worcestershire
countycouncil

Audit and Governance Committee
Friday, 15 March 2019, 10.30 am, County Hall, Worcester

Membership: Mr N Desmond (Chairman), Mr R W Banks, Dr A J Hopkins, Mr L C R Mallett, Mr P Middlebrough, Mr C Rogers, Mrs E B Tucker and Ms R Vale

Agenda

Item No	Subject	Page No
5	**Statutory Accounts 2018/19 - Accounting Policies**	121 - 130

Agenda produced and published by Simon Mallinson, Head of Legal and Democratic Services, County Hall, Spetchley Road, Worcester WR5 2NP

To obtain further information or a copy of this agenda contact Simon Lewis, Committee Officer on 01905 846621, slewis@worcestershire.gov.uk

All the above reports and supporting information can be accessed via the Council's website

Date of Issue: Monday 11 March 2019

This page is intentionally left blank

32. Accounting Policies

32.1 General Principles

The Statement of Accounts summarises the County Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The County Council is required by the Accounts and Audit Regulations 2015 to prepare an annual Statement of Accounts in accordance the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and International Financial Reporting Standards (IFRS). The Accounts have been prepared on a going concern basis, under the assumption that the Council will continue in existence for the foreseeable future.

32.2 Accounting for Agency Income

Accounting for Council Tax

The Worcestershire district councils (the billing authorities), act as agents for the County Council (the precepting authority) collecting council tax with transactions and balances allocated between the districts and the County Council. The Comprehensive Income & Expenditure Statement includes the County Council's proportion of the net surplus or deficit and the Balance Sheet includes the County Council's share of council tax debtors, overpayments and council tax creditors, and monies owed to or paid in advance from the district councils.

Accounting for National Non-Domestic Rates (NNDR)

The district councils collect business rate income for the County Council, as well as amounts to be paid over to other precepting bodies and Central Government. The County Council maintains balances for NNDR arrears, impairment allowances, prepayments and overpayments in its accounts. NNDR transactions and balances are allocated between the County Council, the district councils and Central Government.

32.3 Accruals of Income and Expenditure

The County Council accounts for income and expenditure on an accrual basis, reflecting when goods and services are provided or received rather than when the cash transaction is.

32.4 Better Care Fund

The Section 75 joint agreement relating to the commissioning of health and social care services in Worcestershire includes The Better Care Fund. It is a joint budget arrangement between the County Council, NHS Redditch and Bromsgrove Clinical Commissioning Group, NHS South Worcestershire Clinical Commissioning Group and NHS Wyre Forest Clinical Commissioning Group.

Income and expenditure relating to County Council service provision, either in total or as a proportion of a jointly controlled budget, are reflected within the Net Cost of Services in the Comprehensive Income and Expenditure Statement.

32.5 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

32.6 Employee Benefits

Benefits Payable during Employment

Short-term employee benefits, including wages and salaries, paid annual and sick leave for current employees, are recognised as an expense in the year in which the service is provided to the County Council.

Termination Benefits

Termination Benefits, including redundancy payments, are charged in the year in which they are paid or on an accrual basis if appropriate. Where enhancement of retirement benefits is made the amount charged is the amount payable by the County Council to the Pension Fund or pensioner in the year.

Post-Employment Benefits

Post-employment benefits include pensions and retirement lump sums. Employees of the County Council may be members of:

- The Local Government Pensions Scheme (a defined benefit scheme), administered by the County Council under national regulations;
- The Teachers' Pension Scheme (a defined contribution scheme), administered by the Teachers Pensions Agency on behalf of the Department for Education; or
- The NHS Pension Scheme (a defined contribution scheme), administered by the Department for Health.

The Local Government Pension Scheme

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

- The liabilities of the Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis.
- The assets of the Pension Fund attributable to the County Council are included in the Balance Sheet at their fair value.

In relation to retirement benefits the General Fund is charged with the amount payable by the County Council to the Pension Fund or directly to pensioners in the year, not the amount calculated by the relevant accounting standards. In the Movement in Reserves Statement there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any amounts payable to the fund but unpaid at the year-end. The negative balance on the Pensions Reserve measures the beneficial impact to the General Fund of being required to account for retirement benefits based on cash flows and not as benefits are earned by employees.

32.7 Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability at measurement date. The County Council either uses appropriate valuation techniques or external valuers.

Property, plant and equipment classified as surplus are measured at fair value.

Fair value measurements categorise the inputs to valuation techniques:

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

32.9 Financial Instruments

Financial instruments are contracts that give rise to a financial asset or financial liability. This policy has been updated to reflect the introduction of IFRS 9.

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet once there is a contractual obligation and are initially measured at fair value and carried at amortised cost.

Debtors and creditors are recognised on the Balance Sheet when the County Council becomes party to the contractual provisions of a financial instrument and are initially measured at fair value and subsequently at amortised cost.

Financial Assets

Financial assets are classified as either:

- Amortised cost where the asset is held to collect payments of principal and interest, or
- Fair value through profit and loss in all other cases

Fair value of assets and liabilities

Financial liabilities and financial assets are carried in the Balance Sheet at amortised cost. Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction. The fair value of loans has been assessed at current market conditions by calculating the present value of the cash flows that take place over the remaining life of the loans.

The fair value calculations have been provided by the County Council's Treasury Management advisors for PWLB loans, LOBO loans, PFI Liabilities, shares in unlisted companies and loans and receivables.

An allowance for the impairment of assets carried at amortised cost is based on expected credit losses as appropriate. Expected losses for debtors is based on the likelihood of recoverability of aged debt at 31 March. Expected losses for financial instruments are based on creditworthiness at 31 March.

32.10 Government Grants and Third-Party Contributions

Government grants, third-party contributions, and donations are recognised as due to the County Council when there is reasonable assurance that:

- the County Council will comply with the conditions attached to the payments, and

- the grants or contributions will be received.

Amounts are credited to the Comprehensive Income and Expenditure Statement once the conditions attached to the grant or contribution have been satisfied. Where the conditions have not been satisfied they are carried in the Balance Sheet as creditors or receipts in advance and credited once the conditions are met.

32.11 Joint Arrangements

Joint Arrangements are activities undertaken by the County Council with other entities to jointly control an asset. Joint control involves the contractually agreed sharing of control. Arrangements subject to joint control are classified as either a joint venture, where net assets are shared, or a joint operation, which is limited to particular assets and liabilities.

32.12 Leases

Lease arrangements 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.

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

The County Council as a lessee – Operating leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense. Charges are made on a straight-line basis over the life of the lease.

The County Council as a lessor – Operating leases

Where an asset is leased by the County Council to a third party as an operating lease the asset is retained in the Balance Sheet. Rental income is credited to the Comprehensive Income and Expenditure Statement on a straight-line basis over the life of the lease.

32.13 Schools

Local authority school assets, liabilities, reserves and cash flows are recognised in the County Council's financial statements.

PFI schools are controlled by the County Council through the PFI arrangements and are recognised on the Balance Sheet.

Voluntary Aided, Voluntary Controlled and Trust schools are owned by the Diocese, Church of England or a separate Trust and are not recognised on the Balance Sheet.

32.14 Minimum Revenue Provision (MRP)

MRP is a charge to the Comprehensive Income and Expenditure Account for the repayment of external borrowing required to finance capital expenditure. MRP is charged over a period that is broadly commensurate with the period over which the County Council receives benefit from the asset. The charge is calculated using the asset life method on an annuity basis for either:

- The average life of all assets at 31 March 2008 for pre-2008 debts, and
- The average asset class life for post-2008 debts, using schools, highways and other assets as our key categories.

32.15 Overheads and Support Services

The costs of overheads and support services are charged to those services that benefit from the supply or service.

32.16 Private Finance Initiative (PFI) and similar contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide services passes to the PFI contractor. The County Council controls the services provided and, as the ownership of the property, plant and equipment will pass to the County Council at the end of the contracts for no additional charge, the County Council carries the assets used on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the County Council.

32.17 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 accrual basis in the accounts. Expenditure that maintains but does not add to an asset's value is charged to the Comprehensive Income and Expenditure Statement when it is incurred.

Measurement

Purchased assets are initially measured at cost. Assets acquired other than by purchase are measured at fair value, or at the carrying amount where the acquisition does not have commercial substance (e.g. via exchange).

Properties are revalued at least every five years, in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Professional Standards 2014 UK Edition by an external suitably qualified valuer. Assets are valued on a rolling basis with relevant categories revalued in entirety. Further revaluations are carried out where there have been material changes.

Where capital expenditure projects are practically completed in the financial year, the asset to which they relate will be revalued if the expenditure represents greater than 15% of the asset's opening net book value or is greater than £100,000.

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

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

Where decreases in value are identified, they are accounted for by:

- the carrying amount of the asset writing down the balance of revaluation gains for the asset in the Revaluation Reserve; or
- the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement where there is no, or insufficient, balance in the Revaluation Reserve.

Impairment

Assets are assessed at each year-end and where applicable, the recoverable amount of the asset is estimated, and an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for:

- against the balance of revaluation gains for the asset in the Revaluation Reserve; or
- in the Comprehensive Income and Expenditure Statement.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment over their useful lives. Where an item of Property, Plant and Equipment has major components these are depreciated separately.

Assets without a determinable finite useful life (e.g. freehold land and certain Community Assets) and assets that are not yet available for use (e.g. assets under construction) are not depreciated.

Depreciation is calculated straight line basis over the remaining useful life of the assets as estimated by the valuer. Newly acquired assets are depreciated from the mid-point of the year.

Disposals and transfers

Disposal proceeds in excess of £10,000 are categorised as capital receipts and used for new capital investment or set aside to reduce the County Council's underlying need to borrow (the Capital Financing Requirement).

When a school converts to an Academy the transfer of the asset is for nil consideration.

32.18 Reserves

The County Council has set aside specific amounts as reserves for future policy purposes or to cover contingencies.

Reserves are reported in two categories:

Usable Reserves

Those that can be used to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt).

Unusable Reserves

Those that cannot be used to provide services. This those that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets were sold; and those that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

32.19 Revenue Expenditure Funded from Capital under Statute

Capital expenditure 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 cost of this expenditure is met 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 reverses out the amount so that there is no impact on the level of council tax.

32.20 Revenue Recognition

Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised on transfer to the recipient in line with the performance obligations in the contract.

32.21 Value Added Tax

Value Added Tax (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.

This page is intentionally left blank