



**SOUTH RIBBLE BOROUGH COUNCIL
STATEMENT OF ACCOUNTING POLICIES 2016/17**

INTRODUCTION

The Accounting Policies for South Ribble Borough Council (the Council) have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code). Where there is no specific guidance in the Code, the Council has developed its own accounting policy which is aimed at creating information which is:

- Relevant to the decision making needs of users; and
- Reliable, in that the financial statements:
- Represent fairly the financial position, financial performance and cash flows of the entity;
- Reflect the economic substance of transactions, other events and conditions and not merely the legal form;
- Are neutral i.e. free from bias;
- Are prudent; and
- Are complete in all material respects.

This document outlines how the Council will account for all income, expenditure, assets and liabilities held and incurred during the 2016/17 financial year.

The accounting policies of the Council are updated annually to reflect any changes in IFRS, including changes in International Public Sector Accounting Standards (IPSAS), HM Treasury guidance, CIPFA guidance or any other change in statute, guidance or framework impacting on the authorities accounts.

The Accounting Policies of the Council as far as possible have been developed to ensure that the accounts of the Council are understandable, relevant, free from material error or misstatement, reliable and comparable.

ACCOUNTING POLICIES

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the ~~2015/16-6/17~~ financial year and its position at the year end of 31 March ~~2016~~⁷. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Chartered Institute of Public Finance and Accountancy/Local Authority (Scotland) Accounts Advisory Committee ~~2016/17~~⁶ Code of Practice on Local Authority Accounting in the United Kingdom (the Code) ~~and the Service Reporting Code of Practice for Local Authorities 2015/16 (SeRCOP)~~, supported by International Financial Reporting Standards (IFRS).

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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.

1.2 Accruals of Income and Expenditure

The Income and Costs of the Council are accounted for in the period to which they relate, regardless of when the cash is paid or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from non-exchange transactions shall be recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the authority, and the amount of the revenue can be measured reliably.
- 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 services 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.

1.3 Cash and Cash Equivalents

Cash consists of cash in hand and deposits repayable without penalty on notice of not more than 24 hours. Cash Equivalents consist of investments which mature in less than three months. In the Cash Flow Statement cash and cash equivalents are shown net of bank overdrafts that are repayable on demand.

Longer term investments are not reclassified if the outstanding period falls below three months at the date of account.

1.4 Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with depreciation charges, revaluation and impairment losses in excess of accumulated revaluation gains, and amortisation charges in respect of intangible assets.

The Authority is not required to raise council tax to meet these charges. Instead it has to make an annual contribution from revenue towards the reduction in its overall borrowing

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requirement. This is achieved by means of an adjustment between the General Fund balance and the Capital Adjustment Account (in the Movement in Reserves Statement).

1.5 Contingent Assets and Liabilities

These are assets and liabilities arising from past events the existence of which will only be confirmed by future events not wholly within the Council's control. They are disclosed in the notes to the main financial statements.

1.6 Exceptional Items

When items of income or expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement, or in the notes to the main financial statements, depending on their significance.

1.7 Employee Benefits

Benefits payable during employment

These are charges to the Surplus or Deficit on the Provision of Service. The charge includes an accrual for any untaken leave and holiday entitlement. This accrual does not affect council tax since it is reversed by transfer from the General Fund Balance to the Accumulating Compensated Absences Account (in the Movement in Reserves Statement).

Termination benefits

These are amounts payable as a result of a decision to terminate an officer's employment before the normal retirement date, or a decision to accept voluntary redundancy. The costs are recognised when the Council commits itself to terminate the employment of an officer or group of officers, or makes an offer to encourage voluntary redundancy. The charge is made to the relevant service line in the Comprehensive Income and Expenditure Statement.

Post-Employment Benefits

Employees are members of the Local Government Pension Scheme which provides defined benefits to members. Full details of transactions are given in Note 36. The following notes explain the methodology.

The liabilities of the fund attributable to the Authority 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 earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 4.9% (based on the indicative rate of return on high quality corporate bonds).

The assets of the fund attributable to the Authority are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unlisted securities – current bid price
- property – market value

The change in net pension liability is analysed into the following components:

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Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years will be debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed 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;

Re-measurement comprising:

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

Contributions paid to the pension fund:

- cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged 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, 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 pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby 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.

Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities thus arising 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.

1.8 Events after the Reporting Period

Where an event occurs after the Balance Sheet date and it provides evidence of conditions that existed at the Balance Sheet date, the amounts recognised in the Statement of Accounts is adjusted.

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Where an event that occurs after the Balance Sheet date is indicative of conditions that arose after the Balance Sheet date, the amounts recognised in the Statement of Accounts are not adjusted. The “non-adjusting event”, and an estimate of the financial effect, is however disclosed in the notes to the main financial statements.

1.9 Financial Liabilities

Borrowings are initially measured at fair value and carried at their amortised cost. The annual charge to the Comprehensive Income and Expenditure Statement (CI&ES) is based on the carrying amount multiplied by the effective rate of interest. The amount presented in the balance sheet is the outstanding principal payable plus interest accrued at 31 March.

Gains or losses on premature redemption are charged to the Comprehensive Income and Expenditure Statement unless they are the result of a restructure in which case they are added to the amortised cost and charged over the life of the modified loan. However, Regulations require discounts to be amortised over the shorter of the life of the original loan or ten years. Greater discretion applies to premia, they can be amortised over the life of the original or replacement loan, or a shorter period. A transfer is done from the General Fund Balance to the Financial Instruments Adjustment Account to give effect to these regulations.

1.10 Financial Assets

Loans and receivables

These are initially measured at fair value and carried at amortised cost. The annual credit to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement is based on the carrying amount multiplied by the effective rate of interest. The amount presented in the balance sheet is the outstanding principal receivable plus interest accrued at 31 March.

Where assets are identified as impaired because of a likelihood from a past event that payments will not be received, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

1.11 Going Concern

The accounts have been prepared on the assumption that the Council will continue in existence for the foreseeable future.

1.12 Government Grants and Other Contributions

Government grants and other contributions for both revenue and capital purposes are accounted for on an accruals basis and recognised in the accounts when the conditions for their receipt have been complied with. If compliance has not been achieved, cash received is held on the Balance Sheet as a long term creditor.

The postings in the Comprehensive Income and Expenditure Statement relating to capital grants and contributions are reversed out of the General Fund balance in the Movement in Reserves Statement. If the monies have not been used they are credited to the Grants Unapplied Reserve. If they have been applied to fund capital expenditure they are credited to the Capital Adjustment Account.

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Community Infrastructure Levy

The authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds with appropriate planning consent. The Authority charges for and collects the levy, which is a planning charge. The levy income will be used to fund a number of infrastructure projects to support the development of the area. CIL received is limited by regulations. It is therefore recognised at the commencement date of the development in the Comprehensive Income and Expenditure Statement in accordance with the above core accounting policy for grants and contributions. CIL charges will be largely to fund capital expenditure with a small proportion used to fund revenue.

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1.13 Intangible Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences), is capitalised at cost if it will bring benefits to the Council for more than one financial year. Internally generated assets are capitalised where it is demonstrable that the Council will generate future economic benefits.

The cost is amortised over the economic life to reflect the pattern of consumption. The charge is made to the relevant service line in the Comprehensive Income and Expenditure Statement.

The postings in the Comprehensive Income and Expenditure Statement are reversed from the General Fund balance in the Movement in Reserves Statement and charged to the Capital Adjustment Account.

1.14 Investment Properties

Investment properties are those held solely to earn rentals or for capital appreciation. They are measured initially at cost and subsequently at fair value. Valuations are provided by Royal Institution of Chartered Surveyors (RICS)-qualified valuers, are on the basis recommended by CIPFA, and accord with the Statement of Asset Valuation Principles and Guidance Notes issued by the RICS. They are not depreciated but are re-valued annually. 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. Gains and losses on revaluation and disposal are not permitted by statute to impact on the council tax. A reversal is therefore done between the General Fund Balance and the Capital Adjustment Account (or, in the case of sale proceeds exceeding £10,000 to the Capital Receipts Reserve.

Income and expenditure from investment properties are charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

1.15 Leasing

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the asset from the lessor to the lessee. All other leases are classified as operating leases. If the lease covers both land and buildings, then the land and building elements are considered separately for classification.

Assets 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.

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The Authority as lessee

Finance leases

An asset held under a finance lease is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the inception of the lease (or the present value of the minimum lease payments, if lower). The asset is matched by a liability, being the obligation to the lessor. Contingent rents are charged as expenses in the periods in which they are incurred. Lease payments are split between a finance charge, charged to the Comprehensive Income and Expenditure Statement, and the principal element, applied to write down the lease liability. Assets held under a finance lease will be subject to depreciation and revaluation in the same way as any other asset.

Operating leases

Rentals are charged to the Comprehensive Income and Expenditure Statement as an expense of the service benefitting from the asset.

The Authority as lessor

Finance leases

Where the Authority grants a finance lease over an asset, it is written out of the Balance Sheet and charged to the "gain or loss on disposals" line in Other Operating Expenditure in the Comprehensive Income and Expenditure Statement. The Authority's net investment in the lease is credited to the same line, matched by a Long Term Debtor in the balance Sheet. Lease rental receipts are split between finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement), and the principal element applied to write down the Long Term Debtor.

Operating leases

Where the Authority grant an operating lease over an asset it remains on the Balance Sheet, and the income is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. See note 35.

1.16 Non-Current Assets Held for Sale

Accounting treatment is detailed in the Property Plant and Equipment, Disposal and Non-Current Assets Held for Sale policy.

1.17 Overheads

~~The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance. The Service Reporting Code of Practice 2015/16 (SeRCoP) requires that all Central Support and Administrative costs, with the exception of those mentioned below, be allocated to services.~~

~~The exceptions are:~~

- ~~• The costs of Democratic Representation and Management.~~
- ~~• A narrow range of costs defined as Corporate Management.~~
- ~~• Non-Distributed Costs. These consist of certain costs relating to retirement benefits (past service, curtailment and settlement costs), and costs associated with unused IT facilities and surplus assets.~~

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1.18 Prior Period Adjustments, Changes in Accounting Policies, and Estimates and Errors

Changes in estimates are accounted for prospectively, i.e. in the current and future years affected by the change, and do not give rise to a prior period adjustment. Changes in accounting policies are only made when required by proper accounting practice or if the change provides more reliable or relevant information about the effect of transactions on the Council's financial performance. Where a change is made it is applied retrospectively by adjusting opening balances and comparative amounts from prior periods. Material errors will also require a prior period adjustment.

1.19 Property Plant and Equipment (PPE)

All expenditure on the acquisition, creation, or enhancement of fixed assets is capitalised on an accruals basis in the accounts provided it exceeds the 'de minimis' threshold of £5,000 and provides benefits to the Council for a period of more than one year.

Measurement

Assets are initially measured at cost, comprising the purchase price, and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Council. Should they be incurred, the Authority would capitalise borrowing costs incurred whilst major assets are under construction.

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

- Infrastructure, Community Assets, Assets under Construction, and equipment, are held at depreciated historical cost.
- All other assets are measured at current value, determined as the amount that would be paid for the asset in its existing use.

In respect of specialised assets, if there is an absence of market based evidence of value, depreciated replacement cost is used as an estimate of current value.

Valuations are provided by Royal Institution of Chartered Surveyors (RICS)-qualified valuers, are on the basis recommended by CIPFA, and accord with the Statement of Asset Valuation Principles and Guidance Notes issued by the RICS. Assets held 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 credited to the Revaluation Reserve unless they reverse previous losses charged to the Comprehensive Income and Expenditure Statement, in which case the gain shall be credited to that account. A fall in value will be charged firstly against any balance held in the Revaluation Reserve. If this is insufficient or non-existent, the charge is made to the relevant service line in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluations gains recognised since 1 April 2007 only, the date of its formal inception. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Depreciation

Non-current assets held for sale are not depreciated.

Other property is depreciated over its useful life on a straight line basis. Depreciation is based on the closing value of assets. Components are separately depreciated if

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- The total value of the host asset (excluding land) exceeds £0.500m and
- The value of the component exceeds 20% of the asset value (excluding land)

Depreciation periods are as follows:

	years
Property (excluding components separately identified)	5-60
Property components - mechanical	25
Portable office facilities	10-15
Vehicles	3-10
IT equipment	3-5
Other equipment	5-15

Revaluation gains are also depreciated by transfer of the difference between the current valuation depreciation charge and the historic cost depreciation charge, from the Revaluation Reserve to the Capital Adjustment Account.

Impairment

All assets are reviewed annually for impairment. Impairment losses are charged against revaluations held in the Revaluation Reserve. If these are inadequate the loss is charged to the relevant service line in the Comprehensive Income and Expenditure Statement. If an impairment loss is subsequently reversed, the reversal, up to the amount of the original loss adjusted for depreciation, is credited to the relevant service line in the Comprehensive Income and Expenditure Statement.

Disposal and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through continuing use, it is reclassified as an Asset Held for Sale and shown within current assets. The asset is re-valued immediately and carried at the lower of this amount and current value less costs to sell. If assets subsequently fail to 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) and their recoverable amount at the date of the decision not to sell.

On disposal the carrying amount of an asset 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 exceeding £10,000 from disposal are credited to the same line; lesser receipts are included as service income in cost of services. Any revaluation gains accumulated in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Capital Charges and Council Tax

The postings in the Comprehensive Income and Expenditure Statement in respect of depreciation, impairment, disposal and revaluation are reversed in the Movement in Reserves Statement to avoid impacting on council tax. Capital Receipts exceeding £10,000 are reversed to the Capital Receipts Reserve. Other reversals are to the Capital Adjustment Account.

1.20 Provisions

Provisions are made 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 is uncertain. Provisions are charged to the appropriate revenue account, Expenditure, when incurred, is charged direct to the provision.

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1.21 Reserves

Reserves are created by appropriating amounts from the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from the reserve is incurred, it is charged to the relevant service in the Comprehensive Income and Expenditure Statement, and the reserve is appropriated back into the General Fund Balance through the Movement in Reserves Statement.

1.22 Revenue Expenditure Funded From Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provision but 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.

If the Authority has determined to use capital resources to meet the cost (as opposed to funding from revenue) a transfer is done in the Movement in Reserves Statement, from the General Fund Balance to the Capital Adjustment Account, so that there is no impact on the council tax.

1.23 Value Added Tax

VAT is included in the accounts only to the extent that it is irrecoverable.

1.24 Fair Value Measurement

The Council measures some of its non-financial assets such as investment properties 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.

Valuations of non-financial assets are provided by Royal Institution of Chartered Surveyors (RICS)-qualified valuers, are on the basis recommended by CIPFA, and accord with the Statement of Asset Valuation Principles and Guidance Notes issued by the RICS.

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.

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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 that asset or liability, either directly or indirectly
- Level 3 - unobservable inputs for the asset or liability