Report of the Director of Finance

Agenda Item No:
Meeting: 12 April 2011

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

FINAL ACCOUNTS AND ACCOUNTING POLICIES 2010/11

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1 To ask members to approve the accounting policies that the council will use to close the 2010/11 accounts. This year there are changes to the regulatory framework for the accounts, which are now to be compiled in line with International Financial Reporting Standards (IFRS).

1.2 There are also changes to the Account and Audit Regulations which impose further requirements on local authority accounting. The key proposed change is that members are asked to delegate the approval of the final accounts at the end of June to the Director of Finance.

1.3 Members are also asked to delegate to the Director of Finance the power to make new accounting policies as may become necessary in the production of the accounts.

2. BACKGROUND INFORMATION

2.1 The Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (CoP) requires each local authority to adopt accounting policies that set principles for recording financial transactions within the Council's accounts.

2.2 The CoP is, in effect, a legal requirement as it is recognised in Government legislation as "Proper accounting practice".

2.3 The CoP requires that polices are set within UK accounting standards, which are from 2010/11 to be based on International Financial Reporting Standards (IFRS), but otherwise they may reflect matters appropriate to an authority's circumstances.

2.4 The policies proposed for North Lincolnshire are based upon guidance issued by the Chartered Institute of Public Finance and Accountancy and take account of local circumstances.

2.5 In January 2011 the Government consulted on changes to the Accounts and Audit Regulations. The main proposal was the alignment of the accounts approval process for public bodies with that of the private sector. This means member approval of the draft accounts is no longer a requirement. Members are still required to approve a final set of accounts in September which would incorporate any audit findings. This is sensible as the committee will have the assurance provided by the audit when taking the decision to approve. A report on the council's Financial Outturn would continue to be presented to cabinet in June.

2.6 CIPFA has considered the proposals and has given them its support.

2.7 The Annual Governance Statement (AGS) must accompany the Final Accounts and be considered in its own right, as has been the case here. Under the new Regulations this could take place in September. However the committee could still opt to consider the AGS in June as well as in September, irrespective of whether it continues to approve the accounts in June or delegates that task to the Director of Finance. This would allow early action to be taken on any issues identified by the AGS.

3. OPTIONS FOR CONSIDERATION

3.1 Members are asked to satisfy themselves that the accounting policies set out in appendix A are appropriate. They are asked to pay particular attention to those policies highlighted as being modified to take account of local circumstances or changed to meet the new requirements of IFRS standards.

3.2 Members have three options in relation to the approval of the accounts:

i) To retain the current arrangements whereby the audit committee approves the accounts and AGS in June and September

ii) To change the approval arrangements to match the revised regulations and delegate the approval of the draft accounts by 30th June each year to the Director of Finance.

iii) To delegate the approval of the draft accounts by 30th June each year to the Director of Finance, but to continue to approve the AGS at that time as well as alongside the Final Accounts in September. This is the recommended option.

4. ANALYSIS OF OPTIONS

4.1 The local amendments to the standard accounting policies are set out below. Items (i) to (iii) are unchanged from 2009/10 and item (iv) is a new policy arising from the implementation of IFRS:

i). A de minimis level has been applied to the accrual of income and expenditure. The de minimis level has been applied to reduce the administration surrounding the accrual of income and expenditure without materially affecting the accounts. For 2010/11 the level has been set to £2,000. Some items are now excluded from the requirement to accrue.

ii). The council has set a de minimis level of £10,000 for inventories. Any inventories worth less than £10,000 are not accounted for as inventories. This reduces administration and does not have a material effect on the accounts.

iii). Deducting incidental costs incurred on the sale of fixed assets from the capital receipt. This practice allows the council to fund a team dedicated to the proactive management of the council's property portfolio. The Government have set a limit on the value of the costs that can be deducted. This limit is 4% of the sale price of the asset.

iv). A de minimis level of £400k on the asset value of property, plant and equipment has been applied before assets will be considered for componentisation. Above this threshold only assets where the change in the depreciation charge is over £20k will actually be accounted for on a component basis.

4.2 This is the first year that Local Authorities accounts have had to be prepared under International Financial Reporting Standards. The change has required a number of amendments to the council's accounting policies and several additional accounting standards. The main changes are as follows:

i) Investment Properties: The council must now demonstrate it holds these properties solely for capital appreciation or earning rental income.
ii) Assets held for sale: The council must demonstrate that several tests have been passed before an asset has been treated as held for sale.
iv) Property, Plant and Equipment: Fixed Assets are now known as Property, plant and equipment and there are changes to the classifications, valuation methods and impairment.
v) Componentisation: The requirement to depreciate the major components of assets has been strengthened.
iv) Leases: Under IFRS many leases which were previously operating leases become finance leases.
v) Grants: Grants must now be recognised in the revenue account when received unless conditions exist that require the grant to be repaid.
vi) Cash and cash equivalents: Short term investments are now to be considered cash equivalents and combined with cash in the main statements.

4.3 If the arrangements for the approval of the draft accounts are changed the council's procedures will be aligned with the new accounts and audit regulations. An additional two weeks will also be available to the Finance Service to complete this years accounts. The additional time is particularly valuable this year as the changes required by IFRS will make the preparation process even more lengthy and will require additional time to be spent on quality checks.

4.4 It is possible that, during the preparation of the accounts, there may be a need to amend the accounting policies set out in this report. It is proposed that the power to make such amendments should be delegated to the Director of Finance, subject to any such changes being reported to the next meeting of this committee.

5. RESOURCE IMPLICATIONS *(FINANCIAL)*

5.1 There are no direct financial implications arising from this report.

6. OTHER IMPLICATIONS

6.1 N/A.

7. OUTCOMES OF CONSULTATION

7.1 None.

8. RECOMMENDATIONS

8.1 That members approve the accounting policies as set out in Appendix A.

8.2 That members approve the delegation of the approval of the draft accounts by 30th June to the Director of Finance, but continue to receive the Annual Governance Statement for approval at the June meeting.

8.3 That members delegate to the Director of Finance the power to make new accounting policies as may become necessary in the production of the accounts, with any such changes being reported to the next meeting of this committee.

DIRECTOR OF FINANCE

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Date: 31 March 2011

Statement of Accounting Policies

Contents

1. **General Principles**

The Statement of Accounts summarises the council's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11. Based on International Financial Reporting Standards.

2. **Accruals of Income and Expenditure**

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

- Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as stocks on the Balance Sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the Balance Sheet.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

In respect of both capital and revenue transactions, the Council operates on the normal accruals concept of income and expenditure, thus all known sums except where mentioned below, above the Council's de minimis threshold of £2,000, due to and from the Council at 31st March each year are included in the year end accounts.

Exceptions to this policy are:-

- Housing Benefit Payments
- Social Services Income for Home Care
- Property Trading Account Income for commercial properties

These exceptions still mean that a full twelve months of income and expenditure are accounted for in a financial year.

3. **Provisions**

Provisions are made where an event has taken place that gives the council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

4. Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Cost of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for Property, Plant and Equipment, Financial Instruments, accumulated short-term compensated absences and retirement benefits and do not represent usable resources for the council – these reserves are explained in the relevant policies below.

5. Employee Benefits

i) 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 (eg cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements or flexi time 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 benefit. 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.

ii) Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority 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 Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority 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 Authority 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.

iii) Post Employment Benefits

Employees of the council are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Children, Schools and Families (DCSF).
- The Local Government Pensions Scheme, administered by East Riding of Yorkshire Council.

Both schemes provided 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 be identified to the council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the education service revenue account 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 East Riding of Yorkshire pension scheme attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to 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 of determined by the Funds' Actuary.
- The assets of the East Riding pension fund attributable to the council are included in the Balance Sheet at their fair value:

– quoted securities – current bid price

– unquoted securities – professional estimate

– unitised securities – current bid price

– property – market value.

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

– current service cost – the increase in liabilities as result of years of service earned this year allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked

– past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

– interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement

– expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement

– gains/losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees

– debited to the Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

– actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement

– contributions paid to the East Riding of Yorkshire pension fund – cash paid as employer’s contributions to the pension fund.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the council to the pension fund in the year, not the 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 any amounts payable to the fund but unpaid at the year-end.

The Annual Report and Accounts of the East Riding Pension Fund can be obtained from:

East Riding Pension Fund
Pensions Section
PO Box 118
Council Offices
Church Street
GOOLE
DN14 5YU

Or visit their website http://www.eastriding.gov.uk and select pensions from the A-Z of services.

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.

6. VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from it.

7. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2010/11 (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

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

8. Intangible Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the council (e.g. software licences) is capitalised when it will bring benefits to the council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

9. Property, Plant and Equipment

Property, Plant and Equipment are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

Recognition: expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it yields benefits to the council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of asset (e.g. repairs and maintenance) is charged to revenue as it is incurred. More detail can be found in the council's capitalisation policy.

Measurement: assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

- investment properties and assets surplus held for sale – fair value
- other land and buildings, vehicles, plant and equipment – fair value in existing use
- Assets held under finance leases – lower of present value of minimum lease payments or cost
- infrastructure assets and community assets – depreciated historical cost.
- Net current replacement cost is assessed as:
- non-specialised operational properties – existing use value
- specialised operational properties – depreciated replacement cost

Assets included in the Balance Sheet at fair value are revalued where there have been material changes in the value, but as a minimum every five years. 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 an impairment loss previously charged to a service revenue account.

All gains and losses relating to Investment properties are credited or debited to Financing and investment income and expenditure in the Comprehensive Income and Expenditure Statement.

Impairment: the values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account

- otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Comprehensive Income and Expenditure Statement but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Disposals: when an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to repaid Right to Buy Discounts 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 Movement in Reserves statement.

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

Depreciation: depreciation is provided for on all assets with a determinable finite life (except for the exceptions listed below), by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.

Deprecation is calculated on the following bases:

The calculation uses the straight-line method based on the following assets:

- buildings – straight-line allocation over the life of the property as estimated by the valuer.
- vehicles, plant and equipment – straight line over the life of the asset as estimated by an appropriate officer
- infrastructure – straight-line allocation over the life of the asset.

  The remaining useful life of these assets is reviewed annually.
- No depreciation is provided on land, community assets, non-operational investment property assets, assets held for sale and assets in course of construction.
- No depreciation is provided on any asset in the year of acquisition.

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.

Components: 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. Assets with a value of £400k or more, excluding land value, will not be considered for componentisation. Assets above this threshold will be componentised but only where the difference in the depreciation charge between the asset as a whole and its components is over £20k.

Grants: where grants and contributions are received that are identifiable to fixed assets and have no conditions the amounts are credited to the Capital Adjustments Account to match the amounts spent in year. Where the receipt of grant exceeds the spend the unutilised portion of the grant is transferred to the Capital Grants Unapplied Account. Where conditions exist which means at the balance sheet date the grant may have to be repaid it should be treated as receipt in advance under short term creditors.

10. Deduction of sale expenses incurred from capital receipts

The council has a locally determined policy to deduct the incidental costs incurred on the sale of fixed assets from the capital receipt. This policy has allowed the council to fund a small team which takes a proactive role in the management of the council's property portfolio, identifying and marketing surplus assets. The work of this team is accounted for on an accrual basis. The accrual is reduced based on the likelihood of the sale of each asset.

11. Charges to Revenue for Property, Plant and Equipment

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

- depreciation attributable to the assets used by the relevant service
- impairment losses attributable to the clear consumption of economic benefits on Property, Plant and Equipment used by the service and other loses where there are no accumulated gains in the Revaluation Reserve against which they can be written off
- amortisation of Intangible Assets attributable to the service.

The council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance, or loans fund principal charges). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Movement in Reserves Statement, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

12. Leases

Finance Leases

The council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the council. Rentals payable are apportioned between:

- a charge for the acquisition of the interest in the property (recognised as a liability in the Balance Sheet at the start of the lease, matched with a tangible fixed asset – the liability is written down as the rent becomes payable), and
- a finance charge (debited to Financing Activities in the Comprehensive Income and Expenditure Statement as the rent becomes payable).

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Property, Plant and Equipment, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

13. Financial Instruments

i) Financial Liabilities

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

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Financing Activities 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/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 Adjustment Account in the Movement in Reserves Statement.

ii) 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 initially measured at fair value and carried at their amortised cost. Annual credits to 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 and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, where the council makes loans at less than market rates these are known as soft loans. When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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 Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

Available-for-sale Assets

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to 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 (e.g., dividends) 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.

Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Comprehensive Income and Expenditure Statement. The exception is where impairment losses have been incurred – these are debited to the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the 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, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses.

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

14. Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. Work in progress is subject to an interim valuation at the year-end and recorded in the Balance Sheet at cost plus any profit reasonably attributable to the works.

The Council has set a de minimis level of £10k for inventories.

15. Interests in Companies and Other Entities

The council has no material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and is not required it to prepare group accounts. In the council's own single-entity accounts, the interests have been accounted for as simple investments.

16. 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 Authority 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.

17. Contingent Assets and Contingent Liabilities

i) Contingent Assets

Contingent assets are not recognised in the accounting statements; they are disclosed by way of notes if the inflow of a receipt or economic benefit is probable.

ii) Contingent Liabilities

Contingent liabilities are not recognised in the accounting statements; they are disclosed by way of notes if there is a possible obligation which may require a payment or a transfer of economic benefits.

18. Acquired and Discontinued Operations

i) Acquired Operations

Income and expenditure directly related to material acquired operations is shown separately on the face of the Comprehensive Income and Expenditure Statement under the heading of acquired operations.

ii) Discontinued Operations

Income and expenditure directly related to discontinued operations is shown separately on the face of the Comprehensive Income and Expenditure Statement under the heading of discontinued operations or within the Trading Undertakings entry, where appropriate.

19. Exceptional Items and Prior Period Adjustments

Exceptional items should be included in the cost of the service to which they relate or on the face of the Comprehensive Income and Expenditure Statement if that degree of prominence is necessary in order to give a fair presentation of the accounts. An adequate description of each exceptional item should be given within the notes to the accounts. The costs of any fundamental reorganisation or restructuring which has a material effect on the nature and focus of the authority's operations should be shown separately on the face of the Comprehensive Income and Expenditure Statement.

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 Authority'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.

20. Landfill Allowance Trading Scheme (LATS)

Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

21. Government Grants and other contributions

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

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

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

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

i) Area Based Grant

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement

22. Impairment and uncollectability of Financial Assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of a past event that occurred subsequent to the initial recognition of the asset. Expected losses as a result of future events, no matter how likely, should not be recognised. The downgrade of the credit rating of a creditor is not of itself objective evidence of impairment, although it may be when considered with other information. Events that provide objective evidence of impairment include the following:

(a) significant financial difficulty of the creditor

(b) a breach of contract, such as a default or delinquency in interest or principal payments

(c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider

(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation

(e) the disappearance of an active market for that financial asset because of financial difficulties

(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

(i) adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments), or

(ii) national or local economic conditions that correlate with defaults on the assets in the group (e.g. a significant increase in the unemployment rate in the authority area).

At each Balance Sheet date an assessment should be made of whether there is objective evidence that any financial asset or group of financial assets may be impaired. An assessment should first be made of whether evidence of impairment exists individually for financial assets that are individually significant. Then an assessment of impairment should be made individually or collectively for financial assets that are not individually significant.

23. Collection Fund

The council will only account for its element of any surplus or deficit arising from the collection fund. All other transactions will be recognised as a creditor or debtor relating to the other precepting bodies or the National Non Domestic Rating Pool.

24. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm’s-length. Properties are not depreciated but are revalued 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.

25. 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 line in the Comprehensive Income and 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 been 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 (ie 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.

26. 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 less than twelve 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 Authority's cash management.

27. 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:

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

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

28. Foreign Currency Translation

Where the Authority 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.]

29. Private Finance Initiative (PFI) and Similar Contracts [W]

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 Authority 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 Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on its 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. Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Authority.

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 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 – proportion of 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.

Appendix C

Audit Area	Planned Days	Audit Areas
Fundamental Financial Systems	201	Fundamental financial systems as agreed with external audit are: Payroll, Creditors, Debtors, Cash Receipting, Main Accounting Ledger, Council Tax and Housing Benefits, Council Tax, NNDR, Treasury Management, Fixed Asset Register, CareFirst (Adult Social Care payments feeder system)
Corporate Governance	20	Evaluation of council arrangements against best practice standards.
Risk Management	26	Annual review of risk management arrangements, strategic and key operational risk controls
IT Audit	116	Network Management and Control, Disaster Recovery and Business Continuity, Remote access, Telephone system, IT Charging policy, Operating systems, Service desk, incident & problem management, IT Governance, Government Connect, Virtualisation
Contract Audit	79	Contracts, Highways Alliance, Adults – Commissioning and Procurement, C&YP - Contracts
Fraud Prevention and Detection	136	Whistleblowers Hotline, National Fraud Initiative (Data Matching), Fraud preventative measures, Income audits – Car Parking, Bereavement Services, Golf clubs and Leisure facilities, Leisure facilities timesheets, Debit cards, Direct payments, e-income
Environmental Audits	22	Audit of the council's approach to environmental issues e.g EMAS (Eco-management & audit scheme), sustainability, mechanisms to record and reduce the environnemental footprint
Council-wide Systems	111	Partnership Arrangements, Budgetary Control , Grant Claims, New Legislation, Worksmart, Project management, External Audit follow up work

Audit Area	Planned Days	Audit Areas
Adult Social Care Services	49	Safeguarding Adults, Older People - homecare, Assessment & Review, Budgetary control, Receiverships
Children & Young People (C&YP)	413	Integrated Youth Support, Policies for the Protection of Children, Capita One & SIMS (schools administration and finance system), Child Protection, Children in Care, Section 17 payments, School Audits, Schools Financial Value Standard, CRB Checks, Training 16-19 years, Budgetary control, External funding, School admissions, Audit & Review Team, Transport, Early years
Finance – Other	44	Financial Regulations, Taxation, Travel & Subs, Pensions, Overtime analysis, Housing Benefit subsidy
Corporate & Community Services (excluding HR & Democratic and Legal services)	50	Adult Education, Safer Neighbourhoods, Data Protection & Freedom of Information, Library & information services
Human Resources	55	Professional Personnel system, Sickness policy, Leave policies, Working time directive & flexible working, Compensation for termination of employment
Democratic & Legal Services	65	Councillors Allowances, Democratic Services, Legal Services, Registrars, Scrutiny, Elections & electoral registration
Neighbourhood & Environment	53	Fleet Management, Emergency planning, Contaminated land, Schools catering, Licensing, Health Improvement
Regeneration & Planning Services	60	Business start up loans administration, South Humber Bank project, Lincolnshire Lakes project, External funding, Area Renaissance, Leader programme

Audit Area	Planned Days	Audit Areas
Infrastructure (excluding IT)	70	Budgetary control, Building control, Highways maintenance, Project management, Post project review & feedback, Leisure facilities contract management
Consultancy, Advice	165	Advice and unplanned work as requested
Other	116	Follow up work. Audit plan and performance monitoring and reporting
TOTAL	**1851**	