

## **1 Accounting Policies**

### **(i) General Principles**

The Statement of Accounts summarises the Council's transactions for the 2021/22 financial year and its position at the year-end of 31 March 2022. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which require the 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 2021/22 (the Code) supported by International Financial Reporting Standards (IFRS).

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

### **(ii) Recognition of Income and Expenditure**

Activity is accounted for in the year in which it takes place, which may not be the same year in which cash payments are made or received.

Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract. In local government, the generation of revenues from charges to service recipients is only a minor funding stream and contracts with customers tend to be accounted for and delivered within each financial year.

Revenue from the sale of goods and disposal of assets is recognised when the Council transfers the risks and rewards of ownership to the purchaser. Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction, and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

Government grants and third-party contributions are recognised when there is reasonable assurance that the Council will comply with any conditions attached to the payments, and that the grants or contributions will be received. Where conditions attached to grants or contributions have not been satisfied, monies received to date are carried in the Balance Sheet as creditors and credited to the CIES when the conditions are satisfied. Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are 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 Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Supplies are recorded as expenditure when they are consumed. If there is a gap between the date supplies are received and their consumption, they are carried as inventories in the Balance Sheet. Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

### **(iii) 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 three months or less

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from the date of acquisition and are readily convertible to known amounts of cash with low risk of change in value.

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 strategy.

### **(iv) Charges to Revenue for Non-Current Assets**

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

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

### **(v) City Region Deal**

The Council has applied the principles of IPSAS 23 'Revenue from non-Exchange transactions (Taxes and Transfers)' in accounting for the transactions and balances relating to the City Region Deal.

Growth paid to the accountable body (South Gloucestershire Council) for the Business Rates Pool (BRP) is recognised by the Council as a debtor until such point that the funds are paid out by the BRP or committed by the Economic Development Fund (EDF) to fund future EDF payments in respect of approved programmes.

- Income - Income receivable by the Council from the BRP is recognised as revenue in the year in which it occurs. The Council recognises revenue and a debtor balance to the extent that future EDF disbursements are to be received, have been committed to by the EDF, and sufficient uncommitted cash remains in the BRP to fund future payments.
- Expenditure – Expenditure is recognised by the Council on the earlier of payments being made by the BRP or where future EDF payments are committed to. Expenditure is recognised in proportion to the degree that the Council has contributed to the BRP through its growth figure and is capped at the limit of the Council's payment of growth to the BRP in this period, and any previous growth figures paid over which have not been previously paid or committed by the BRP.

### **(vi) Collection Fund and Local Taxation**

Bristol City Council is a billing authority for local taxation and collects:

- Council tax on behalf of the Avon and Somerset Police and Crime Commissioner, Avon Fire Authority and itself.
- Non-Domestic Rates on behalf of Avon Fire Authority, the West of England Combined Authority (WECA) and itself.

The Collection Fund shows the transactions of the billing authority in relation to the collection from taxpayers and the distribution to local authorities, central government and precepting bodies of council tax and non-domestic rates (NDR). There is no requirement for a separate Collection Fund Balance Sheet since the assets and liabilities arising from collecting non-domestic rates and council tax belong to the bodies (i.e. major preceptors, the billing authority and the Government).

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The Collection Fund is effectively an agency account therefore income, expenditure and balance sheet transactions are apportioned between the Council, central government and precepting bodies.

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement. The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

### **(vii) Dedicated Schools Grant**

The Local Authorities (Capital Finance and Accounting) (England)(Amendment) Regulations 2020 establish new accounting practices in relation to the treatment of local authorities' schools budget deficits such that where a local authority has a deficit on its school's budget relating to its accounts for a financial year beginning on 1 April 2020, 1 April 2021 or 1 April 2022, it must not charge the amount of that deficit to a revenue account. Instead, the deficit (including the accumulated deficit as of 31 March 2020) is charged to an unusable reserve the Dedicated Schools Grant Adjustment Account by a transfer from the General Fund Balance in the Movement in Reserves Statement.

### **(viii) Employee Benefits**

#### **Benefits Payable During Employment**

Monetary benefits such as wages and salaries, paid leave and bonuses, and non-monetary benefits (for example, cars) for current employees are recognised as an expense in the year in which employees render service to the Council. An accrual is made to represent the cost of holiday entitlement earned but not taken at each year end, to meet Code and IAS requirements.

#### **Termination Benefits**

When the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy, these costs are charged on an accruals basis to the respective Service line in the Comprehensive Income and Expenditure Statement.

#### **Post-Employment Benefits**

Employees of the Council are members of three separate pension schemes:

- The Teachers' Pension Scheme administered by Capita Teachers' Pensions on behalf of the Department for Education.
- The Local Government Pension Scheme administered by Bath and North East Somerset Council.
- The NHS Pension Scheme, for Public Health employees, administered by NHS Pensions.

All the above schemes provide defined benefits to members for example retirement lump sums and pensions, earned as employees working for the Council.

However, the arrangements for the Teachers' scheme and NHS Scheme mean that liabilities for these benefits cannot ordinarily be identified for the Council. These schemes are therefore accounted for as if they were defined contributions schemes and no liability for future payments of benefits is recognised in the Balance Sheet. The CIES is charged with the employer's contributions payable to Teachers pensions and NHS pensions in the year.

## The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

The liabilities of the Avon Pension Fund 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 measured on an actuarial basis discounted to present value, using the projected unit method. The discount rate to be used is determined in reference to market yields at balance sheet date of high-quality corporate bonds.

The assets of Avon Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- Quoted securities - current bid price.
- Unquoted securities - professional estimate.
- Unitised securities - current bid price.
- Property - market value.

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

- Current Service Cost - the increase in liabilities as a 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 Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.
- Net interest on the net defined benefit liability/asset, i.e. net interest expense for the Council – the change during the period 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 obligation at the beginning of the period to the net defined benefit liability/asset at the beginning of the period, considering any changes in the net defined benefit liability/asset during the period as a result of contribution and benefit payments.
- Re-measurement of the return on plan assets – excluding amounts included in net interest on the net defined benefit liability/asset, charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Actuarial gains and losses - changes in the net pension's liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These changes are debited to the Pensions Reserve as Other Income and Expenditure.
- Contributions paid to the Avon Pension Fund - cash paid as employer's contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and

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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. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits based on cash flows rather than as benefits earned by employees.

In 2020, the Council made an up-front payment of the LGPS deficit contributions for the three years 2020/21 - 2022/23 totalling £20.430m (net of academy conversions). This payment was made April 2020. The up-front payment took advantage of the independent Actuary's calculation of the return these contributions could achieve once invested by the Pension Fund. The discount calculated by the Actuary for making the up-front payment (net of academy conversions) rather than the typical approach of monthly payments in arrears over the three-year period was £1.295m, reducing total payments from £21.725m to £20.430m. The return was judged to be far greater than could have been achieved by investing the amounts as part of the Council's Treasury Management Strategy and the approach represented good value for money for the Council.

### **Discretionary Benefits**

The Council has restricted powers to provide discretionary post-employment benefits. Any such benefits are accrued for in the year of the decision to make the award and are charged to the Comprehensive Income and Expenditure Statement against the service in which the employees worked.

### **(ix) Events After The Reporting Period**

Events after the balance sheet date are those events, both favourable and unfavourable, which occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period. In this instance, the Statement of Accounts is adjusted to reflect such events.
- Those relating to conditions that arose after the reporting period. In this instance, the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

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

### **(x) Fair Value Measurement**

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings 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:

- a) in the principal market for the asset or liability, or
- b) 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 considers 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.

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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.

### **(xi) Financial Instruments**

The Council adopted the IFRS 9 Financial Instruments accounting standard with effect from 1st April 2018.

#### **Financial Liabilities**

Financial liabilities 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 and are carried at their amortised cost. As annual charges to the Financing and Investment Income and Expenditure line in 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, 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.

For most of the Council's borrowings this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest). Interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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 of the replacement loan that was used to refinance the loan against which the premium was payable or discount receivable. 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 using an approach that is based on 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).
- fair value through other comprehensive income (FVOCI).

The Council's business model for most of its investments is to hold them to collect contractual cash flows. Financial assets are therefore classified as amortised cost. There are some exceptions, where the Council holds strategic investments to help it meet other policy objectives, such as the support of economic development in the county. This means that some investments are ones where contractual payments are

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not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

### **Financial Assets Measured at Amortised Cost**

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in 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 (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, from time to time the Council makes loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain 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. 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 CIES.

In addition, the Council does have deferred payment policies where individuals are allowed to defer payment against an invoice raised by the Council, for example where the Council holds a legal charge against a property that enables sums to be reimbursed from sale proceeds later. These are like loans at less than market rates and are referred to as soft loans. If any the lost interest against the soft loan was significant then adjustments would be made to the relevant service revenue account and Balance Sheet. However, the impact on the Council's revenue account of soft loans and lost interest is not financially significant and the accounts have not been adjusted to reflect these requirements.

### **Expected Credit Loss Model**

The Council recognises expected credit losses on all its financial assets held at amortised cost or FVOCI, 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 based on 12-month expected losses.

### **Financial Assets Measured at Fair Value through Profit or Loss (FVPL)**

Financial assets that are measured at FVPL 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 arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

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- instruments with quoted market prices – the market price.
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

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

An equity instrument can be elected to a FVOCI treatment rather than a FVPL treatment if it is not held for trading. The Council has reviewed its assets that would be measured at FVPL based on the business model and has elected to classify instruments as either FVPL or FVOCI on an instrument-by-instrument basis based on the assessed benefit to the Council from the chosen classification.

### **(xii) Government Grants and Contributions**

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

- The Council will comply with the conditions attached to the payments.
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

### **(xiii) Heritage Assets**

The Council's Heritage Assets are predominantly on display in museum buildings and galleries in the city, held in storage or loaned out to other educational or cultural organisations.

These assets are all valued on a historic cost basis or an annual insurance valuation basis.

The Council holds numerous ancient monuments and statues which are not recognised on the Balance Sheet because of the diverse and often unique nature of the assets held and the lack of comparable market values.

There is no depreciation charge against heritage assets because it is estimated that the assets have an extended and indeterminate useful life such that any depreciation charge would be negligible. The carrying values of Heritage Assets are reviewed when there is evidence of impairments for example when an asset has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any reductions to the carrying value of the assets are recognised and measured in accordance with the Council's general policy on impairments.



## **(xiv) Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (for example software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the Intangible Asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible Assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no Intangible Asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an Intangible Asset is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line in the Comprehensive Income and Expenditure

## **(xv) Interests in Companies and Other Entities**

### **(a) Subsidiaries**

Subsidiaries are all entities over which the Council has control. The Council controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and can affect those returns through its power over the entity.

The Council's material subsidiaries are Bristol Holding Limited (which is directly held) and Bristol Waste Company Limited, Bristol Heat Networks Limited, BE2020 (formally Bristol Energy Limited) and Goram Homes Limited (all of which are indirectly held). There are no non-controlling interests.

In the single entity accounts, the Council has opted to account for its investments in subsidiaries in accordance with Chapter 7 of the Code, Financial Instruments. The investments are accordingly classified as fair value through other comprehensive income (FVPL) and are carried in the Balance Sheet at fair value. Changes in the fair value of the Council's investments in subsidiaries are recognised in Other Comprehensive Income. Impairments are recognised directly in the Surplus/Deficit on the Provision of Services.

In the group accounts, the subsidiaries are consolidated on a line-by-line basis with adjustments to eliminate intra-group transactions, balance and unrealised gains on transactions between the group entities. Where necessary, amounts reported by subsidiaries have been adjusted to conform to the Council's accounting policies.

### **b) Joint Arrangements**

A Joint Arrangement is an arrangement of which two or more parties have joint control where the parties are bound by contractual arrangement and the contractual arrangement gives two or more of those parties joint control of the arrangement. Joint Arrangements are classified as Joint Ventures or Joint Operations.

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The Council has no material Joint Ventures.

A Joint Operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Council has one Joint Operation being the West of England Local Enterprise Partnership. In respect of this, the Council accounts for:

- Its assets, including its share of any assets jointly held.
- Its liabilities, including its share of any liabilities joint held.
- Its share of the revenue from the sale of the output by the joint operation.
- Its expenses, including its share of any expenses incurred jointly.

### **(xvi) Investment Property**

Investment properties are those that are used solely to earn rental income and/or for capital appreciation. The definition does not apply 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 highest or best price that can be obtained in the most advantageous market, in an arms’ length transaction between knowledgeable participants at the measurement date”. Investment Properties are not depreciated but are revalued annually according to market conditions at the year-end

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.

Rental Income received in relation to investment properties is 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 sale proceeds, the Capital Receipts Reserve.

### **(xvii) Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

#### **The Council as Lessee**

##### **Finance Leases**

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured 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. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid

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on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred. Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment - applied to write down the lease liability.
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

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 funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### **Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (for example if there is a rent-free period at the commencement of the lease).

### **The Council as Lessor**

#### **Finance Leases**

To date the Council has not granted any Finance Leases.

#### **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 (for example if 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.

#### **(xviii) Minimum Revenue Provision (MRP)**

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

#### **(xix) Overheads And Support Services**

The Council operates and manages its support services within the Resources Directorate, and this is how these services are reported to management. The costs of overheads and support services are therefore not re-apportioned (except for ring-fenced accounts such as the HRA, Public Health and Licencing).

## **(xx) Prior Period Adjustments**

Prior period adjustments arise because of a change in accounting policies or to correct a material error. Changes in accounting estimates are only accounted for prospectively i.e. in the current and future years which are affected by the changes, they do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices, or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change in accounting policy is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances for the current year and comparative amounts for the prior period as if the new policy had always been applied.

Where material errors are discovered in prior period figures they are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

## **(xxi) Service Concessions**

Service concessions are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the contractor. As the Council is deemed to control the services that are provided under these schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets related to these contracts and recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the contract operator are analysed into the following elements:

- Fair value of any services received during the year.
- Finance cost - an interest charge of the effective rate of interest on the outstanding Balance Sheet liability.
- Contingent rent payable under the agreement.
- Lifecycle replacement costs where applicable.
- Payment towards liability - applied to write down the Balance Sheet liability to the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).

## **(xxii) 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.

### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Capital schemes above £0.25m are subject to annual review and any expenditure incurred which has not enhanced the asset's value is charged as an expense in the financial year that it is incurred. Expenditure on capital

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assets totalling less than £20,000 in any single financial year is classed as de-minimis and therefore is not capitalised but charged as an expense.

### Measurement

Assets are initially measured at cost, comprising:

- The purchase price.
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure and community assets - depreciated historical cost.
- Assets under construction - historical cost.
- Dwellings - fair value, determined using the basis of existing use value for social housing (EUV-SH).
- Surplus assets – the current value measurement base is fair value, defined as “the highest or best price that can be obtained in the most advantageous market, in an arms’ length transaction between knowledgeable participants at the measurement date”.
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

When decreases in value are identified, they are accounted for in the same way as an impairment.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

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- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.
- Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for the depreciation that would have been charged if the loss had not been recognised.

### Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land, car parks, quay walls and lock gates, some Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Council dwellings - are depreciated based upon component accounting basis. In the year of disposal six-month depreciation is charged to the accounts.
- Other buildings - straight-line allocation over the useful life of the property as estimated by a qualified valuer.
- Vehicles, plant and equipment - a percentage of the value of each class of assets in the Balance Sheet.
- Infrastructure, (excluding quay walls and lock gates) - straight-line allocation over 25 years.
- Infrastructure, quay walls and lock gates in city docks are not depreciated as their economic life is beyond 100 years.

The Council applies component accounting to all assets with a net book value more than £5m - where the item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, identified components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

### Disposals and Non-current Assets Held for Sale

When it becomes 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. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. 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 and valued at the lower of their carrying amount before they were classified as Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

When an asset is disposed of or is 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 Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value

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of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal more than £10k are categorised as capital receipts. A proportion of receipts relating to housing disposals is payable to the government. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the HRA's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement

The written-off value of disposals is not a charge against council tax, as the cost of fixed 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.

### **(xxiii) Provisions, Contingent Liabilities and Contingent Assets**

#### **Provisions**

Provisions are made where an event has taken place whereby the Council has a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, considering relevant risks and uncertainties.

When payments are eventually made, they are charged to the relevant provision. Estimated settlements are reviewed at the end of each financial year, where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made); the provision is reversed and credited back to the relevant service.

#### **Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities 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 Balance Sheet but are disclosed in a note to the accounts.

#### **Contingent Assets**

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the Balance Sheet but are disclosed in a note to the accounts.

### **(xxiv) Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the

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General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

The category of unusable reserves includes those reserves which are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council. These reserves are explained in the relevant notes.

### **(xxv) Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account reverses out the amounts charged so that there is no impact on the level of council tax.

### **(xxvi) Schools**

The Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 confirms that the balance of control for local authority-maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the single entity accounts of the Council (and not the Group Accounts). Therefore, schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

Schools within the Council's group fall into the following categories

- 47 Community (12 Nurseries, 30 Primaries, 4 Special and 1 Alternative Provision Site).
- 3 Foundation (2 Primaries and 1 Special).

Other types of school, such as voluntary aided and voluntary controlled schools, academies and free schools are outside of the Council's control and therefore not included in this Statement of Accounts.

### **(xxvii) Value Added Tax**

The Comprehensive Income and Expenditure Account excludes amounts relating to VAT and will be included as an expense only if it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income within the Council's Income and Expenditure account.

### **(xxviii) Rounding Convention**

Unless otherwise stated the convention used in these Financial Statements is to round amounts to the nearest thousand pounds. All totals are the rounded additions of unrounded figures, and therefore may – from time-to-time – not be the strict sums of the figures presented in the text or tables.



## **2 Accounting Standards that have been issued but have not yet been adopted**

The Code of Practice on Local Council Accounting in the United Kingdom (the Code) requires the Council to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

The main change to the Code will be the requirements of International Financial Reporting Standard 16 – Leases adopted in the 2021/22 Code. The required date of application and the date that the Council will adopt IFRS 16 is 1 April 2022. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for most leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Whilst this is expected to have little impact on the Council, work will need to be undertaken during 2021/22 to ensure significant lease type arrangements across the Council are identified and accurately recorded. This will include a review of existing and creation of new processes for managing and recording lease arrangements.