

SECTION 2 - STATEMENT OF ACCOUNTING POLICIES

This section provides details of the significant accounting policies and estimation techniques used in the preparation of the County Council's accounts.

1. GENERAL

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2006 – A Statement of Recommended Practice (SORP), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The 2006 SORP introduced a number of key changes to the accounts. The consolidated Revenue Account has been replaced by an Income and Expenditure Account, and a Statement of Movement on the General Fund Balance. A Statement of Total Recognised Gains and Losses has been introduced which replaces the previous Statement of Movement in Reserves.

The accounts also comply with the Best Value Code of Practice 2006 (CIPFA) and also with the guidance notes issued by CIPFA on the application of accounting standards. The Council has also adopted CIPFA's Prudential Code governing its capital financing and treasury management activities.

2. FIXED ASSETS

Fixed assets are recorded in the accounts at current values as recommended by the CIPFA and in accordance with the Statements of Asset Valuation principles and Guidance Notes issued by The Royal Institute of Chartered Surveyors (RICS) and the Valuation Manual by valuation officers employed by Capita Symonds Ltd. The officers who undertook this valuation were Chris Price, Dominic Fearon, Mike Fishpool and Linda Doyle all of who are members of the Royal Institute of Chartered Surveyors.

The bases of valuation are as follows: -

Operational Land and Buildings	Open Market Value in Existing Use
Non-operational Land and Buildings	Open Market Value
Infrastructure Works	Historic Cost
Vehicles and Plant	Purchase Price
Furniture and Equipment	Purchase Price

Furniture and equipment is only treated as a fixed asset when purchased as part of a capital project, otherwise it is treated as de minimis expenditure and a direct charge to the revenue account in the year of purchase.

The Code of Practice on Local Authority Accounting requires that all Land & Buildings held within the authority's balance sheet at current value are subject to formal revaluation at intervals not greater than five years. To comply with this requirement, the Council has set in place a five-year rolling programme of asset revaluations.

3. DEFERRED CHARGES

Deferred charges are payments, which are capitalised, on the grounds that they provide long-term benefits, but do not involve the creation of a tangible fixed asset. They include grants to industry, contributions towards the cost of works to improve the living conditions of disabled persons, preparatory costs for a proposed PFI scheme and land reclamation works. In accordance with the SORP all deferred charges are charged to revenue in the year in which they are expended as there is no increase in the value of the Council's own asset base.

4. CHARGES TO REVENUE FOR THE USE OF FIXED ASSETS

Each service area within the County Council is charged depreciation on assets used to support services. In accordance with the 2006 SORP, notional interest is no longer charged to service areas and the previous Asset Management Revenue Account has been removed with interest payable charged directly to the Income & Expenditure Account. Prior year comparative numbers have been adjusted to reflect this change. Profits & losses on disposal of fixed assets are also charged directly to the Income & Expenditure Account. Both depreciation and profits & losses on disposal of fixed assets are then removed from the General Fund to ensure that there is no impact on the amounts to be raised from local taxation.

Amounts set aside from revenue for the repayment of external loans and to finance capital expenditure are disclosed separately as movements on the General Fund.

Depreciation charges are based upon asset values at the beginning of the year of account and are calculated on the following bases: -

	Depreciation Period
Operational Buildings	60 years
Waste Disposal sites	40 years
Infrastructure Works	40 years
Vehicles and Plant	5 to 15 years
Furniture and equipment	5 to 15 years

5. CAPITAL RECEIPTS

Capital receipts are generated from the disposal of fixed assets owned by the Council. They are held in a capital receipt unapplied account on the consolidated balance sheet until such time as they are used to finance new capital expenditure or to repay debt.

Receipts for assets under £10,000 are treated as de-minimis and credited to the Income & Expenditure Account.

6. DEBTORS AND CREDITORS

The revenue accounts of the Council are maintained on an accrual basis in accordance with the Code of Accounting Practice and FRS18. Income due to the Council is recorded as it becomes due. Payments by the Council, include payroll, are converted at 31 March to an accrual basis by the inclusion of creditors for the value of work done and goods supplied for which invoices have not been paid.

There are certain exceptions to this principle:

- Electricity and similar quarterly metered payments are charged at the date of meter reading rather than being apportioned between financial years. The charge in the accounts represents 4 quarters use, not the use in the financial year.
- Fees payable to the Council on an annual basis are accounted for in the year in which they become receivable rather than apportioned to the period over which the licence or registration applies.

Year end Highways & Building Maintenance creditors are based on professional valuations of work by Engineers and Chartered Surveyors. In general valuations are agreed between the contractor and Capita, who perform the client role for the County Council in these areas.

Landfill Trading Allowances (LATS) give rise to an asset (based on DEFRA allocations or the cost of purchase from another Waste Disposal Authority) and a liability for the amount of biodegradable municipal waste going to landfills (based on the anticipated cost of discharging this obligation).

7. STOCKS AND WORK IN PROGRESS

Stocks are recorded at average cost or net realisable value in accordance with the requirements of the Code of Accounting Practice and SSAP9 'Stocks and long-term contracts'. Work in progress, which ultimately will be recharged to outside persons, is included at cost including an allocation of overheads.

8. COST OF SUPPORT SERVICES

In compliance with the Best Value Accounting Code of Practice (BVACOP) 2006, all central administration expenses are apportioned fully to services on the basis of either time spent or space or facilities used. For the purposes of reporting the BVACOP service expenditure analysis, the costs of the Corporate and Democratic Core (e.g. the direct and support cost of Council Members and Corporate Management) and Non Distributed Costs are not charged to services.

9. GRANTS

Revenue grants are accrued and credited to the Income & Expenditure Account in the same period in which the related revenue expenditure was charged.

Grants related to capital expenditure are credited to the Government Grants Deferred Account and written off to the service area within the Income & Expenditure Account and ultimately the Capital Financing Reserve over the estimated useful life of the asset which they were used to finance, thereby offsetting the depreciation of the asset. Grants in respect of deferred charges are written down over the same period as the deferred charge i.e. in the same year as the expenditure is incurred. Grants relating to reclamation schemes undertaken on an agency basis are offset against the debtor created by expenditure incurred.

10. PROVISIONS

Provisions are made where the Authority has a present obligation as a result of a previous event where a reliable estimate can be made of the cost of settling the obligation.

11. RESERVES

The Council maintains a number of reserves, which are derived from the accumulation of previous years' surpluses, deficits and appropriations. Transfers to and from reserves are shown as movements on the General Fund and not included within service revenue expenditure. The Council's main reserves are as follows:

The General Reserve is set aside to meet general future revenue expenditure and to protect the County Council against exposures to unexpected events.

Earmarked reserves are set aside to meet specific items of future revenue expenditure.

Under the Government's Fair Funding arrangements individual schools manage their own budgets and are allowed to carry forward accumulated surpluses and deficits as reserves.

Capital Reserves held by the County Council are the Fixed Asset Restatement Account, Usable Capital Receipts, Capital Receipts Deferred, Earmarked Capital Reserves and Capital Financing Account. None of these reserves can be used to support revenue expenditure, whilst only unapplied capital receipts can be used to finance capital expenditure.

12. PENSIONS

All full-time and most part-time employees of the Council are eligible to be members of a contributory pension scheme. The particular scheme, and the rate of contribution to that scheme by employee and employer, is dependent upon the category of employment of the employee. The schemes are as follows:

- Local Government – this scheme is administered by the County Council and covers all employees other than those eligible to join either the teachers or the fire service fund.
- Teachers – this is an unfunded scheme administered by the Department for Education and Skills (DfES). The pension cost charged to the accounts is the contribution rate set by the DfES determined on the basis of a notional fund.
- Fire Service – the 1992 Scheme was an unfunded pension scheme for fire service personnel and has now been closed to new entrants. The 2006 is a contributory Scheme, but Government undertakes to provide the pensions with the County Council responsible for injury and ill health awards and pensions.

From April 1988 employees have had the choice of opting out of the standard pension scheme and making alternative arrangements for their retirement. Relatively few employees have chosen to exercise their option.

With effect from 2003-04 local authorities are required to implement Financial Reporting Standard (FRS) 17 in full. The accounts have therefore been prepared in accordance with CIPFA guidance on Accounting for Retirement Benefits.

13. INTEREST

External interest payable is charged to the Income & Expenditure Account. External interest receivable is credited to the Income & Expenditure Account. Internal interest is only paid in exceptional circumstances, the most significant of which relates payments and charges to individual schools on their balances

under the Council's scheme of local delegation of finance to schools. Internal interest is calculated by reference to bank base rate.

14. INVESTMENTS

Investments are shown in the Balance Sheet at the lower of cost or market value. All investments are in respect of the short-term use of revenue funds, the interest being credited to the Income & Expenditure Account.

15. RELATED COMPANIES

The Council has majority and minority interest in a number of companies. Of the Council's investments in related companies only the investments in Cumbria Waste Management and Kingmoor Park Properties Ltd are shown in the Council's balance sheet at cost price. Contributions to other companies have been charged as expenditure in the year in which they were made. Any profit or loss on realisation is only taken into account at the time of realisation.

Within the Group Accounts, separate accounting policies have been applied in accordance with CIPFA recommendations and are shown in this section of the Statement of Accounts.

16. REDEMPTION OF DEBT

Under the Local Government & Housing Act 1989 Local Authorities are required to set aside a sum from revenue to meet credit liabilities. The Council operates a policy of setting aside the minimum revenue provision, which is based upon 4% of capital financing requirement outstanding at the start of the year.

17. PFI AND LONG TERM CONTRACTS

The Council is currently in the process of bidding to have a major new road building project accepted as a Private Finance Initiative (PFI) scheme. The preparatory costs of the scheme have been included in the Council's Local Transport Plan and have been treated as a deferred charge.

18. LEASE PAYMENTS

The Prudential Code and SSAP 21 require lease arrangements to be split between finance and operating leases. The authority does not use finance leases as a mechanism of finance, so all lease payments are treated as operating leases with payments due charged to the relevant service area on an accruals basis.

19. POOLED FUNDS

Both Adult Social Care and Childrens Services work with authorities outside the County Council to ensure that a co-ordinated approach to service deliveries is achieved. Any operating surpluses or deficits are shared in accordance with the agreements between the parties. These are known as Pooled Funds.

- When the County Council acts as host to the Pooled Fund, the County Council consolidates the results of the Pooled Fund in accordance with FRS9 and the share of any operating surpluses or deficits relating to the other authorities are then eliminated.
- Where the County Council has not acted as host of a Pooled Fund, then the County Council's financial statements take account of any share of operating surpluses or deficits.

20. PRUDENTIAL CODE

The principal effect of the introduction of the Prudential Code has been to offer more flexibility for authorities to borrow to fund capital expenditure.