ACCOUNTING POLICIES 2018-19

1 PURPOSE OF REPORT

1.1 This report details revisions to some accounting policies that will be implemented in preparing the financial statements for the Council for 2018/19. These will be reflected in the Annual Financial Report for 2018-19.

2 INTRODUCTION

2.1 Accounting Policies are defined as "the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements." They are reviewed annually as part of the accounts process to ensure that they are still relevant, or whether policies need amending to ensure that users of the statements can understand the accounts.

3 AMENDMENTS TO THE POLICIES

3.1 The policies have been reviewed for 2018-19 and the proposed Accounting Policies can be found in Appendix 1. Some amendments have been required following the implementation of new accounting standards and information from third party specialists; this is detailed in the following paragraphs and a table of significant changes is found in paragraph 3.4 below.

IFRS 9

3.2 A new Financial Reporting Standard has been implemented in 2018-19 relating to financial instruments. It re-categorises investments and borrowing based on criteria and introduces a requirement to impair all financial instruments; therefore Paragraphs 1.2 and 1.9 have been amended to reflect the new categories and requirements.

Depreciation

3.3 This is a charge to revenue over the life of the asset and is based on the Useful Economic Life (UEL) of the Asset as advised by third party valuers. The policy previously stated buildings would be depreciated over 20-50 years; however, the external valuers are advising up to 50 years. The policy has therefore been amended to reflect this.

3.4 Table of Changes

Paragraph No.	Old Policy extract	New Policy extract
1.2	Where income and expenditure have been recognised in the Comprehensive Income and Expenditure Statement (CIES), but cash has not been received or paid, a debtor or creditor is raised for the relevant amount in the Balance Sheet. Debtors included in the accounts are net of the Provision for Bad Debts.	Where income and expenditure have been recognised in the Comprehensive Income and Expenditure Statement (CIES), but cash has not been received or paid, a debtor or creditor is raised for the relevant amount in the Balance Sheet. A provision for doubtful debts is included in the balance sheet item and any changes to this provision are charged through the Finance and Investment Income and Expenditure on the CIES.
1.9	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 The Authority only has loans and receivables.	Financial assets are classified into three types: • Amortised Cost - held solely for payments of income and principal and the business model for holding them is to collect contractual cash. • Fair Value through Other Comprehensive Income - held solely for payments of income and principal, and the business model for holding them is to collect contractual cash and sell assets, • Fair Value through Profit or Loss - this includes all other instruments that are not covered by the above. There is currently a statutory override for three years commencing with 2018/19 that allows pooled funds to be reversed through the Movement in Reserves Statement.

Paragraph No.	Old Policy extract	New Policy extract
1.9	Loans and receivables are recognised on the Balance Sheet when the Authority enters into the contractual arrangements for the financial instrument and are initially measured at Fair Value. The amount represented in the Balance Sheet is the outstanding principle receivable plus accrued interest, and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement. All investments are short term (less than 365 days) fixed period cash deposits made in the United Kingdom and are shown at the cash value of the investment including any interest due.	The Authority has investments classed as Amortised Cost, and Fair Value Through Profit or Loss. It has no borrowing. Investments are recognised on the Balance Sheet when the Authority enters into the contractual arrangements for the financial instrument. The amount represented in the Balance Sheet is the outstanding principle receivable plus accrued interest, and interest credited to the Comprehensive Income and Expenditure Statement (CIES) is the amount receivable for the year in the agreement. For Fair Value through Profit and Loss, any difference between Fair Value and the carrying value in the accounts is also taken through the CIES. The Authority holds fund in Money Markets that are available on instant withdrawal, all other investments are short term (less than 365 days) fixed period cash deposits made in the United Kingdom and are shown at the cash value of the investment including any interest due.
1.13	<u>Depreciation</u> Depreciation is charged on a straight line basis and the useful economic life for Operational Assets as follows: • 20-40 years for buildings	<u>Depreciation</u> Depreciation is charged on a straight line basis and the useful economic life for Operational Assets as follows: • 20-50 years for buildings

4 RESOURCE IMPLICATIONS

4.1 The proposed changes to accounting policies will not have any direct resource implications.

5 LEGAL IMPLICATIONS

5.1 Local authorities should review their Accounting Policies annually to ensure that they are still relevant when preparing financial statements and that users of the statements can understand the accounts.

6 EQUALITY AND DIVERSITY IMPLICATIONS

6.1 An Equality Impact Assessment has been completed and found there to be no impacts (either positive or negative) on protected groups, as defined under the Equality Act 2010.

7 RECOMMENDATION

7.1 It is proposed that the Committee **RESOLVES**

That the Accounting Policies be approved for inclusion in the Annual Financial Report.

Naomi Lucas

Section 151 Officer

Background Papers:-

None.

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Notes to the Core Financial Statements

1. ACCOUNTING POLICIES

1.1 GENERAL PRINCIPLES

The Financial Statements summarises the Authority's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require the Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, supported by the International Financial Reporting Standards (IFRS).

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

1.2 ACCRUALS FOR INCOME AND EXPENDITURE

The revenue accounts of the Authority are maintained on an accruals basis. This means that sums due to or from the Authority relating to the year are included whether or not the cash has actually been received or paid. A sum becomes due when a contractual obligation has taken place.

Where income and expenditure have been recognised in the Comprehensive Income and Expenditure Statement (CIES), but cash has not been received or paid, a debtor or creditor is raised for the relevant amount in the Balance Sheet.

A provision for doubtful debts is included in the balance sheet item, and any changes to this provision are charged through the Finance and Investment Income and Expenditure on the CIES.

1.3 PROVISIONS AND CONTINGENT ASSETS /LIABILITIES

Provisions are made where an event has taken place that gives the Authority an obligation that will probably require settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation, but where the timing of the transfer is uncertain.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, based on the best estimate at the balance sheet date of the likely settlement. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a settlement is required (or a lower settlement than estimated is made) the provision is reversed and credited back to the relevant service.

In the event that a possible liability (or asset) arises which may require settlement by a transfer of economic benefits, but the timing and amount of the transfer is uncertain and the obligation will only be confirmed by occurrence or otherwise of a future event, then this will not be recognised in the Balance Sheet, but will be shown in a note to the accounts as a contingent asset or liability

1.4 ACCOUNTING FOR COUNCIL TAX

While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out to the major preceptors. The amount credited to the General Fund under statute is the Council's demand for the year plus or minus the Council's share of the surplus or deficit on the Collection Fund for the previous year.

The Council Tax income included in the Comprehensive Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement. Revenue relating to Council Tax shall be measured at the full amount receivable (net of any impairment losses) as the transactions are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

The cash collected by the Council from Council Tax payers belongs proportionately to the Council and the major preceptors. The difference between the amounts collected on behalf of the major preceptors and the payments made to them is reflected as a debtor or creditor balance as appropriate.

1.5 ACCOUNTING FOR NON DOMESTIC RATES (NDR)

While the NDR income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Authority's General Fund, or paid out to the precepting authorities and the Government. The amount credited to the General Fund under statute is the Authority's share of NDR for the year specified in the National Non Domestic Rates NNDR1 return.

The NDR income included in the Comprehensive Income and Expenditure Statement is the Authority's share of the Collection Fund's accrued income for the year and is as set out in the NNDR3 return. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement. Revenue relating to NDR shall be measured at the full amount receivable (net of any impairment losses) as these transactions are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

The cash collected by the Authority from NDR payers belongs proportionately to the Billing Authority, the precepting authorities and Government. The difference between the amounts collected on behalf of the precepting authorities and Government and the payments made to them is reflected as a debtor or creditor balance as appropriate.

Provisions for NDR Appeals

The way that local government is funded was changed by the Government with effect from 1 April 2013 with the introduction of the Rates Retention Scheme. As part of the scheme, the Authority has to make a provision for the outcome of appeals against rating valuations; this is a risk that has been transferred to local authorities. Whilst it is difficult to accurately predict the outcome of appeals a provision is estimated based on past successful appeals and their monetary impact on collectable business rates.

1.6 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 within 3 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 that are repayable on demand and form an integral part of the Authority's cash management.

1.7 CHARGES TO REVENUE FOR NON CURRENT ASSETS

Services and support services are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service.

- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.

- amortisation of intangible fixed assets attributable to the service.

The Authority is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. Therefore these transactions are adjusted in the General Fund balance by a transaction between the Capital Adjustment Account and the Movement in Reserves Statement.

1.8 EMPLOYEE BENEFITS

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 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 and flexi leave earned by employees but not taken before the year-end which employees can carry forward in to the next financial year. This accrual is charged to the relevant service, 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, but there is no impact on the amount chargeable to Council Tax.

Termination Benefits

Termination benefits, are payable as a result of a decision by the Authority to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. These are charged on an accruals basis to the appropriate Service or where applicable to the Non Distributed Costs 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 the Authority recognises costs for the restructuring.

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 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.

The Authority's policy on termination benefits does not involve additional pension contributions or enhancements for employees retiring early, other than what is required under Local Government Pension Regulations for employees that are made redundant after the age of 55 who are members of the scheme. For such employees made redundant, they shall receive the value of their pension on the date of redundancy without any actuarial reduction. This usually requires the Authority to pay a financial strain payment to the pension fund.

Post Employment Benefits

Local Government Pension Scheme (LGPS):

The Authority is a member of the LGPS which is a defined benefit scheme based on length of service and salary, administered on behalf of the Authority by Essex County Council.

Liabilities in the scheme that are attributed 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 e.g. mortality rates, employee turnover rates and projections of future earnings for current employees.

Liabilities are discounted to their value at current prices using a discount rate appropriate for the scheme, based on the indicative rate of return on AA rated corporate bonds that reflect the duration of the pension liabilities.

Assets in the scheme attributed to the Authority are included in the Balance Sheet at their fair value, using either current bid price, professional estimate or market value for property.

Actuarial gains and losses are recognised immediately in the Comprehensive Income and Expenditure Statement (CIES), in line with the Actuary's treatment, these are then reversed out to affect the net pension liability. Note 30 provides the details of the transactions that have been made in the CIES and the General Fund via the Movement in Reserves Statement during the year.

The change in 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 CIES to the 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, e.g. benefits to a member such as added years. - debited to the Surplus or Deficit on the Provision of Services in the CIES as part of Non Distributed Costs.

• Net Interest on the Defined Liability – comprising interest income on the assets and interest expenses on the liabilities, which are both calculated by applying the discount rate used to measure the defined benefit liability - charged to the Financing and Investment Income and Expenditure line of the CIES.

• Remeasurements 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 to 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 Pension Fund – cash paid as employers' contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

Statutory provisions limit the amount chargeable to Council Tax for pensions to the sums certified by the actuary as employer contributions for the year. In the Movement in Reserves Statement there are appropriations to and from the Pension 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 year-end.

1.9 FINANCIAL INSTRUMENTS

Financial Assets

Financial assets are classified into three types:

• Amortised Cost - held solely for payments of income and principal and the business model for holding them is to collect contractual cash.
• Fair Value through Other Comprehensive Income - held solely for payments of income and principal, and the business model for holding them is to collect contractual cash and sell assets,

- Fair Value through Profit or Loss - this includes all other instruments that are not covered by the above. There is currently a statutory override for three years commencing with 2018/19 that allows pooled funds to be reversed through the Movement in Reserves Statement.

The Authority has investments classed as Amortised Cost, and Fair Value Through Profit or Loss. It has no borrowing.

Investments are recognised on the Balance Sheet when the Authority enters into the contractual arrangements for the financial instrument. The amount represented in the Balance Sheet is the outstanding principle receivable plus accrued interest, and interest credited to the Comprehensive Income and Expenditure Statement (CIES) is the amount receivable for the year in the agreement. For Fair Value through Profit and Loss, any difference between Fair Value and the carrying value in the accounts is also taken through the CIES.

The Authority holds fund in Money Markets that are available on instant withdrawal, all other investments are short term (less than 365 days) fixed period cash deposits made in the United Kingdom and are shown at the cash value of the investment including any interest due.

1.10 GOVERNMENT GRANTS

Regardless of method of payment, 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 any conditions attached to the payments; and
- the grants or contributions will be received.

Where a grant or contribution has a condition attached amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until the conditions have been satisfied. Conditions are terms of the financing that specify that the grant will be required to be returned to the transferor if they are not met.

Where conditions are not yet satisfied, monies are carried as creditors in the Balance Sheet. When they are satisfied, it is then credited to the relevant service area in the Comprehensive Income and Expenditure Statement if a specific revenue grant, or if it is a non-ringfenced revenue grant or a capital grant to Taxation and Non Specific Grant income.

As per the Code of Practice any unringfenced grant received by the Authority is recognised as it is received.

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.

1.11 INTANGIBLE ASSETS

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licenses) is capitalised when it is expected that the future economic benefit or service potential of the asset will flow to the Authority.

These are recorded in the Balance Sheet at historical cost. The balance is then amortised to the relevant service revenue account over the economic life of the asset (considered to be 5 years).

It is not permitted for the revenue charges to have an impact on the General Fund Balance, therefore they are reversed out in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

1.12 LEASES

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

Where a lease covers both land and building, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

1.13 PROPERTY, PLANT & 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 or enhancement of Property, Plant & Equipment has been capitalised on an accruals basis in the Balance Sheet. Expenditure that maintains (repairs and maintenance) but does not enhance an asset is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising the purchase price and any costs attributable to bringing the asset to the location and condition necessary for it to operate.

In line with the Code of Practice Land and buildings are re-valued at least every five years, unless evidence suggests that this would lead to a significant difference between the true valuation and and the balance sheet value, in which case valuations are carried out more frequently as required. Valuations are provided by Wilks Head & Eve LLP which is a member of the Royal Institute of Chartered Surveyors.

Fixed assets consist principally of the Authority's land and buildings. Assets are generally included in the Balance Sheet on the following basis:

- Operational assets have been included in the Balance Sheet at market value for existing use or depreciated replacement cost for specialist properties.
- Community Assets are recorded at Historic Cost.
- Fee-charging car parks have been valued taking into account all costs attributable to the running of the car parks.

The Authority's fixed asset register also contains vehicles used to provide the services under the Waste Collection, Street Cleansing and Grounds Maintenance Contracts.

Following a revaluation, increases are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement (CIES) where they arise from the reversal of a loss previously charged to a service. Decreases in the valuation of individual assets are written back against the revaluation reserve for those assets, if the decrease exceeds the reserve the balance of the decrease is charged to the CIES.

Impairment

Where there is indication that an asset has been impaired during the course of the Financial Year an estimate is made of the amount of impairment and this is set against the revaluation reserve for that asset. If the reserve is insufficient the balance of the amount of the impairment is charged to the CIES.

Depreciation

Depreciation is charged to the Comprehensive Income and Expenditure Statement on all operational assets. Depreciation rates are determined according to the life expectancy of individual assets. Depreciation is not charged for Community Assets. Depreciation is charged on a straight line basis and the useful economic life for Operational Assets as follows:

- 20-50 years for buildings
- 5-18 years for vehicles
- 5-10 years for furniture and equipment.

Car park land is not depreciated. The value of the surfacing and fencing is generally not significant and therefore does not need to be depreciated.

Componentisation

The Authority have made the decision not to componentise assets on the grounds of materiality.

Disposals

Where a non-current asset is disposed of the profit or loss on disposal is reported against the appropriate service line in the CIES and the value of the asset is removed from the balance sheet. Any balance on the revaluation reserve is written off to the Capital Adjustment Account.

Generally there are statutory restrictions over the use of capital receipts. Sale proceeds other than the profit / loss on disposal are reserved for new capital investment or for the reduction in an authority's indebtedness.

Assets Held for Sale

If it is decided to sell an asset and it is highly likely that through actions already taken the sale will take place within a year the asset is reclassified as an Asset Held for Sale. Such assets are revalued before reclassification.

1.14 RESERVES

The Authority sets aside specific amounts as Earmarked reserves for future policy purposes or to cover contingencies. Earmarked reserves are created by moving funds from General Fund Balances in to the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year for inclusion in the surplus/deficit on the provision of services, the reserve is then moved back into the General Fund Balance so that there is no net charge against Council Tax for Expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, council tax and business rates, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority.

1.15 REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

Capital Expenditure, which does not give rise to a tangible non-current asset or where the economic benefit of the asset cannot be controlled by the Authority, is classified as Revenue Expenditure Funded from Capital Under Statute. These sums are written out of the accounts in the year they are incurred.

1.16 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.

1.17 EXCEPTIONAL ITEMS

When items of income and expense are material and significant to an understanding of the Council's financial performance 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.

1.18 PRIOR PERIOD ADJUSTMENTS

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, ie 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 Council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise e.g. on grounds of materiality) 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.

Should any of the above instances arise, the appropriate disclosures will be made within the accounts.