Summary
The purpose of this report is to give Members the opportunity to consider in advance the accounting policies to be adopted for the production of the 2008/09 Statement of Accounts.

Attachment(s)
Statement of Accounting Policies

1. Background

1.1. The format, content and presentation of the annual Statement of Accounts is primarily laid down in the Accounts and Audit Regulations 2003 (Statutory Instrument 2003 No. 533) and the Statement of Recommended Practice (SORP) 2009 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1.2. Behind these requirements is a large number of accounting standards which dictate the manner in which we account for and present certain transactions.

1.3. In line with the above requirements, the Statement of Accounts must be approved by 30 June. The role of the Audit and Risk Management Committee in this process is to review the accounts to ensure that appropriate care and consideration have been given to meeting the requirements of the Regulations, the SORP and accounting policies and that variations in our practices are known and approved. This report is presented so that consideration can be given to any variations from the regulatory and statutory requirements that are proposed prior to the drafting of the accounts.

2. Changes of the Regulatory Environment

2.1. Since last year a number of minor changes have been made to the SORP and they primarily cover the way that individual transactions should be accounted for or the detail that needs to be included within the notes to the accounts. These will be dealt with by officers and adopted and included as part of preparing the Statement of Accounts for the current financial year.

2.2. There are some that require changes to our Statement of Accounting Policies and these are contained with the revised Statement of Accounting Policies that is attached to this report at Appendix A. For ease of reference changes are highlighted in italics.

3. Compliance with Regulatory Requirements

3.1. Apart from the exceptions listed in section 4 below, the presentational format of the Accounts will be as laid down in the SORP 2009. In order to ensure compliance with the SORP 2009, the Head of Resources and the EnCor Financial Services Manager will use the compliance checklist as supplied by CIPFA and this will be provided as supporting evidence to our auditors.

3.2. The accounting policies that the Council adopts are detailed within the Statement of Accounts. With the exception of the items listed below, these accounting policies are all in accordance with accepted accounting practices, include the changes resulting from the 2009 SORP.
4. Areas of Non-Compliance

4.1. There are two areas where the Council does not fully comply with accepted accounting practices and these are with regard to the calculation of depreciation and the positioning of the notes to the Statement of the Movement On General Fund Balance.

4.2. The normal practice is to depreciate assets purchased or enhanced during the year from the date of purchase/enhancement. For the purposes of expediency, the Council does not depreciate assets in the year of purchase or enhancement but instead calculates depreciation on the opening value of assets at the start of the year.

4.3. The impact of this change is that depreciation charged as a whole will be less than otherwise would have been the case but this difference is not considered material. This divergence from accepted practice has no effect on the overall general fund balance as depreciation charged to revenue in the Income and Expenditure Account is reversed in the Statement of the Movement on General Fund Reserves.

4.4. The Council has adopted this policy for a number of years and our External Auditors have not raised any formal objection.

4.5. With regard to the notes to the Statement of the Movement on General Fund Reserves, the recommended practice is to include these within the other notes to the main statements. However, due to the abbreviated nature of this Statement, the document is far easier to read and understand with the note positioned after the Statement.

4.6. Again, this approach was adopted in previous year’s accounts and our External Auditors have not previously raised any objections to this.

5. Compliance with Statutory Requirements

5.1. The Accounts and Audit Regulations 2003 set out a number of requirements. So that Members of this Committee can satisfy themselves that appropriate action is being taken to ensure that Council meets these requirements they are reported here for consideration. The table sets out these requirements and provides a commentary on the Council's position.

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Para 4 (1) The body has a sound system of internal control and (2) the system is effective</td>
<td>Annual Governance Statement reports on overall control environment.</td>
</tr>
<tr>
<td>Para 5 Accounting Records and Control systems</td>
<td>The Council’s systems properly record and account for all financial transactions. This can be shown through both the work by Internal Audit and the review by External Audit.</td>
</tr>
<tr>
<td>Para 6 Effective System of Internal Audit</td>
<td>The effectiveness of Internal Audit will be considered at the June meeting of this Committee.</td>
</tr>
<tr>
<td>Para 7 Content of Statement of Accounts</td>
<td>The contents of the accounts are in accordance with the Regulations</td>
</tr>
<tr>
<td>Para 10 Approval of Accounts</td>
<td>The accounts will be considered by the Finance Sub-Committee on 28 June 2010 and the Audit and Risk Management Committee on 29 June 2010 which is in accordance with the Regulations</td>
</tr>
<tr>
<td>Para 11 Publication of Accounts</td>
<td>The accounts should be published by 30 September and arrangements are in place to ensure this deadline is met.</td>
</tr>
<tr>
<td>Para 13 Appointment date for the</td>
<td>Our audit is due to start on 12 July 2010</td>
</tr>
</tbody>
</table>
5.2. Reported elsewhere on this agenda is the Council’s Annual Audit and Inspection report. This reports on some areas of non-compliance with last year’s draft accounts and recommendations stemming from this report will be incorporated into the production of this year’s statement. As Members will note there are no reported instances of non-compliance with the statutory requirements.

5.3. Officers are comfortable that we will be fully compliant with the requirements of the Accounts and Audit Regulations 2003.

6. Recommendations

6.1. It is recommended that Members:

- note the work that has been undertaken to ensure compliance with the relevant statutory and regulatory requirements for the production and publishing of our Statement of Accounts, and
- approve the Statement of Accounting Policies to be adopted for the 2009/10 Statement of Accounts.

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**Implications:**

**Corporate Outcomes or Other Policy/Priority/Strategy**

<table>
<thead>
<tr>
<th>Good Quality of Life</th>
<th>[ ] Good Reputation</th>
<th>[ ] Good Value for Life</th>
<th>[ ] High Quality Service Delivery</th>
<th>[ ] Strong Community Leadership</th>
<th>[ ] Effective Management</th>
<th>[ ] Knowledge of our Customers and Communities</th>
<th>[ ] Employees and Members with the Right Knowledge, Skills and Behaviours</th>
</tr>
</thead>
</table>

**Other:**

Decision(s) would be outside the budget or policy framework and require full Council approval

**Financial**

- There are no financial implications at this stage
- There will be financial implications – see paragraph
- There is provision within existing budget
- Decisions may give rise to additional expenditure at a later date
- Decisions may have potential for income generation

**Risk Management**

- An assessment has been carried out and there are no material risks
- Material risks exist and these are recorded at Risk Register Reference - 257
  - inherent risk score - Primary
  - residual risk score - Contingency

**Staff**

- There are no additional staffing implications
- Additional staff will be required – see paragraph

**Equalities and Human Rights**

- There will be no impact on equality (race, age, gender, disability, religion/belief, sexual orientation) or human rights implications
- There will be an impact on equality (see categories above) or human rights implications – see paragraph

**Legal**

- Power: Accounts and Audit Regulation 2003
<table>
<thead>
<tr>
<th>Other considerations:</th>
<th>Code of Practice on Local Authority Accounting in the United Kingdom - Statement of Recognised Practice 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Background Papers:</strong></td>
<td>None</td>
</tr>
<tr>
<td><strong>Person Originating Report:</strong></td>
<td>Robert Austin, Head of Resources 01832 742171 <a href="mailto:rjaustin@east-northamptonshire.gov.uk">rjaustin@east-northamptonshire.gov.uk</a></td>
</tr>
<tr>
<td><strong>Date:</strong></td>
<td>25 February 2010</td>
</tr>
</tbody>
</table>

(Committee Report Normal Rev. 21)
The accounts have been prepared in accordance with the 2009/2010 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Statement of Recommended Practice (SORP) specifies the principles and practices of accounting required to prepare a Statement of Accounts which ‘present fairly’ the financial position and transactions of the local authority.

The accounts have been prepared on a going concern basis, that is, the Council will continue in operational existence for the foreseeable future. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

This statement discloses and explains the basis for the recognition, measurement and disclosure of transactions and other events in the accounts.

### 2 Tangible Fixed Assets

#### Recognition

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis. Expenditure on fixed assets is capitalised provided that it yields benefits to the Council for a period of more than one year. This excludes expenditure on routine repairs and maintenance of fixed assets, which is charged direct to service revenue accounts.

The Council has a general de minimus limit of £5,000 for capital expenditure purposes which results in the capitalisation of expenditure above that limit as an asset in the balance sheet. Items below this limit are charged to revenue.

#### Asset Classifications

Non Operational assets are those held by an authority but not directly occupied, used or consumed in the delivery of services, or for the service or strategic objectives of the authority. All other assets are held primarily with regard to the delivery of services. Details of the movements between the different asset classifications are disclosed in Note 26 on page 34.

#### Impairment

A test for impairment would need to be performed in the following circumstances:

- A significant decline in the fixed assets market value.
- Obsolescence or physical damage.
- A change in the statutory or regulatory environment.
- A commitment to undertake a significant reorganisation.

As the current economic conditions give rise to a high likelihood for a significant decline in asset value a test for impairment has been conducted and the results recognised in the accounts. 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 Income and Expenditure Account 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.
2 Tangible Fixed Assets cont’d

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:

- Other Land and Buildings: Existing Use Value
- Vehicles, Plant and Equipment: Historic cost
- Infrastructure Assets: Historic cost
- Community Assets: Historic cost
- Non-operational assets: Open Market Value

Assets included in the Balance Sheet at current value are re-valued 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 Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

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.

Disposals
When an asset is disposed of or decommissioned the value of the asset in the Balance Sheet and the receipt from disposal are written off to the income and Expenditure Account as part of the loss or gain on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Depreciation
Depreciation is provided for on all assets with a determinable finite life by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use. Depreciation is calculated on the opening book value with no charge in the year of acquisition and a full charge in the year of disposal. The Council has adopted this approach to minimise extensive calculations and assist in the annual closedown process and is satisfied that it does materially reflect the pattern of consumption of the economic benefits of the assets.

Depreciation/Amortisation is calculated over the expected life of each asset using the straight-line method. No depreciation charge has been applied to land or non-operational assets. Assets are depreciated/amortised as follows:

- Buildings: Up to 50 years, depending on the expected life of each property.
- Vehicles, Plant and Equipment: Varying periods, according to useful life.

There has been no material change during the period in either the estimate of useful lives or the estimate of residual values.

Grants and Contributions
Where grants or contributions are received that are identifiable to fixed assets, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to balance the depreciation charges made for the related asset.
3  Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council is capitalised when it will bring benefits to the Council for more than one financial year. Such assets are amortised using the straight line method over their useful economic life.

4  Charges to Revenue for Fixed Assets

Service 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
- Impairment loses attributable to the consumption of economic benefit
- Amortisation of intangible fixed assets

These charges are reversed from the Statement of Movement on the General Fund Balance to the Capital Adjustment Account so that they do not create a requirement to raise additional council tax.

5  Revenue Expenditure Funded from Capital under Statute

Previously known as deferred charges, revenue expenditure funded from capital under statute are payments of a capital nature where no fixed asset is created for the Council, but which may be properly financed over a period of years. They include private sector renewal grants and advances to other parties to finance capital investments.

Revenue expenditure funded from capital under statute is written off to revenue in the year it takes place, this being an appropriate period consistent with the consumption of the economic benefits controlled by the local authority.

6  Accruals of Income and Expenditure

The revenue and capital accounts of the Council are maintained on an accruals basis in accordance with the Code of Accounting Practice and FRS 18 (Accounting Policies). That is, sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year.

7  Stocks and Work in Progress

Stocks are valued as per the Code of Practice and SSAP 9 (Stocks and Long Term Contracts) which recommends that stock is carried at the lower of cost or net realisable value.

8  Overheads and Support Services

The allocation of central support services follows the Best Value Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy, whereby the relationship between the corporate management of the Council and central support given to services is clearly identified and charged to the appropriate cost centres. The total absorption costing principle is used with the full cost of overheads and support services shared between service accounts in proportion to the benefits received.

9  Provisions
The Council has to set aside as provisions sums to meet known liabilities, where the amount or timing is uncertain. Provisions are charged to the appropriate service account in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are made they are charged to the provision set up in the Balance Sheet. Details are shown in Note 31.

The Council makes provision for bad and doubtful debts and the amount of debtors is reduced accordingly. Details of the bad debt provisions are shown in Note 21.

10 Reserves

The Council maintains certain reserves to allow specific future objectives to be financed, it also retains general balances to allow for contingencies. These reserves have been established using revenue resources and are therefore available for revenue and/or capital expenditure, and details of these reserves are shown in Note 30. Capital receipts cannot be used to finance revenue expenditure they can only be used to finance capital expenditure.

11 Pensions

Employees of the Council are members of the Local Government Pension Scheme which is accounted for as a defined benefits scheme:

- Liabilities of the 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 6.9%

- The assets of the scheme attributable to the Council are included 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 Income and Expenditure Account 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 Net Cost of Services in the Income and Expenditure Account 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 Net Operating Expenditure in the Income and Expenditure Account

  - 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 Net Operating Expenditure in the Income and Expenditure Account
o 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 Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs

o actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains and Losses

o contributions paid to the pension fund – cash paid as employer’s contributions to the pension fund.

The Income and Expenditure account is charged with the cost of the benefits that have accrued during the year and not the actual amount paid by the Council. General Fund balance however is charged with the actual amount paid and adjustments are made in the Statement of Movement on the General Fund Balance and the pensions Reserve to this effect.

The Council is able to make discretionary awards of retirement benefits in the event of early retirement. Where applicable these are accounted for in the year that the decision is made and are accounted for using the same policies as are applied to the Local Government Pension Scheme.

12 Government Grants and Contributions (Revenue)

Applications for grants are made to the appropriate organisation whenever they become available. These grants are appropriated to the relevant revenue account or capital scheme on which the expenditure was incurred. Where a capital grant has resulted in the creation of a capital asset, the grant is written down over the expected useful life of the asset, the grant is not written down in the year it is received. Revenue grants are matched to the expenditure to which they relate. Whether paid on account, by instalments or in arrears, government grants and other contributions and donations are recognised in the accounts on the date that the grant conditions have been satisfied. Service specific grants are matched in the revenue accounts against the service expenditure they relate to. General grants are credited to the Income and Expenditure Account and shown after Net Operating Expenditure.

13 Leasing

The council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the council. Leases that do not meet the definition of finance leases are accounted for as operating leases.

On occasion the Council obtains the use of equipment by means of operating leases. The leasing charges are debited to the relevant revenue account for each year as they fall due.

The Council acts as lessor for industrial and commercial rented units. These units meet the definition of operating leases as above.


14 Financial Instruments

A Financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. There are two types of Financial Instruments,
Primary Financial Instruments, such as bonds, currency and stock and Derivative Financial Instruments whose value is derived from an underlying asset.

The Council recognises an asset or liability on the Balance Sheet when the Council becomes party to the contractual provisions of the instrument. The Council has identified that its Financial Instruments of a material nature comprise trade receivables, trade payables, cash and investments.

Investments shown in the Balance Sheet relate to cash deposits. The value of cash deposits is the principal amount invested.

Financial assets are classified into two types; loans and receivables and available-for-sale assets. Loans and receivables are measured for at fair value and appear in the balance sheet at the amortised cost. Available for sale assets are measured and carried at fair value.

Financial liabilities are initially measured at fair value and are carried at their amortised cost.

15 Changes in Accounting Policies

There have been no changes to the Accounting Policies adopted by the Council other than those statutory amendments emanating from the revisions associated with the 2009 SORP and explained in detail within the Explanatory Forward.

16 VAT

Income and expenditure excludes any amounts related to VAT that is collected by or recoverable from HM Revenue and Customs.

17 Interest

All interest is credited or debited to the General Fund.