2021/22 Year end Preparation

Committee considering report:	Governance and Ethics Committee
Date of Committee:	25 April 2022
Portfolio Member:	Councillor Ross Mackinnon
Date Head of Service agreed report: *(for Corporate Board)*	30 March 2022
Date Portfolio Member agreed / sent:	12 April 2022
Report Author:	Shannon Coleman-Slaughter
Forward Plan Ref:	GE4211

1 Purpose of the Report

This report is to inform members of the accounting policies to be applied in the production of the Council's 2021/22 Financial Statements. It is also to propose changes to accounting policies to be adopted for the 2022/23 financial year, and to highlight changes to accounting policies arising from changes in activities and in respect of accounting standards issued, not yet adopted.

2 Recommendation

2.1 Members are asked to consider and approve the following recommendations:

(a) To approve a change to the Council's 2021/22 accounting policy in respect of cash and cash equivalents. The Council has to specify an accounting policy in respect of both cash and 'cash equivalent' financial assets. The classification is made with reference to the liquidity of holdings, for which the proposed accounting policy would define both as repayable within not more than 24 hours. (See Section 6.2).

(b) To approve the accounting policies which will be applied in the production of the Council's 2021/22 Financial Statements (Appendix A).

2.2 Members are requested to note the following:

(a) Forthcoming accounting requirements, issued but not yet adopted, in respect of the accounting standard IFRS 16 *Leases*, which has been deferred for a further two financial years.

(b) Potential implications for accounting arrangements from 2022/23 for interests in companies and other entities.

(c) The timetable under which the draft 2021/22 Financial Statements are to be produced (Appendix B)

2.3 Members are asked to recommend to Executive:

(a) With effect from 1 April 2022, a de minimis limit of £10,000 for expenditure to be categorised as capital expenditure.

3 Implications and Impact Assessment

Implication	**Commentary**			
Financial:	Whereby a Council is deemed to have not produced financial statements in accordance with relevant accounting requirements, this can result in additional testing by external auditors and increased external audit fees.			
Human Resource:	Not applicable			
Legal:	The Council is required to ensure the annual financial statements are properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code) and prepared in accordance with the Local Audit and Accountability Act 2014.			
Risk Management:	Where external auditors deem that the Council's annual financial statements are not deemed in accordance with the CIPFA Code of Practice on Local Authority Accounting and the Local Audit and Accountability Act 2014, and do not provide a true and fair view of the Council's financial position and performance, this may result in a qualified audit opinion.			
Property:	Not applicable			
Policy:	Not applicable			
	Positive	**Neutral**	**Negative**	**Commentary**
Equalities Impact:				

A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
Environmental Impact:		X		
Health Impact:		X		
ICT Impact:		X		
Digital Services Impact:		X		
Council Strategy Priorities:		X		
Core Business:		X		
Data Impact:		X		
Consultation and Engagement:	Joseph Holmes, Executive Director for Resources, s151 Officer			

4 Executive Summary

4.1 At the date of drafting this report the Council's external auditors, Grant Thornton, are concluding their audit of the Council's 2020/21 Financial Statements. Nationally, there has been a delay across the sector in respect of external audit opinions being finalised. 91% of local government bodies in England missed the statutory deadline of 30 September 2021 for publication of their audited financial statements.

4.2 In order to address the delays in issuing audit opinions by external auditors, CIPFA completed a consultation on the code of accounting practice, consulting on a number of temporary proposals to reduce audit scope. The Financial Reporting Advisory Board (FRAB), has subsequently approved a deferral of the IFRS 16 leases implementation. Under IFRS 16, with the exception of leases of low value items and short term leases, where the Council is lessee to a contract it will need to recognise on the Balance Sheet a right of use asset, and corresponding lease liability. This will increase the Council's Capital Financing Requirement and the Council will be required to make a Minimum Revenue Provision. The deferment approved by FRAB will result in IFRS 16 leases not becoming mandatory for Local Authorities for a further two financial years. Councils are however required to note the impact of accounting standards issued, not yet adopted,

4.3 As part of the annual accounts close down process, the Council is required to review its accounting policies to ensure compliance with the CIPFA Code of Practice on Local Authority Accounting. To ensure compliance with the 2021/22 CIPFA Code of Practice, the following two amendments to existing policies are proposed:

(a) **Cash and cash equivalents**: The Council has to specify an accounting policy in respect of both cash and 'cash equivalent' financial assets. The classification is made with reference to the liquidity of holdings, for which the proposed accounting policy would define both as repayable within not more than 24 hours. (See Section 6.2). Previously, the Council had reported 'cash equivalents' to include items repayable within up to three days, and which therefore was less representative of the true liquidity of holdings.

(b) **Capitalisation de minimis**: Due to cost inflation, it is proposed to increase the Council's current capitalisation threshold of £5k to £10K with effect from 1 April 2022. (See Section 6.3). This Adoption of this higher limit is consistent with the statutory threshold for recognition of capital receipts arising on asset disposals.

4.4 It should also be noted that in 2021/22 the Council did not hold any interest in companies or other entities. The Council is currently in the process of entering into a Joint Venture with Sovereign Housing Association for the purpose of increasing the local housing supply. Depending on the scale of its involvement with the Joint Venture, (i.e. should any material transactions be processed, based upon the level of materiality set by the external auditors), the Council may be required to prepare consolidated Group Accounts from 2022/23.

5 Supporting Information

5.1 Under International Standards of Audit (ISAs) and the National Office Code of Audit Practice, the Council's external auditors are required to report whether, in their opinion, the Council's financial statements:

(a) Give a true and fair view of the financial position of the Council and Council's income and expenditure for the year; and

(b) Have been prepared in accordance with the CIPFA Code and prepared in accordance with the Local Audit and Accountability Act 2014.

5.2 Whilst the Council met the deadline for publication of draft financial statements (31st July 2021), for financial year 2020/21, commencement of the external audit was subject to delays for reasons beyond the control of the Council, including the continuing impact of the Covid-19 pandemic. As a result West Berkshire was one of the 91% of local bodies in England that missed the statutory deadline of 30 September 2021 for publication of their audited accounts. The external audit of the Council's 2020/21 financial statements commenced in November 2021, currently, the external audit is still underway.

6 Proposals

6.1 As part of the annual accounts close down process, the Council is required to review its accounting policies to ensure compliance with the CIPFA Code of Practice on Local Authority Accounting. To ensure compliance with the 2021/22 CIPFA Code of Practice, the following amendments to existing policies are proposed:

6.2 **Cash and cash equivalents**: The Council has to specify the accounting policy it will apply to classify financial investments held as cash and cash equivalent assets.

Previously, the Council has defined 'cash equivalent' financial assets to be highly liquid investments that mature in no more than three days. It is proposed that this definition be revised so that it is consistent with that which applies for cash holdings. The updated policy which members are asked to approve is as follows:

"Cash is represented by cash in hand and deposits with financial institutions repayable on notice of not more than 24 hours without material penalty. Cash equivalents are highly liquid investments that also are repayable on notice of not more than 24 hours and that are readily convertible to known amounts of cash with low risk of change in value."

The purpose of making this change will be to increase the relevance of disclosures to the users of the Financial Statements – i.e. to only include within such a grouping items which are highly liquid and available at nominal notice to meet the Council's day to day liquidity needs.

6.3 **Capitalisation de minimis:** Expenditure on the acquisition, creation or enhancement of tangible or intangible assets is capitalised on an accruals basis, provided it is probable that future economic benefit or service potential associated will flow to the Council and the cost of the item can be measured reliably.

Under the CIPFA Code's general provisions relating to materiality, authorities are able to determine their own accounting policy to set a de minimis for the classification of expenditure as capital expenditure. Expenditure under the de minimis level is accounted for as revenue spend. The Council's existing de minimis for capital expenditure is £5K. Due to cost inflation this limit is now, in practice, very low. The limit is proposed to increase to £10k with effect from 1 April 2022. This would then be consistent with the de minimis for recognition of capital receipts, as defined under regulation.

The revised limit will be applied in relation to total expenditure per specific capital project, as opposed to per transaction. In essence, aggregate project expenditure of

£10K or greater will be capitalised in accordance with normal practices, even where individual items of spend might be below that level, e.g. bulk purchase of laptops. As such, the impact on the revenue account of applying a higher limit is anticipated to be minimal.

6.4 **IFRS 16**: - FRAB have approved a deferral of the implementation of IFRS 16 *Leases*. The primary impact of this accounting requirement will be on lessee arrangements, i.e. whereby the Council leases an asset from another entity. Prior to the adoption of IFRS 16 the CIPFA Code maintains a distinction between 'operating' and 'finance' leases. Under an operating lease, amounts payable are charged as a revenue expense to the Comprehensive Income and Expenditure Statement (CIES) as amounts fall payable. Under a finance lease, amounts payable under the lease are apportioned into an interest element (charged as revenue expenditure in the CIES) and an element repaying the principal element (capital expenditure).

With the exception of leases of low value items and short term leases, where an authority has entered into a contract as a lessee, under IFRS16, it will required to assess the arrangement and to recognise both a right of use asset and corresponding lease liability on the Balance Sheet over the lease term. The impact is there will be an increase the Council's Capital Financing Requirement and trigger a requirement for the Council to make a Minimum Revenue Provision. IFRS 16 leases will become mandatory in two financial years, i.e. 1st April 2024.

6.5 **Group accounts:** In 2021/22 the council did not hold any interest in companies or other entities. The Council is currently in the process of entering into a Joint Venture with Sovereign Housing Association for the purpose of increasing the local housing supply. The Council's present interest in the Joint Venture is not material. Depending on the scale of investment it will ultimately apply into the Joint Venture, the Council may be required to prepare consolidated Group Accounts from 2022/23.

The requirement to prepare group accounts will be judged against a materiality threshold as determined by the Council's external auditors. It is not possible to quantify what such a threshold might be as this will depend on circumstances prevailing at the time of the 2022/23 audit, but based on the 2020/21 position, is likely to be in the region of £5m, or above.

7 Other options considered

Not applicable.

8 Conclusion

8.1 The Section 151 Officer is satisfied that the proposed changes within this report will enhance compliance with the CIPFA Accounting Code of Practice and ensure the Council minimises the risk of material non-compliance within the Financial Statements.

9 Appendices

Appendix A – 2021/22 Accounting Policies

Appendix B – 2021/22 Production of Accounts Timetable

Subject to Call-In:

Yes: ☐ No: X

The item is due to be referred to Council for final approval	☐
Delays in implementation could have serious financial implications for the Council	☐
Delays in implementation could compromise the Council's position	☐
Considered or reviewed by Overview and Scrutiny Management Committee or associated Task Groups within preceding six months	☐
Item is Urgent Key Decision	☐
Report is to note only	X

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1			
2			

Appendix A

2021/22 Draft Accounting Policies

General Principles

The Accounts and Audit Regulations 2015 (SI 2015 No 234) require the Council to prepare a Statement of Accounts for each financial year in accordance with proper accounting practices. For 2021/22, these proper accounting practices principally comprise:

- The Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code);
- The Service Reporting Code of Practice 2021/22 (SeRCoP);
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 2003 No 3146, as amended).

The Statement of Accounts has been prepared using the going concern and accruals bases. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Going Concern Concept

The Local Authority's financial statements shall be prepared on a going concern basis; that is, the accounts are prepared on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place rather than when cash payments are made or received. In particular:

- Revenue from the sale of goods or services is recognised in accordance with the terms and conditions of the contract;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, these amounts are carried as inventory in the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected;
- Accruals are recognised where the value exceeds £5k;
- The Council recognises revenue from contracts with service recipients when it satisfies a performance obligation by transferring promised goods or services to a recipient, measured as the amount of the overall transaction price allocated to that obligation. Other income amounts received by the Council include government grants and contributions, Council Tax and Business Rates and these sums fall outside the scope of this assessment.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable on notice of not more than 24 hours without material penalty. Cash equivalents are highly liquid investments that also are repayable on notice of not more than 24 hours and that are readily convertible to known amounts of cash with low risk of change in value.

Prior period adjustments, changes in accounting policies, estimates and errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes are accounted for retrospectively. The Council has not adopted any new accounting standards or amendments with a significant impact upon the Council's overall financial position.

Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding capital assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- Amortisation of intangible capital assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement equal to a prudent amount determined by the Authority in accordance with statutory guidance. See Accounting Policy XX Minimum Revenue Provision (MRP).

Depreciation, revaluation and impairment losses and amortisation (not charged through the Revaluation Reserve) are adjusted by way of a transaction in the Capital Adjustment Account via the Movement in Reserves Statement.

Events after the Balance Sheet date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when this Statement of Accounts has been 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 – the Statement of Accounts is adjusted to reflect such events; and
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect or impact, disclosure is made in the Notes of the nature of these events and their estimated financial effect.

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

Interests in companies and other entities

Where the Council has material interests in subsidiary and associate companies, these will be consolidated into Group Accounts on a line-by-line basis for subsidiaries, and the equity method for associates, once accounting policies have been aligned with the Council where appropriate, and any intra-group transactions have been eliminated. For 2021/22, the Council holds no such interests, and therefore no Group Accounts have been prepared.

Investment Properties

Investment properties are properties that are held solely to earn rental income and/or for capital appreciation. Investment properties are measured initially at cost and subsequently at fair value. Investment properties are not depreciated, with gains and losses on revaluation being posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The line is also credited/debited with gains/losses on the disposal of properties, measured as the difference between the carrying amount and sale proceeds. Accounting regulations do not permit unrealised gains and losses to impact the General Fund. Therefore, such gains and losses are reversed out of the General Fund (via the Movement in Reserves Statement) and posted to the Capital Adjustment Account.

Overheads

The costs of overheads and support services are managed separately, and therefore these service segments are reported separately and in accordance with the Council's arrangements for accountability and financial performance.

Revenue Expenditure funded by Capital under Statute

Legislation requires defined items of revenue expenditure charged to services within the Comprehensive Income and Expenditure Statement to be treated as capital expenditure. All such expenditure is transferred from the General Fund Total via the Movement in Reserves Statement to the Capital Adjustment Account and is included in the Capital Expenditure Financing disclosure within Note XX.

Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

• The Council will comply with any conditions attached to the payments; and

• The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until the Council has satisfied any conditions attached to the grant or contribution that would require repayment if not met.

The grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income and Expenditure (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Community Infrastructure Levy

The Authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds with appropriate planning consent. The Authority charges for and collects the levy, and this is a planning charge. The levy income will be used to fund a number of infrastructure projects to support the commencement date of the development of the area. The receipt of CIL is limited by regulations. It is therefore recognised at the commencement date of development in the Comprehensive Income and Expenditure Statement in accordance with the core accounting policy for Grants and Contributions detailed above.

Business Improvement Districts (BID)

A Business Improvement District (BID) scheme applies to a defined area in Newbury Town Centre. The BID is managed and operated by Newbury Business Improvement District Community Interest Company. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Authority acts as principal under the scheme and accounts for income and expenditure, including contributions to the BID project, within the relevant service lines in the Comprehensive Income and Expenditure Statement.

Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Earmarked reserves are identified within the General Fund Total in the Movement in Reserves Statement. Where expenditure has been incurred which is to be financed from an earmarked reserve, the expenditure is charged to the relevant service area within the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement. An amount is then transferred from the earmarked reserve to the General Fund Total via an entry in the Movement in Reserves Statement.

Schools

Local authority-maintained schools are considered to be under the control of the Council. Consequently, the income, expenditure, assets and liabilities of maintained schools are accounted for within the Statement of Accounts. These are Community Schools, Voluntary Aided and Voluntary Controlled Schools, Community Special and Foundation Secondary Schools as well as a Pupil Referral Unit. Other types of school are outside of the Council’s control, and are therefore not included in this Statement of Accounts.

Value Added Tax

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs (HMRC) and all VAT paid is recoverable.

Joint Operations

Jointly-controlled operations are where the parties involved have joint control of an arrangement and have rights to the asset and obligations relating to the activities undertaken in conjunction with other operators. These activities often involve the utilisation of the assets and resources of the operators rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs, and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure incurred and the share of income earned from the activity of the operation.

Jointly-controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other joint operators, with the assets being used to obtain benefit for the joint operators. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

Provisions, Contingent Assets and Liabilities

Provisions

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement where an event has taken place that gives the Council a legal or constructive obligation that in all likelihood requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

Contingent Assets

A contingent asset arises 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 assets are not recognised in the Balance Sheet but are disclosed in a Note to the Accounts where it is probable that there will be an inflow of economic benefit or service potential.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible 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 are not recognised in the Balance Sheet but disclosed in a Note to the Accounts.

Revenue Recognition

The Council's various income streams have been assessed and classified in accordance with the Code and revenue has been recognised accordingly. Specific consideration has been given to:

- Implied or stated contractual terms for exchange transactions;
- Obligating events and/or conditions attached to non-exchange transactions, where a party receives something of value without directly giving value in exchange;
- Significance of the income stream to the Council.

Property, Plant and Equipment

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefit or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (such as repairs and maintenance) is charged as an expense when it is incurred.

Property, plant and equipment is recognised where the initial cost or value exceeds £10K.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the cost of dismantling and removing the item and restoring the site on which it is located.

Infrastructure, community assets, assets under construction and vehicles, plant and equipment are then carried in the Balance Sheet at depreciated historical cost. Other categories of Property, Plant and Equipment are subsequently re-measured at existing use or fair value. Assets are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. The Council engages external valuation specialists to determine updated asset valuations.

Revaluation

The Council undertakes a rolling programme which ensures that all assets requiring revaluation are revalued, as a minimum, once every five years. Additional revaluations are undertaken in addition to this cycle, as appropriate – for example upon completion of a major project of works on an asset. Investment Property assets held by the Council are revalued on an annual basis.

Increases in valuations for non-Investment Property assets are matched by credits to the Revaluation Reserve to recognise unrealised gains. Where 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 gains);
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

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Assets are assessed at each year-end to determine whether there is an indication of impairment. Where indications exist and possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. Where impairment losses are identified, these are accounted for in the same way as revaluation losses.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (e.g. freehold land and certain community assets) and assets that are not yet available for use, such as assets under construction.

Depreciation is calculated on the following bases:

- Buildings – reducing balance over the useful life of the property as estimated by a qualified valuer;
- Vehicles, plant, furniture and equipment – reducing balance over the life of the asset, usually 10 years;
- Infrastructure – reducing balance over the life of the asset, usually 10 to 40 years;
- IT assets – straight-line allocation over the useful life of the asset, usually five years.

Where an asset is material and has major components whose cost is significant to the total cost of the asset and have markedly different useful lives, such components are depreciated separately.

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.

Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset is de-recognised in the Balance Sheet. This amount, net of any receipts from disposal, is accounted for as a gain or loss on disposal and taken to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Any revaluation gains previously accounted for in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Any disposal receipts in excess of £10K are categorised as capital receipts and must be credited to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against Council Tax but is subject to separate arrangements for capital financing. Amounts reflected in the Comprehensive Income and Expenditure Statement are appropriated to the Capital Adjustment Account via the Movement in Reserves Statement.

Asset Reclassification

The Council adheres to CIPFA and RICS guidance on the classification of properties. Where a property has had a change of use, the Council will reflect this in the Accounts. Movements between asset classes are usually between Property, Plant and Equipment and Investment Properties. Upon reclassification, assets are subsequently valued in line with the relevant class of asset. In certain cases a property may be used for a combination of investment and operational purposes. In these instances, the Council will split the valuation of the property between Property, Plant and Equipment and Investment Properties, and reflect this in the Accounts.

Minimum Revenue Provision (MRP)

The Council is not required to use Council Tax to fund depreciation, revaluation and impairment losses or amortisation of non-current assets. However, it is required to make an annual contribution from revenue towards a provision for the reduction in its overall borrowing requirement equal to either an amount calculated on a prudent basis or as determined by the Council in accordance with the established MRP policy.

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. Within the Council's asset portfolio there are a number of asset classes where componentisation will not be considered, including:

- Equipment – as this is considered immaterial; and
- 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 housed within the operational portfolio, are often of a specialised nature such as schools and leisure centres. The Council requests that the valuer provides component information for each individual asset. This is subsequently reviewed to determine whether or not the inclusion of a component value will have a material impact upon depreciation. For 2021/22, a componentisation de minimis of £3 million will be implemented.

Where individual assets fall below the de minimis threshold, but are collectively above this level, these assets should be assessed for componentisation where generally treated together elsewhere.

Heritage Assets

These assets have historical, artistic or scientific importance and are held primarily for their contribution to art and culture. Heritage assets are deemed to have infinite lives and are not subject to depreciation, but the carrying amounts are reviewed where there is evidence of impairment such as physical damage. Any impairment is recognised and measured in accordance with the Council's general accounting policy on impairment.

Heritage assets are not presently subject to revaluation within an annual revaluation programme as, based on the insured value of the collection, this is not deemed material in the context of the Council's Statement of Accounts.

Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance. It must be controlled by the Council as a result of past events, and future economic benefit or service potential must be expected to flow from the intangible asset to the Council. The most common class of intangible asset in local authorities is computer software. If an item does not meet the definition of an intangible asset (identifiability, control and future economic benefits), expenditure to acquire it or generate it internally is recognised as an expense when incurred.

Upon recognition, an intangible asset is measured at cost. Expenditure incurred on an intangible asset after it has been recognised will normally be charged to the surplus or deficit on the provision of services as incurred. Only rarely will subsequent expenditure meet the recognition criteria in the Code. Where this occurs, the expenditure is recognised in the carrying amount of the intangible asset.

The Council applies amortisation to intangible assets with finite useful lives on a reducing balance basis over the useful life of the asset, and from the point at which the asset is available for use.

Assets with indefinite useful lives are not amortised but are tested for impairment annually, and whenever there is an indication that the asset may be impaired. The useful life of the asset shall be reviewed annually thereafter.

Leases

Rentals paid by the Council under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased asset. Charges are accounted for on a straight-line basis over the life of the lease, even if this does not match the pattern of payments.

Where the Council grants an operating lease over a property or a Property, Plant and Equipment asset, the item is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments made.

1. Private Finance Initiatives (PFI) and similar contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide the services, passes to the PFI contractor. As the Authority is deemed to control the services that are provided under such PFI schemes, and as ownership of the Property, Plant and Equipment will pass to the Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on the Balance Sheet within Property, Plant and Equipment. The original recognition of these assets at fair value (based upon the cost to purchase the Property, Plant and Equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. The Authority has one PFI contract, and this is with Veolia ES West Berkshire Limited.

Non-current assets recognised in the Balance Sheet are revalued and depreciated in the same way as Property, Plant and Equipment assets owned by the Authority.

The annual amounts payable to PFI scheme operators are analysed into five elements:

- **fair value of the services received during the year** – debited to the relevant service line in the Comprehensive Income and Expenditure Statement;
- **finance cost** – an interest charge of X.X% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- **contingent rent** – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- **payment towards liability** – applied to write down the Balance Sheet liability owed to the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);
- **lifecycle replacement costs** – a proportion of the amount payable is posted to the Balance Sheet as a prepayment and subsequently recognised as an addition within Property, Plant and Equipment when the relevant works are eventually undertaken. This accounting is in accordance with the Code's adaption of IFRIC 12 Service Concession Arrangements.

Financial Instruments

Financial instruments are recognised within the Balance Sheet when the Council becomes a party to their contractual provisions. These instruments are initially measured at fair value.

Financial Liabilities

Financial liabilities are subsequently measured at amortised cost. This means that the amount presented in the Balance Sheet is the outstanding principal sum repayable plus accrued interest. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement are based upon the carrying amount of the liability multiplied by the effective rate of interest for the instrument.

Financial Assets

Financial assets are subsequently measured in one of two ways:

- Amortised cost – assets whose contractual terms are basic lending arrangements in that these assets give rise on specified dates to cash flows that are solely payments of principal or interest on the principal amount outstanding which the Council holds under a business model whose objective is to collect those cash flows;

- Fair value – all other financial assets.

Amortised cost assets are measured in the Balance Sheet at the outstanding principal repayable plus accrued interest. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement are based upon the carrying amount of the asset multiplied by the effective rate of interest for the instrument. Any gains or losses in fair value that might arise are not accounted for until the instrument matures or is sold.

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit losses model. Changes in loss allowances (including balances outstanding at the date of derecognition of an asset) are debited/credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Changes in the value of assets carried at fair value are debited/credited to the Financing and Investment Income and Expenditure line as they arise.

Employee Benefits

Short-term employee benefits such as wages and salaries, paid annual leave, sick leave and expenses are paid on a monthly basis and reflected as expenditure in the relevant service line within the Comprehensive Income and Expenditure Statement.

Post-Employment Benefits: Pensions

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to fund the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

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, administered by the Royal Borough of Windsor and Maidenhead;

- The NHS Pension Scheme, administered by NHS Pensions.

The Local Government Pension Scheme provides defined benefits to members, specifically retirement lump sums and pensions, earned as employees working for the Council, or for related parties. Under IAS 19 and CIPFA Code requirements, the Council recognises the cost of post-employment benefits in the reported cost of services when these amounts are earned by employees rather than when the benefits are eventually paid as pensions.

The Teachers' scheme and NHS scheme are both accounted for as defined contribution schemes. However, the arrangements for these schemes mean that the future defined benefit liabilities cannot be identified to the Council, and therefore no liabilities for future payment of benefits are recognised in the Balance Sheet. Services are charged with employer contributions to the Teachers and NHS schemes in the Comprehensive Income and Expenditure Statement within the appropriate financial year. The Council’s 2022/23 Employer contribution level is at XX.XX% in respect of the Teachers’ scheme. (Note XX.XX% to be completed upon production of the financial statements).

Defined Benefit Pension Schemes

Local Government Pension Scheme

The liabilities of the Royal Berkshire Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis. The basis of calculation is the projected unit method - specifically an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, including assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees. This future liability is then discounted back to present value using a discount rate determined by reference to market yields at the Balance Sheet date of high quality corporate bonds.

The assets of the Royal Berkshire Pension Fund attributable to the Council are held in the Balance Sheet at fair value.

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

1. Service cost. This comprises current service cost – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked. Past service cost – debited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure;
2. Net interest on the net defined benefit liability – charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
3. Re-measurements, these comprising the return on plan assets (excluding amounts included in net interest on the net defined benefit liability/(asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure. Actuarial gains and losses – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
4. Contributions paid to the pension fund are charged to the General Fund via an accounting entry in the Movement in Reserves Statement to replace the service cost items above discretionary benefits.

Discretionary Benefits

The Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements of employees. Any resulting liabilities are accrued in the year of the award and are accounted for using the same policies applied for liabilities relating to the Royal Berkshire Pension Fund.

Curtailments

The cost of curtailments arising as a result of the payment of unreduced pensions on early retirement have been calculated by the Actuary. The amounts calculated are the curtailment costs which affect the Council's Local Government Pension Scheme liabilities.

Collection Fund

The Collection Fund shows the transactions of the billing authority in relation to the collection of Council Tax and Non-Domestic Rates from local taxpayers, and its subsequent distribution to local authorities and the Government. 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 concerned, including major preceptors, the billing authority and Central Government. The Council's share of Council Tax and Business Rates income is reflected in the Comprehensive Income and Expenditure Statement on an accruals basis in line with the Code. Income due from Council Tax and ratepayers is recognised in full at 1 April, this date being the start of the financial year.

The Council's share of Council Tax and Business Rates income is reflected in the Comprehensive Income and Expenditure Statement on an agency basis, consistent with the requirements of the Code. However, the amount to be reflected in the General Fund is determined by regulation. Therefore, there is an adjustment for the difference between the accrued income and the statutory credit made through the Movement in Reserves Statement and the Collection Fund Adjustment Account.

2021/22 Year end Preparation

The Council, as a billing authority, is statutorily required under Section 89 of the Local Government Finance Act 1988 to maintain a separate Collection Fund account as agent into which all transactions relating to collection of Business Rates and Council Tax income from taxpayers and distribution to local government bodies and Central Government are made. The Collection Fund account is accounted for separately from the General Fund.

Surpluses or deficits on the council tax income and distributions are apportioned to the relevant precepting body in the following financial year in proportion to each body's Band D Council Tax amount.

Council Tax

Council tax is charged on residential properties based upon valuation bandings established when the system was introduced in 1993. The number of properties in each band and calculation of the tax base (adjusted to reflect relevant discounts and exemptions) is approved by Full Council annually as part of the budget-setting process.

National Non-Domestic Rates

The Council collects Business Rates for its area based on rateable values (as determined by the Valuation Office Agency) and multiplier indices as determined by Central Government. The total income estimated to be received in the year is notified to related bodies in the immediately preceding January in accordance with statutory regulations.

Termination Benefits

Termination benefits are charged on an accruals basis to the appropriate service or to the specified segment in the appropriate line in the Comprehensive Income and Expenditure Statement (where these sums relate to pensions enhancements) at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.