

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. Introduction

The Statement of Accounts summarises the council's transactions for the 2007/08 financial year and its position at the year-end of 31 March 2008. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2007 – A Statement of Recommended Practice (SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and those Financial Reporting Standards (FRS) for which the Institute has issued guidance notes.

The accounts comply with the Best Value Code of Practice 2007 (CIPFA). The Council has also adopted CIPFA's Prudential Code governing capital financing and treasury management activities.

This statement explains the basis of the figures included in the accounts.

2. Accruals of Income and Expenditure

The financial statements have been prepared on an accruals basis. Income and expenditure is accounted for in the year to which it relates, not simply when cash payments are made or received.

The following are 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 four quarters' usage.
- 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 to which the licence or registration applies.
- Expenditure in respect of highways and building maintenance is based on professional valuations of work by Engineers and Chartered Surveyors. Valuations are agreed between the contractor and by Capita acting on behalf of the Council.

3. Provisions

Provisions are made when the Council recognises that it has a present obligation as a result of a past event which will require settlement by a transfer of economic benefits and a reliable estimate can be made of the amount of

the obligation. Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation based on the best estimate of the likely settlement. When payments are eventually made, they are charged direct to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year and if no longer required are reversed and credited back to the Income and Expenditure Account. Details of provisions are shown in the notes to the Balance Sheet

4. Reserves

The Council maintains a number of reserves. These are sums which the Council chooses to set aside to provide for future expenditure requirements and contingencies. The Council's main reserves are as follows:

- The General Reserve is set aside to meet general future revenue expenditure and to protect the Council against exposure to unexpected events.
- 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.
- Earmarked reserves are set aside to meet specific items of future revenue expenditure.

Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate revenue service in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the Statement of Movement on the General Fund Balance so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and do not represent usable resources for the council – these reserves are explained within the relevant accounting policies in this statement.

5. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the Council satisfies the conditions of entitlement to the grant or contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant has been given has been incurred.

Revenue grants and contributions are matched in service revenue accounts with the expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

Grants relating to capital expenditure are credited initially to the Deferred Grants Account. Amounts are released to the relevant revenue service account over the useful life of the asset to match the depreciation charged on the related assets in line with the depreciation policy applied to them.

6. Retirement Benefits

Employees of the Council are members of three separate pension schemes designed to meet the needs of employees in particular services (further details are provided in the notes to the financial statements). All three schemes provide final salary defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

6.1 Teachers' Pensions

This scheme is administered by the Department for Children, Schools and Families (DCSF). Although the scheme is unfunded, the Government has established a notional fund as the basis for calculating the employers' contributions. The Council contributes at rates determined by the DCSF. The arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is, therefore, accounted for as it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the education service revenue account is charged with the employer's contributions payable to teachers' pensions in the year.

6.2 Firefighters' Pensions

There are currently two pension schemes for uniformed firefighters.

- The 1992 Scheme which has now been closed to new entrants.
- The 2006 Scheme available to both full time and part time uniformed personnel.

Although contributions are made into the schemes and they are final salary, they are unfunded to the extent that assets are not specifically held to meet pension liabilities. The Department for Communities and Local Government provide funds to top-up contributions collected from employers and employees to ensure that normal pension liabilities can be paid. The County Council is responsible for meeting the cost of additional injury and ill health awards and pensions.

6.3 The Local Government Pension Scheme

All other full-time and most part-time employees of the Council are eligible to join the Local Government Pension Scheme administered by Cumbria County Council on behalf of the local authorities of Cumbria and closely related employees. With effect from 2003-04 local authorities have been required to implement Financial Reporting Standard 17 (FRS17) in full. The accounts have, therefore, been prepared in accordance with CIPFA guidance on Accounting for Retirement Benefits.

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

- The liabilities of the scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 6.1% (based on the indicative rate of return on high quality corporate bond)

The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value.

The change in the net pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Income and Expenditure Account to the revenue accounts of 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 Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income and Expenditure Account.
- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account.
- gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the

expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.

- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains and Losses.
- contributions paid to the Cumbria County Pension Fund – cash paid as employer’s contributions to the pension fund.

Statutory provisions limit the Council to raising Council Tax to cover the amounts payable by the Council to the pension fund in the year. In the Statement of Movement on the General Fund Balance this means that 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 any amounts payable to the fund but unpaid at the year end.

6.4 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 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.

7. Value Added Tax

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from them.

8. Overheads and Support Services

In line with the Best Value Accounting Code of Practice the costs of central support services are fully apportioned to those of the Council’s services that benefit from them. Costs are apportioned on the basis of time spent, space occupied or facilities used. The following cost categories are accounted for as separate headings in the income and Expenditure Account as part of Net Cost of Services:

Corporate and Democratic Core – costs relating to the Council’s status as a multi-functional, democratic organisation e.g. the direct cost and cost of supporting Council Members and Corporate Management

Non Distributed Costs - the cost of discretionary benefits awarded to employees retiring early.

9. Tangible Fixed Assets

Tangible fixed assets are assets that have a physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

9.1 Recognition

Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis provided that it yields benefits to the Council and the services that it provides for more than one financial year. Expenditure on routine repairs and maintenance of fixed assets and projects costing less than £12,000 in total is deemed to be de minimis and is charged direct to service revenue accounts as it is incurred.

9.2 Measurement

Fixed assets are valued on the basis recommended by CIPFA (Chartered Institute of Public Finance & Accountancy) and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the RICS (The Royal Institute of Chartered Surveyors). Fixed assets are classified into the groupings required by the Code of Practice on Local Authority Accounting.

Assets included in the balance sheet at current value are revalued at intervals of not greater than five years via a rolling programme of asset revaluations. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

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.

9.3 Impairment

The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value.

Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- a charge to the relevant service revenue account where the loss is attributable to the clear consumption of economic benefits.
- otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

9.4 Disposal

When an asset is disposed of, the value of the asset in the Balance Sheet is debited to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts in excess of £10,000 are categorised as capital receipts. These are required to be credited to the Usable Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. An appropriation in the Statement of Movement on the General Fund Balance ensures a neutral impact on the Council Tax payer.

9.5 Depreciation

Depreciation is provided for on all fixed assets with a finite useful life, by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.

Depreciation is charged on a straight line basis based upon asset values at the beginning of the year of account. The Council uses the following assumptions in assessing the useful life of assets –

Operational Buildings	-	60 years
Waste Disposal Sites	-	40 years
Infrastructure Works	-	40 years
Vehicles, Plant, Furniture & Equipment	-	5 – 15 years

9.6 Fixed Assets not owned by the Council

Some voluntary controlled schools are not owned by the Council. These schools are, however, included within fixed assets as the Council receives the benefit from the use of these properties and substantially bears the risks and responsibilities of ownership for them.

Voluntary aided schools and Foundation schools are not included within fixed assets as no substantial risks and responsibilities apply.

10. Charges to Revenue for Capital Assets

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.

The Council is not required to raise Council Tax to cover depreciation or impairment losses. It is, however, required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. The General Fund is required to make a payment of not less than 4% of the underlying need to borrow as measured by the Capital Financing Requirement. Depreciation and impairment losses are, therefore, replaced by minimum revenue provision within the Statement of the Movement on the General Fund Balance.

11. Deferred Charges

Deferred charges represent expenditure which may properly be capitalised under statutory provisions but does not result in the creation of tangible assets. They include, for example, grants to industry, contributions toward the cost of work to improve the living conditions of disabled persons, land reclamation works, preparatory costs for proposed PFI schemes. Deferred charges incurred during the year have been written off as expenditure to the relevant service revenue account in the year. The cost of the deferred charges is met from existing capital resources. A transfer to the Capital Adjustment Account therefore reverses out the amounts charged in the Statement of Movement on the General Fund Balance to ensure that there is no net effect to the Council Tax payer.

12. Leases

Finance Leases

Finance leases are leases where substantially all the risks and rewards relating to the leased property transfer to the Council. The Council does not use finance leases as a mechanism of finance.

Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease on an accruals basis.

13. Financial Instruments

Financial Instruments held by the Council are all classed as either financial liabilities or financial assets under the Statement of Recommended Practice 2007. The following items meeting the new definition are contained in the Balance Sheet.

13.1 Financial liabilities

Borrowing

Borrowing is classed as either a long term liability, repayable after 12 months or longer, or a current liability if it is repayable within 12 months. Borrowing is shown in the Balance Sheet at amortised cost using the effective interest rate that applies to the individual loans comprising the total borrowing held by the Council. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the fair value and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund Balance is managed by a

transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

Creditors

Creditors are recognised when a contractual arrangement is entered into between the Council and a supplier to provide goods and services for an agreed price. The value of the creditors recognised in the Balance Sheet represents the current value of the outstanding liabilities of the Council as at 31 March as a proxy for amortised cost.

13.2 Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables can be classified as investments and debtors.

- Investments can be classed as either long term assets, repayable after 12 months or longer, or a current asset, if it is repayable within a 12 month period. Investments are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.
- Debtors are recognised when a contractual relationship is entered into between the Council and a debtor for the Council to provide goods and services for an agreed sum. The value of debtors in the Balance Sheet represents the current value of the outstanding debts owed to the Council as at 31 March as a proxy for amortised cost.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account. Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Income and Expenditure Account.

Available-for-sale Assets

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account for interest receivable are based on the

amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Income and Expenditure Account when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices - the market price
- other instruments with fixed and determinable payments - discounted cash-flow analysis

Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses (STRGL). The exception is where impairment losses have been incurred – these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

13.3 Gains and Losses on Debt Restructuring

The Council does not currently hold any balances in relation to gains and losses arising from debt restructuring. Should any gains and losses associated with discounts and premiums on the repurchase or early settlement of borrowing arise then they will normally be recognised in Net Cost of Services within the Income and Expenditure Account in the period in which the repurchase or settlement is made. The Statement of Movement on General Fund Balance will then be adjusted to neutralise the effect on the amounts to be raised through council tax in the year, by charging or crediting the Financial Instruments Adjustment Account. This reserve will in turn be written off over the remaining life of the new loan to the Statement of Movement on the General Fund Balance as permitted by statute.

14. Stocks & Work in Progress

Stocks are included in the Balance Sheet at the lower of cost and net realisable value. Work in progress is included at cost including an allocation in respect of the overheads reasonably attributable to the works.

15. Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts.

The Council has majority and minority interests in a number of companies. Of the Council's investments in related companies only the investment in Cumbria Waste Management is material and 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. Private Finance Initiative (PFI)

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. Payments made by the Council under a contract are generally charged to revenue to reflect the value of services received in each financial year.

The Council is currently in the process of bidding to have a major new road building project and the replacement of a number of fire stations accepted as PFI schemes. The preparatory costs of the Carlisle Northern Development Route scheme have been included in the Council's Local Transport Plan and have been treated as a deferred charge.

17. Landfill Allowance Trading Scheme

The Landfill Allowance Trading Scheme began on 1 April 2005. The scheme allocates landfill allowance to each waste disposal authority in England. The Council can either, buy, sell or carry forward landfill allowance depending on usage requirements above or below the annual capped allowance limit from or to another waste disposal authority. Allowances allocated by the Department for Environment, Food and Rural Affairs (DEFRA) or purchased from another authority are classified as current assets.

18. Pooled Funds

Both Adult Social Care and Children's Services work with authorities outside the County Council to ensure that a co-ordinated approach to service delivery

is achieved. Operating surpluses or deficits are shared in accordance with the agreements between the parties.

- Where the Council acts as host to the Pooled Fund, it consolidates the results of the fund in accordance with FRS9. The share of any operating surplus or deficit relating to other authorities is then eliminated.
- Where the Council does not act as host to the Pooled Fund the financial statements include the Council's share of any operating surplus or deficit accordingly.