STATEMENT OF ACCOUNTING POLICIES

1. General Principles

The general principles adopted in compiling the Council's accounts conform to the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (ACOP), published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2. Fixed Assets – Tangible

Fixed assets are stated in the balance sheet at market valuation, adjusted for acquisitions and new investment (at cost). The Borough Valuer undertakes a five-year rolling programme of asset revaluation, with revaluations also being undertaken where significant works have been carried out to an asset. An annual 'desk top' valuation of the housing stock is also undertaken. A de minimis valuation level of £1,000 is currently in operation. Assets disposed of in the year have been written out of the balance sheet at their stated book value.

Council dwellings and other operational land and buildings (non-specialist properties) have been included in the balance sheet at the market value for existing use. Other operational land and buildings (Specialist properties) are stated at their depreciated replacement cost. Operational assets are defined as those held, used or consumed in the direct delivery of services. In general all valuations have been carried out in accordance with the Statements of Asset Valuation Practice and Guidance prepared by the Royal Institution of Chartered Surveyors and in accordance with guidance issued by the CIPFA.

Infrastructure has been included at historic costs incurred since 1987/88, less accumulated depreciation.

Vehicles, Plant and Equipment are included at historic cost less accumulated depreciation.

Community Assets are included at historic cost with no reduction for depreciation.

New expenditure on the acquisition, creation or enhancement of fixed assets is stated on an accrual basis and charged to the fixed assets account. Expenditure is recorded gross of any capital grants or contributions received in respect of the expenditure.

3. Fixed Assets – Intangible

Intangible fixed assets (previously referred to as deferred charges) is expenditure that qualifies as capital for control or financing purposes, but does not result in the acquisition, creation or enhancement of a tangible fixed asset. Where no lasting benefit accrues to the authority beyond the end of the year, such charges raised are written off immediately to the Consolidated Revenue Account. Any capital grants or contributions received towards the cost of 'deferred charges' are credited to service revenue accounts over the same period.

4. Depreciation of Fixed Assets

Services have been charged with depreciation on fixed assets on a straight-line basis as follows;

Buildings are depreciated over the remaining expected life of the asset concerned;
Infrastructure is depreciated over a 20-year period;
Vehicles and Plant are depreciated over a 7-year period;
Equipment is depreciated over a 5-year period;

To offset the amount of depreciation charged to services the amount set aside from revenue as a provision to repay external debt is reduced by the depreciation charged in the year.

Depreciation on HRA Council dwellings is based upon the Major Repairs Allowance (MRA) whilst other operational HRA assets are depreciated on a straight-line basis over the remaining expected life of the asset.

5. Charges to Revenue - Asset Rentals

Individual service's revenue accounts have been charged with notional Asset Rentals for all fixed assets used in the delivery of those services. Asset Rentals comprise of a capital charge calculated at a specified rate of interest (i.e. notional interest) together with a charge for annual depreciation.

The total Asset Rentals charged to services are credited back to the Asset Management Revenue Account, in order that the Council Tax is unaffected.

STATEMENT OF ACCOUNTING POLICIES

6. Capital Receipts

Capital receipts arise mainly from the sale of capital assets and are accounted for on an accrued basis. The Local Government Act 2003 specifies what proportion must be paid over to the Government's HRA Capital Receipts Pool, and what proportion can be retained by the Council to finance further capital expenditure or repay outstanding debt.

7. Deferred Capital Receipts

When Council dwellings are sold and a Council mortgage is advanced to enable tenants to purchase the property, an amount equal to the mortgage is included as a deferred capital receipt. These are written down each year by the amount of capital debt repaid by mortgagees in that year.

8. Debtors and Creditors

The Revenue and Capital accounts have been prepared on an Income and Expenditure basis in accordance with best practice. The accounts therefore include all sums due to the Council and all sums payable for goods and services provided or received during the year. Estimated amounts are included where the actual amounts are not known at the time of closing the accounts.

9. Cost of Central Support Services

All Central Support Services costs are recharged to services in accordance with CIPFA's Best Value Accounting Code of Practice (BVACOP). The costs of central departments are allocated to services on the most appropriate basis, which may incorporate unit rates, time charges or lump sums. Computer costs are allocated on estimated usage and the costs of administrative buildings on areas occupied. Non Distributed Costs are shown as a service cost under Corporate Services, these consist of early retirement costs and unused IT facilities costs where applicable. Corporate Costs and Members Services remain as a service cost under Corporate Services.

10. Reserves, Provisions and Contingent Liabilities

The Council maintains a number of reserves for specific purposes.

Annual contributions, based on the expected life of the asset, are made from revenue to the Repairs and Renewals Fund to provide for the replacement of vehicles, plant and equipment.

Provisions are made for known liabilities, which are likely or certain to be incurred, and where the amount or date on which they might arise is uncertain. Provisions made for doubtful debtors have been deducted from sundry debtors.

Contingent liabilities are reported as a note to the balance sheet in the year in which they occur, and are reviewed annually to assess whether a provision should be made in the accounts.

11. Investments

Investments are shown in the Consolidated Balance Sheet at the lower of cost or market value.

12. Valuation of Stocks, Work in Progress

Work in Progress is valued at cost and relates mainly to highways rechargeable works, the costs of which are recoverable.

Stocks have been valued at cost or net realisable value.

13. Interest on Internal Balances

Interest on external investments is credited to the General Fund. Internal transfers are made to Schools, Trust Funds and other miscellaneous funds which are credited with interest on their average cash balances during the year at the average 7-day market rate of interest for the year. The HRA is credited with interest in accordance with regulations issued by the ODPM. The cash balances of the Collection Fund are invested with the General Fund. There is no requirement to credit interest to the Collection Fund.

STATEMENT OF ACCOUNTING POLICIES

14. Basis of Provision for Debt Redemption

The amount set aside from revenue as a provision for the repayment of external loan debt has been made on the basis of regulations issued under the Local Government Act 2003. The Minimum Revenue Provision (MRP) required to be set aside is 4% of the Capital Financing Requirement for general fund related debt. There is now no requirement to set aside monies in respect of HRA debt.

Interest paid on external borrowing is charged to the Asset Management Revenue Account. The costs of managing external debt are not charged to individual services.

Premiums paid and discounts received in respect of early redemption of debt are amortised over the life of the replacement loans.

15. Government Grants

Revenue grants from central government departments are credited to the General Fund or Housing Revenue Account in the year they are receivable. Sundry debtors are raised for any sums due but not paid in the year to which they relate. Capital grants and other capital contributions are credited to the capital grants and contributions (unapplied) account. Any amounts used to finance related capital projects are transferred from this account to the government grants deferred account. Deferred grants are written down to revenue over the life of the asset to offset the depreciation charged on the asset to which they relate. Capital grants which are used to finance ‘deferred charges’ are written off to revenue in the year.

All government grants are included in the accounts subject to the audit and certification of individual final claims by the Audit Commission.

16. Pensions

Retirement Pensions are provided under statutory requirements for all full-time Council employees and most part-time employees. The Council contributes to two Pensions schemes, the Teachers Pensions Scheme and the Local Government Pension Scheme.

The cost of retirement benefits are recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are actually paid as pensions. However, since the charge which the Council is legally required to levy on the Council Tax is based on the cash paid in the year, the full cost of these retirement benefits is reversed out of the Consolidated Revenue Account after the Net Operating Expenditure line.

These accounting policies now represent the full implementation of FRS17 into the accounts. This reflects the Council’s commitment in the long term to make up any shortfall in attributable net assets in the Pension Fund.

The change has had the following effect on the results of the current and previous periods of account.

(a) The overall amount to be met from Government Grants and Local Taxation has remained unchanged for both years.

(b) For 2004-05, the costs shown for individual service costs are £2.3m (1.1%) lower (£169.6m compared to £171.9m) after replacing the actual employers contributions by the current service costs. The Net Operating Expenditure is £3.4m (2.1%) higher (£163.3m compared to £159.9m) than it otherwise would have been.

(c) For 2003-04, the Net Cost of Services is £4.6m (2.7%) lower and the Net Operating Expenditure is £0.7m (0.5%) lower.

(d) The requirement to recognise the net pensions liability in the balance sheet has reduced the reported net worth of the Council for 2004-05 by £158.6m (24%) (£497.9m compared to £656.5m). For 2003-04, net worth was reduced by £101.5m (16.5%).