determined by reference to an active market. In practice, no intangible asset held meets this criterion, and they are therefore carried at amortised cost. Intangible assets are amortised over their useful lives to the relevant service line in the CIES. An asset is tested for impairment whenever there is an indication that the asset might be impaired and any losses recognised are posted to the relevant service line in the CIES. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the net loss on disposal of non-current assets line in the CIES.

1.18 Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Expenditure incurred in-year that may be capitalised under statutory provisions that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in-year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the MiRS from the general fund to the capital adjustment account then reverses the amounts charged to ensure no impact on the council tax level.

1.19 Heritage Assets

The carrying amounts of heritage assets are reviewed where there is evidence of impairment, eg when 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.

1.20 Valuation Techniques used to Determine Fair Values

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments at fair value at each reporting date. Valuation techniques that are appropriate in the circumstances and for which sufficient data is available are used so as to maximise the use of relevant observable inputs and minimise the use of unobservable inputs. Inputs to the valuation techniques in respect of assets and liabilities for

which fair value is measured or disclosed are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 – unobservable inputs for the asset/liability.

1.21 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 mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

1.22 Inventories & Long Term Contracts

Inventories are included in the balance sheet at the lower of cost & net realisable value.

Long-term contracts are accounted for on the basis of charging the surplus or deficit on the provision of services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

1.23 Financial Assets

Assets are classified into three types –

1. Amortised Cost - valued at Amortised Cost in Balance Sheet, movements in Amortised Cost are debited/credited to the Surplus or Deficit on the Provision of Services,
2. Fair Value through Profit and Loss (FVTPL) - Fair Value in Balance Sheet, all gains and losses posted to Surplus or Deficit on the Provision of Services,
3. Fair Value through Other Comprehensive Income (FVOCI) - Fair Value in Balance Sheet, movements in amortised cost debited or credited to Surplus or Deficit on the Provision of Services with Fair Value movements debited or credited to Other Comprehensive Income and Expenditure

1.24 Financial assets measured at amortised cost

Financial assets at amortised cost are recognised in the balance sheet when the Council becomes party to the contractual provisions of a financial instrument and are initially

measured at fair value. They are subsequently measured at amortised cost. Annual credits to the financing and investment income and expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. This means that the amount presented in the balance sheet is the outstanding principal receivable plus accrued interest, and interest charged to the CIES is the amount receivable for the year.

1.25 Financial Liabilities

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

Premiums and discounts on the early redemption of loans are charged to the CIES when incurred but Regulations allow the impact on the General Fund to be spread over future years. The Council has a policy of spreading the gain/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 CIES to the net charge required against the General Fund is managed by a transfer to/from the Financial Instruments Adjustment Account in the MiRS.

1.26 Government Grants and Contributions

Amounts recognised are not credited to the CIES until the conditions attached to the grant/contribution have been satisfied. Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors (Creditors or Capital Grants Receipts in Advance). When conditions are satisfied, the grant or contribution is credited to the relevant service segment line (revenue grants and contributions attributable to specific services) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the CIES. Where revenue grants that have been credited to the CIES are intended to meet specific service expenditure that has not yet been incurred, an equivalent amount is transferred from the General Fund to an Earmarked Reserve in the MiRS. A transfer is made in future years to match expenditure as it is incurred.

Where capital grants are credited to the CIES, these are reversed out of the General Fund in the MiRS. Where the grant has yet to be used to finance capital expenditure, it is posted to

the Capital Grants Unapplied Reserve. Amounts in the Capital Grants Unapplied Reserve are then transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

1.27 Classification of 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 PPE 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 the payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

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 line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies generally applied 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 leased assets. Instead, Property, Plant and Equipment held under finance leases are funded in accordance with statutory requirements. Depreciation and

revaluation and impairment losses are therefore removed by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from the 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.

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 CIES 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 (ie netted off against the carrying value of the asset at the time of 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, Plant or Equipment – 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 CIES 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 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 CIES. 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 or discount offered at the commencement of the lease). If material 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.

1.28 VAT

VAT payable is included as an expense to the extent that it is not recoverable from HMRC. VAT receivable is excluded from income.

1.29 Community Infrastucture Levy (CIL)

The levy is charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy. The income is used to fund a number of infrastructure projects (including transport, flood defences and schools) to support the development of the area. CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the CIES in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges may be used to fund revenue expenditure

1.30 Events after the Balance Sheet Date

Events after the balance sheet date are those events, both favourable and unfavourable, that have occurred between the balance sheet date and the date when the statement of accounts is authorised for issue. Two types of event can be identified:

- those that provide evidence of conditions that existed at the balance sheet date – the statement of accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the balance sheet date – 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.

1.31 Materiality and Exceptional Items

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

1.32 Contingent Assets

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.

1.33 Contingent Liabilities

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

1.34 Accounting for Council Tax and Non-Domestic Rates (NDR)

Billing authorities act as agents collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including Government for NDR) and as principals collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (ie the Collection Fund) for the collection/distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central Government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted. The council tax and NDR included in the CIES is the Authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Authority's General Fund. Therefore, the difference between the income included in the CIES 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 MiRS. The Balance Sheet includes the Authority's share of the year-end balances for council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals. Where debtor balances are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed of determinable payments), the asset is written down and a charge made to Financing and Investment Income in the CIES. The

impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

1.35 Schools

The Code confirms that the balance of control for local authority maintained schools (ie those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the group accounts). Therefore, schools' transactions, cash flows and balances are recognised in each of the financial statements of the authority as if they were the transactions, cash flows and balances of the authority.

1.36 Interests in companies and other entities

The Council has material interests in Aylesbury Vale Estates, Consilio Property Ltd, Farnham Park Sports Fields Charity and Higginson Park Trust. In the Council's own single-entity accounts this interest is recorded as a financial asset at cost less any provision for losses.

1.37 Reserves

Specific amounts are set aside as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts from the General Fund in the MiRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in-year against the Surplus or Deficit on the Provision of Services in the CIES. The reserve is then appropriated back into the General Fund in the MiRS so that there is no net charge against Council Tax for the expenditure. Unusable reserves are kept to manage the accounting processes for non-current assets, financial instruments, and retirement and employee benefits and do not represent usable resources for the Council.

Other options considered

1.38 N/A

Legal and financial implications

1.39 All local authorities are required to agree their accounting policies and include these within the statement of accounts.

Corporate implications

1.40 The accounting policies are in line with accepted best practice.

Consultation and Communication

1.41 None.

Background papers

None