

Appendix 2

GENERAL PRINCIPLES

The Statement of Accounts summarises the council's transactions for the 2025-26 financial year and its position at the year-end of 31 March 2026. 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 2025-26*, 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 non-current assets and financial instruments. The accounting policies have been consistently applied where appropriate.

BASIS OF ACCOUNTING

The following accounting concepts are 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. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.
- **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 is applied retrospectively with comparator figures restated and disclosed, unless the Code stipulates transition arrangements for prospective application (no restatement), which is 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.

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.

THE DE MINIMIS THRESHOLD

The de minimis threshold level for accrual adjustments 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). The de minimis threshold level for capital assets and Right of Use assets has been set at £10,000.

PROPERTY, PLANT AND EQUIPMENT

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and that are expected to be used during more than one financial year are classified as property, plant and equipment. 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. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred.

Recognition

New non-lease 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 CIES.

Donated assets are measured initially at fair value, and a gain credited to the taxation and non-specific grant income and expenditure line of the CIES, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the donated assets account. Gains credited to the CIES are reversed out of the General Fund balance to the capital adjustment account in the Movement in Reserves Statement.

The assets of local authority-maintained schools (including leased assets) 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. 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.

Capitalisation of Borrowing Costs

Where capital expenditure costs are:

- Directly attributable to the acquisition, construction, or production of a qualifying asset as part of the cost of that asset.
- Probable that they will result in future economic benefits or service potential to the council.
- Measured reliably.

Borrowing costs are 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 the following conditions are met:

- Expenditure in respect of the asset is incurred.
- Finance costs in respect of the asset are incurred.
- 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 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.

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.

Subsequent Measurement

The council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value are revalued every five years. Following a change in revaluation requirements in the Code, from 1 April 2025, annual indexation is applied to assets during the four intervening years unless appropriate indices cannot be obtained without undue cost or effort, when a desktop revaluation is carried out in year three instead.

Assets contained within Property, Plant and Equipment required to be measured at fair value are revalued every year, except those valued at less than £4m which are revalued every-other-year.

The effective date of revaluation for the rolling programme and for assets measured at fair value is 31 March during the year in question. Indexation is also carried out at 31 March.

Non-PFI/non-lease Vehicle, Plant, Furniture and Equipment have been included in the Balance Sheet at depreciated historical cost (whilst Community Assets 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. ROU Vehicle, Plant, Furniture and Equipment assets are

included in the balance sheet at their value at initial recognition, less any accumulated depreciation.

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 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 (including ROU assets, but excluding Community Assets, Assets Under Construction and Surplus Assets) and PFI/ROU 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, except specialised assets that 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 where the building is valued at over £4m in order to be depreciated over appropriate estimated useful lives. The four building components used are Roof, Structure, Machinery and Equipment, and Externals.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and differences could 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. If 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); otherwise, the carrying amount of the asset is written down against the relevant service line(s) in the CIES. If an impairment loss is subsequently reversed, the reversal is credited to the relevant service line(s) in the CIES.

Disposals and non-current assets held for sale

If it is probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale if certain criteria are also met. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell.

If there is a subsequent decrease in the fair value less costs to sell, the loss is recognised in the CIES. Gains in fair value are recognised only up to the amount of any losses previously recognised in the CIES. Depreciation is not charged on assets held for sale.

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the CIES as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the CIES, also as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

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 appropriated to the capital adjustment account from the General Fund balance in the Movement in Reserves Statement.

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., some 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 and Vehicle, Plant, Furniture and Equipment), where depreciation is not charged in the month of acquisition, but a full month's depreciation is charged in the month of disposal.

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.

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

- Buildings (including Surplus and some Community 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.
- ROU assets – depreciated using the straight-line method over the term of the lease agreement.

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

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. As a non-financial asset, investment properties are measured at highest and best use. 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.

LEASES

Council as Lessee

Contracts, and parts of contracts, are classified as leases where the council has the right to use, and control the use of, an identified asset in order to gain substantially all the service and/or economic benefits arising from its use. Arrangements that do not have the legal status of a lease but which meet these criteria are accounted for under this policy. As directed by the Code, arrangements with nil consideration, peppercorn or nominal payments are accounted for under this policy.

Property, Plant and Equipment assets and investment properties held under a lease of more than 12 months in length and where the value (when new) of the underlying leased asset would be £10,000 or more, are recognised on the Balance Sheet as a Right-of-Use (ROU) asset at the commencement of the lease, matched by recognition of a corresponding liability to pay the lessor. Leases of assets for shorter periods or of lower value are excluded from the Balance Sheet.

Initial recognition of an ROU asset and liability is at the net present value of future lease payments, discounted using the council's incremental borrowing rate at the end of the financial year in which the lease commenced, except for peppercorn, nominal payments or nil consideration leases, where the ROU asset is recognised at fair value. Any initial direct costs incurred by the council in entering the lease agreement are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to write down the lease liability. Lease payments are apportioned between a charge for writing down the lease liability, and an interest charge which is credited to the CIES.

ROU assets are subsequently measured at current value, except investment properties which are carried at fair value; the cost model is used as a reasonable proxy for ROU asset current value except for:

- Peppercorn, nominal payments or nil consideration leases.
- Property leases with payments significantly below market level, or for more than five years with no provision for rent reviews, or where rent reviews are at periods of more than five years.

Such ROU assets are carried at a revalued amount, following the accounting policies relevant to the type of asset (e.g. operational land and buildings, VPFE or investment properties). Other property lease ROU assets may be carried at a revalued amount, where included in the Property valuation rolling programme.

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.

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. 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, except where a school constructed under a PFI contract has subsequently converted to academy status and the asset has been derecognised on conversion.

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 four 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.
- 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 amount 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.

Changes to the interest rate underpinning the financing of the PFI schemes are reflected by the remeasurement of the PFI liability, balanced by either a corresponding remeasurement

of the PFI assets or by an adjustment to the accumulated Revaluation Reserve balance. Where the increase in the liability is greater than the available Revaluation Reserve balance, a charge is made to the revenue accounts; the revenue charge is subsequently reversed out of the General Fund balance to the capital adjustment account via the Movement in Reserves Statement.

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 36).

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
- 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. 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 (REFCUS)

Expenditure 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) is charged to the relevant service in the Comprehensive Income and Expenditure Statement in the year. The gross expenditure and any financing from existing capital resources (such as capital grants or capital receipts) is then reversed out of the Comprehensive Income and Expenditure Service via a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account. This means that there is no impact from this expenditure 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; for example, this may include 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 in the Balance Sheet due to a lack of reliable valuation information.
- Civic regalia – not recognised in the 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 the Heritage Assets recognised in the Balance Sheet as they 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.

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). The council may carry some specific financial assets at their historic cost by exception, where judged appropriate to do so; the application of this accounting treatment will be disclosed in the financial statements where relevant.

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.

Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)

Financial assets that are measured at FVOCI are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in other comprehensive income.

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 will be received. 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.

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 and directly to pensioners 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 from the General Fund Balance 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

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the council has financed capital expenditure by borrowing, it is required to repay an element of the accumulated general fund capital spend each year (the CFR) through a revenue charge (the MRP). The council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with the period over which the capital expenditure provides benefits. The 2003 Regulations have been amended with full effect from April 2025 to expressly provide that in determining a prudent provision, the council cannot exclude any amount of CFR from its calculation, unless by an exception set out in statute.

MHCLG's MRP Guidance 2024 provides four ready-made options for calculating MRP. The council can use a mix of these options if it considers it appropriate to do so. Alternatively, the guidance does not rule out or otherwise preclude the use of an alternative method should it be deemed more appropriate. Any method used is subject to the conditions in paragraphs 61 to 65 of the guidance as far as these are relevant.

Historic debt liability accumulated up to 31 March 2010 is provided for using an annuity calculation methodology directly linked to the remaining life of the assets the debt liability had funded.

Capital expenditure incurred from 2010-11 onwards is subject to Minimum Revenue Provision (MRP) in the year after the asset has become operational, in accordance with Regulation 27(3). MRP is provided for under Option 3 of the DCLG Guidance on a straight-line basis and based on the estimated useful life of the assets financed by the debt .

Estimated life periods are determined under delegated powers. 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.

Leases and Private Finance Initiatives (PFI)

In line with guidance, an amount is included in the annual MRP charge equal to the element of the annual charge that goes to write down the balance sheet liability (the principal element) for any leases and PFI arrangements recognised by the council.

Capital Loans

Commercial capital loans are subject to MRP charges using the asset life method. A commercial loan is defined in regulation 27(5) as a loan from the council to another entity for a purpose which, if the council were to undertake itself, would be primarily for financial return; or, where the loan is itself capital expenditure undertaken primarily for financial return. Where loan repayments are received in year, the capital receipts may be used to reduce the MRP charge in that year.

Non-commercial capital loans are excluded from the MRP calculation initially, as the loans are anticipated to be repaid in full in later years. Once received, the capital receipts arising from the principal loan repayments are used to reduce the CFR. Non-commercial capital loans are reviewed annually; if it is judged that the approach is no longer prudent for a loan, a MRP charge may be introduced. If the council subsequently recognises, in accordance with proper accounting practices, an expected or actual credit loss with respect to any loan that has not previously had MRP charged, MRP to the value of the Expected Credit Loss will be charged in full, unless reduced by the value of any previous amounts provided to write down the CFR on that loan.

Share / Equity Capital

Investments in share and equity investments, either directly or through collective pooled funds, are usually treated as capital expenditure. Where the investment is funded by unsupported borrowing, MRP charges will be provided over 20 years, in accordance with Regulation 25(1)(d) Acquisition of share capital.

Capitalisation Direction

MRP for expenditure capitalised under a capitalisation direction is provided for using the asset life method.

Investment Properties

Expenditure incurred on the purchase of investment properties is subject to an MRP charge under the asset life method.

MRP Overpayments

The council may make charges in excess of the statutory MRP, known as voluntary revenue provision (VRP). If the council judges it to be necessary or prudent, VRP can be reclaimed in later years.

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 amounts related to VAT, as VAT collected is payable to HM Revenue and Customs and VAT paid is recoverable from it, except for occasional small values of unrecoverable VAT which are recognised within the surplus/deficit on the provision of services.

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 is involved with a number of entities; where the interests are not material the nature and value of the relationship is disclosed within the single entity accounts, whilst material interests are recorded in the council's single entity accounts as financial assets at cost, less any provision for losses.

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.