# 2. STATEMENT OF ACCOUNTING POLICIES - UK GAAP

## 2.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2009/10 financial year and its position at the year-end of 31 March 2010. It has been prepared in accordance with the accounts and Audit Regulations 2003, Code of Practice on Local Authority Accounting in the United Kingdom 2009 – A Statement of Recommended Practice (the SORP). Issued by CIPFA and guidance notes issued by CIPFA on application of Accounting Standards (SSAP's) and Financial Reporting Standards (FRS's) The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible assets.

The main changes in the SORP for 2009/10 are listed on pages 2 to 5 of SORP 2009. For Oxford City Council, the relevant changes are:

- Accounting for local taxes, as we act as an agent for the major preceptors, the tax we are collecting on behalf of large preceptors will be shown as an asset/liability in our balance sheet, not accumulated with our own balances as it has been in previous years. This clarifies the situation that the money collected or outstanding is not an asset or liability of Oxford City Council, but of the preceptor. This change will result in a Prior Year Adjustment, so 2008/09 figures will be adjusted in the Statement of Accounts to reflect this change.
- Officers remuneration, there will be more detail, with exact figures for directors and Chief Executive Officer, and bands of just £5,000 instead of £10,000 for all officers earning above £50,000.
- Long term liabilities, any elements relating to the long term liability that are due within 12 months will be moved to short term liabilities.
- Four disclosure notes have been removed from the statements, these are disclosures concerning; section 137 expenditure, expenditure on publicity, the building control account and income under the Local Authority Goods and Services Act.

### Estimation Techniques

Estimation techniques are the methods adopted by an authority seeking to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes in reserves. An accounting policy will specify the basis on which an item is to be measured; where there is uncertainty over the monetary amount corresponding to that basis the amount will be arrived at using an estimation technique.

Except where specified in the 2009 Code of Practice on Local Authority Accounting, or in specific legislative requirements, Oxford City Council has determined the estimation techniques that most closely reflect the economic reality of the transactions or other events to which the relevant accounting policy refers.

## 2.2 Accruals of Income and Expenditure

We account for activity in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.

- Income and expenditure are credited or debited to the relevant service revenue account, unless they properly represent capital receipts and capital expenditure.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, and where the amounts are significant, they are carried as stocks on the Balance Sheet.

- Interest payable on borrowings and receivable on investments is accounted for 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 income 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 it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- There is an exception to the above where we have regular payments of similar amounts for a supply or service, for example, payments for utilities. As long as we have a full twelve months of cost in a financial year, we do not accrue to ensure that we are accounting for the specific months in the financial year, as the amounts are so immaterial it would not represent value for money.

### 2.3 Provisions

We make Provisions where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For example, the Council may be involved in an insurance case that could eventually result in the making of settlement or the payment of compensation.

We charge Provisions 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 released from the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), we only recognise this as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

### 2.4 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. 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 service revenue account 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 General Fund Balance statement 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 they do not represent usable resources for the Council – these reserves are explained in the relevant policies below.

### 2.5 Tangible Fixed Assets

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

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 that secures but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

Measurement: assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

- Investment properties and assets surplus to requirements – lower of net current replacement cost or net realisable value
- Dwellings, other land and buildings, vehicles, plant and equipment – lower of net current replacement cost or net realisable value in existing use
- Infrastructure assets and community assets – depreciated historical cost.

Net current replacement cost is assessed as:

- non-specialised operational properties – existing use value
- specialised operational properties – depreciated replacement cost
- investment properties and surplus assets – market value.

The Council revalues assets included in the Balance Sheet at current value when there have been material changes in the value, but as a minimum every five years as part of the rolling programme of valuations. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the 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.

**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 a result of a valuation exercise, this is accounted for by:

- where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account
- otherwise, e.g. where there is a fall in market value – 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.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

**Depreciation**: Depreciation is provided for on all assets with a determinable finite useful life with the exception of non-depreciable land and investment properties. Depreciation is based on the amount at which the asset is included in the balance sheet, whether at net current replacement cost or historic cost.

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the life of the property as estimated by the valuer.
- vehicles, plant and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer.
- infrastructure – straight-line allocation over a period determined for each class of asset
- Freehold land is not subject to depreciation.

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.

## 2.6 Intangible Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

## 2.7 Disposals and Receipts arising from sale of assets

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal.

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. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance.

Where the Authority makes an asset available for sale, the asset should be valued for sale. This will give a revised carrying value. The profit or loss is then calculated with reference to this updated carrying value. The exception to this is the transfer of housing stock to a Housing Association at nil or nominal value which is treated as impairment (see above).

Receipts from disposals are credited to the Income and Expenditure Account 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 in the Revaluation Reserve are transferred to the Capital Adjustment Account. Legislation requires capital receipts to be credited to the Usable Capital Receipts Reserve, and they can then only be used for new capital investment. Receipts are appropriated to this Reserve from the Statement of Movement on the General Fund Balance.

Receipts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Useable 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.

## 2.8 Grants and Contributions (Capital)

Where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

## 2.9 Government Grants and Contributions (Revenue)

Whether paid on account, by instalments or in arrears, we recognise government grants and third party contributions and donations as income at the date that the Authority satisfies the conditions of entitlement to the grant/contribution, when there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in service revenue accounts with the service 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.

## 2.10 Charge to Revenue for Fixed Assets

We debit service revenue accounts, support services and trading accounts 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
- amortisation of intangible fixed assets attributable to the service.

Where there are Government Grants Deferred (see note 2.8 above), these are released to the revenue accounts as credits, and cancel out the effect of the depreciation in revenue on the specific asset.
Where an impairment that has been charged to a revenue account is reversed, the credit up to the amount of the previous impairments, can be posted against the revenue account. Any credit exceeding this will go to the Revaluation Reserve.
The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. It would be required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

## 2.11 Revenue Expenditure Funded from Capital Under Statute

Revenue Expenditure Funded from Capital represent expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets. Revenue Expenditure Funded from Capital incurred during the year should be funded from capital resources rather than charged to the relevant service revenue account in the year. Where the Council has determined to meet the cost of the Revenue Expenditure Funded from Capital from existing capital resources, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of council tax.

## 2.12 Leases

### Finance Lease

Councils accounts for leases as finance leases when substantially all the risk and rewards relating to the leased property transfer to the Council. The asset must then be recognised in the Council's Fixed Assets. Rentals payable are apportioned between:

- a charge for the acquisition of the interest in the property (recognised as a liability in the balance sheet at the start of the lease, matched with a tangible asset). The liability is written down as the rent becomes payable and
- a finance charge (debited to Net Operating Expenditure in the income and Expenditure Account as the rent becomes payable).

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

### Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable or receivable on operating leases are charged or credited to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged through revenue when they become payable, or receipted to revenue when they become due.

Where the council is lessor for an operational lease, the assets remain on the Council's balance sheet (and are subject to revaluation and depreciation as appropriate). Where the council is the lessee to an operating lease, the asset is not held within the balance sheet, and is not subject to the Councils fixed asset policies.

### 2.13 Long-term contracts

Where the Council has entered into contracts that run for longer than one year, the liability or benefit arising is included in the balance sheet as a long-term creditor or debtor respectively, except for the element relating to the 12 months following the year end, which is held within current creditor or debtor balances respectively.

### 2.14 Debtors and Creditors

Provision is made within the accounts for all goods and services provided to or supplied by the Council by 31 March. Where invoices have not been received or issued by that date accruals are made for the amounts due to creditors and due to be received from debtors.
This also applies where the Council acts as agent, most significantly for Council Tax and NNDR collection. The council collects all precepts on behalf of the major preceptors, and the deficit or surplus held for the major preceptors will be shown as debtors or creditors balances respectively.

### 2.15 Stock

Stock is normally valued at the lower of cost or net realisable value where practical. However for small value stocks current purchase price or average cost may be used. This is a departure from the SORP, but the effect is not material to the Council's accounts.

### 2.16 Work in Progress

Where significant works for other bodies are not fully completed at 31 March, the value carried out at that date is estimated and income is accrued within the appropriate service account.

### 2.17 Overheads

The costs of overheads and Support Services (for example Information Systems and Financial Services) are charged to individual service accounts that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2008 (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.

- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early, and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Income and Expenditure Account, as part of Net Cost of Services.

## 2.18 Pensions

The majority of employees of the Council are members of the Local Government Pension Scheme, which we account for as a defined benefits scheme.

In accordance with FRS17, the liabilities of the Oxford County Council pension scheme 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 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 at 31st March 2010 (based on the indicative rate of return on high quality corporate bonds).

We include the assets of the Oxford County Council Pension Fund attributable to the Council in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – average of the bid and offer rates
- property – market value.

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

- **current service cost** – the increase in liabilities as 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 Oxfordshire County Council Pension Fund** – the employer's contributions to the pension fund for the financial year.
- **contributions relating to unfunded benefits** - cash paid to pensioners relating to discretionary additional benefits granted by the Council.

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.

The Council complies with the requirements of FRS17. The current year pension costs are shown within net cost of services, with past year, curtailment and settlement costs included under other operating costs. A transfer to or from the pension reserve is made to negate the effects of the pensions adjustments on council tax.

## 2.19 Financial Relationships with Companies and Related Party Interests

The Council is required to prepare Group Accounts where it exercises significant or have the right to exercise dominant influence. Local Authorities have to consider all their interests and where material, in subsidiaries, associates and joint ventures and include the value of the interest in the Group Accounts. The Council has reviewed all such interests and no material interest and therefore has no requirement to produce Group Accounts.

Where either the Council, or its Members or Senior Officers, is connected with any other entity that it transacts any business with, it is required to disclose these as related party interests. These are shown in the Notes to the Core Financial Statements – Related Parties.

## 2.20 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Financial instrument covers both financial assets and financial liabilities.

The financial assets of the Council 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**

Assets of this type will arise where the Council provides money, goods or services to another party and contracts to deter the settlement of debt that arises, but in the meantime will not plan to trade the receivable on the market.

Loans and receivables 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 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.

When assets are identified as impaired because of 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.

**Available-for-sale Assets**

Available-for-sale assets are initially measured and carried at a 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 (for example a dividend) is credited to the Income and Expenditure Account when it becomes receivable by the Council.

The Council did not hold any financial assets, which fall under this category as at 31 March 2010.

**Financial Liabilities**

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure for interest payable are based on the carrying amount of the liability, multiplied by the effective date rates of interest for the instrument. For the Council borrowings, the amount presented in the balance sheet is the outstanding principal repayable and interest charge to Income and Expenditure Account is the amount payable for the year in the loan agreement.

Gain and losses on the repurchase or early settlement of borrowing are credited and debited to Net operating expenditure in the Income and expenditure 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 discount 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 reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund balance is managed by transfer to or from the Financial instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

The Council has no such repurchase or early settlement of borrowing during 2009/10.

For information to A&GC
The areas deleted are as follows –
Departures from the SORP. Taken out as we no longer apply a policy to automatically impair expenditure that is less than 15% of the assets total value.