

Annual Accounts

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(1) Statement of Accounting Policies

I. General principles

The purpose of the Statement of Accounting Policies is to explain the basis of measurement that has been used in the preparation of the Financial Statements. The Annual Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year end 31 March 2016.

The Financial Statements for 2015/16 are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (The Code) issued by The Chartered Institute of Public Finance and Accountancy (CIPFA), Financial Reporting Standards (FRS) and where appropriate the International Accounting Standards (IAS). The Accounting convention adopted is principally historical cost modified by fair value for particular categories of assets and liabilities.

There are no instances in the Annual Accounts where the fundamental accounting concepts have not been followed. The Annual Accounts can contain estimated figures, where the actual figure is not known. Estimates are made taking into account historical experience, current trends and other relevant factors. There are no items in

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the Balance Sheet at 31 March 2016 for which there is believed to be a significant risk of material adjustment in the forthcoming financial year.

The Council has to consider all their interests and to prepare a full set of Group Accounts where they have material interests in subsidiaries, associates or joint ventures. West Berkshire Council currently has no interests that necessitate the production of Group Accounts.

II. Post Balance Sheet Events

Post Balance Sheet Events are included in the notes to the core Financial Statements as they occur and represent significant transactions / events which are known to have taken place since the Balance Sheet date.

III. Accruals of Income and Expenditure

All revenue and capital income and expenditure relating to the financial year 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 inventory 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 borrowing and receivable on investment 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 in the accounts but cash has not been received nor paid, a debtor or creditor for the relevant amount is recorded on the Balance Sheet.

An exception to this rule is the periodic costs such as gas and electricity, which are included in the accounts on a payments basis and are not considered material to the accounts.

IV. Cash and Cash Equivalents

Cash and cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Council's policy is to include cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less.

V. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the Council satisfies the conditions of entitlement to the grant/contribution. There must also be reasonable assurance that the monies will be received and the expenditure

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for which the grant is given has been incurred. Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet under creditors. When conditions are satisfied the grant or contribution is moved to the relevant service revenue account.

Where capital grants have been credited to the Comprehensive Income and Expenditure Statement they are reversed out of the General Fund through the Movement in Reserves Statement.

VI. 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 losses where there are no accumulated gains in the revaluation reserve against which they can be written-off.

The Council is not required to raise Council Tax to cover depreciation, 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 an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account.

VII. 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 a fixed asset, 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 to the General Fund balance on the Statement of Movement in Reserves, so there is no impact on the level of Council Tax.

VIII. Employee Benefits

VIII (a) Salaries and Wages

The cost of salaries and wages has been included in the accounts based on 12 months and 52 pay weeks.

In line with (IAS 19), an accrual has been made for leave and flexible hours owing at year end. The accrual is based on a three year historic sample of leave owing and then averaged out to give a total for the whole Council. No adjustment has been made for other employee costs.

VIII (b) Pension Schemes and Discretionary Benefits

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Employees of the Council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The Local Government Pension Scheme (Berkshire Pension Scheme) is administered by The Royal Borough of Windsor and Maidenhead.
- The NHS Pension Scheme.

All schemes provide defined benefits to members (retirement lump sums and pension), earned as employees working for the Council.

The arrangements for the Teachers' Pension 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 contribution payable to the Teachers' Pension Scheme in the year.

The NHS Pension Scheme is also accounted for as if it were a defined contributions scheme.

The Berkshire Pension Scheme is accounted for as a defined benefits scheme:

The liabilities of the Berkshire Pension Scheme attributed to the Council are included in the Balance Sheet on an actuarial basis using the Projected Unit Method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings of current employees.

Liabilities are discounted to their value at current prices using a discount rate. (The discount rate is the yield on the Merrill Lynch Non Gilt Sterling AA over 15 year Corporate Bond index, with an adjustment to reflect the liabilities relative to the duration of the index.)

The assets of the Berkshire Pension Scheme 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 the following components:

- Service cost comprising:
 - current service cost – the increase in liabilities as a result of years of service earned this year;

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- past service cost – the change in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years or from plan curtailments;
- Gains or losses on settlements - transactions that eliminate all further legal or constructive obligations for part or all of the benefits provided under the plan.
- Administration expenses are those that are directly related to the management of plan assets. These have been charged to the Comprehensive Income and Expenditure Statement.
- Net interest on the net defined benefit liability - the change during the period in the net defined benefit liability. It 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 adjusted for contribution and benefit payments during the year.
- Re-measurements comprising:
 - differences between the return on plan assets and interest income on plan assets calculated as part of the net interest on the net defined benefit liability;
 - actuarial gains and losses which result from events not coinciding with assumptions made at the last actuarial valuation or the actuaries updating the assumptions.
- Contributions paid into the Berkshire Pension Scheme, and
- Benefits paid.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Berkshire Pension Scheme 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 scheme and any amounts payable to the pension scheme but unpaid at the year-end. The negative balance that arises on the Pension 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 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 in the Berkshire Pension Scheme.

Redundancy policy: It is the Council's policy to minimise the impact of organisational change on its employees and to redeploy employees whenever

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possible. Therefore redundancies and redundancy payments only occur when absolutely necessary and in agreement with Trade Unions.

When redundancy payments are applicable it will be as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy.

It is the Council's policy not to offer enhanced pension payments on termination of employment.

IX. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice (SeRCOP). The full cost of overheads and support services are shared between users in proportion to the benefits received.

The costs of the Corporate and Democratic Core have been separately identified and are not borne by the revenue services. This category is defined by the SeRCOP and accounted for, within the Central Services heading of the Net Cost of Services in the Comprehensive Income and Expenditure Statement.

X. Investment Property

Only properties that the Council holds solely to earn rental income or capital appreciation are classed as Investment Properties. These properties are not used by the Council in its daily business. Initially Investment Properties are valued at cost and are then re-valued annually.

XI. Heritage Assets

FRS 30, Heritage Assets, has been adopted by the Council. Heritage Assets are those assets held by the Council for cultural, environmental or historical reasons in relation principally to their contribution to knowledge and culture.

XII. Property, Plant and Equipment (PPE)/Other information re Fixed Assets

Only assets with a value of £5k or more are counted as Fixed Assets.

Where a Fixed Asset yields economic benefit to the Council, all expenditure on the acquisition, creation and enhancement of the asset, is capitalised on an accruals basis. This excludes expenditure on routine repairs and maintenance of Fixed Assets, which is charged direct to service revenue accounts.

Fixed Assets are initially valued at cost, comprising all expenditure that is directly attributable to that asset, on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors, known as the RICS Red Book.

CIPFA guidance allows Councils to choose whether to depreciate its assets at either the mid point through the year or at the end of the year. West Berkshire Council's assets have been depreciated at the end of the year.

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Fixed Assets are classified into the groupings shown in the Balance Sheet under the following headings:

- Land and Buildings, shown at fair value
- Plant and Equipment, shown at depreciated historical cost
- Infrastructure Assets, shown at depreciated historical cost
- Community Assets, shown at depreciated historical cost
- Investment Properties, shown at market value
- Assets Under Construction, shown at historical cost
- Assets Held for Sale, shown at fair value.

Assets included in the Balance Sheet at fair value are re-valued, as a minimum, every five years, except for Investment Properties which are re-valued annually. All increases in valuations are matched by credits to the Revaluation Reserve as unrealised gains.

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.

If an impairment loss was identified on a Fixed Asset it would be charged to the Comprehensive Income and Expenditure Statement. If there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss would be transferred from the Revaluation Reserve to the Capital Adjustment Account.

When an asset is sold, the value of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Capital Receipts are credited to the Usable Capital Receipts Reserve and can only be used for new capital investment or set aside to reduce the Council's underlying need to borrow.

Where an item of Property Plant or Equipment is made up of components that have different asset lives, International Accounting Standard 16 (IAS 16) requires the components to be recognised as separate assets. West Berkshire Council splits Fixed Assets into components where components are either 10% of the asset's value or have value of more than £250k. These assets are recognised either at the time of purchase or on revaluation.

In accordance with IAS 16, depreciation is provided for on all Fixed Assets with a finite useful life.

All Fixed Assets, with the exception of Freehold Land, Community Assets, Investment Properties and Assets Under Construction are depreciated,

Depreciation is calculated on the following basis:

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- Dwellings and other buildings – straight line allocation over the life of the property as estimated by a valuer, between 10 and 60 years
- Vehicles, Plant and Equipment - straight line allocation over the life of the asset, mainly 10 years
- IT Assets are depreciated over 5 years
- Infrastructure – straight line allocation, between 10 and 40 years.

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.

Where assets have been componentised, components can be depreciated over different asset lives, but they will always be in the same asset class.

Fixed Assets Held for Sale are initially measured and carried at fair value in the Balance Sheet. Where the asset has fixed or determinable payments, annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

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 Capital Adjustment Account and the gain/loss is recognised in the Surplus or Deficit on the Provision of Services. The exception is where impairment losses have been incurred – these are debited to the Comprehensive Income and Expenditure Statement.

Where assets are identified as impaired because of a past event, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. Any gains and losses that arise on de-recognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Deferred Capital Receipts are amounts derived from the sales of assets, which will be received in instalments over agreed periods of time. They arise principally from mortgages and sales of council houses.

Capital Receipts from the disposal of assets are held in the Usable Capital Receipts Reserve until such time as they are used to finance other capital expenditure or to repay debt.

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Under the Local Government and Housing Act 1989 a specific proportion of each capital receipt must be set aside or “reserved”; normally only the usable element is available to the Council.

XIII. Inventories and Work in Progress

Inventories are shown in the Balance Sheet on a cost basis. This is compliant with IAS 2, which recommends valuation at the lower of cost or net realisable value.

XIV. Provisions, Contingent Liabilities and Contingent Assets

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

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), 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.

Contingent Liabilities and Contingent Assets arise where an event has taken place that gives the Council a possible asset or obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of economic benefits will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities and contingent assets are not recognised in the Balance Sheet but are disclosed in a note to the accounts.

XV. Financial Instruments

The term 'Financial Instrument' covers both financial assets and liabilities and includes debtors, creditors, the Council's borrowings, PFI liabilities and investment transactions. It broadly covers the instruments used in the treasury management activity of the Council, including the borrowing and lending of funds and the making of investments.

Loans raised by the Council are mainly through the Public Works Loans Board (PWLB). All interest is charged to the Comprehensive Income and Expenditure Statement.

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As part of its interest and debt management, on occasion the Council may repay loans before their maturity date; usually receiving a discount or incurring a premium. Such gains and losses on premature repayment of debt are recognised in the Comprehensive Income and Expenditure Statement in the year they occur, unless they meet the modification test in The Code (i.e. the present values of the debt restructured has not changed significantly). Otherwise they are adjusted through the Financial Instruments Adjustment Account (FIAA) in accordance with statutory criteria.

Where PWLB borrowing is repaid and replaced on the same day, gains and losses are amortised using the effective interest rate method provided the modification test criteria set out in The Code are met. For financial assets and liabilities carried at fair value, the fair value has been determined using discounted cash flow analysis. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the General Fund Balance.

Provisions for Bad Debts have been established in respect of general debtors in accordance with the CIPFA code of practice. The level of the provision has been set to provide adequate cover based upon an aged debt profile as at 31 March 2016.

Borrowings The loan debt held by Berkshire County Council (BCC) when it was abolished due to local government reorganisation as at the 31 March 1998 amounted to approximately £220m. The portfolio of debt consisted entirely of Public Works Loans Board (PWLB) loans, of which some £40m was deemed to be West Berkshire's liability as part of the disaggregation process. At that time it was agreed by all the Berkshire councils that the total debt would be administered by Reading Borough Council as part of their role as Designated Council overseeing the closure of the BCC accounts.

The Prudential Code presented the opportunity for this Council and other Berkshire councils to take back the direct management of the remaining part of the ex BCC loan debt. The transfer took place with effect from 1 December 2005 and at that time £28.92m of PWLB debt was transferred to West Berkshire Council.

The level of Investment required to fund the Capital Programme currently over and above the level of external funding available is borrowed from the Public Works Loans Board.

Investments are shown in the Balance Sheet at cost.

Interest has been credited to certain reserves at the year-end based on the average level of balances during the year. The balance of the interest received (after the amount credited to reserves) has been credited to the General Fund.

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

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For most of the borrowings this means that the amount presented in the Balance Sheet is the outstanding principal repayable and the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Financial Assets: Loans and Receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

For the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Capital Financing: The Prudential Code Framework places the emphasis for capital expenditure on affordability. Local councils themselves decide how much they can afford to borrow, the costs of this borrowing being met from the revenue budget.

Every year, a borrowing limit and annual investment strategy is produced, which is approved by full Council.

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 Annual Accounts to the extent that provisions might be required or a contingent liability note is needed.

XVI. Private Finance Initiative (PFI)

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

Prepayments: A prepayment for services receivable under the contract arises when assets are transferred to the control of the PFI contractor, usually at the start of the scheme. The difference between the value of the asset at the date of transfer and any residual value that might accrue to the Council at the end of the contract is treated as a contribution made to the contractor and is accounted for as a prepayment. The prepayment is written down (charged) to the respective revenue account over the life of the contract to show the full value of services received in each year. However, as the charge is a notional one, it is reversed out in the General Fund to remove any impact on Council Tax or rents.

Reversionary Interests: The Council has passed control of certain land and buildings over to the PFI contractor, but this property will return to the Council at the end of the scheme (reversionary interests). An assessment has been made of the net present value that these assets will have at the end of the scheme (unenhanced) and a Reversionary Interest Asset has been created in the Council's Balance Sheet.

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As the asset is stated initially at net present value, the discount will need to be unwound over the life of the scheme by earmarking (decreasing) part of the unitary payment to ensure the reversionary interest is recorded at current prices when the interests revert to the Council.

Residual Interests: Where assets created or enhanced under the PFI scheme are to pass to the Council at the end of the scheme at a cost less than fair value (including nil) (residual interests), an amount equal to the difference between the fair value and the payment to be made at the end of the contract is built up as a long-term debtor over the contract life by reducing the amount of the payment charged to the revenue.

PFI Credits: Government grants received for PFI schemes, in excess of current levels of expenditure.

XVII. Leases

The Council has acquired a number of assets, mainly vehicles and equipment by means of operating leases. In accordance with current accounting procedures the operating leases are not stated in the Balance Sheet. Rentals are charged to revenue in accordance with the terms of the lease. The Council did not enter into any finance lease agreements during the year.

XVIII. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts to the General Fund. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year and put against the Net Cost of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for Tangible Fixed Assets and Retirement Benefits. These do not represent usable resources for the Council. Both Usable and Unusable Reserves are explained in note 24.

XIX. VAT

Income and expenditure in the Council's accounts excludes any amounts related to VAT. VAT is reconciled and accounted for to HM Revenues and Customs on a monthly basis.