

## Agenda Item No. 4 - Appendix 1

### Summary of accounting policy changes

Policy	Proposed Amendments
General Principles	<p>A minor amendment is proposed to clarify that all non-current assets are accounted for on a historical basis modified by any revaluations, rather than this just being property, plant and equipment.</p> <p><i>[...] 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 <del>property, plant and equipment</del> non-current assets and financial instruments.</i></p>
Property, Plant and Equipment	<p>A minor amendment is proposed to clarify the definition of property, plant and equipment. A further addition to this section is proposed to explain the treatment of repairs and maintenance to property, plant and equipment.</p> <p><i>The Property, Plant and Equipment category refers to assets that are expected to be used for more than one year. 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. <u>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.</u></i></p>
Property, Plant and Equipment – Recognition	<p>An addition is proposed to this section to clarify the Council's treatment of donated assets.</p> <p><i>[...] 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. [...]</i></p>
Property, Plant and Equipment – Capitalisation of Borrowing Costs	<p>This section is proposed to be moved from further down the accounting policy to reflect a clearer layout.</p>
Property, Plant and Equipment –	<p>Changes to this section are proposed for clarity, and to set out changes to the policy for revaluation of assets resulting from changes in the</p>

Policy	Proposed Amendments
Subsequent Measurement	<p>requirements of the Code. In addition, it is proposed to move the revaluation and indexation dates for operational assets to 31 March to be in line with the revaluation date for non-operational assets, to simplify management of accounting processes. It is also proposed to rename this section from ‘Measurement’ to ‘Subsequent Measurement’ to better reflect its contents.</p> <p><i>The council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value are revalued <del>at least</del> 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.</i></p> <p><i>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.[...]</i></p> <p><i>[...] The effective date of revaluation for the rolling programme and for assets measured at fair value is <del>30 November</del> 31 March during the year in question. Indexation is also carried out at 31 March., however as part of the carrying value assessment exercise, some assets may be 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.</i></p>
Property, Plant and Equipment - Impairment	<p>A short additional section is proposed to set out the council’s policy for the impairment of assets.</p> <p><i>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.</i></p>
Property, Plant and Equipment –	<p>An additional section is proposed to set out the council’s policy for disposals and non-current assets held for sale, as per the Code.</p>

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Disposals and non-current Assets Held For Sale	<p><i>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.</i></p> <p><i>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.</i></p> <p><i>If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets.</i></p> <p><i>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.</i></p> <p><i>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.</i></p>
Property, Plant and Equipment – Depreciation	<p>An addition to this section is proposed to set out the council’s policy for depreciation of revaluation gains.</p> <p><i>[...] 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. [...]</i></p>
Investment Properties	<p>Minor addition proposed to set out the council’s policy for measurement of investment properties.</p> <p><i>[...] As a non-financial asset, investment properties are measured at highest and best use. [...]</i></p>
Leases	<p>Minor updates are proposed to this section in order to provide clarity between initial and subsequent measurement of leases, as well as to make</p>

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	<p>clear that shorter and lower value leases are excluded from the balance sheet.</p> <p><i>[...] 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. [...]</i></p> <p><i>[...] ROU assets are <del>subsequently measured</del> carried 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:</i></p> <ul style="list-style-type: none"> <li><i>■ Peppercorn, nominal payments or nil consideration leases.</i></li> <li><i>■ 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.</i></li> </ul> <p><i>Such ROU assets <del>will be</del> 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.</i></p>
Private Finance Initiative (PFI) Schemes	<p>Changes are proposed to this policy to reflect the better acceptance and understanding of IFRS accounting resulting from the length of time since implementation, and to remove duplication for detail that is included in the amended debt redemption policy.</p> <p><i>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. <del>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 Arrangement as contained in the Government's Financial Reporting Manual (FreM), and means that a</del> 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, <del>except. As that 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, except where a school constructed under a PFI contract has subsequently converted to academy status and the asset has been derecognised on conversion.</del> [...]</i></p>

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	<p><i>[...] 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. [...]</i></p>
Heritage Assets	<p>A minor change is proposed to clarify that Heritage Assets recognised on the balance sheet are likely to have indeterminate lives, meaning depreciation is not charged on them.</p> <p><i>[...] 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 <u>the Heritage Assets recognised in the Balance Sheet as they which have indefinite lives</u>, but impairment reviews are carried out where there is physical deterioration, or if new bouts as to the authenticity of the Heritage Asset exist.</i></p>
Financial Assets	<p>A minor addition proposed to provide additional clarity on carrying financial assets at historical cost by exception.</p> <p><i>[...] 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.</i></p>
Financial Assets – Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)	<p>New section is proposed to be added to bring the policy in line with the Code of Practice.</p> <p><i><u>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.</u></i></p>
Government Grants	<p>A minor typographical error correction.</p>
Post Employment Benefits – The Local Government Pension Scheme (LGPS)	<p>A minor amendment for clarity.</p> <p><i>[...] Statutory provisions limit the council to raising council tax to cover the amounts payable by the council to the pension fund <u>and directly to pensioners in the year.</u> [...]</i></p>
Reserves	<p>A minor amendment to bring wording in-line with the Code of Practice.</p> <p><i>[...] Reserves are created by appropriating amounts <u>from the General Fund Balance through the Movement in Reserves Statement.</u> [...]</i></p>

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Debt Redemption	<p>Significant changes are proposed to the Debt Redemption passages to provide clarity and background into regulations that determine the treatment of borrowing, particularly with regard to the treatment of Minimum Revenue Provision (MRP), due to an amendment in the regulations.</p> <p><i><u>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. 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.</u></i></p> <p><i><u>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. 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 reducing balance basis. From 2015-16 this debt liability will be provided for using an annuity calculation methodology; allowable under the DCLG Guidance. 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.</u></i></p> <p><i><u>Capital expenditure incurred from 2010-11 onwards <del>will be</del> subject to Minimum Revenue Provision (MRP) in the year after the asset has become operational, in accordance with Regulation 27(3). MRP <del>will be</del> provided for under Option 3 of the DCLG Guidance on a straight-line basis and <del>will be</del> based on the estimated useful life of the assets <u>financed by the debt, using the equal annual instalment method.</u></u></i></p>

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	<p><i>Estimated life periods <del>will be</del> 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.</i></p> <p><i>The determination as to which schemes shall be deemed to be finance from available resources, and those which will remain as an outstanding debt liability to be finance by borrowing or other means will be assessed under delegated powers.</i></p> <p><i>The policy <del>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.</del></i></p> <p><i>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.</i></p>
Debt Redemption – Leases and Private Finance Initiatives (PFI)	<p>A small section is proposed to be added to clarify the debt redemption policy for leases and PFIs.</p> <p><i><u>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.</u></i></p>
Debt Redemption – Capital Loans	<p>An additional section is proposed to clarify the debt redemption policy for capital loans.</p> <p><i><u>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.</u></i></p> <p><i><u>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</u></i></p>

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	<p><i>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.</i></p>
Debt Redemption-Share / Equity Capital	<p>A small section is proposed to be added to clarify the debt redemption policy for share/equity capital investments.</p> <p><i>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.</i></p>
Debt Redemption – Capitalisation Direction	<p>A small section is proposed to be added to clarify the debt redemption policy for capitalisation direction.</p> <p><i>MRP for expenditure capitalised under a capitalisation direction is provided for using the asset life method.</i></p>
Debt Redemption – Investment Properties	<p>A small section is proposed to be added to clarify the debt redemption policy for investment properties.</p> <p><i>Expenditure incurred on the purchase of investment properties is subject to an MRP under the asset life method.</i></p>
Debt Redemption – MRP Overpayments	<p>A small section is proposed to be added to clarify the debt redemption policy for overpayments of MRP.</p> <p><i>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.</i></p>
Value Added Tax (VAT)	<p>A minor amendment is proposed to provide clarity and align with the Code of Practice.</p> <p><i>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, except for occasional small values of unrecoverable VAT which are recognised within the surplus/deficit on the provision of services.</i></p>

<b>Policy</b>	<b>Proposed Amendments</b>
Interests in Companies and Other Entities	<p>A minor amendment is proposed to provide clarity and align with the Code of Practice.</p> <p><i>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; <del>and</del> where the interests are not material the nature and value of the relationship is disclosed within the single entity accounts, <u>whilst material interests are recorded in the council's single entity accounts as financial assets at cost, less any provision for losses. [...]</u></i></p>