Agenda Item No: 9

Financial Reporting and Related Matters Update

To:	Audit and Accounts Committee
Meeting Date:	26 May 2023
From:	Executive Director for Finance and Resources
Outcome:	The Committee is asked to note the update relating to the production of the Council's 2022/23 Statement of Accounts, the reasons for delays in this and prior year audits and the steps to resolve this position.
Recommendation:	The Committee is asked to: - Note the report, - Agree the recommended changes to the Council's accounting policies for the 2022/23 Statement of Accounts, highlighted in section 2.20.

Officer contact:
Name: Michael Hudson
Post: Executive Director for Finance and Resources
Email: Michael.Hudson@cambridgeshire.gov.uk
Tel:

Member contact:
Names: Councillors Graham Wilson and Nick Gay
Post: Chair / Vice-Chair
Email: graham.wilson@cambridgeshire.gov.uk , nick.gay@cambridgeshire.gov.uk
Tel: 01223 699831

1. Background

1.1 This report provides an update on reaching a financial statements external audit opinion for the 2021/22 financial year. The Committee will be aware of the on-going issues relating to our auditors (Ernst & Young LLP – EY) value for money (VfM) conclusions on all financial years since 2018. Additionally, objections from local electors to the accounts had been made to both EY and the predecessor auditor (BDO LLP) for all years since 2017. This report provides an update to that position.

1.2 Committee will also be aware that the 2022/23 Statement of Accounts are due by current regulations for completion in draft form for submission to EY as our external auditors by 31 May 2023; two months earlier than has been the case for the last few years. This report sets out the reasons why this deadline will not be able to be met, the revised timetable for closedown and audit, as well as the steps being taken to resolve this ongoing position.

2. Main Issues

- ***Prior year accounts update***

2.1 The Committee will recall that the 2018-2021 VfM opinions have been delayed whilst our external auditors (EY) considered objections from a local elector. In addition, our 2021/22 Statement of Accounts opinion has been delayed due to planned EY phasing/resourcing and a number of national technical audit matters.

2.2 Since the Committee last met, EY has determined all of the objections made to them as auditor since 2018. On 3 March 2023, the auditor issued a detailed statement of reasons (extending to some 137 paragraphs) carefully considering the various matters raised in the objections. Addressing the local elector, the auditor concluded:

> *"…we have decided to take no action at this time in response to your objections. We will not be issuing a public interest report or applying for a declaration of an unlawful item of account… [The County Council should] continue to action the recommendations made by the previous auditor [BDO's findings reported in November 2021] and pay close attention to its procurement practices going forward…"*

The County Council continues to diligently implement improvements in procurement governance as a result of those previous recommendations and the Committee is updated on progress with this in the Annual Procurement Report listed separately as an agenda item for this meeting.

2.3 Under the Local Audit & Accountability Act 2014, the local elector had 21 days to appeal the auditor's decision not to apply for a declaration of an unlawful item by applying to the Court. No appeal was made and consideration of the objections is now complete in accordance with the Act.

2.4 The legislation provides that the County Council is responsible for meeting the Auditor's costs of dealing with the objection. We are advised that EY's additional costs will be in the region of £65k - £70k (covering both EY's time and the legal advice they engaged as part of the process). Additionally, the Council has also incurred its own external legal fees in order to address the local elector's correspondence relating to this process, amounting to £10k.

2.5 The completion of the objection process for 2018-22 will enable EY to return to consideration of its VfM opinions for those years. As such, EY are making tentative steps to start this work, with the intention of completing it for all outstanding periods by the end of 2023.

2.6 There are also two objections dated 2017 and 2018 with the predecessor external auditor, BDO LLP. BDO representatives attended the Committee in May 2022 and February 2023 to explain delays and committed to concluding those objections in the near future. The latest update from BDO is that they are considering legal advice as part of finalising their work and the firm is targeting determination by mid-June. Officers continue to push for updates on a regular basis.

2.7 On the 2021/22 accounts opinion, we are still resolving a small number of matters with external audit, including our long-term debtor position, our infrastructure asset reporting and our pension fund valuation. These are all balance sheet and technical presentation matters and do not impact on the Council's revenue outturn or financial resilience. We are in the process of finalising these matters with EY.

- ***2022/23 Closedown Timetable***

2.8 The Committee will be aware that, over the last few years, nationally the position relating to the issuing of local authority opinions has been a matter of some concern.

2.9 In March the Society of County Treasurers (SCT) carried out a quick survey of member's status with regards accounts being signed off. Of the 36 members who completed the survey, 25 (69%) have not had their 2021/22 accounts or VfM opinion signed off. This includes CCC. Of the remaining 11, 5 have had their VfM opinion but not the accounts signed off and 3 have had their accounts signed off. Only 3 authorities have had both their accounts and VFM opinions signed off and an Annual Audit Report capable of then being presented.

2.10 Furthermore 5 members of SCT still do not have their accounts from 2020/21 signed off. Across the country, this position is replicated with only 12% of 2021/22 accounts being signed off by the 30 November 2022 deadline, and 630 outstanding opinions relating to 2021/22 or prior years.

2.11 There have been two "consultations" looking into this matter – one, a call for evidence from the Public Accounts Committee, and another from Department of Levelling Up, Housing and Communities (DLUHC). The first, from the Public Accounts Committee, was on the timeliness of local auditor reporting, which followed on from earlier inquiries into local audit in England in 2021 which found that the system was close to breaking point, further exacerbated by the pandemic. The Society of County Treasurers (SCT) responded to the call for evidence with a letter highlighting the concerns of the Society, primarily that there is no immediate sign of an improvement in capacity and that commentators are estimating it could take 5 years to address the backlog.

2.12 The DLUHC consultation, Request for views, asked whether the 31 May deadline should remain for making accounts available for public inspection. CCC, along with the Local Government Association (LGA), SCT, the Association of Local Authority Treasurers

(ALATs) and others responded to this, saying that the 31 May deadline should not be used as it is unrealistic, given the significant and ongoing audit delays. Then, on 3 March, the Levelling Up, Housing and Communities (LUHC) Committee launched an inquiry into local audit. The inquiry will "scrutinise the role of audit in local accountability and democracy and the extent to which accounts provide a clear picture of the financial sustainability and resilience of a local authority". The inquiry is also likely to explore how local authority financial reporting could be made more accessible, the role of local audits in acting as 'red flag' for action by councils to address financial issues, and how auditors in local government could work together to share best practice.

2.13 Despite representation to the recent consultation with DLUHC, the Department and the Chartered Institute for Public Finance and Accountancy (CIPFA) chose to revert to the earlier deadline for the production of the 2022/23 draft Statement of Accounts for local authorities for public inspection in England as the 31 May 2023. Although CIPFA does recognise that the period of public inspection should be a matter for local authority consideration and not set nationally for a prescribed period.

2.14 Given the delay in signing off CCC's prior year audits, we now face a position whereby as Section 151 Officer I have to consider several factors in whether the Council can meet the 31 May deadline, including:

- Do I have sufficient information available to ensure that the statement of accounts are true and fair and free from material mis-statement. Whilst I have full confidence in my team, the outstanding audit issues mean I cannot answer how these will be resolved and any consequences these will have on prior years and thus prior year adjustments needed.

- The Council's Finance Team are continuing to respond to queries from auditors, as well as dealing with ongoing VfM issues. At the same time, they need to complete the closedown of 2022/23 alongside other accounting day-to-day tasks. This coming on the back of three years where this has been the position, whilst also managing with the repercussions of the pandemic. I have a duty of care and well-being to these staff in setting workloads and deadlines, just as external auditors do to theirs.

- We have received a letter from EY noting that due to resourcing issues they are not able to commence CCC's audit until November 2023 at the earliest.

- The position faced by CCC is one being faced across both our peer county authorities and every level of local government, including many of our Cambridgeshire public bodies. As such, we are not unique in our challenges or predicament.

2.15 As a result of discussions with CIPFA, EY and the Finance Team I am advising the Committee that it will not be possible to issue the draft Statement of Accounts by 31 May 2023, and the expected date now being July 2023. This will enable the Committee to consider a draft set of Accounts prior to audit at its next meeting. We will issue a note on our website to inform of the public inspection period. The Committee will note that as EY have stated that the 2022/23 audit of these accounts will not commence until at least November 2023, that the opinion will also be delayed and now expected in 2024.

2.16 The Committee will also be aware that for the 2023/24 Statement of Accounts, following a procurement exercise run by the Public Sector Audit Appointments (PSAA), KPMG LLP are the Council's appointed auditors. This will require a handover between auditors. Officers have already begun discussions with KPMG and EY relating to this matter, as a key focus now is how we turn the curve and resolve this position in order to consistently meet future deadlines.

2.17 As incoming Section 151 Officer with several years' experience, I can inform the Committee that the capacity and capability with the Finance Team is of a good standard, with good processes and approach to closedown. As such, key to 2023 will be resolving the outstanding technical issues and preparing the ground for upcoming changes such as the pension fund accounting and infrastructure asset reporting. This will be a key focus of the Finance leadership team.

2.18 The delay in the 2022/23 audit by EY will mean that there will again be a cross over with the audit of that year and the closedown of 2023/24 accounts. This will need to be managed carefully alongside the handover of audit. I plan to engage with the Finance Team and the auditors this September to map that process and timing out to ensure that we meet the 31 May 2024 deadline for 2023/24 Accounts. We will then need to manage the process of sign-off with our auditors, but all effort will be focused on early discussions with KPMG relating to key areas of risk, such as property plant and equipment valuations in order to continual improve our reporting and working papers to aid their review.

2.19 We will continue to review this process and bring updates to this Committee.

- ***Progress with EY recommendations***

2.20 EY's provisional Audit Results Report for 2021/22 highlighted some areas where internal control mechanisms could be improved:

- MRP review – we are in the process of procuring external resource to complete this work over the summer.
- Valuation of the solar farm asset – a specialist valuer has been procured with a valuation report expected by 19 May 2023; this valuation will be included in the 2022/23 accounts.
- Related Party Disclosures – procedures for reviewing related party disclosures have been updated, including reviewing historic disclosures and ensuring that if they have subsequently been removed, it is intentional and correct. We are also implementing an E-form to collect this information, which will improve the efficiency of collecting and reviewing this data. Finally, we will be bringing the process for declaration of interests and related party disclosures closer together, to ensure each reflect the other where appropriate.
- Accounts Payable and Accounts Receivable – data cleansing work continues, as resources allow. The cleansing of historic data, some pre-dating the implementation of ERP Gold, is a significant undertaking and resolution requires input by multiple teams across the Council. However, the underlying balances are reconciled, and external auditors have not raised this as a significant issue previously. We aim to consider plans later in the financial year to make further progress with this recommendation.
- Property, Plant and Equipment valuations – the Council's Property and Finance teams are working hard with our external valuers, Bruton Knowles, to ensure that a full set of valuation information is included within the draft accounts, and that the quality of the

information provided is greatly improved. There has been a change in resource at BK delivering our valuations, plus a new valuation system has been introduced for DRC assets, which we anticipate will improve the efficiency and quality of output for those valuations.

- ***Update on Accounting for Infrastructure Assets***

2.21 The Committee will be aware of a national issue raised during the auditing of local authority accounts for 2021/22 in relation to accounting for infrastructure assets, resulting from historical information deficits, particularly regarding roads.

2.22 In November 2022, CIPFA published an update to the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom, to provide a temporary solution to accounting for infrastructure assets for the financial years 2021/22 to 2024/25. CIPFA continues to consider options for a long-term solution, for inclusion in the 2025/26 Code.

2.23 The Council has adopted the amendments provided for in the 2021/22 Code update, with the final statement of accounts to be published including the required changes. The Council proposes to continue with this approach for 2022/23, complying with the Code requirements, ahead of any further amendments beyond 2024/25. The changes to accounting policies required to as a result are included in paragraph 2.23 below.

- ***2022/23 Changes to Accounting Policies***

2.24 The Council's Statement of Accounts is produced based on a set of accounting policies that are adopted each year, which are listed within the accounts. The policies may need to be changed depending on any revisions to the code of practice for local authority accounting. As well as that, each year, we review our policies to ensure they are in line with how the Council operates, that they reflect best practice, that they balance benefit against available resource (including materiality considerations), and taking into account any adjustments required as a result of audit recommendations.

2.25 The temporary amendments to the code issued by CIPFA in November 2022 to provide a temporary fix to the national infrastructure assets accounting issue have also necessitated some updates to our own policies.

2.26 For the production of the Statement of Accounts for 2022/23, the following amendments are proposed:

Policy	**Amendment**
Property, Plant and Equipment - Recognition	The Council's current policy states that all non-PFI vehicles and equipment are charged to the Comprehensive Income and Expenditure Statement. However, this does not reflect the reality of how we account for these assets, which are in fact capitalised. Therefore, we recommend removal of this part of the policy: *"Assets costing less than £10,000, or revalued to less than £10,000, ~~and all non-PFI vehicles and equipment~~ are charged to the Comprehensive Income and Expenditure Statement."*

Property, Plant and Equipment - Measurement	The Code allows authorities to value Community Assets at historic cost, however the nature of the type of Community Assets we hold means it is straight forward, with little impact on cost, to include these in the 5-year rolling programme. Therefore, we are recommending that we amend our policy to hold these assets at current value. In addition, the above amendment to non-PFI Vehicles, Plant, Furniture and Equipment requires an additional statement to be added to say they will be held at historical cost, and clarification that it is only PFI Vehicles, Plant, Furniture and Equipment that are held at current value. *"The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value, plus Community Assets, are revalued at least every five years."* *"Infrastructure has been included in the Balance Sheet at depreciated historical cost, whilst ~~Community Assets~~ Vehicles, Plant, Furniture and Equipment, and Assets Under Construction have been included at historical cost."* *"Land and Building assets and PFI Vehicles, Plant, Furniture and Equipment assets have been included in the Balance Sheet at their current value."* CIPFA's temporary Code update with respect to Infrastructure Assets, issued in November 2022, also requires a minor change to our accounting policies for these assets. *"For infrastructure assets, a modified form of historic cost is used: opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994, which was deemed at that time to be historical cost."*
Property, Plant and Equipment - Depreciation	Detailed work on accounting for infrastructure assets has established that the expected average useful life for these assets is 50 years, rather than the 40 years included in our current policy. Therefore, we are recommending we amend the depreciation policy to 50 years for these assets. In addition, the above amendment to Vehicles, Plant, Furniture and Equipment requires an additional statement to be added to say how they will be depreciated. *"Useful economic lives for depreciating Property, Plant and Equipment assets are as follows:* - *Buildings (including Surplus Assets) – 5 to 60 years, in line*

	with the Council's componentisation policy which specifies different useful economic lives according to the type and condition of the component; - *PFI schemes ~~only~~: Vehicles, Plant, Furniture and Equipment – 3 to 26 years;~~ (Vehicles, Plant, Furniture and Equipment outside of PFI schemes are not capitalised)~~* - <u>*Non-PFI schemes: Vehicles, Plant, Furniture and Equipment – 3 to 10 years*</u> - *Infrastructure – <u>50 years</u>."*
Property, Plant and Equipment – Infrastructure Asset Recognitions and De-recognitions	A minor amendment for Infrastructure Assets accounting policies is proposed, for clarification purposes and in line with CIPFA's temporary Code update. *"Capital expenditure incurred on the enhancement of existing infrastructure assets will be added to the value of the asset included within the asset register. The Code stipulates that if a new component of an asset is recognised, then the carrying amount of a replaced or restored part of the asset should be derecognised.* *Consequently, a de-recognition of the existing asset will occur, writing out the value attributable to the asset that has been enhanced / replaced (including any associated depreciation). As such, the value derecognised will be determined by the cost of the replacement asset, <u>and assuming that the component replaced was at the end of its useful life</u>."*

2.27 The full set of amended accounting policies can be found in Appendix A.

3. Alignment with corporate priorities

3.1 Environment and Sustainability

There are no significant implications for this priority.

3.2 Health and Care

There are no significant implications for this priority.

3.3 Places and Communities

There are no significant implications for this priority.

3.4 Children and Young People

There are no significant implications for this priority.

3.5 Transport

There are no significant implications for this priority.

4. Significant Implications

4.1 Resource Implications

Paragraph 2.4 sets out the main direct resource implication of this paper.

4.2 Procurement/Contractual/Council Contract Procedure Rules Implications

There are no significant implications for this priority.

4.3 Statutory, Legal and Risk Implications

This report in its entirety deals with the Council's obligations under the local audit and accountability act 2014 and related regulations to produce statements of accounts that are then subject to external audit.

Paragraph 2.14 and 2.15 set out that current regulations on publication date of draft accounts is not likely to be met.

4.4 Equality and Diversity Implications

There are no significant implications for this priority.

4.5 Engagement and Communications Implications

There are no significant implications for this priority.

4.6 Localism and Local Member Involvement

There are no significant implications for this priority.

4.7 Public Health Implications

There are no significant implications for this priority.

4.8 Climate Change and Environment Implications on Priority Areas

4.8.1 Implication 1: Energy efficient, low carbon buildings.
Positive/neutral/negative Status: Neutral

4.8.2 Implication 2: Low carbon transport.
Positive/neutral/negative Status: Neutral

4.8.3 Implication 3: Green spaces, peatland, afforestation, habitats and land management.
Positive/neutral/negative Status: Neutral

4.8.4 Implication 4: Waste Management and Tackling Plastic Pollution.
Positive/neutral/negative Status: Neutral

4.8.5 Implication 5: Water use, availability and management:
Positive/neutral/negative Status: Neutral

4.8.6 Implication 6: Air Pollution.
Positive/neutral/negative Status: Neutral

4.8.7 Implication 7: Resilience of our services and infrastructure, and supporting vulnerable people to cope with climate change.
Positive/neutral/negative Status: Neutral

Have the resource implications been cleared by Finance? Yes
Name of Financial Officer: Stephen Howarth

Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by the Head of Procurement and Commercial?
N/A

Has the impact on statutory, legal and risk implications been cleared by the Council's Monitoring Officer or Pathfinder Legal?
N/A

Have the equality and diversity implications been cleared by your EqIA Super User?
N/A

Have any engagement and communication implications been cleared by Communications?
N/A

Have any localism and Local Member involvement issues been cleared by your Service Contact?
N/A

Have any Public Health implications been cleared by Public Health?
N/A

If a Key decision, have any Climate Change and Environment implications been cleared by the Climate Change Officer?
N/A

5. Source documents

5.1 Cambridgeshire County Council - Provisional Audit Results Report - 3 February 2023

Appendix A – Accounting Policies

GENERAL PRINCIPLES
The Statement of Accounts summarises the Council's transactions for the 2022-23 financial year and its position at the year-end of 31 March 2022. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2022-23, supported by International Financial Reporting Standards (IFRS). The accounts are prepared on a historical cost basis, i.e. expenditure is included on the basis of the price actually paid rather than any additional allowance being made for changes in the purchasing power of money, modified by the revaluation of certain categories of property, plant and equipment. The accounting policies have been consistently applied where appropriate.

BASIS OF ACCOUNTING
The following accounting concepts have been applied in preparing the accounts:

- Relevance: the information in the accounts is useful in assessing the Council's performance;
- Reliability: the information in the accounts is complete, prudently prepared, reflects the substance of transactions and is free of deliberate or systematic bias or material errors;
- Comparability: a consistent approach to accounting policies is used in preparing the accounts to ensure that it may be compared to previous years. Where there is a change in accounting policy that has a material effect on the information, this has been disclosed. Application of the terms of the Code ensure comparability;
- Understandability: the Council endeavours to ensure that an interested reader can understand the accounts;
- Materiality: in using its professional judgment, the Council considers the size and nature of any transaction or set of transactions. An item is considered material where its omission or misstatement would reasonably change the substance of the information presented in the accounts;
- Going Concern: the accounts have been prepared on the assumption that the functions of the Council will continue in operational existence for the foreseeable future;
- Primacy of Legislative Requirements: the Council operates through the power of statute. Where legislation prescribes the treatment of transactions, then the accounting concepts outlined above may not be applied.

THE DE MINIMIS THRESHOLD
The de minimis threshold level has been set at £4,000 (this threshold has been used as a guideline across the Council, where it is sensible to refer to a de minimis in making accrual adjustments).

ACCRUALS OF INCOME AND EXPENDITURE
Revenue accounts are maintained on an accruals basis. Expenditure is charged to the revenue accounts in the year in which goods and services are received and, similarly, income is credited in the year to which it relates, regardless of the timing of cash payments or receipts. For example, accrued income is recognised where an amount is earned in the current accounting year, but is expected to be received in a subsequent year. Deferred income reflects any income which has been received in advance of it being earned and is recognised when it can be matched with the year in which it is earned.

Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure 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 receivables is written down and a charge made to revenue for the income that might not be collected.

PROPERTY, PLANT AND EQUIPMENT

The Property, Plant and Equipment category refers to assets that are expected to be used for more than one year. All expenditure on the acquisition, creation, or enhancement of property, plant and equipment has been capitalised on an accruals basis, subject to the following accounting policies.

Recognition

New acquisitions are brought into the accounts at cost within the appropriate Property, Plant and Equipment balance and are then revalued during the following year. Expenditure on construction of new assets is also brought into the accounts at cost and included either within the Infrastructure category or Assets Under Construction. For capital schemes held within Assets Under Construction, once all the assets which are created or enhanced by a capital scheme become operational, the value is transferred to the appropriate category of Property, Plant and Equipment. Assets costing less than £10,000, or revalued to less than £10,000 are charged to the Comprehensive Income and Expenditure Statement.

The assets of local authority-maintained schools are recognised in the Council's financial statements, subject to the usual accounting requirements for long-term assets. Therefore, if there are any specific arrangements in place whereby the control of the asset does not lie with the Council, then the asset will not be recognised. The Council reviews all schools on an individual basis to determine where the control lies; at present, all community schools are held within the Council's Balance Sheet, whereas all academy schools are not. The Council transfers academy school assets on a 125-year lease, and as such they are subject to lessor finance lease policies (see leases policy, page xxx). Long-term assets of foundation schools governed by a separate trust with no local authority control present are not consolidated, along with the long-term assets of most voluntary aided and voluntary controlled schools. This is due to the legislation contained within the School Standards and Framework Act 1998, as amended, that stipulates all non-playing field land shall be transferred by the local authority to the relevant diocese or trust. Only where there are specific lease, or other arrangements in place, does the Council hold the assets of these schools on the Council's Balance Sheet.

Infrastructure Asset Additions and De-recognitions

Capital expenditure incurred on the enhancement of existing infrastructure assets will be added to the value of the asset included within the asset register. The Code stipulates that if a new component of an asset is recognised, then the carrying amount of a replaced or restored part of the asset should be derecognised. Consequently, a de-recognition of the existing asset will occur, writing out the value attributable to the asset that has been enhanced / replaced (including any associated depreciation). As such, the value derecognised will be determined by the cost of the replacement asset, and assuming that the component replaced was at the end of its useful life.

Measurement
The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value, plus Community Assets, are revalued at least every five years. In order to ensure that carrying values are kept in line with current values in the interim, all assets are revalued via desktop valuation in year two and by indexation in years three to five. The index applied to each asset is based on changes in Building Cost Information Service (BCIS) forecasts and land value estimations since the previous year.

Assets contained within Property, Plant and Equipment required to be measured at fair value are revalued every year. The effective date of revaluation for the rolling programme and all Surplus Assets is 30 November during the year in question, however as part of the carrying value assessment exercise, some assets are revalued again as at 31 March of the year in question and are potentially adjusted for indexation to 31 March.

Infrastructure has been included in the Balance Sheet at depreciated historical cost, whilst Vehicle, Plant, Furniture and Equipment, and Assets Under Construction have been included at historical cost. The cost therefore includes the original purchase price of the asset and the costs attributable to bringing the asset to a working condition for its intended use.

For infrastructure assets, a modified form of historic cost is used: opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994, which was deemed at that time to be historical cost. The value of Infrastructure assets within the accounts includes a lump sum removal in 1998 when Peterborough City Council was formed, becoming independent of Cambridgeshire County Council. This lump sum is not broken down on an asset-by-asset basis in line with how Infrastructure Assets are recorded in the Asset Register. Other additions and enhancements are recorded at cost on a project-by-project basis rather than by asset, therefore additions and enhancements may relate to a number of individual Infrastructure assets.

Land and Building assets and PFI Vehicles, Plant, Furniture and Equipment assets have been included in the Balance Sheet at their current value. Operational Property, Plant and Equipment is valued using Existing Use Value whereas specialised assets are valued using Depreciated Replacement Cost. The valuation of the farms estate, included within the Land and Building figures, is based on a discounted cash flow of future rental income and capital receipts, which is a type of Existing Use Valuation. Assets identified as surplus to requirements are measured at fair value based on highest and best use. Assets that are subject to part disposals are revalued in the year of disposal. Assets held at current or fair value are split into land and building components, with the building element further subdivided in order to be depreciated over appropriate estimated useful lives. The four building components used are Roof, Structure, Machinery and Equipment, and Externals.

Capitalisation of Borrowing Costs
Borrowing costs that are:

- Directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset;
- When it is probable that they will result in future economic benefits or service potential to the Council; and

- The costs can be measured reliably;

Costs shall be capitalised and form part of the cost of that non-current asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready (over a year) for its intended use or sale.

Where the Council borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Council shall apply a capitalisation rate to the expenditure on that asset. The capitalisation rate shall be the weighted average of the borrowing costs that are outstanding during the period.

The amount of borrowing costs capitalised shall not exceed the amount of borrowing costs incurred during the period.

The commencement of capitalisation begins when all of the following conditions are met:

- Expenditure in respect of the asset is incurred;
- Finance costs in respect of the asset are incurred; and
- Activities that are necessary to develop an asset are in progress.
- Borrowing funding for a project is expected to total over £500k before the asset is operational.

Capitalisation ceases when substantially all of the activities necessary to prepare the asset for its intended use or sale are complete.

Capitalisation will be suspended during periods in which active development is interrupted.

Depreciation

Land is held at current value and not depreciated. Property, Plant and Equipment assets other than land, are depreciated over their useful economic lives using the straight-line method. An exception is made regarding depreciation for assets without a determinable finite useful life (i.e. Community Assets) and assets that are not yet available for use (i.e. Assets Under Construction). Depreciation is applied using the following month convention (except for Infrastructure), where depreciation is not charged in the month of acquisition but a full month's depreciation is charged in the month of disposal.

Useful economic lives for depreciating Property, Plant and Equipment assets are as follows:

- Buildings (including Surplus Assets) – 5 to 60 years, in line with the Council's componentisation policy which specifies different useful economic lives according to the type and condition of the component;
- PFI schemes: Vehicles, Plant, Furniture and Equipment – 3 to 26 years;
- Non-PFI schemes: Vehicles, Plant, Furniture and Equipment – 3 to 10 years
- Infrastructure – 50 years.

Upon a review of asset lives, depreciation is calculated over the revised remaining useful life of the asset.

FAIR VALUE MEASUREMENT

The Council measures some of its non-financial assets such as Surplus Assets and Investment Properties at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council’s financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

CAPITAL ACCOUNTING

Two reserve accounts are required in the Council’s Balance Sheet for capital accounting adjustments:

- **The Revaluation Reserve** - this contains the balance of the surpluses or deficits arising on the periodic revaluation of property, plant and equipment. The Revaluation Reserve contains only gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account;
- **The Capital Adjustment Account** - this absorbs the timing differences arising from the different arrangements for accounting for the consumption of property, plant and equipment and for financing the acquisition, construction, or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement, via charges for depreciation, impairment losses and amortisations which are initially debited to the Comprehensive Income and Expenditure Statement. These are then transferred in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account. Reconciling postings from the Revaluation Reserve convert the fair value figures to a historical cost basis. The account is also credited with the amounts set aside by the Council to finance the costs of acquisition, construction and enhancement.

The above accounts are not available to fund future expenditure.

CAPITAL RECEIPTS

When an asset is disposed of, the value of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement. Any receipts from disposals, net of costs of disposal, are also credited to the Comprehensive Income and Expenditure Statement. Costs associated with disposal can be funded from the associated capital receipt as long as they are less than 4% of the value of the proceeds. Any disposal costs over this level must therefore be funded by revenue.

The gain, or loss, on the disposal of a long-term asset is the amount by which the disposal proceeds, net of disposals costs, are more (gain) or less (loss) than the balance sheet value of the long-term asset. Any previous revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account on disposal.

Income that is not reserved for the repayment of external loans, and has not been applied in financing capital expenditure, is shown on the Balance Sheet within the Usable Capital Receipts Reserve.

CHARGES TO REVENUE FOR LONG-TERM ASSETS

Revenue accounts are debited with the following amounts to record the real cost of holding long-term assets during the year:

- Depreciation attributable to the assets used by the relevant service (as per the Depreciation policy on page xxx);
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which they can be written off;
- Amortisation of intangible long-term assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, impairment losses, or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (see the Debt Redemption policy on page xxx). Depreciation, revaluation and impairment losses, and amortisations are therefore replaced by the contribution in the General Fund Balance by an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Some expenditure is incurred during the year that may be treated as capital under statutory provisions but does not result in the creation of a long-term asset (e.g. expenditure on academy schools). Instead of capitalising this expenditure, it is charged to the relevant service in the Comprehensive Income and Expenditure Statement. Where the Council has determined to meet the cost of this expenditure from existing capital resources, those resources are also credited to the relevant service in the Comprehensive Income and Expenditure Statement. Where the Council has determined to meet the cost of expenditure by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

HERITAGE ASSETS

Heritage Assets are a distinct class of asset which are reported separately from property, plant and equipment and intangible assets. The Council holds these assets principally for future generations because of their contribution to knowledge, the environment and the culture of the County.

The Code requires authorities to recognise heritage assets where the Council has information on the cost or value of the asset. Where information on cost or value is not available, and the cost of obtaining this information outweighs the benefits to the users of the financial statements, the asset is not recognised on the Council's Balance Sheet, but commentary is included in the notes to the financial statements. Where valuations are made, an appropriate method is adopted; this may include, for example, insurance valuations of museum collections.

The Council's different classes of Heritage Assets are treated as follows:

- Archives collections – recognised in the Balance Sheet at insurance valuation where available;
- Museum collections – recognised in the Balance Sheet at insurance valuation;
- Art works – recognised in the Balance Sheet at insurance valuation;
- Archaeological artefacts and ecofacts – not recognised on balance sheet due to a lack of reliable valuation information;
- Civic regalia – not recognised on balance sheet due to being considered as immaterial and a lack of reliable valuation information.

The Council reviews the carrying amounts of heritage assets carried at valuation on a yearly basis to ensure they remain current. Depreciation is not charged on heritage assets which have indefinite lives, but impairment reviews are carried out where there is physical deterioration or if new doubts as to the authenticity of the Heritage Asset exist.

INVESTMENT PROPERTIES

Investment properties are those that are used solely to earn rentals and / or for capital appreciation. The definition is not met 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 exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions. 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. Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal 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 and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. The cost of work in progress which is included in the Group Accounts comprises, the acquisition cost of land, construction costs and professional fees (capitalised borrowing costs are removed as they are intragroup). Net realisable value is the estimated selling price in the ordinary course of business, less applicable, variable selling expenses. If cost falls below net realisable value, then an applicable impairment provision is recognised in the Comprehensive Income and Expenditure Statement.

FINANCIAL LIABILITIES

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument (e.g. Public Works Loan Board borrowing). Financial liabilities are initially measured at fair value and subsequently 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 that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus any accrued interest). Interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Comprehensive Income and Expenditure Statement in the year of repurchase / settlement. However, where repurchase has taken place, as part of a restructuring of the loan portfolio that involves the modification or exchange of existing financial instruments, the premium or discount is respectively deducted from, or added to, the amortised cost of the new or modified loan. The write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain, or loss, over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to, or from, the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

FINANCIAL ASSETS

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI).

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument, and are initially measured at fair value. They are subsequently measured 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 most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable. The interest credited to the Comprehensive Income and Expenditure Statement for the loans is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the 'Financing and Investment Income and Expenditure' line in the Comprehensive Income and Expenditure Statement.

Expected Credit Loss Model
The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

GOVERNMENT GRANTS
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 the conditions attached to the payments, and the grants or contributions. There are two types of stipulations; conditions and restrictions:

- Conditions are stipulations that specify that the future economic benefits or service potential embodied in transferred assets are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor;
- Restrictions are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential are required to be returned to the transferor if not deployed as specified.

The key difference between a condition and a restriction is that a condition requires the grant funder or donor to have a right to the return of their monies or the donated asset (or similar equivalent compensation). However, if recovery of the grant / donation is only possible indirectly by, for instance, legal action for breach of contract or withholding payment of other monies due separately to the Council without a right to have done so, then this will amount to a restriction rather than a condition.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as payables. When conditions are satisfied, the grant or contribution is credited to the Comprehensive Income and Expenditure Statement and reversed out of the General Fund Balance in the Movement in Reserves Statement.

Where the grant has yet to be used to finance capital expenditure it is posted to the Capital and Contributions Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants and Contributions Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

COUNCIL TAX AND NON-DOMESTIC RATES
In England, billing authorities act as agents on behalf of major preceptors in collecting council tax and non-domestic rates (NDR). This is because the legislative framework for the Collection Fund states that billing authorities and major preceptors share proportionately:

- the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted;
- the effect of any bad debts written off;
- the movement in the impairment provision.

The Council, as a major preceptor, is therefore required to include the appropriate share of the Council Tax and NDR receivables in its Balance Sheet as well as an appropriate share of the Collection Fund surplus / deficit for the year within its Comprehensive Income and Expenditure Statement.

LONG-TERM CONTRACTS
Long term contracts are accounted for on the basis of charging the surplus or deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

PRIVATE FINANCE INITIATIVE (PFI) SCHEMES
PFI contracts are agreements to receive services, where the responsibility for making available the long-term assets needed to support the delivery of those services passes to the PFI contractor in return for an annual fee. The Code of Practice requires that PFI contracts are accounted for in a manner consistent with the adoption of International Financial Reporting Interpretations Committee (IFRIC) 12: Service Concession Arrangements as contained in the Government's Financial Reporting Manual (FreM), and means that assets and liabilities are recognised on the Council's Balance Sheet where the Council substantially controls the use of the assets involved and any associated residual interest. As the Council is deemed to control the services that are provided under its PFI schemes and, as the ownership of the property, plant, and equipment will pass to the Council at the end of the contract, the Council carries the long-term assets used under the contracts on the Balance Sheet in line with the requirements of IFRIC 12.

The original recognition of these assets is at historical cost the year after they are made available for use, and when revalued, at current value in existing use. This is matched by the recognition of an equivalent liability for amounts due to the scheme operator to pay for the capital investment. PFI assets are revalued and depreciated in the same way as any other property, plant, and equipment owned by the Council.

Annual unitary charges that are paid by the Council to PFI operators can be analysed into five elements:

- Current value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- Finance cost – an interest charge on the outstanding Balance Sheet liability calculated by applying the implicit interest rate in the lease to the opening lease liability for the year. This is debited to the 'Financing and investment income and expenditure' line;
- 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 the liability – applied to write down the Balance Sheet liability towards the PFI operator;
- Life cycle replacement costs – this refers to the replacement of individual components within the PFI asset portfolio to ensure that the condition of the whole property meets the agreed standard throughout the life of the PFI contract. A proportion of the amounts

payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

Prudent provision for PFI schemes is made within the annual unitary charge, based on the part of the unitary payment that goes to write down the matching liability for assets recognised on the Balance Sheet.

Central government support for PFI schemes is in the form of PFI credits. These are a measure of the private sector investment which is supported by central government departments and are a promise that PFI revenue grant can be claimed once the project is operational. The level of PFI credits determines the amount of grant that can be claimed by the Council, which is calculated as an annuity based on the level of PFI credits and the contract length. (Further detail on the PFI contracts is given in the PFI note, Note xx)

LEASES
Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

Council as Lessee
Finance leases
Property, plant and equipment assets held under a finance lease are recognised on the Balance Sheet at the commencement of the lease at its fair value at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor and initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability and contingent rents are charged as expenses in the years in which they are incurred. Lease payments are apportioned between a charge for the acquisition of the interest in the property, plant or equipment and a finance charge.

As with other long-term assets, the Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue towards the deemed capital investment in accordance with statutory requirements (see the Debt Redemption policy on page xxx). Depreciation, revaluation and impairment losses, and amortisations are therefore replaced by the contribution in the General Fund Balance by an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

Council as Lessor
Finance leases
Where the Council grants a finance lease on a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, 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. A gain,

representing the Council’s net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between a charge for the acquisition of the interest in the property (applied to write down the lease debtor (together with any premiums received)), and finance income. However, in the case of academy schools the Council does not recognise a long-term debtor on the Balance Sheet. This is because the assets are transferred as 125-year leases which is deemed too long to be certain of any receivable value at the end of the lease period.

Any gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, it is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written off value of disposals is not a charge against council tax as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating leases

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. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are ‘adjusting’ and ‘non-adjusting’ events, both favourable and unfavourable, that occur between the end of the reporting year and the date when the Statement of Accounts is authorised for issue.

An ‘adjusting’ event is where evidence of the conditions of that event existed at the Balance Sheet date. A ‘non-adjusting’ event is indicative of conditions that arose after the Balance Sheet date, but prior to the issue of these accounts.

Material events that relate to conditions that did not exist at the Balance Sheet date are disclosed by way of a note to the financial statements.

CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 3 months or less from the date of acquisition, and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement cash, and cash equivalents, are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

BENEFITS PAYABLE DURING EMPLOYMENT

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

TERMINATION BENEFITS

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure Statement 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. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

POST EMPLOYMENT BENEFITS

The majority of employees of the Council are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DFE);
- The Local Government Pension Scheme, administered by Cambridgeshire County Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees of the Council.

The Teachers' Pension Scheme

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 Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pension Scheme in the year.

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

The Local Government Pension Scheme (LGPS)
The LGPS is accounted for as a defined benefits scheme as follows:

- The liabilities of the pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc. and projections of projected earnings for current employees;
- Liabilities are discounted to their value at current prices using a discount rate.
- The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:
  ► quoted securities – market value
  ► unquoted securities – professional estimate
  ► unitised securities – closing bid price
  ► property – market value;
- The change in the net pension liability is analysed into service cost and re-measurement components.

Service Cost elements comprise:

► Current service cost: the increase in liabilities as 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 increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Cost of Services in the Comprehensive Income and Expenditure Statement;
► Net interest on the net defined benefit liability (i.e. the net interest expense for the Council) – the change during the year in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit liability at the beginning of the year, taking into account any changes in the net defined benefit liability during the year as a result of contribution and benefit payments.

Re-measurements comprise:

► Expected return on plan assets: excluding amounts included in the net interest on the net defined benefit liability. These are charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
► Actuarial gains and losses: changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to other Comprehensive Income and Expenditure in the Comprehensive Income and Expenditure Statement;
► Contributions paid to the pension fund: cash paid as employer contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the pension fund in the year. This means that there are appropriations to and from the Pensions Reserve in the Movement in Reserves Statement to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners, and any such amounts payable but unpaid at the year-end.

RESERVES

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts through 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 recorded against the Cost of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. The Council's reserves are categorised as follows:

- Usable reserves - those reserves that contain resources that a council can apply to the provision of services, either by incurring expenses or undertaking capital investment, whether or not there are particular restrictions on exactly what the resources can be applied to. The Council's usable reserves include the General Fund balance and Earmarked reserves;
- Unusable reserves – those that a council is not able to utilise to provide services. This category of reserves includes:
  ► Reserves that hold unrealised gains and losses (the Revaluation Reserve), where amounts will only become available to provide services (or limit resources in the case of losses) once the gains / losses are realised as the assets are disposed of.
  ► Adjustment accounts which deal with situations where income and expenditure are recognised statutorily against the General Fund balance on a different basis from that expected by accounting standards as adopted by the Code. The accounts will carry either a debit balance (showing that the Council is required by statute to fund its expenditure more slowly than accounting standards would expect) or a credit balance (where the Council has set resources aside under statute earlier than accounting standards require). Examples of this category of reserves are the Capital Adjustment Account, Pensions Reserve and the Accumulated Absences Account.

DEBT REDEMPTION

The Council is required to make a provision for the repayment of debt in accordance with guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

A change in policy was introduced in 2015-16 for the proportion of the provision that relates to the historic debt liability that had accumulated to 31 March 2010. Up until 2014-15 this element of the provision was calculated using Option 1 of the Guidance, the "Regulatory Method", which based the calculation on 4% of the Capital Financing Requirement, amended for Adjustment A, on a reducing balance basis. From 2015-16 this debt liability will be provided for using an annuity calculation methodology, allowable under the DCLG Guidance.

Capital expenditure incurred from 2010-11 onwards will be subject to Minimum Revenue Provision (MRP) in the year after the asset has become operational. MRP will be provided for under Option 3 of the DCLG Guidance and will be based on the estimated useful life of the assets, using the equal annual instalment method.

Estimated life periods will be determined under delegated powers. To the extent that expenditures do not create an asset and are of a type that are subject to estimated life periods that are referred to in the guidance, these estimated life periods will generally be adopted by the Council. In view of the variety of types of capital expenditure incurred by the Council, which is not in all cases capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure.

The determination as to which schemes shall be deemed to be financed from available resources, and those which will remain as an outstanding debt liability to be financed by borrowing or other means will be assessed under delegated powers. The policy will be reviewed annually to ensure prudence is achieved from using the options available and the option to delay charges until the year after the asset comes into operation (the MRP holiday) will be used where applicable.

Where it is considered prudent to do so, non-operational assets will be excluded from the MRP calculation and any under or over provisions that are identified for previous years will be taken into consideration in the calculation of the current year’s provisions and adjusted accordingly.

CONTINGENT LIABILITIES
Contingent liabilities are possible obligations that arise from past events that may or may not be incurred by the Council depending on the outcome of one or more 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 resources will be required, or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed as a note to the financial statements.

VALUE ADDED TAX (VAT)
The Comprehensive Income and Expenditure Statement excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from it.

INTERESTS IN COMPANIES AND OTHER ENTITIES
The Council is required to produce Group Accounts alongside its own financial statements where it has material interests in subsidiaries, associates and / or joint ventures. The Council has involvement with a number of entities, and where the interests are not material the nature and value of the relationship is disclosed within the single entity accounts. In line with the code requirements on group accounts and consolidation, maintained schools within the county are considered to be entities controlled by the Council. The income, expenditure, assets, liabilities, reserves and cash flows of these schools are recognised within the Council’s single entity accounts rather than group accounts.