Report of the Service Director Finance

Agenda Item No:
Meeting:

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

ACCOUNTING POLICIES 2008/09

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1 To ask members to approve the accounting policies that the council will use to close the 2008/09 accounts.

2. BACKGROUND INFORMATION

2.1 The Statement of Recommended Accounting Practice (SORP) for local authorities requires each local authority to adopt accounting policies that set principles for recording financial transactions within the Council's accounts.

2.2 The SORP is, in effect, a legal requirement as it is recognised in Government legislation as "Proper accounting practice".

2.3 The SORP requires that polices are set within UK accounting standards but otherwise they may reflect matters appropriate to an authority's circumstances.

2.4 The policies proposed for North Lincolnshire are based upon guidance issued by the Chartered Institute of Public Finance and Accountancy and take account of local circumstances.

2.5 It is also a requirement that accounting policies are reviewed each year. In previous years this review has not been reported to this Committee. To strengthen Governance arrangements, from this year the council's accounting policy statement will be reported once a review has been carried out. This year the new policy statement does not propose significant changes to existing policies.

3. OPTIONS FOR CONSIDERATION

3.1 Members are asked to satisfy themselves that the accounting policies set out in appendix A are appropriate. They are asked to pay particular attention to those policies highlighted as being modified to take account of local circumstances.

4. ANALYSIS OF OPTIONS

4.1 The local amendments to the standard accounting policies were incorporated into the accounts produced last year. The Audit Commission gave an unqualified opinion on those accounts. These local amendments are set out below:

i). A de minimis level has been applied to the accrual of income and expenditure. The de minimis level has been applied to reduce the administration surrounding the accrual of income and expenditure without materially affecting the accounts. For 2008/09 the level has been increased from £1,000 to £2,000. This will mean approximately 230 fewer accruals will be required with a value of £380k.

ii). The discontinued operation B-Line has not been shown separately on the face of the income and expenditure account but has been combined with other trading undertakings and shown separately on the appropriate note.

iii). The council has set a de minimis level of £10,000 for stock. Any holdings of stock worth less than £10,000 are not accounted for as stock. This reduces administration and does not have a material effect on the accounts.

iv). Deducting incidental costs incurred on the sale of fixed assets from the capital receipt. This practice allows the council to fund a team dedicated to the proactive management of the council's property portfolio.

4.2 There have been limited changes to the accounting policies from last year. The main changes are:

i). Many of the accounting policies have been expanded to improve clarity.

ii). The concept of deferred charges has been removed from the SORP and replaced by the concept of Revenue Expenditure funded from Capital under Statute. This has required the deferred charges policy to be replaced.

iii). Area Based Grant replaces Local Area Agreement grant from 2008/09. The accounting for this new grant is covered by a new accounting policy.

iv). The council has not previously had a policy on Acquired Operations.

v). Previously the impairment or uncollectability of a financial asset was covered by a Provision for Bad Debt policy. This year it has been replaced by a more specific Impairment and uncollectability of Financial Assets policy.

5. RESOURCE IMPLICATIONS

5.1 There are no direct financial implications arising from this report.

6. OTHER IMPLICATIONS

6.1 None.

7. OUTCOMES OF CONSULTATION

7.1 The Audit Commission were consulted about local amendments 4.1 i) and iv) before they were implemented. They gave an unqualified opinion on the accounts prepared using the amendments and were satisfied that the new de minimis level in amendment i) should not materially affect the accounts. Our previous Auditors Grant Thornton were consulted on local amendment 4.1iii). It has been incorporated into two sets of accounts, both of which have received an unqualified audit opinion.

8. RECOMMENDATIONS

8.1 That members approve the accounting policies set out in Appendix A.

SERVICE DIRECTOR FINANCE

Pittwood House
Ashby Road
SCUNTHORPE
North Lincolnshire
DN16 1AB
Author: Mark Kitching
Date: 23rd March 2009

North Lincolnshire Council Accounting Policies Manual

Accounting Policies 2008/09

Mark Kitching Corporate Accountant

Contents

Accounting Policies

1. General Principles

The Statement of Accounts summarises the council's transactions for the 2008/09 financial year and its position at the year-end of 31 March 2009. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008: A Statement of Recommended Practice (the SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

2. Accruals of Income and Expenditure

Activity 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 stocks on the Balance Sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress 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.

In respect of both capital and revenue transactions, the Council operates on the normal accruals concept of income and expenditure, thus all known sums, above the Council's de minimis threshold of **£2,000**, due to and from the Council at 31st March each year are included in the year end accounts.

3. 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 of the transfer is uncertain. For instance, the council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

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 to 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 (eg from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

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 that do not represent usable resources for the council – these reserves are explained in the relevant policies below.

5. Government Grants and Contributions (Revenue)

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

6. Retirement Benefits

Employees of the council are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Children, Schools and Families (DCSF).
- The Local Government Pensions Scheme, administered by East Riding of Yorkshire Council.

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council.

However, 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 if 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.

The Local Government Pension Scheme

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

- The liabilities of the East Riding of Yorkshire pension 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 determined by the Funds' Actuary.
- The assets of the East Riding pension fund attributable to the council are included in the Balance Sheet at their fair value:

  – quoted securities – current bid price

  – unquoted securities – professional estimate

  – unitised securities – current bid price

  – property – market value.
- The change in the net pensions liability is analysed into seven 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 East Riding of Yorkshire pension fund – cash paid as employer's contributions to the pension fund.

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 in the year, not the amount calculated according to the relevant accounting standards. 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 Annual Report and Accounts of the East Riding Pension Fund can be obtained from:

East Riding Pension Fund
Pensions Section
PO Box 118
Council Offices

Church Street
GOOLE
DN14 5YU

Or visit their website http://www.eastriding.gov.uk and select pensions from the A-Z of services.

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 (including teachers) 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. VAT

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 it.

8. Overheads and Support Services

The costs of overheads and support services are charged to those 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.

9. Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the council (eg software licences) is capitalised 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.

10. 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 asset (eg 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.

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. 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 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 revenue account
- 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.

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.

Disposals: 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 (ie 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. Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to repaid Right to Buy Discounts is payable to the Government . The balance of receipts is required to be credited to the 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. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance.

Depreciation: depreciation is provided for on all assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.

Deprecation is calculated on the following bases:

Deprecation is calculated on the following bases:

The calculation uses the straight-line method based on the following expected useful lives:

- Operational Buildings 1 to 53 Years
- Schools 7 to 50 Years
- Plant and Machinery 1 to 15 Years
- Vehicles 7 Years
- Infrastructure 5 to 50 Years.

The remaining useful life of these assets is reviewed annually.

No depreciation is provided on land, community assets, non-operational investment property assets and assets in course of construction.

No depreciation is provided on any asset in the year of acquisition.

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.

Grants and contributions: 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 balance depreciation charges made for the related assets n the relevant service revenue account, in line with the depreciation policy applied to them.

10a Deduction of expenses incurred on the sale of fixed assets from the capital receipt

The council has a locally determined policy to deduct the incidental costs incurred on the sale of fixed assets from the capital receipt. Whilst this is not allowed under standard accounting practice it has allowed the council to fund a small team which takes a proactive role in the management of the council's property portfolio, identifying and marketing surplus assets. The work of this team is accounted for on an accrual basis. The accrual is reduced based on the likelihood of the sale of each asset.

11. 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 amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance, or loans fund principal charges). 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.

12. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of fixed assets has been charged as expenditure to the relevant service revenue account in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, 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.

13. Leases

Finance Leases

The council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the council. 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 fixed 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 are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

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. For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable 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.

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 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.

However, where the council makes loans at less than market rates these are known as soft loans. When soft loans are made, a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Income and Expenditure Account to the net gain 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.

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 derecognition 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 (eg, 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
- equity shares with no quoted market prices – independent appraisal of company valuations.

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 derecognition 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).

Instruments Entered Into Before 1 April 2006

The council entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in Policy 3.

16. Stocks and Work in Progress

Stocks are included in the Balance Sheet at the lower of cost and net realisable value. Work in progress is subject to an interim valuation at the year-end and recorded in the Balance Sheet at cost plus any profit reasonably attributable to the works.

The Council has set a de minimis level of £10k for stock.

17. Interests in Companies and Other Entities

The council has no material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and is not required it to prepare group accounts. In the council's own single-entity accounts, the interests

18. Revenue Expenditure funded from Capital under Statute (replaces Deferred Charges)

Legislation in England and Wales allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a fixed asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's council tax. These items are generally grants and expenditure on property not owned by the authority, and amounts directed under section 16(2) of Part 1 of the Local Government Act 2003. Such expenditure should be charged to the Income and Expenditure Account in accordance with the general provisions of the SORP. Any statutory provision that allows capital resources to meet the expenditure should be accounted for by debiting the Capital Adjustment Account and crediting the General Fund Balance and showing as a reconciling item in the Statement of Movement on the General Fund Balance.

19. Contingent Assets

Contingent assets are not recognised in the accounting statements; they are disclosed by way of notes if the inflow of a receipt or economic benefit is probable.

20. Contingent Liabilities

Contingent liabilities are not recognised in the accounting statements; they are disclosed by way of notes if there is a possible obligation which may require a payment or a transfer of economic benefits.

21. Discontinued Operations

Income and expenditure directly related to discontinued operations is shown separately on the face of the Income and Expenditure Account under the heading of discontinued operations or within the Trading Undertakings entry, where appropriate.

22. Exceptional Items, Extraordinary Items and Prior Period Adjustments

Exceptional items should be 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. An adequate description of each exceptional item should be given within the notes to the accounts. The costs of any fundamental reorganisation or restructuring which has a material effect on the nature and focus of the authority's operations should be shown separately on the face of the Income and Expenditure Account.

Extraordinary items should be disclosed and described on the face of the Income and Expenditure Account after dealing with all items within the ordinary activities of the authority and should be explained fully in a note to the accounting statements.

The majority of prior period items arise from corrections and adjustments that are the natural result of estimates inherent in the accounting process. Such adjustments constitute normal transactions for the year in which they are identified, and should be accounted for accordingly. Material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors should be accounted for by restating the comparative figures for the preceding period in the Statement of Accounts and notes and adjusting the opening balance of reserves for the cumulative effect. The cumulative effect of the adjustments should also be noted at the foot of the Statement of Total Recognised Gains and Losses of the current period. The effect of prior period adjustments on the outturn for the preceding period should be disclosed where practicable.

23. Landfill Allowance Trading Scheme (LATS)

The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDAs) in England, Scotland, Wales and Northern Ireland to reduce the amount of biodegradable municipal waste (BMW) disposed to landfill. It also provides the legal framework for the Landfill Allowance Trading Scheme, which commenced operation on 1 April 2005 in England

The Landfill Allowance Trading Scheme, which has operated in England since 1 April 2005, like certain emission rights schemes, is a 'cap and trade' scheme, which allocates tradable landfill allowances to each WDA in England up to the amount of the WDA's 'cap'.

There is at present no UK FRS or UITF Abstract covering the cap and trade schemes. However, a proposed UITF Abstract on Emission Rights (Information Sheet No. 61) was issued by the ASB for consultation in 2003 but not proceeded with. In the present absence of an FRS or UITF Abstract on cap and trade schemes, authorities should adopt the accounting treatment proposed in Information Sheet No. 61.

In accordance with ASB Information Sheet No. 61, the Landfill Allowances Trading Scheme (LATS) gives rise to:

(a) an asset for allowances held

(b) LATS grant income

(c) a liability for actual BMW landfill usage.

Allowances, whether allocated by DEFRA or purchased from another WDA, should be recognised as assets and classified as current assets. They should be measured initially at their fair value.

Landfill allowances are issued free by DEFRA/the Scottish Government. The fair value of the allowances issued to WDAs is a government grant that should be accounted for under SSAP 4 Accounting for Government Grants. Accordingly, the grant is initially recognised as deferred income in the Balance Sheet and subsequently recognised as income on a systematic basis over the compliance year for which the allowances were allocated.

As landfill is used, a liability should be recognised for actual BMW landfill usage. This liability is a provision that falls within the scope of FRS 12 Provisions, Contingent Liabilities and Contingent Assets. The liability is discharged by using allowances to meet the liability, paying a cash penalty to DEFRA/the Scottish Government or a combination of both. The liability should be measured at the best estimate of the expenditure required to meet the obligation at the Balance Sheet date. This will normally be the present market price at the Balance Sheet date of the number of allowances needed to cover actual BMW landfill usage for the year. However, if, in a WDA's best estimate, some or the entire obligation will be met by paying a cash penalty to DEFRA/the Scottish Government, it should measure that part of its liability at the cost of the penalty rather than at the market price of the relevant number of allowances.

Under Information Sheet No. 61, two accounting policies for remeasuring the value of landfill allowances after initial recognition are permitted:

- lower of cost and net realisable value
- revaluation to market value.

Local authorities should adopt a 'lower of cost and net realisable value' accounting policy since this avoids some difficult and unresolved accounting issues concerning the accounting treatment of revaluation gains and losses on future year allowances.

24. Acquired Operations

Income and expenditure directly related to acquired operations should be shown separately on the face of the Income and Expenditure Account under the heading of acquired operations.

25. Area Based Grant

From 2008/09 financial year Local Area Agreement Grant will be replaced by Area Based Grant (ABG). ABG is a non-ringfenced general grant, no conditions on use is imposed as part of the grant determination ensuring full local control over how funding can be used. This means that, unlike LAA Grant, its use is not restricted to supporting the achievement of LAA targets. Also, unlike LAA Grant, ABG is paid directly to the authority that benefits from the grant, rather than being paid to the upper-tier authority for the area in the capacity of 'accountable body' for onward distribution. ABG is a general grant, which should be included in the Income and Expenditure Account with other general income sources such as income from the collection fund and NDR distribution. A breakdown of general grants income by type of grant should be shown in the Statement of Accounts or in the notes to the accounts.

26. Government Grants and other contributions (Capital)

Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is credited to the Government Grants Deferred account and written off in the service revenue account over the useful life of the asset to match the depreciation of the asset to which it relates.

Government grants or other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received.

27. Impairment and uncollectability of Financial Assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of a past event that occurred subsequent to the initial recognition of the asset. Expected losses as a result of future events, no matter how likely, should not be recognised. The downgrade of the credit rating of a creditor is not of itself objective evidence of impairment, although it may be when considered with other information. Events that provide objective evidence of impairment include the following:

(a) significant financial difficulty of the creditor

(b) a breach of contract, such as a default or delinquency in interest or principal payments

(c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider

(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation

(e) the disappearance of an active market for that financial asset because of financial difficulties

(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

(i) adverse changes in the payment status of borrowers in the group (eg an increased number of delayed payments), or

(ii) national or local economic conditions that correlate with defaults on the assets in the group (eg a significant increase in the unemployment rate in the authority area).

At each Balance Sheet date an assessment should be made of whether there is objective evidence that any financial asset or group of financial assets may be impaired. An assessment should first be made of whether evidence of impairment exists individually for financial assets that are individually significant. Then an assessment of impairment should be made individually or collectively for financial assets that are not individually significant.