3. STATEMENT OF ACCOUNTING POLICIES

3.1 General principles

The Statement of Accounts summarises the Council's transactions for the financial year and its position at the year end. The Accounts are prepared in accordance with the Statement of Recommended Practice (SoRP) and the Best Value Accounting Code of Practice (BVACoP), both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Accounting policies and estimation techniques have been selected and exercised having regard to the principles and concepts set out in Financial Reporting Statement 18 (FRS18), specifically:

The qualitative characteristics of financial information:

- Relevance
- Reliability
- Comparability
- Understandable
- Materiality

Pervasive Accounting Concepts:

- Accruals
- Going Concern
- Primacy of Legislative Requirements

The accounting convention adopted in these financial statements is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

3.2 Accruals of Income and Expenditure

Income and expenditure is accounted for 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.

- 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 stock in the Balance Sheet.

- Interest 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.

- From 2009/10, if the net cash paid to a major preceptor in the year is more than its proportionate share of net cash collected from Council Tax debtors/creditors in the year, the billing authority shall reconginse a debit adjustment for the amount overpaid to the major preceptor in the year and the major preceptor shall recognise a credit adjustment for the same amount to the debtor/creditor position between them bought forward from the previous year.

3.3 Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires a settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain.

Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Provisions are reviewed at the end of each financial year. Where the Council considers that a provision is no longer required, it is reversed and credited back to the relevant service revenue account.

3.4 Reserves

The Council sets aside specific amounts as reserves to meet potential future commitments for both capital and revenue purposes. These reserves have been established using revenue resources and are therefore available directly for revenue purposes or to finance capital expenditure. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance.

When revenue expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in the year to score against the Net Cost of Services in the Income and Expenditure Account. When capital expenditure to be met from a reserve is incurred, the expenditure is financed from revenue resources and recorded in the Statement on the Movement of the General Fund Balance. 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, but do not represent usable capital resources for the Council – the Revaluation Reserve, Capital Adjustment Account and Pension Reserve are explained in the relevant policies below.

3.5 Government Grants and Contributions (Revenue)

Government grants and third party contributions (e.g. S106 agreements) are recognised as income at the date that the Authority satisfies the conditions of entitlement to the grant/contribution, 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 the service revenue accounts with service expenditure to which they relate. Grants received to cover general expenditure e.g. Revenue Support Grant and Non-domestic Rates redistribution are credited to the Income and Expenditure Account after Net Operating Expenditure.

3.6 Retirement Benefits

Employees of the Council are members of the Local Government Pension Scheme, administered by Oxfordshire County Council. The Local Government scheme is accounted for as a defined benefit scheme.

- **The Local Government Pension Scheme -** The liabilities of the Oxfordshire 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 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 of current employees.

  Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on a high quality corporate bond. The discount rates at 31st March 2010 are based on the annualised yield on the iBoxx over 15 year AA rated corporate bond index.

  The assets of the Oxfordshire County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value, principally market value for investments.

  The change in the net pension's 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 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 Accounts 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 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 pension's 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/credited to the Statement of Total Recognised Gains and Losses.

- **Contributions paid to the Oxfordshire County Council 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.

3.7 VAT

All items of income and expenditure are shown in the accounts exclusive of Value Added Tax. VAT is normally fully reclaimed from HM Revenue and Customs. If in respect of any transaction, VAT is irrecoverable that sum has been included in the appropriate revenue or capital account.

3.8 Overheads and Support Services

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of CIPFA Best Value Accounting Code of Practice (BVACoP) 2008. 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 councils status as a multi-functional democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

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.

3.9 Community Assets

Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their use or disposal are classified as Community assets and valued at historic cost, which is usually nil. Examples of community assets are parks and historic buildings.

3.10 Intangible Assets

These are regarded as “non-financial fixed assets that do not have physical substance but are identifiable and controllable by the entity through custody or legal rights”. Purchased intangible assets, which represents IT software, are recorded at cost and are amortised to the revenue account over the estimated life of the assets as determined by the Head of Customer Services and Information systems.

3.11 Fixed Assets

- **Tangible Fixed Assets** - assets that have physical substance and are held for the provision of services or for administrative purposes on a continuing basis.

  Expenditure that has been capitalised includes expenditure on the:

  - acquisition, reclamation, enhancement or laying out of land;
  - acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures; and
  - acquisition, installation or replacement of moveable or immovable plant, machinery, apparatus and vehicles.

  In this context, enhancement means the carrying out of works which are intended to:

- lengthen substantially the useful life of the asset; or
- increase substantially the open market value of the asset; or
- increase substantially the extent to which the asset can or will be used for the purpose of or in conjunction with the functions of the Local Authority concerned.

- **Recognition -** expenditure on the acquisition, creation or enhancement of tangible fixed assets has been capitalised on an accruals basis, provided that it yields benefits to the council and the service that it provides for more than one financial year. The de-minimis level for capital expenditure in 2009/10 is £10,000.

- **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:

  - Other land and buildings – lower of net current replacement cost or net realisable value in existing us.
  - Vehicles plant and equipment – depreciated historical cost.
  - Infrastructure assets and community assets – depreciated historical cost.
  - Investment properties and surplus assets, held for disposal – lower of net current replacement cost or net realisable value.

  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, held for disposal – market value.

  Valuations for assets included in the Balance Sheet at current value are carried out on a five year rolling programme, or where there are material changes in the value. 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 1st 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 part of this review or 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 account.
  - otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess being charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there are 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.

- **Disposals -** In accordance with SoRP 2009, capital receipts not linked to asset disposals are recognised as income.

  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. 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.

  Any amounts in excess of £10,000 are categorised as capital receipts. Capital receipts cannot be used to finance revenue expenditure they can only be used to finance capital expenditure.

  Receipts from the disposal of fixed assets are accounted for on an accruals basis and the unapplied balance is included in the Balance Sheet as Usable Capital Receipts.

  A proportion of receipts relating to housing disposals are payable to the Government with the balance being available to finance future capital expenditure. This does not apply to the authority's share of receipts from sales under the preserved right to buy arising as part of the stock transfer agreement, where 100% of the proceeds are available to finance future capital expenditure.

  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.

- **Depreciation** - All fixed assets other than land and investment properties have been depreciated, except where the Council believe that the useful life of the asset is so long as to make depreciation immaterial.

  Assets are depreciated on a straight-line basis, over the estimated life of the asset.

  Newly acquired assets are depreciated from the year after acquisition, unless the variation in charge is considered material.

  In this respect only, the council does not fully comply with the requirements of FRS15.

  Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation 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.

- **Capital Grants and Contributions -** where grants and contributions are received they are initially credited into a Capital Grants or Capital Contributions Unapplied Account.

  Where a capital grant has resulted in the creation of a capital asset, the grant is written down over the expected useful life of the asset, the grant is not written down in the year it is received. Revenue grants are matched to the expenditure to which they relate.

  Whether paid on account, by instalments or in arrears, government grants and other contributions and donations are recognised in the accounts on the date that the grant conditions have been satisfied.

Service specific grants are matched in the revenue accounts against the service expenditure they relate to. Where capital expenditure does not result in an asset, this is now charged directly to Revenue (see below); where this expenditure is financed from capital grants or contributions, these are treated as revenue income.

When the grant or contribution is used to finance fixed assets with a finite useful life, the amounts are credited to a Government Grants Deferred Account or Capital Contributions Deferred Account. The balance on these accounts are 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 the assets.

3.12 Charges to Revenue for Fixed 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 loses 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

The council is not required to raise council tax to cover depreciation, impairment losses or amortisation. These transactions are therefore reversed in the Statement of Movement on the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account.

3.13 Revenue Expenditure Funded from Capital under Statute (REFCUS)

Previously known as deferred charges, Revenue Expenditure Funded from Capital under Statute represents expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets. Revenue expenditure funded from capital under statute incurred during the year is charged directly to the relevant service revenue account. Where the council has determined to meet the cost of the REFCUS 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.

3.14 Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

(Note not relevant for Cherwell District Council) – The Council is debt free

3.15 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 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 assets 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 which is the amount receivable for the year in accordance with the loan agreement.

  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 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 gain/losses previously recognised in the STGRL.

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

3.16 Exceptional Items

Exceptional items are ones that are material in terms of the Authority’s overall expenditure and are not expected to recur frequently or regularly. Exceptional items are included in the cost of the service to which they relate (or on the face of the Income and Expenditure Account if that degree of prominence is necessary in order to give a fair presentation of the accounts). A full explanation of each exceptional item is given in the Notes to the Core Financial Statements.

3.17 Prior Period Adjustments

Prior period adjustments are material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors.

Material adjustments applicable to prior years are accounted for by restating the comparative figures for the preceding period in the Statement and notes and adjusting the opening balance of reserves for the cumulative effect. A full explanation of each prior adjustment is given in the notes to the Core Financial Statements.

3.18 Leases

- **Finance Leases -** The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased asset transfer to the Council.

  Rental payments under finance leases are apportioned between the finance charge and the reduction in the outstanding obligation, with the finance charge being allocated to revenue over the term of the lease.

  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 that the assets estimated useful life.

- **Operating Lease Payments -** Leases that do not meet the definition of finance leases are accounted for as operating leases.

  Rentals payable under operating leases have been charged to service revenue accounts on a straight-line basis over the term of the lease.

- **Operating Lease Income -** Where the Council operates as the Lessor, operating lease income is credited to the Income and Expenditure Account on a straight line basis over the term of the lease.

3.19 Stocks and Work in Progress

Stocks and stores are included in the Balance Sheet at the lower of cost or net realisable value.

3.20 Provision for Bad and Doubtful Debts

Provision has been made for bad and doubtful debts based on an age profile analysis of the outstanding debtor balances and the nature of the outstanding debt.