Summary of accounting policy changes

<table>
<tr><th>Policy</th><th>Proposed Amendments</th></tr>
<tr><td>Basis of Accounting</td><td>Some minor updates are proposed to the sections on Reliability and Comparability, to clarify and bring further in line with the Code.

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. <u>Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.</u>
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 <u>is applied retrospectively with comparator figures restated and disclosed, unless the Code stipulates transition arrangements for prospective application (no restatement), which is disclosed.</u> Application of the terms of the Code ensure comparability.
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<tr><td>The De Minimis Threshold</td><td>A minor amendment is proposed to clarify the £4,000 accrual de minimis threshold. A further addition to this section is proposed to set the Low Value limit for application of the detailed accounting requirements of IFRS 16 at £10,000 in line with the Capital de minimis level.

The de minimis threshold level <u>for accrual adjustments</u> 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). <u>The de minimis threshold level for capital assets and Right of Use assets has been set at £10,000.</u></td></tr>
<tr><td>Property, Plant and Equipment – Recognition</td><td>Some minor updates are proposed to this section to reflect and clarify the accounting arrangements that are required for leased Property, Plant and Equipment assets under IFRS 16</td></tr>
<tr><td>Property, Plant and Equipment – Measurement</td><td>Changes to this section are proposed for clarity, and to set out the policy for initial recognition of Right of Use (lease) assets. In addition, it is proposed to move the revaluation date for non-operational assets measured at fair value (Investment Assets, Assets Held for Sale and Surplus Assets) to 31 March, in order that the value for these assets is as up to date as possible at the balance sheet date.

[…] Assets contained within Property, Plant and Equipment required to be measured at fair value are revalued every year, <u>except those valued at less than £4m which are revalued every-other-year.</u></td></tr>
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Policy	Proposed Amendments
	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 may be ~~are~~ revalued again at 31 March of the year in question and all are potentially adjusted for indexation to 31 March. For assets measured at fair value the effective date of revaluation is 31 March of the year in question. *Infrastructure and 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 […]*
Property, Plant and Equipment – Depreciation	An addition to this section is proposed to set out the council's policy for depreciation of Right of Use (lease) assets. - *ROU assets – depreciated using the straight-line method over the term of the lease agreement.*
Leases	Substantial updates are proposed to this section in order to update the council's policies to reflect the implementation of IFRS 16, as required by the Code. ~~*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* *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 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*

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	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. Initial recognition of the 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 writing 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 carried at fair value; the cost model is used as a reasonable proxy for ROU asset fair 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 will be carried at a revalued amount. Other property lease ROU assets may be carried at a revalued amount, where included in the Property valuation rolling programme.* ~~*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 216). 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.*~~
Private Finance Initiative (PFI) Schemes	Changes are proposed to this policy to clarify a point around the Building Schools for the Future PFI scheme, and to update the policy to be in line with the requirements of IFRS 16 as applies to PFI schemes.

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	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, <u>except where a school constructed under a PFI contract has subsequently converted to academy status and the asset has been derecognised on conversion.</u> *[…]* *Annual unitary charges that are paid by the Council to PFI operators can be analysed into ~~five~~ <u>four</u> 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.*

Policy	Proposed Amendments
	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 […]