(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 summarise the Council's transactions for the 2016/17 financial year and its position at the year end, 31 March 2017.

The Financial Statements for 2016/17 are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (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 the revaluation of certain categories of non-current assets and financial instruments. The Annual Accounts have been prepared on a 'going concern' basis.

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 the Balance Sheet at 31 March 2017 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

Events after the Balance Sheet date are those events, both favourable and unfavourable, which occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified;

- Those that provide evidence of conditions that existed at the end of the reporting period. In this instance the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period. In this instance, the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date when the Statement of Accounts is authorised for issue are not reflected in the Statement of Accounts.

III. Exceptional Items

When items of income and expenditure are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to understanding the Council's financial performance.

IV. Accruals of Income and Expenditure

All revenue 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. Where debts may not be settled, the balance of the debtors is written down and a charge made to revenue for the income that might not be collected.

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.

Accruals are not made for capital expenditure, but unspent capital funds are carried forward to the next financial year to cover any commitments which are outstanding at year end. This does not follow CIPFA guidance as the recommended practice expects the use of accruals based accounting that is recognising items as assets, liabilities, income and expenses when they satisfy the definitions and recognition criteria for those elements in the Code. The Council is of the opinion that the time required to produce these accruals is not cost effective. The capital expenditure is written out through the accounts so has no meaningful impact on the Council's current operation or on the Comprehensive Income and Expenditure Statement, although it will have a minor impact on the Council's 'net worth' on the Balance Sheet. The level of the accrual has been estimated to be about £2 million which is 0.46% of the total value of Fixed Assets on the Balance Sheet.

V. 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. In the balance sheet, cash and cash equivalents are shown net of bank overdrafts that are payable on demand and form an integral part of the Council's cash management strategy.

VI. 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 (If there are no 'conditions' the grant is reflected as income immediately). There must also be reasonable assurance that the monies will be received and the expenditure 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.

VII. 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 the losses 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.

VIII. 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.

IX. Employee Benefits

(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.

(b) Pension Schemes and Discretionary Benefits

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, administered by NHS pensions.

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 pension 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; allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

    - 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; credited or debited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

- 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 ie net interest expense for the Council - 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 and adjusted for contribution and benefit payments during the year. This is charged to the Financing and Investment income and Expenditure Line of the Comprehensive Income and Expenditure Statement.

- 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.

  These charges are charged to the Pension Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid into the Berkshire Pension Scheme, cash paid as employer's contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the 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 possible. Therefore redundancies and redundancy payments only occur when absolutely necessary and in consultation with the 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 their retirement date or an officer's decision to accept voluntary redundancy. These costs are charged on an accruals basis to the respective service line in the Comprehensive Income and Expenditure Statement.
It is the Council's policy not to offer enhanced pension payments on termination of employment.

X. 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) for Local Authorities 2016/17. 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 Net Cost of Services in the Comprehensive Income and Expenditure Statement.

Non Distributed Costs – the provision of post-employment unfunded benefits awarded on a discretionary basis and impairment losses chargeable on Assets Held for Sale is accounted for as a separate heading within the Net Cost of Services in the Comprehensive Income and Expenditure Statement.

XI. Investment Property

Investment properties are those that are used solely to earn rental income or for capital appreciation. The definition does not apply if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be sold. Investment properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment income and expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rental income received in relation to investment properties is credited to the Financing and Investment Income line and results in a gain for the General Fund Balance. Revaluation gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

XII. 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. The Council has two main Heritage Assets; the Berkshire Record Office Archives and the West Berkshire Museum Collections. Neither of these assets are disclosed in the Balance Sheet since the cost of obtaining reasonable valuations would not be commensurate with the benefits to users of these statements.

XIII. Highways Asset

The CIPFA Code of Practice on Transport Infrastructure Assets (the Infrastructure Code) takes effect from 1 April 2017. The Code confirms that the changes arising from the Infrastructure Code do not require retrospective adjustment to the accounts. Under the Infrastructure Code, Transport Infrastructure Assets will be recognised as a separate class of Property, Plant and Equipment measured at depreciated replacement cost. This will consist of seven components: carriageways, footways and cycle tracks, structures, street lighting, street furniture, traffic management systems and land. This separate class of asset will be called the Highways Asset.

The disclosure will require a transfer of assets between infrastructure and the new Highways Asset category. This will result in a revaluation gain due to the change from depreciated historic cost to depreciated replacement cost basis. Thus the new valuation will reflect the current cost of replacement rather than the original cost of the works, which would have been built up over a significant time period.

In addition there are a number of minor amendments to International Financial Reporting Standards, but these are not expected to have any material impact on the accounts.

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

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Measurement

Fixed assets are initially valued at cost, comprising:

- The purchase price,
- Any costs attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management.

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.

Fixed assets are classified 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.
- Highways Asset, shown at fair value.

Revaluation

Assets included in the Balance Sheet at fair value are re-valued, as a minimum, every five years, except for Investment Properties and the Highways Asset which are re-valued annually. All increases in valuations for PPE are matched by credits to the Revaluation Reserve as unrealised gains. Exceptional increases might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

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.

When decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gain);
- When there is not a balance within the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

Impairment

Where impairment losses are identified they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gain);
- When there is not a balance within the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

- Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for the depreciation that would have been charged if the loss had not been recognised.

Componentisation

The code requires that each part of an item of Property, Plant and Equipment with a cost that is significant in relation to the total cost of the item is depreciated separately and componentised. Within the Council's asset portfolio there are a number of asset classes where componentisation will not be considered.

- Equipment as this is considered immaterial.
- Infrastructure
- Asset classes which are not depreciated such as Land, Investment properties, Heritage assets, Community Assets, Surplus Assets and Assets Held for Sale.

The remaining assets which are contained with the operational portfolio are often of a specialised nature such as schools, leisure centres and libraries. The Council requires the valuers to provide component information for each asset which is then reviewed to assess if inclusion of different components will have a material impact on depreciation.

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.

Depreciation

In accordance with IAS 16, depreciation is provided for on all Fixed Assets with a finite useful life by the systematic allocation of their depreciable amounts over their useful lives.
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:

- Dwellings and other buildings – straight line allocation over the life of the property as estimated by a qualified 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.
- The Highways asset depreciation is calculated in accordance with the current methodology in the Transport Code. Any differences to the depreciated replacement cost (DRC) value on this asset will require appropriate adjustments to the Revaluation Reserve.

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.

Disposals and Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is classified as an Asset

Held for Sale. The asset is revalued immediately before reclassification. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to a non - current asset and valued at the lower of their carrying amount before they were classified as Held for Sale. The asset is adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale.

When an asset is disposed of or is decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also 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 accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land, net of statutory deductions and allowances) is payable to the Government up to a maximum ceiling. The balance of receipts is required to be credited to the Capital Receipts Reserve and can only be used for new capital investments or set aside to reduce the underlying need to borrow.

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 General Fund Balance in the Movement in Reserves Statement.

XV. 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.

XVI. 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 or amount 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 Comprehensive Income and Expenditure Statement and the relevant provision released from 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 Assets arise where an event has taken place that gives the Council a possible asset 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.

XVII. 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.

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 2017
.

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.

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.

Fair Value estimations: With the exception of its long term loans from the Public Works and Loans Board (PWLB), the fair value of all the Council's financial assets and liabilities is deemed to be equal to their carrying value. This is because these assets and liabilities are, for the most part short term in nature (i.e. < one year). The fair value of the Council's long term PWLB loans as shown in the statement of accounts is calculated by the PWLB.

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.

XVIII. 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.
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 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 account.

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

XIX. Leases

The Council as Lessee;

The Council has acquired some land, buildings, 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 the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, in accordance with the terms of the lease.

The Council as Lessor;

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the balance sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

The Council did not enter into any finance lease agreements during the year.

XX. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. 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.

The category of unusable reserves includes those reserves which are kept to manage the accounting processes for non-current assets, retirement and employee benefits. These do not represent usable resources for the Council. Both Usable and Unusable Reserves are explained in note 24.

XXI. VAT

The Comprehensive Income and expenditure Account excludes any amounts related to VAT. VAT is reconciled and accounted for to HM Revenues and Customs on a monthly basis.

XXII. Collection Fund

The Collection Fund Statement is an agent's statement which reflects the statutory obligation in accordance with section 89 of the Local Government Finance Act 1988 for billing authorities to maintain a separate Collection Fund. The Collection Fund shows the transactions of the billing authority in relation to the collection from taxpayers and the distribution to local authorities and the government of council tax and non-domestic rates. There is no requirement for a separate Collection Fund Balance Sheet since the assets and liabilities arising from collecting non- domestic rates and Council Tax belong to the bodies (ie major preceptors, the billing authority and the government).

XXIII. Accounting for Council Tax

While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out from the Collection Fund to the Major preceptors.

The Council Tax income included in the Comprehensive Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year. Revenue related to Council Tax shall be measured at the full amount receivable as they are non contractual, non exchange, transactions and there can be no difference between the delivery and payment dates.

The cash collected by the Council from Council Tax payers belongs to all the major preceptors. The difference between the amounts collected on behalf of the other major preceptors and the payments made to them is reflected as a debtor or creditor balance as appropriate.

XXIV. National Non-Domestic Rates

The NNDR income for the year credited to the Collection Fund is the accrued income for the year. Regulations determine when it should be released from the Collection Fund and paid out to major preceptors and the Government. The amount credited to the General Fund under statute is the Council's estimated share of NNDR for the year from the National Non-Domestic Rates (NNDR) 1 return.

The NNDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of the collection fund's accrued income for the year from the NNDR 3 return. Revenue relating to non-domestic rates shall be measured at the full amount receivable as they are non contractual, non exchange transactions and there can be no difference between the delivery and payment dates.

XXV. Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (ie those categories of school identified in the School standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not group accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the authority as if they were the transactions, cash flows and balances of the authority.