Part I
Item No: 0
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Executive Member: Alan Franey
All Wards

WELWYN HATFIELD BOROUGH COUNCIL
AUDIT COMMITTEE – 21 MARCH 2016
REPORT OF THE DIRECTOR (FINANCE & OPERATIONS)

ACCOUNTING POLICIES UPDATE – 2015/16 STATEMENT OF ACCOUNTS

1 Executive Summary

1.1 Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. For local authorities, these policies are developed in accordance with the Code of Practice on Local Authority Accounting (The Code).

1.2 The Council is required to disclose a summary of significant accounting policies in the Statement of Accounts. Unless there are major changes to accounting rules and regulations or there is a significant change in the financial activities of the Council, accounting policies do not change radically between years. The Council's accounting policies are determined by the Director (Finance & Operations) and it is considered to be best practice for the Audit Committee to be kept informed of any key changes.

1.3 The purpose of this report is to notify the Committee the accounting policies adopted for 2015/16 (see appendix A for details).

2 Recommendation(s)

2.1 The Audit Committee is asked to note the accounting policies at Appendix A for the 2015/16 Statement of Accounts.

3 Explanation

3.1 There have been changes to the accounting policies adopted by the Code.

3.2 <u>IFRS13 Fair Value Measurement (Appendix A, paragraph xvii)</u>

3.2.1 The definition of fair value has been revised. The Council's valuers will now be required to value investment properties and surplus assets at 'best use' value taking into account condition, location and any restrictions on use of the asset.

3.2.2 This change in fair value measurement also relates to financial instruments and may require additional disclosure notes in relation to this.

3.3 No other changes have been made to the accounting policies in 2015/16 that will impact our statement of accounts.

3.4 <u>Joint Operations (Appendix A, paragraph xiv)</u>

3.4.1 This accounting policy has been updated to reflect changes in the terminology used in the 2014/15 Code of Practice for joint ventures and joint operations. This change has no impact on the accounts.

3.5 Accounts and Audit Regulations

3.5.1 The Accounts and Audit Regulations 2015 came into effect on 1 April 2015. The regulations cover the new early closedown requirements whereby the council will be required to prepare draft accounts by 31st May each year and ensure sign off by the Audit Committee by 31st July each year from 2017/18.

3.6 The audit of the 2015/16 Statement of Accounts is currently due to commence early-June and the audited accounts will be brought to the July Audit Committee for approval.

Implications

4 Legal Implication(s)

4.1 The Director (Finance & Operations) has the powers within the Council's financial procedure rules to amend and update the accounting policies; the role of the Audit Committee is to consider and approve the Council's Statement of Accounts.

5 Financial Implication(s)

5.1 There are no financial implications arising from this report.

6 Risk Management Implications

6.1 There is a risk that the Statement of Accounts fails to meet regulatory and professional standards or timetables. The potential impacts include qualification on Statement of Accounts and/or balances on accounts may be uncertain. Members should note that effective controls have been put in place (e.g. staff training) to minimise the likelihood of occurrence.

7 Security & Terrorism Implication(s)

7.1 There are no security and terrorism implications arising from this report.

8 Procurement Implication(s)

8.1 There are no procurement implications arising from this report.

9 Climate Change Implication(s)

9.1 There are no climate change implications arising from this report.

10 Link to Corporate Priorities

10.1 I confirm that the subject of this report is linked to a statutory requirement, under Accounts and Audit Regulations 2015.

11 Climate Change Implication(s)

11.1 None

12 Equality and Diversity

12.1 An Equality Impact Assessment (EIA) has not been carried out in connection with the proposals that are set out in this report.

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Date	2nd March 2016

Background papers

CIPFA – Code of Practice on Local Authority Accounting in the United Kingdom (Guidance Notes for Practitioners 2015/2016 Accounts)

CIPFA – Code of Practice on Local Authority Accounting in the United Kingdom 2015/16

CIPFA SeRCoP 2015/16 - Service Reporting Code of Practice

Appendix A – 2015/16 Accounting Policies

1. Accounting Policies

i. General principles

The Statement of Accounts summarises the Council's financial transactions for the 2015/16 financial year and its position at the year end of 31 March 2016. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit regulations 2015, and this requires the preparation to be in accordance with Proper Accounting Practices.

These practices primarily comprise the Code of Practice Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice 2015/16, supported by International Financial Reporting Standards (IFRS).

The Code of Practice requires that departures from recommended accounting policies are fully disclosed, and the reasons for them explained, in local authority accounts.

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

ii. Accruals of income and expenditure

All transactions of the Council are accounted for in the year in which they take place, not simply when the 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 and services are recorded as expenditure when they are consumed, where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the balance sheet.
- Interest 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 has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected; and
- Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

iii. Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutes repayable without penalty on notice of no more than 24 hours. Cash equivalents are investments that mature in three calendar months or less from the date of acquisition and 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 Authorities cash management.

iv. Exceptional items

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

v. Prior period adjustments, changes in accounting policies and estimates and errors

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the 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.

vi. Charges to revenue for Non Current Assets

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

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and Impairment losses on assets used by services where there are no accumulated gains in the revaluation reserve against which losses can be written off.
- Amortisation of intangible non-current assets attributable to the service

The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisation. To neutralise the impact these are reversed out. This is achieved by an adjustment between the Capital Adjustment Account and the Movement in Reserves Statement.

The Council is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement.

vii. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits (those falling due within 12 months of the year end) such as wages, salaries and paid annual leave and sick leave, bonuses and non monetary benefits for current employees, are considered as an expense in the year in which the employee renders the service to the Authority.

An accrual is made against services in the surplus or deficit on the provision of service, for the cost of holiday entitlement and other forms of leave earned by employees but not taken before the year end, and which may be carried forward into the next financial year. Accruals are not made for immaterial costs in respect of outstanding car mileage claims.

Any accrual made is required under statute to be reversed out of the general fund balance by a credit to the Accumulated Compensation Absences Adjustment Account in the Movement in Reserves Statement.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by Welwyn Hatfield Borough 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. These costs are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the authority can no longer withdraw the offer of those benefits or when Welwyn Hatfield Borough Council recognises costs for a restructuring.

Statutory provisions require the General Fund to be charged with the amount agreed to be payable to the pension fund, not the amount calculated according to the relevant accounting standards.

Post-employment Benefits

Employees of the Authority may be members of the Local Government Pension Scheme, administered by Hertfordshire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees working for Welwyn Hatfield Borough Council. Further details are included in the notes for the pension scheme.

The Local Government Pension Scheme

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

The liabilities of the Hertfordshire pension fund attributable to the Authority 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 [to be confirmed]% at 31 March 2016 (based on indicative rate of return on yields available on Corporate Bonds based on the constituents of the iBoxx Corporate AA index). At 31 March 2015 the discount rate was 3.1%.

The assets of Hertfordshire pension fund attributable to the Authority 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 pension liability is analysed into the following components:

- Service cost comprising:
  - **current service cost** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - **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 to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - **net interest on the net defined benefit liability**, i.e. net interest expense for the Welwyn Hatfield Borough Council - the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

- Re-measurements comprising:
  - **the return on plan assets** – excluding amounts included in net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - **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 – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- Contributions paid to the Hertfordshire 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 Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Authority 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.

viii. Events after the Reporting Period

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

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

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

ix. Financial Instruments and Financial assets

Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost, these include creditors and loans. Annual charges to the Comprehensive Income and Expenditure Account 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 on the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income and Expenditure Account is the amount payable for the year in the loan agreement. Where the financial liability is a short duration payable, like creditors, with no stated interest rate an effective interest calculation has not been made.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

Financial Assets

The Council's 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 Account 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 Account is the amount receivable for the year in the loan agreement. For investments the measurement used is quoted market rates.

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 Income and Expenditure Account.

Any gains and losses that arise on de-recognition of an asset are credited/debited to the Comprehensive Income and Expenditure Account.

Available-for-Sale Assets

Available-for-sale assets are initially measured and carried at fair value. Income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by Welwyn Hatfield Borough Council.

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

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets.

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

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

Instruments entered into before 1 April 2006

The Council entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed.

x. Government Grants and Contributions

Whether paid on account, or by instalments or in arrears, grants and third party contributions 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 grant or contribution will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Account until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations regarding the use of the grant which if not met would render the grant returnable to the transferor.

Monies advanced as grants and contributions for which conditions have not been met are carried as liabilities in the Balance Sheet. When conditions are satisfied the item is credited to the appropriate service line or Taxation and Non-Specific Grant Income & Expenditure in the Comprehensive Income and Expenditure Account.

Where capital grants are credited to the Comprehensive Income and Expenditure Account, 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 Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied.

xi. Interests in companies and other entities

From 1 April 2010 the Council has a wholly owned subsidiary (Welwyn Hatfield Community Housing Trust). However, when taking into account of materiality, the Housing Trust does not hold material assets for a group account to be produced. Welwyn Hatfield Community Housing Trust's (WHCHT) accounts are not grouped with those of the Council for financial reporting purposes.

xii. Long Term Contracts

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

xiii. Investment Property

Investment properties are those that are used solely to earn rentals and/or capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services 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 in an arm’s length transaction. Investment Properties are not depreciated but are re-valued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment 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 property are credited to the Financing and Investment line in the Comprehensive Income and Expenditure Statement, and result in a gain for the General Fund balance.

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 in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve (for any sale where cash received is greater than £10,000.)

xiv. Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Authority as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

xv. Leases

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

Where a lease covers both land and buildings the land and building 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 payments are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority 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 Authority are added to the carrying amount of the asset.

Lease payments are apportioned between:

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

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

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

Operating leases

Rentals paid under operational leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the service 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 which generally means that rentals are charged when they become payable.

The Authority as Lessor

Finance leases

Where the Authority grants a finance lease over a property or an item of plant or equipment lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and

- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. if there is a premium paid at the commencement of the lease.)

xvi. Overheads and support services

The cost of overheads and support services are charged to those that benefit from the supply or services based on use and in accordance with CIPFA's Service Reporting Code of Practice 2015/16 (SeRCoP).

The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the council's status as a multifunctional, 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 categories are defined in SeRCoP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of net expenditure on continuing services.

xvii. Property Plant and Equipment

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 Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis in the accounts. Expenditure in excess of £10,000 on non-current assets is capitalised – except in the case of capital grants given to voluntary bodies and community chest payments when the limit is set at £5,000, provided that the non-current asset yields benefits to the Council and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of non-current assets that is charged direct to service revenue accounts.

Where an element of staff time has been capitalised and the actual figures were not available an estimated has been calculated based on the charges to date.

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 carried in the balance sheet using the following measurement bases:

- Investment properties: open market value
- Council dwellings: existing use value for social housing basis i.e. 39% of market value
- Property: surplus assets are included in the balance sheet at fair value, determined using the amount that would be paid for the asset in its 'best use'.
- Property: other land and buildings are included in the balance sheet at current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)
- Vehicles, plant and equipment: depreciated historic cost
- Infrastructure assets: depreciated historic cost.
- Community assets: depreciated historic cost.
- Assets under construction: depreciated historic cost

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. The last full valuation was carried out in March 2014 for General Fund assets, after which we have started a rolling programme where approximately 20% of assets each year. The last full valuation for housing revenue account assets was April 2015.

Increases in valuations are matched by credits in 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. Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

Fair Value

Investment assets and surplus assets (including assets held for sale) are held at fair value at the reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The transaction is assumed to take place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

This method should take the asset in its highest or best use.

There is a three level hierarchy for inputs into a fair value calculation:

- Level 1 – quoted prices in active markets for identical assets or liabilities e.g. bond prices
- Level 2 – inputs other than quoted prices that are observable for the asset or liability e.g. interest rates or yields for similar assets
- Level 3 – unobservable inputs for the asset or liability e.g. cash flow forecasts

Impairment

Assets are assessed at each year end as to whether there is any indication that they may be impaired. Where indications exist and any possible differences are estimated 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 as for decreases in value explained above.

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

Non Current Assets Held for Sale

An asset is held for sale where the carrying amount of the asset will be recovered principally through a sale transaction rather than through continued use. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and the fair value less costs to sell.

The asset must be available for immediate sale, in its present condition. The sale must be highly probable with management having initiated a plan to sell the asset and locate a buyer. The asset will not be subject to depreciation. The asset held for sale will be recorded as a current asset rather than as Property Plant and Equipment.

Disposals

When an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal.

Receipts from disposals are credited to the 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 some housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the government. The balance of receipts is required to be credited to the capital receipts reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow – the capital financing requirement. Receipts are appropriated to the reserve from the Movement in Reserves Statement.

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

Depreciation

Depreciation is provided for all property plant and equipment assets (other than land, certain community assets and assets under construction) where a finite useful life has been determined. This is with the intention of writing off their balance sheet values in equal annual instalments over their remaining expected useful lives. This is commonly referred to as the 'straight line' method. Depreciation is charged from the end of the year following the year of acquisition. Useful lives for asset types are shown in note 12.

Where an item of Property, Plant and Equipment has major components, the cost of which is significant in relation to the total cost of the item, the components are depreciated separately. Where a component is replaced or restored the carrying amount of the old component is derecognised to avoid double counting; the new component is reflected in the carrying amount.

Componentisation does not apply to investment properties.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charge 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.

xviii. Rent to mortgage properties

The council's equity interest in rent to mortgage property is assessed as current vacant possession value, based on a beacon principle, less the remaining discount awarded but not taken. The asset is considered to be a long term debtor and this is matched by a deferred capital receipt.

xix. Provisions and Contingent Liabilities

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by the transfer of economic benefit, where a reliable estimate can be made, 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 payment of compensation.

The Council maintains a provision for the funding of the self-financed element of insurance claims. This provision is funded through contributions from the relevant service revenue accounts.

Provisions for bad or doubtful debts are separately disclosed against debtors on the Balance Sheet and are not included in the provisions figure. They have been made within the accounts for expected losses of income in respect of sums due but not received from debtors. Known uncollectible debts have been written off.

Provisions are charged to the appropriate revenue account and when payments for expenditure are incurred to which the provision relates they are charged direct to the provision. Provisions are reviewed at each balance sheet date and if no longer required the provision is reversed.

Contingent liabilities

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

xx. Reserves

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

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

Capital reserves are not available for revenue purposes and certain ones can only be used for specific statutory purposes.

- Capital Adjustment Account represents the balance of the surpluses or deficits arising from the periodic revaluations of non-current assets and the amounts set aside from revenue or capital receipts to finance expenditure on non-current assets and certain other capital financing transactions.
- Revaluation Reserve contains valuation gains recognised since 1 April 2007.
- Major Repairs Reserve is required by statutory provision in relation to the Housing Revenue Account (HRA).

The Council also has other specific earmarked reserves set out in more detail in the Notes to the Core Statements. These are set aside for purposes falling outside the definition of provisions. They are earmarked specifically to meet future items of revenue or capital expenditure.

xxi. Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Revenue expenditure funded from capital under statute (REFCUS) is expenditure which may be capitalised but which does not result in the creation of a non current asset controlled by the authority. REFCUS incurred during the year is written off as expenditure to the relevant service revenue account in the year. Examples include grants to third parties for capital purposes and expenditure on private sector housing renewal. Where the Council meets the cost of the REFCUS from existing capital resources a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Movement in Reserves Statement so there is no impact on the level of council tax.

xxii. VAT

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

xxiii. Accounting for collection of Council Tax and NNDR in an agency role

The Council acts as a billing authority, or agent on behalf of major preceptors in relation to Council Tax and Business Rates (NNDR). In this case the Council is collecting Council Tax and Business Rate Income on behalf of itself and preceptors (Hertfordshire County Council (HCC) and Hertfordshire Police and Crime Commissioner in relation to Council Tax and the Department for Communities and Local Government (DCLG) and HCC in relation to Business Rates).

The implication for this is that any balance sheet transactions at the year end, in relation to these Agent relationships, are split between the principal parties and, therefore, the balances contained on the Balance Sheet for a particular debt are the Council's own proportion of the debt and associated balances. The proportions of transactions that relate to the other parties to the relationship are shown as debtors or creditors due from/to these parties.