North Somerset Council

REPORT TO THE AUDIT COMMITTEE

DATE OF MEETING: 14 NOVEMBER 2019

SUBJECT OF REPORT: UPDATE ON ANNUAL ACCOUNTS

TOWN OR PARISH: ALL

OFFICER PRESENTING: STEVE BALLARD - PRINCIPAL ACCOUNTANT (CLOSURE AND SYSTEMS)

KEY DECISION: N/A

RECOMMENDATIONS

1 The Audit Committee are requested to **note** the following:

a) the developments in the CIPFA Code of Practice for Local Government Accounts over the next few years, including:

i. that there are limited changes to the Code for the 2019/20,

ii. that significant work is likely to be required to quantify the impact of the implementation of 'IFRS16 – Leases' in 20120/21 for disclosure within the 2019/20 accounts; and

iii. that CIPFA are currently undertaking a consultation / review to improve the clarity and focus of future local government accounts.

b) the requirement for the Council's accounts to provide a 'true and fair' view of the Council's financial position and transactions, and the concept of materiality, including;

i. proposals for the assessment of materiality limits to be applied by officers in drawing up the Council's statement of accounts;

ii. proposals highlighting disclosures which, although not material due to their value, are considered material due to their nature.

c) the publication of the CIPFA Financial Management Code, including;

i. that the Code is designed to support good practice in financial management, and to assist local authorities in demonstrating their financial sustainability, and

ii. that officers will be reviewing the Code, and will then work with members to ensure that the Council satisfies its requirements.

2. That, subject to any comments under 1 above, the Audit Committee **approves**:

a) the Council's library of accounting policies, as set out in Appendix B;

1. SUMMARY OF REPORT

1.1 The purpose of this report is to provide Members with an update of the issues which impact on the annual accounts process. These include changes to the Code and the annual review the Council's accounting policies.

1.2 The report also provides Members with a reminder of the concept of materiality, and outlines officers approach in applying material in preparing the draft financial statements.

2. POLICY

2.1 Members will be aware that local authorities in the United Kingdom are required to prepare their accounts in accordance with primary legislation, e.g. the Accounts and Audit Regulations 2015, as well as 'proper accounting practices', meaning compliance with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

2.2 The Code specifies the principles and practices of accounting required to prepare a Statement of Accounts which gives a 'true and fair' view of the financial position and transactions of a local authority. The Code is updated annually, and may introduce new, or amended, accounting standards or reporting requirements which need to be complied with.

2.3 The Audit Committee is charged with overseeing the Authority's financial reporting process, and is required to consider and, under delegated powers from the full Council, to approve the Council's Statement of Accounts each year. The Chair of the Audit Committee and the Chief Financial Officer are required to sign the Council's Statement of Accounts as representing a 'true and fair' view of the financial position of the Council and its income and expenditure for the year.

2.4 The Director of Finance is responsible for:

- the preparation of the Statement of Accounts in accordance with the Code,
- selecting suitable accounting policies and then applying them consistently,
- making judgements and estimates that are reasonable and prudent,
- arrangements for internal control as he determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and
- for being satisfied that the financial statements give a true and fair view of the financial position and transactions of the Council.

3. UPDATE ON THE COUNCIL'S ANNUAL ACCOUNTS

3.1 Changes to the Code – 2019 to 2022

3.1.1 The Code of Practice is updated annually to reflect new or updated accounting standards. In respect of the 2019/20 financial there are only a few minor changes to the Code, none of which are likely to have a significant impact on the Council's accounts.
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3.1.2 However looking further ahead, '**IFRS16 – Leases'** is due to be implemented within the Code for 2020/21. This change of accounting policy is likely to require the re-classification of the majority of the leases which the Council is subject to as lessee, and revisions to the related accounting entries and disclosures. Although the implementation will be reflected within the

2020/21 accounts, disclosure of the likely impact of this change will need to be included in this year's accounts, and so significant work is likely to be required by officers in the current year to quantify this impact.

3.1.3 CIPFA is currently consulting on changes to the Code for 2021/22, which includes considering options to deliver accounts that more clearly report the authority's financial performance and position. There is a consensus that the length and complexity of the accounts produced under the current Code can make the accounts impenetrable to many users.

3.1.4 Officers will continue to keep Members informed of any significant changes in future Code requirements for the content and format of the Council's accounts.

3.2 Review of accounting policies

3.2.1 Accounting policies are the specific principles and practices applied by an authority in preparing and presenting its financial statements. The financial management team has developed a 'library' of the Council's accounting policies. Of these, only those with significant impact are disclosed within the Council's accounts.

3.2.2 It is good practice for 'those charged with governance' (i.e. the members of the Audit Committee) to review the policies on an annual basis and approve any changes proposed.

3.2.3 The Council's library of accounting policies, including those policies considered sufficiently significant to require inclusion in the 2019/20 Statement of Accounts, are detailed at Appendix B.

3.2.4 It should be noted that there are no significant changes to the Council's accounting policies over previous years, and no significant new accounting policies have been adopted. Officers have made minor changes to the wording on some policies to improve their clarity, and remove non-material content.

3.2.5 Members are therefore requested to approve the Council's library of accounting policies, as set out in Appendix B.

3.3 Accounts which provide a 'true and fair' view of the Council's financial position and transactions, and the concept of materiality.

3.3.1 As noted above, the Code specifies the accounting practices required for the Council's Statement of Accounts to give a 'true and fair' view. However, Members should note that 'true and fair' does not mean 100% accurate, but 'materially correct'.

3.3.2 The Code provides a definition of materiality, which is applied to information and disclosures in the Council's financial statements: "Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting authority".

3.3.3 The assessment of materiality is a matter of judgement, and is affected by the Council's perception of the financial information needs of users of the financial statements. Engagement with Members, through the Audit Committee, provides a useful opportunity of officers to gain an understanding of the content of the financial statements which are likely to influence the decisions of members as users of the accounts.

3.3.4 This will then inform the assessment of materiality in drawing up accounts which focus on the key messages of the accounts regarding the Council's performance, financial resilience and accountability for use of public funds.

3.3.5 Detailed consideration of the assessment of appropriate materiality levels for the Council's preparation of the accounts is detailed in Appendix A.

3.3.6 Officers consider that it is appropriate to set an indicative materiality level in preparing the Council's accounts at approximately one third of the external auditor's materiality, i.e. based on 2 % of gross revenue expenditure at 'Cost of services' level in the previous years' audited accounts.

3.3.7 Disclosures which, although not material due to their value, are considered material by their nature, due to their potential impact on the decisions of likely users of the accounts, are:

a) disclosures of officers' remuneration, salary bandings and exit packages
b) disclosure of members' allowances
c) disclosure of related party transactions

3.3.8 Members are requested to note:

a) the requirement for the Council's accounts to provide a 'true and fair' view of the Council's financial position and transactions, and the concept of materiality.
b) proposals for the assessment of materiality limits to be applied by officers in drawing up the Council's statement of accounts
c) proposals highlighting disclosures which, although not material due to their value, are considered material due to their nature.

3.4 CIPFA Financial Management Code

3.4.1 The Financial Management Code (FM Code) has recently been published by CIPFA. It is designed to support good practice in financial management, and to assist local authorities in demonstrating their financial sustainability. For the first time, the FM Code sets standards of financial management for local authorities.

3.4.2 The FM Code has been introduced because the exceptional financial circumstances faced by local authorities have revealed concerns about their financial management, particularly in relation to organisations that may be unable to maintain services in the future. While there is much good practice across the sector, the failures of a small number of authorities threatens stakeholders' confidence in local government as a whole.

3.4.3 The publication has several components:

- an introduction explaining how the FM Code applies a principles-based approach, and how it relates to other statutory and good practice guidance on the subject, and
- the CIPFA Statement of Principles of Good Financial Management. This details six principles that are the benchmarks against which CIPFA believes all financial management should be judged.

3.4.4 The Statement of Principles is detailed in Appendix C.

3.4.5 To enable authorities to test their conformity with the CIPFA Statement of Principles of Good Financial Management, the FM Code translates these principles into financial management standards. A summary of the FM Code financial management standards is detailed at Appendix D.

3.4.6 Since these are minimum standards, CIPFA's judgement is that compliance with them is obligatory if a local authority is to meet its statutory responsibility for sound financial administration. Beyond that, CIPFA members must comply with it as one of their professional obligations.

3.4.7 Each local authority must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team. It is for all the senior management team to work with elected members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority.

3.4.8 CIPFA has decided that 2020/21 will be a shadow year for implementation of the Code, and that by 31 March 2021, local authorities should be able to demonstrate that they are working towards full implementation of the Code. The first full year of compliance with the FM Code will therefore be 2021/22.

3.4.9 Members are requested to note:

- ***a) the publication of the CIPFA Financial Management Code,***
- ***b) that the Code is designed to support good practice in financial management, and to assist local authorities in demonstrating their financial sustainability, and***
- ***c) that officers will be reviewing the Code, and will then work with members to ensure that the Council satisfies its requirements.***

4. CONSULTATION

4.1 Officers have undertaken discussions with external audit with regard to the proposed update of the Council's accounting policies, and will continue to liaise with them in relation to the assessment of materiality and its impact on any further de-cluttering of the accounts, and any other emerging issues relating to the Council's accounts.

5. FINANCIAL IMPLICATIONS

5.1 Updates to the Code, and the proposed changes to the Council's accounting policies, are expected to have minimal impact on the Council's financial out-turn or balances.

6. LEGAL POWERS AND IMPLICATIONS

6.1 The CIPFA Code of Practice determines 'proper accounting practice' in relation to the Council's statement of accounts. The Council's accounts are a key requirement of its operational responsibilities. Their accuracy and adherence to legislation and relevant guidance are important to ensure the Chief Financial Officer can discharge his statutory obligations.

7. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

7.1 None

8. RISK MANAGEMENT

8.1 Failure to apply appropriate accounting policies, or to adequately assess materiality in relation to the Council's accounts, could result in the accounts not providing a 'true and fair view' of the Council's financial position, financial performance and cash flows, and leave the Council open to criticism by external audit, and potential qualification of their audit opinion on the accounts.

9. EQUALITY IMPLICATIONS

9.1 None

10. CORPORATE IMPLICATIONS

10.1 None, other than as highlighted above

11. OPTIONS CONSIDERED

11.1 Options considered in the update of accounting policies, and in setting materiality levels, are detailed in the body of the report above.

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APPENDICES

Appendix A Assessment of materiality
Appendix B Library of accounting policies 2019/20 for approval
Appendix C CIPFA Fin Mgmt Code - Statement of Principles of Good Financial Management
Appendix D CIPFA Fin Mgmt Code - Summary of CIPFA financial management standards

BACKGROUND PAPERS

CIPFA Code of Practice on Local Authority Accounting 2019/20
Statement of Accounts 2018/19
Grant Thornton Audit Findings Report 2018/19
CIPFA Financial Management Code

APPENDIX A

Assessment of materiality

1 Users of the accounts

The assessment of materiality is affected by the Council’s perception of the financial information needs of users of the financial statements.

The Code currently defines the primary users of local authority financial statements as ‘service recipients and their representatives, and resource providers and their representatives’.

‘Service recipients and their representatives’ are likely to consist of local residents and their locally elected representatives. ‘Resource providers and their representatives’ are likely to mean central government, and local Council Tax and Non-domestic rates payers.

Other users are likely to include existing and potential lenders, credit ratings agencies, financial advisors, the media, trade unions, statisticians, analysts and academics, and businesses considering entering into contracts with the Council.

Ensuring that the Council’s audited financial statements focus on the needs of key users of the accounts is challenging, as different stakeholder groups will be interested in different information, have differing expectations of whether a particular transaction is material, and will have differing levels of financial literacy.

Hence, engagement with members, through the Audit Committee, provides a useful opportunity of officers to gain an understanding of the content of the financial statements which are likely to influence the decisions of members as users of the accounts.

2 Benchmarks for determining overall materiality

Determining a value for materiality involves the exercise of judgment. A percentage of a chosen benchmark in the accounts is often applied as a starting point. Appropriate benchmarks might include the total assets, liabilities, income, or expenditure in the accounts. As a public sector entity other benchmarks used in the private sector, such as profit before tax, gross profit, revenue and equity, are of limited relevance.

As the Council has custody of public assets to deliver services, the value of long term assets might be considered an appropriate benchmark. Similarly, the Council holds long term borrowing to finance its long term assets. However, a materiality based on these measures alone would not be considered relevant to the wider financial performance of the Council reflected in the financial statements.

Council budgets are set and monitored based on net revenue expenditure (ie gross expenditure less gross income). However, use of net expenditure does not fully reflect the income and expenditure transactions, and hence is considered to lead to too low a materiality level to be meaningful.

The overall benchmark considered to be most relevant to users of the accounts is gross revenue expenditure, as it reflects both the revenue expenditure and income for the year, and can meaningfully be applied when considering entries in the Council’s Balance Sheet.

3 External auditor’s assessment of materiality

In conducting their audit of financial statements, the Council’s external auditor seeks to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Auditors are required to determine their assessment of materiality for the financial statements as a whole.

In their Audit Findings Report for 2018-19, the Council’s external auditors quantified their overall materiality at £6.88 million (being 2% of gross revenue expenditure at ‘Cost of services’ level in the draft 2018-19 accounts).

Note that this provides a lower measure of materiality than that based on a similar percentage of gross revenue expenditure at ‘Surplus / deficit on provision of services’ level, which includes the impact of financing expenditure and one-off expenditure on losses on disposal of non-current assets. It can be argued that the inclusion of such expenditure might mask the reflection of the cost of the provision of the Council’s services in the accounts.

The external auditors assessment of materiality is clearly a key benchmark in determining the Council’s overall materiality level when preparing the draft accounts.

There is a risk that more than one non-material error or omission could be material to the accounts as a whole when considered in aggregate. Hence external auditors also set a ‘Performance materiality’, at a level less than the overall materiality, in order to reduce to an appropriately low level the probability that the aggregate of uncorrected errors and omissions exceeds materiality for the financial statements as a whole.

External auditors typically quantify a ‘performance materiality’ in the range of 50-75% of overall materiality in order to direct their audit testing. The assessment of performance materiality is typically based on a risk assessment, including:

- an assessment of the past experience of errors identified in the Council’s accounts
- the knowledge, experience and continuity of the Council’s financial reporting team
- the strength of the Council’s overall control environment, including anti-fraud arrangements, and wider IT environment
- the strength of the Council’s key financial reporting systems

In their Audit Findings Report for 2018-19, the Council’s external auditors quantified their performance materiality at £5.16 million (being 75% of their overall materiality level).

4 Council’s assessment of materiality

The Council needs to provide sufficient assurance to the external auditors that the financial statements are materially correct. Hence it is appropriate for the Council to take in to account the auditor’s assessment of materiality when setting its own materiality in preparing the draft accounts.

Setting a materiality limit too high could lead to a risk of omission of information which might influence the user of the accounts, which could lead to the Council’s accounts being qualified by their auditors. As the Council’s accounts have previously been given unqualified audit opinions by the auditor, it is reasonable to assert that officers’ assessment of materiality has not been too high in previous years.

Setting too low a materiality limit would not lead to a risk of qualification, but could lead to:

- excessive detail and ‘clutter’ being included in the accounts, detracting from the clarity of the key messages being communicated, and
- additional officer and auditor time being required to prepare and audit the accounts, when deadlines are already tight.

The Council has a history of producing high quality, accurate draft financial statements. The Council’s financial reporting team have strong knowledge and experience of local government accounting, and accounts closure issues. The Council’s overall control environment is considered strong, with no significant internal control weaknesses, including in relation to the Council’s key financial systems, reported by the external auditors in their Audit Findings Reports, or by Internal Audit in the Annual Governance Statements, for at least the last 3 years.

It is therefore considered appropriate to set the Council’s performance materiality level in preparing the accounts at one third of the external auditor’s materiality (based on 2 % of gross revenue expenditure at ‘Cost of services’ level in the previous years’ audited accounts), such that three such errors, impacting in the same direction, would be needed to lead to a misstatement material to the external auditor’s opinion.

This gives a value of performance materiality to be used as a guideline in drafting the Council’s 2019/20 accounts at **£2.32m.**

5 Items which are material by nature

Officers drawing up the accounts, and auditors undertaking the audit of the accounts, may identify particular classes of transactions, account balance or disclosures which are considered more likely to influence the user of the accounts, and hence where it may be appropriate to set a lower materiality level than for the financial statements as a whole.

For example, in their Audit Plan for the audit of the 2018-19 accounts, Grant Thornton disclosed that they would apply lower materiality thresholds to the following disclosures:

- Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements.

Their materiality for these disclosures was set at £20,000, due to ‘public interest in these disclosures and the statutory requirement for them to be made’.

Officers have reviewed the statement of accounts, including the associated disclosures, for other items which would be most likely to impact on the decisions of likely users of the accounts, notably local residents. Other disclosures identified as ‘material by nature’ are:

- Members’ allowances - as of interest to local residents, and
- Related party transactions –to ensure transparency of the Council’s transactions with bodies or individuals who have control or influence over the Council.

Hence these disclosures will be retained in future statement of accounts, despite being below the value of the materiality for the accounts as a whole.

Other disclosures below the Council’s materiality threshold, and which are not considered material by nature, will be considered for removal from the accounts, in order to ‘de-clutter’ the accounts, and allow better focus on the key messages in the accounts.

APPENDIX B

LIBRARY OF ACCOUNTING POLICIES FOR 2019/20

Key:
Change / update of text over previous year (usually to simplify)
Accounting policy content to be excluded from version in accounts, as not material or N/A, but retained in Library version of accounting policies for reference.

Significant accounting policies

Accounting Policies

i - General Principles

The Statement of Accounts summarises the Council's transactions for the financial year 2019/20, and its position at the year-end of 31 March 2020. The Council is required to prepare an annual Statement of Accounts by the Accounts & Audit Regulations 2015. These regulations require the accounts to be prepared in accordance with proper accounting policies, which primarily comprise of the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code), supported by 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.

The Statement of Accounts has been prepared on a 'going concern' basis.

ii - Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors – Not material / N/A this year

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 any future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made as and 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 otherwise stated) 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.

iii - Recognition of Income and Expenditure

The Council recognises its revenue and capital income and expenditure on an accruals basis. Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods or provision of services is recognised in accordance with the terms and conditions of the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including those provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure 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 revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Revenue relating to council tax and non-domestic rates is measured at the full amount receivable, net of any impairment losses. as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates. These transactions are therefore required to be measured at their full amount receivable. Remove to simplify

iv - Council Tax and Non-Domestic Rates

The Council is required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and NDR. The Council acts as agent, collecting Council Tax and Non-Domestic Rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principal, collecting Council Tax and NDR for itself. Under the legislative framework for the Collection Fund, the Council as billing authority, major preceptors and central government share proportionately the risks and rewards that the amount of Council Tax and NDR collected could be less or more than predicted. Remove to simplify

The Council Tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of Council Tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account, and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of Council Tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments) Remove to simplify, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows Remove to simplify.

v - Government Grants and Contributions

Whether paid on account, by instalment or in arrears, Government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments, and that the grants or contributions will be received.

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

Where conditions attached to grants or contributions have not been satisfied, monies received to date are carried in the Balance Sheet as receipts in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (service specific revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Community Infrastructure Levy Not material this year

The authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the authority) with appropriate planning consent. The council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a proportion of the charges may be used to fund revenue expenditure.

vi - Accounting for Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for council maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the Council.

The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the Council's financial statements (and not the Group Accounts). Therefore maintained schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council (see Note 1 – Critical Judgements in applying accounting policies).

vii - Charges to Revenue for Non-Current Assets

To record the cost of holding non-current assets during an accounting period, services, support services and trading accounts are debited with:

- 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 assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

viii - Employee Benefits

Benefits Payable during Employment

Short-term employee benefits include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and expenses, are paid on a monthly basis, and are recognised on an accruals basis as expenditure in the relevant service line within the Comprehensive Income and Expenditure Statement.

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu), earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage or salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs. Not material

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy, and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Service costs line in the Comprehensive Income and Expenditure Statement at the earlier of:

- when the Council can no longer withdraw the offer of those benefits, or
- when the Council recognises costs for a restructuring that involves the payment of termination benefits. See simplified para below

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits, and to 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. See simplified para below

When the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy, these costs are charged on an accruals basis to the respective Service line in the Comprehensive Income and Expenditure Statement.

Post-Employment Benefits

The Council accounts for post-employment benefits when it is committed to give them, even if the actual giving will be many years into the future. In this way the accounts represent the employer's commitment to increase contributions to make up any shortfall in attributable net assets, or its ability to benefit (via reduced contributions) from a surplus in the scheme.

Employees of the Council are members of three different pension schemes:

- The Local Government Pension Scheme (LGPS), administered by Bath & North East Somerset Council
- The Teachers' Pensions Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE)
- The NHS Superannuation Scheme

a) The Local Government Pension Scheme

The Local Government Pension Scheme (LGPS) is accounted for as a defined benefits scheme:

- Liabilities 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 including, for example, 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 calculated as a weighted average of "spot yields" on AA rated corporate bonds. Detail removed as not helpful to users
- Assets within the scheme attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities – bid price
  - unquoted securities - professional estimate
  - unitised securities – bid price
  - property - market value Detail removed as not helpful to users

The change in the net pensions 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 Comprehensive Income and Expenditure Statement 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 – debited to the Surplus or Deficit on the

Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Service Costs.

Net Interest on the net defined benefit liability – i.e. net interest expense for the 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.

<u>Re-measurement of the net defined benefit liability, comprising</u>:

Return on plan assets – excluding amounts included in net interest expense on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

Experience gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

Actuarial gains and losses – changes in the net pensions liability that arise because the actuaries have updated their financial or demographic assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

Statutory provisions require the General Fund balance to be charged only with the amount payable by the Council 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, transfers are made to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits, and to 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 therefore 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.

b) Teachers’ Pension Scheme and NHS Superannuation Scheme

The centralised arrangements for the Teachers’ and NHS schemes mean that liabilities for these benefits cannot be identified specifically to the Council. These schemes are therefore accounted for as if they were defined contribution schemes, and no liability for future payments of benefits recognised in the Balance Sheet.

The Children and Young People line in the Comprehensive Income and Expenditure Statement is charged with the employer’s contributions payable to the Teachers’ Pension Scheme. The Public Health line in the Comprehensive Income and Expenditure Statement is charged with the employer’s contributions payable to the NHS Pension Scheme in the year.

c) Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

d) Somerset and Gloucestershire County Council Schemes

The Council also makes payments to Somerset County Council in respect of pension costs which relate to employees prior to Local Government Reorganisation in 1974. These costs are deemed to represent the current cost of service, and are charged to the Non Service Costs line in the Comprehensive Income and Expenditure Statement. Not material

ix - Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.

x - 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 as a transaction at the end of each financial year, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. The Council usually recognises amounts in excess of £10,000 as Property, Plant and Equipment expenditure; in accordance with guidelines issued by the Department for Education, this 'de-minimis' limit is reduced to £5,000 for schools expenditure. Not material.

School Assets
School PPE assets are consolidated into the single entity financial statements according to the recognition tests set out in the Code and according to IAS16 Property, Plant and Equipment where:

- it is probable that the future economic benefits or service potential associated with the item will flow to the Council
- the cost of the item can be measured reliably.

These recognition tests are applied separately to land and buildings assets, and Where legal title does not lie with the Council, but under the terms of any the lease, trust deed or 'mere licence' are used to ascertain whether the recognition tests are met, and the asset is accounted for in the Council's single entity accounts Simplify.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to an operational condition

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV) based on capitalisation of estimated market rent
- school buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost, which is used as an estimate of current value
- car parks – current value, based on capitalisation of actual or notional income as applicable
- community assets – depreciated historic cost, or may elect to value at a valuation which is considered to be appropriate and relevant.
- surplus assets – the current value measurement base is fair value, estimated at the highest and best use from a market participant's perspective
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Revaluation

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service. Not material

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.

The Section 151 Officer obtains an annual appraisal of trends in property values from the Council's Property Estates and Regeneration Manager in respect of the Council's assets. Based on this appraisal, a judgement will be made as to whether any amendment to the

Council's accounts is required or whether an adjustment is needed to its revaluation programme in respect of changes to asset values for assets not revalued in the year.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount, an impairment loss is recognised for the shortfall.

Where impairment losses 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.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) 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. Not material

The Section 151 Officer is provided with an annual statement from the Property Estates & Regeneration Manager of any of the Council's assets that suffered an impairment loss during the year.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over the useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land, and certain community and heritage assets) and assets that are not yet available for use (i.e. assets under construction). Simplify

Depreciation is calculated at 1 April each year on the following bases: Simplify

- buildings – straight-line allocation over the useful life of the property as estimated by the valuer (between 1 and 60 years)
- infrastructure – straight-line allocation over the estimated useful life of the asset (between 20 and 60 years)
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer (between 1 and 50 years)
- community assets – straight-line allocation over the useful life of the property as estimated by the valuer (between 1 and 50 years)
- surplus assets not held for sale – straight-line allocation over the useful life of the property as estimated by the valuer (between 1 and 60 years)

The remaining life of the Council's assets is determined by the Council's Property Estates & Regeneration Manager or other professional staff under his/her control when the asset is acquired or at the time of revaluation. If the existing use of an asset changes at any time or an asset becomes surplus to requirements its finite useful life will be re-assessed.

Where an item of Property, Plant and Equipment asset which has a value in excess of £3m, and has major components whose cost is greater than 20% of the total cost of the asset, the components are depreciated separately. Depreciation is provided on an appropriate basis according to the asset class of the component which may be different to the class of the overall asset. Components could be:

- separate blocks / buildings within an overall asset site
- specific elements which form part of the overall asset e.g. roof, engineering, sub-structures, etc. Simplify

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-Current Assets Held for Sale Not material

Property assets where a disposal is highly probable within the next 12 months and the asset is available for sale in its present condition are classified as assets held for sale. Management must be committed to the sale, an active programme to locate a buyer be in place, and a completed sale expected within one year from the date of classification.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as Held for Sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. Not material

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal) . Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts.

The net loss or gain on disposal 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 General Fund Balance in the Movement in Reserves Statement. Disposals are reflected as transactions at the end of the financial year.

xi - Revenue Expenditure Funded from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund balance to the Capital Adjustment Account, then reverses out the amounts charged so that there is no impact on the level of Council Tax.

xii - Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date Duplicates – see FV Measurement below.

As a non-financial asset, investment property's fair value is measured at 'highest and best' use. Properties are not depreciated but are revalued annually according to market conditions at the year-end.

Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement, and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) Not material the Capital Receipts Reserve.

Net rental income received from investment properties is credited to the Financing and Investment Income and Expenditure line, and result in a gain for the General Fund balance.

xiii - Financial Instruments

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics.

There are three main classes of financial assets, measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore measured at amortised cost, except for those whose contractual payments are not solely payment of principal and interest (ie where the cash flows do not take the form of a basic debt instrument). The Council does not hold any financial assets measured at fair value through other comprehensive income. Not material

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable is the amount receivable for the year in the loan agreement, which is assessed to not be materially different from interest calculated based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest).

However, the authority has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. N/A

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement. N/A

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The authority recognises expected credit losses on all of its financial assets held at amortised cost, or where relevant FVOCI, N/A either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where credit risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The Council's short-term investments relate to fixed term, fixed interest rate deposits. These are considered to remain low credit risk. Hence expected credit losses on these assets are assessed on a 12-month basis.

The Council holds a long-term debtor relating to a loan to a local business. This loan is not considered to be a low credit risk, and has expected credit loss has therefore been assessed on a lifetime basis. Not material.

Where the authority does not have reasonable and supportable information that is available without undue cost or effort to support the measurement of lifetime expected losses on an individual instrument basis, it has assessed losses for the portfolio on a collective basis. Financial assets where this approach has been applied are:

- long term debtors relating to mortgages granted to home owners
- trade receivables relating to contracts

[Accounting policy should be provided where a local authority has extended the simplified approach to lease receivables and trade receivables and contract assets where there is a significant financing component]. N/A

The authority considers that the presentation of impairments / credit losses in service segments, rather than in Financing and Investment Income and Expenditure as required by the Code, better reflects the economic reality of the transactions, whilst still providing a 'true and fair view', due to the non-material value of the losses.

Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets 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 council can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the assets, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset. – See below – duplicates FV

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Designate investments in equity instruments to FVOCI
Additional accounting policy required if such designation adopted – N/A

[Additional policy detail required for reclassifications, modifications or derecognition or transfer of financial assets when such transactions occur] – None currently identified

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. Simplify

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

xiv - Fair Value Measurement

The Council measures some of its non-financial assets, such as surplus assets and Not material investment properties, and some of its financial instruments, such as equity shareholdings, at fair value at each 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 fair value measurement assumes that the transaction to sell the asset or transfer the liability takes 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.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

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

xv - 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 highly liquid investments that mature in 30 days or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

xvi - Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. 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 transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Not material

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation. Not material

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council 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 Council. 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.

Contingent Assets

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in the Balance Sheet, but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential. Not material

xvii - 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 buildings, 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.

The Council as Lessee

a) 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 Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or 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 asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The Council is not required to raise Council Tax to cover depreciation, revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment, in accordance with statutory requirements. Depreciation, revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two. Same as for PPE, therefore duplicates

b) Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges 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. there is a rent free period at the commencement of the lease).

The Council as Lessor

Finance Leases

The Council does not own any property that it leases out under finance leases. Not material

a) Operating Leases

Where the Council 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 recognised in the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income. Not material

xviii - Reserves

The Council sets aside specific amounts as usable reserves for future policy purposes or to cover contingencies. For each reserve established, the purpose, usage and the basis of transactions is clearly identified.

Reserves are created by transferring amounts out of the General Fund Balance in 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 to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

'Unusable' reserves are kept to manage specific accounting processes for non-current assets, financial instruments, retirement and employee and post-employment benefits and do not represent usable resources for the Council – these reserves are explained in the relevant notes.

xix - Events After the Reporting Period

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

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

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

xx - 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.

xxi - Allocation between Current and Non-Current

With the exception of employee entitlements, the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be realised or paid. The asset or liability is classified as current if it is expected to be turned over within the next 12 months, being the Council's operational cycle. For employee entitlements, all annual leave entitlement is classified as current.

xxii - City Region Deal

The Council has applied the principles of IPSAS23 'Revenue from non-Exchange transactions' (taxes and transfers) in accounting for the transactions and balances relating to the City Region Deal.

City Region Deal business rates growth paid to the accountable body (South Gloucestershire Council) for the Business Rates Pool (BRP) is recognised by the Council as a debtor until such point that the funds are paid out by the BRP or committed and allocated by the Economic Development Fund (EDF) to fund EDF payments in respect of approved programmes.

- Income - Income receivable by the Council from the BRP is recognised as revenue in the year in which it is due. The Council recognises revenue and a debtor balance to the extent that EDF disbursements are receivable, have been committed to by the EDF, and sufficient cash remains in the BRP to fund future payments.
- Expenditure – Expenditure is recognised by the Council on payments being made by the BRP. Expenditure is recognised in proportion to the degree that the Council nominally contributes to the BRP through its growth figure, and is capped at the limit of the Council's payment of growth to the BRP in this period, and any previous growth figures paid over which have not been previously paid or committed by the BRP.

xxiii - 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 Council in conjunction with the 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 Council, 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; and
- its expenses, including its share of any expenses incurred jointly.

Non – material accounting policies

i - Acquisitions & Discontinued Operations [Not applicable]

Acquired operations
Additional policy detail required where an authority has acquired operations (or transferred operations under combinations of public sector bodies) during the financial year.

Discontinued operations
Additional policy detail required where an authority has discontinued operations (or transferred operations under combinations of public sector bodies) during the financial year.]

ii - Foreign Currency [Not applicable]

Where the authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

iii - Heritage Assets [Not Material]

Heritage assets are non-current assets (either tangible or intangible) with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained by the council principally for their contribution to knowledge or culture.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the council's policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment (see policy xx).

Any disposals of heritage assets are accounted for in accordance to the general provisions for property, plant and equipment, and in accordance with statutory accounting requirements relating to capital receipts.

Museum Collection (Artworks)
The museum collection (principally works of art) is reported in the Balance Sheet at insurance valuation based on market values. The insurance valuations are reviewed regularly by an external valuer. The assets are deemed to have indeterminate lives and a high residual value and therefore the council does not consider it appropriate to charge depreciation.

Fountains and Monuments
The council owns a number of fountains and monuments which are deemed to have historical importance to the locality. The council does not consider that reliable cost or valuation information can be obtained for these assets due to a lack of comparable market values and therefore these assets are not recognised on the Balance Sheet.

iv - Intangible Assets [Not material]

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

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the council can be determined by reference to an active market. In practice, no intangible asset held by the council meets this criterion, and they are therefore carried at amortised cost.

The depreciable amount of an intangible asset is amortised over its useful (finite) life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

v - Service Concession arrangements, PFI/PPP Schemes [Not Applicable]

vi - Interest on Internal Balances [Not material]

In the main, subject to the principles of materiality, interest on internal balances is only paid where required by statute or where sums have been deposited with the council for specific purposes, e.g. developers' contributions to developments. The exceptions to this rule are where the Council is acting as the accountable body for a partnership of which it is a member.

vii - Interests in Companies and Other Entities [Not material]

Subsidiaries are entities over which the Council has control. The Council controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity.

The Council has interests in two companies that have been classified as subsidiaries, Wyvern SW Limited and North Somerset Aspire Ltd. As the investment in these subsidiaries is not considered to be material to the Council's single entity accounts, or potential group accounts, the Council has chosen not to prepare group accounts. Added North Somerset Aspire Ltd

The Council has an interest in a company that has been classified as a joint venture, Adoption West Limited. As the investment in the joint venture is not considered to be material to the Council's single entity accounts, or potential group accounts, the Council has therefore chosen not to prepare group accounts.

In its single entity accounts, the Council has opted to account for its investment in the subsidiaries and joint venture at cost, in accordance with Chapter 9 of the Code, 'Group accounts', rather than in accordance with Chapter 7 'Financial Instruments'. As the carrying amount of these investments under Chapter 7 would not be material, this judgement is not considered to be material to the Council's single entity accounts.

viii - Inventories and Long Term Contracts [Not material]

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the 'First In, First Out' costing formula.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

The Council recognises library books as an inventory balance in the Balance Sheet, and writes them down to the Consolidated Income and Expenditure Statement as they are consumed, rather than writing them off to expenditure when they are purchased.

Appendix C

CIPFA Financial Management Code

Statement of Principles of Good Financial Management

The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, the Code requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances.

Good financial management is proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services. The FM Code identifies these risks to financial sustainability and introduces an overarching framework of assurance which builds on existing best practice but for the first time sets explicit standards of financial management. These are minimum standards, which for many in the sector are self-evident. Recent experience in some local authorities suggests, however, that they are by no means universally achieved.

The underlying principles that inform the FM Code have been developed in consultation with senior practitioners from local authorities and associated stakeholders. The principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.

- **Organisational leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- **Accountability** – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to professional **standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- The long-term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

The FM Code has been developed and tested in partnership with a range of different types of local authorities. However, given the diversity of UK local government, it is not possible (or desirable) for the FM Code to anticipate all eventualities. If any doubt arises as to whether or how the FM Code should be applied, then reference should be made to these Principles of Good Financial Management to establish whether the proposed financial management practice is acceptable. A financial management practice that conflicts with one or more of these principles will not be acceptable if not explicitly ruled out by the financial management standards contained in the FM Code.

Appendix D

CIPFA Financial Management Code

Summary of CIPFA financial management standards

The Council's compliance with these standards will be reviewed, and actions agreed, to ensure compliance by the implementation of the Code in 2021/22.

FM standard	CIPFA financial management standards
Section 1: The responsibilities of the chief finance officer and leadership team	
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.
B	The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government.*
Section 2: Governance and financial management style	
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.
D	The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).
E	The financial management style of the authority supports financial sustainability.
Section 3: Long to medium-term financial management	
F	The authority has carried out a credible and transparent financial resilience assessment.
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.
H	The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities.*
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.
Section 4: The annual budget	
J	The authority complies with its statutory obligations in respect of the budget setting process.
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.
Section 5: Stakeholder engagement and business plans	
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.
Section 6: Monitoring financial performance	
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.

Section 7: External financial reporting

P The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom.*

Q The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.