

4.2 Appendix 1 – Draft Accounting Policies 2015/16

Extract from 2015/16 Statement of Accounts

3.1 Accounting policies, critical judgements and assumptions

In accordance with the Accounts and Audit (Wales) Regulations 2014, this Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The accounts are prepared in accordance with proper accounting practices as contained in the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) and the Service Reporting Code of Practice 2015/16 (SERCOP), supported by International Financial Reporting Standards (IFRS).

Accounting policies used when formulating the accounts

1. Accounting policies issued but not yet adopted

The main change introduced by the Code, which will be required from 1 April 2016, relates to the adoption of the CIPFA Code of Practice on Transport Infrastructure Assets. This will require the Council to separately disclose its Highways Network Asset and measure it at Depreciated Replacement Cost (DRC), as opposed to Depreciated Historic Cost (DHC).

A prospective application will be required and, therefore, there is no impact upon the 2015/16 Statement of Accounts and no requirement to restate 2015/16 balances. The change will have a significant and material impact upon the Statement of Accounts. Had this policy been adopted for the 2015/16 Statement of Accounts, it would have resulted in a doubling of the value of all non-current assets.

2. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when the cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority 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 Authority.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received are recorded as expenditure when the services are received rather than when the payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance is written down and a charge made to revenue for the income that might not be collected.

3. Cash and Cash Equivalents

These are sums of money available for immediate use. Cash is represented by cash in hand, bank balances of cheque book schools and the net balance on all of the Council's other accounts, including petty cash accounts. Cash equivalents are highly liquid investments including

Call Accounts and Money Market Funds that are repayable without penalty on notice of not more than 24 hours. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand.

4. Contingent assets and liabilities

These are potential benefits or obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control. Contingent assets and liabilities are not recognised in the accounting statements but are disclosed in a note to the accounts.

5. Deferred Liabilities

Where the Authority receives income from developers and other organisations in respect of the future maintenance of assets, the amounts are held in the Balance Sheet as deferred liabilities until such time that the maintenance of the asset takes place.

Obligations under finance leases are treated as deferred liabilities and measured on the basis disclosed in accounting policy 20.

6. Disposals and Capital Receipts

When non-current assets are disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal.

Receipts from disposals are credited to the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. Where sums are due but not yet received they are treated as deferred capital receipts. A proportion of receipts relating to Housing disposals (75% for dwellings – net of statutory deductions and allowances) are used to reduce the capital financing requirement of the Housing Revenue Account.

Receipts from disposals are appropriated to the Capital Receipts Reserve from the Council Fund Balance in the Movement in Reserves Statement and can only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement (CFR)). The written-off value of disposals is not a charge against council tax, as the cost of non-current assets are fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Council Fund Balance in the Movement in Reserves Statement.

7. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees, and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that there is no impact upon Council Tax.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy, and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement. Where termination benefits involve the

enhancement of pensions, statutory provisions require the Council Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year. An accrual is made for the strain upon the pension fund and is included in the Balance Sheet as a long-term creditor, to the extent that it is repayable to the pension fund over 5 years. In the Movement in Reserves Statement, appropriations are made to or from the Pensions Reserve to neutralise the impact of this accrual on Council Tax.

Post-Employment Benefits

Employees of the County Council of the City and County of Cardiff are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by the Teachers Pensions Agency
- The Local Government Pension Scheme, administered by the County Council of the City and County of Cardiff.

The Council accounts for pension costs in the main accounting statements in accordance with International Accounting Standard 19 (IAS19). IAS19 requires recognition in the employer's accounts of the fact that although retirement benefits are not actually payable until an employee retires, the Authority's commitment to make those payments arises at the time that employees earn their future entitlements. The treatment of pension costs in the accounts depends on whether they are in respect of a defined benefit scheme or a defined contribution scheme.

Defined Benefit Schemes

In defined benefit schemes the retirement benefits payable are based on pay and service, and the assets and liabilities of the scheme can be readily identified between the participating bodies in the scheme. The Local Government Pension Scheme is a defined benefit scheme.

Under IAS19, the cost charged to net cost of services is the cost of pension entitlements earned in the year rather than the cost of contributions paid into the Fund. This cost is known as the *current service cost* and is determined by the actuary. The *Net Pension Liability*, which represents the Authority's attributable share of the Pension Fund's assets and liabilities, is shown in the Balance Sheet.

The following accounting policies have been applied in determining the figures to be included in the Comprehensive Income and Expenditure Statement and Balance Sheet in respect of pensions costs for the Local Government Scheme:

- the attributable assets of the scheme have been valued at bid price
- the attributable liabilities have been measured on an actuarial basis using the projected unit method, which assesses the future liabilities discounted to their present value
- the surplus/deficit in the scheme has been calculated as the excess/shortfall in the value of the assets in the scheme over/below the present value of the scheme liabilities
- the current service cost has been based on the assumptions at the start of the year and the estimated pensionable pay over that year.
- the interest cost is based on the discount rate and the present value of the scheme liabilities at the beginning of the period; discount rates are based on the annualised yields on the iBoxx over 15 year AA rated corporate bond index.
- the net interest on the net defined benefit liability/asset is the interest on the present value of liabilities/assets and interest on the net changes in those liabilities/assets over the period, calculated using the discount rate at the start of the period.
- actuarial gains/losses have been calculated by updating values from the last actuarial valuation to reflect conditions at the balance sheet date
- past service costs cover items such as the provision of enhanced or discretionary benefits on retirement. The costs included in the accounts for 2014/15 are the full costs relating to early retirements granted in the year, which have been calculated as the special contributions payable into the fund, adjusted for the financial assumptions used under IAS19, to represent the approximate cost of the increase in benefits granted to members under IAS19.

Defined Contribution Schemes

These are schemes where the employer pays fixed amounts into the scheme and has no obligation to contribute further amounts if the scheme does not have sufficient assets to pay employee benefits. Under IAS19, defined contribution schemes are accounted for by charging employer contributions to revenue as they become payable. The Teachers' Pension Scheme is a defined benefit scheme but as the Authority cannot identify its share of the underlying assets and liabilities in the scheme on a consistent basis; this scheme is to be accounted for as if it were a defined contribution scheme under IAS19.

In relation to retirement benefits, statutory provisions require the Council 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 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 Council Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

8. Events After the Balance Sheet Date

These are events, both favourable and unfavourable, that 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 – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – The Statement of Accounts are 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 of authorisation for issue are not reflected in the Statement of Accounts.

9. Exceptional Items

Exceptional items are material in terms of the Authority's overall expenditure and not expected to recur frequently or regularly. When they occur, they are included in the Comprehensive Income and Expenditure Statement as a separate line, if that degree of prominence is necessary to give a fair presentation of the accounts.

10. Financial Assets

Financial assets are classified into three types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- investments at fair value – assets that have a quoted market price and/or do not have fixed or determinable payments.
- fair value through profit and loss – assets that are held for trading

Loans and Receivables: Initially measured at fair value and carried at their amortised cost. Credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset, multiplied by the effective rate of interest for the instrument. Interest that is due but unpaid at the end of the year is recognised in the Balance Sheet as a current asset.

Where assets are identified as impaired, because of a likelihood, arising from a past event, that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on de-recognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

Where loans or receivables are undertaken on behalf a third party or are legally required to be kept separate, interest on these balances has been paid to the relevant third parties accordingly.

Investments at Fair Value: available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses). Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Comprehensive Income and Expenditure Statement. The exception is where impairment losses have been incurred - these are debited to the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired because of a likelihood, arising from a past event, that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on de-recognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses previously recognised.

Investments at Fair Value through Profit and loss: These are initially measured and carried at fair value. Any movements in fair value, gains and losses that arise on de-recognition of the asset, and investment income is credited/debited to the Comprehensive Income and Expenditure Statement.

11. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. Interest that is due but is unpaid at the end of the year is recognised in the Balance Sheet as a current liability.

Premiums or Discounts incurred on the extinguishment of debt are charged immediately to the Comprehensive Income Expenditure Statement, with Regulation being used to mitigate the financial impact on the council taxpayer by an adjustment from the Financial Instruments Adjustment Account.

- Premiums are amortised to the Movement in Reserves Statement over the life of the replaced loan, replacement borrowing or other prudent period.
- Discounts are amortised to the Movement in Reserves Statement over the life of the replaced loan or 10 years (whichever is the shorter period).

Where restructuring of the loan portfolio involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and amortised to the Movement in Reserves Statement in accordance with statutory regulation.

Transaction costs, such as brokers' fees and commission in relation to managing the Authority's Financial Instruments, which are not considered material, are charged immediately to the Comprehensive Income and Expenditure Statement.

12. Foreign Currency Translation

When transactions are required to be undertaken in a foreign currency, they are converted at the prevailing rate on the day of the transaction. The Council does not invest or borrow in any currency other than sterling and undertakes very few transactions involving foreign currency.

13. Grants - Revenue

Grants and other contributions relating to revenue expenditure are accounted for on an accruals basis and recognised when:

- the Council will comply with the conditions for their receipt.
- there is reasonable assurance that the grant or contribution will be received.

The accounting treatment will vary depending on whether it is deemed that conditions inherent in the agreement have been complied with. Monies advanced as grants, for which conditions have not yet been satisfied, are carried in the Balance Sheet as Revenue Grants Receipts in Advance. When conditions have been satisfied, the grant or contribution is credited to the relevant service line (specific revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-specific revenue grants) in the Comprehensive Income and Expenditure Statement. Where there is no reasonable assurance that the conditions will be met, any cash received will not be recognised as a receipt of grant monies but as a repayment due to the awarding body. The cash received is held on the Balance Sheet as a liability.

Where the conditions of a revenue grant or contribution have been complied with but it is yet to be used to fund expenditure for the purpose stipulated in the grant agreement, it is set aside in an Earmarked Reserve.

14. Grants and Contributions – Capital

Grants and contributions that are applied in the year to fund capital schemes that are Revenue Expenditure Funded by Capital under Statute (REFCUS) are treated as revenue income and credited to the Comprehensive Income and Expenditure Statement to the relevant service line.

Capital Grants and Contributions applied in paying for other capital works are credited to the Taxation and Non-Specific Grant Income line in the Comprehensive Income and Expenditure Statement. Where a specific capital grant or contribution has been received but remains unapplied, this is deemed to represent a condition in that the unused element could be returned to the funder.

Capital grants and contributions are identified separately on the Balance Sheet. Contributions such as those arising from Town and Country Planning Act 1990 obligations usually come with conditions that the funding can be clawed back by the provider if not spent within a certain period of time or if not spent on a specific project. Such items are treated as Capital Grants Receipts in Advance.

The unapplied element of such grants or contributions would not be taken to the Comprehensive Income and Expenditure Statement when received and is treated as a creditor. Where a specific capital grant or contribution is applied, but is not yet received, this is taken to Comprehensive Income and Expenditure Statement when applied and is treated as a debtor.

Non-specific grants such as the General Capital Grant or Major Repair Allowance are recognised immediately in the Comprehensive Income and Expenditure statement. If such a non-specific grant remains unapplied at the end of the year, this element is held as Capital Grants unapplied.

15. Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council is capitalised. In the case of computer software and licences, this will be capitalised where it relates to the enhancement or development of systems, expenditure on which is deemed to generate long-term economic benefits to the Authority in the form of savings and

improvements in service delivery. Intangible assets are included in the Balance Sheet at historic cost net of amortisation, are reviewed for impairment and are re-valued only where they have a readily ascertainable market value. The assets are amortised to the relevant service line over the economic life of the investment to reflect the pattern of consumption of benefits

Any amortisation, impairment, disposal gains or losses are not permitted to have an effect upon Council Fund Balance and are reversed in the Movement in Reserves Statement.

16. Interests in Companies and Other Entities

The Council has interests in companies and other entities. Subject to the level of materiality and exposure to risk, these are consolidated to produce Group Accounts. In the Council's own single entity accounts, the interests in such companies are recorded as financial assets in the Balance Sheet.

17. Inventories

Inventories are measured and held at the lower of cost or net realisable value. When such inventories are sold, exchanged or distributed, the carrying amount is recognised as an expense in the Comprehensive Income and Expenditure Statement.

18. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. Investment properties are measured at fair value, based on the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The valuations are undertaken by officers of the Council's Strategic Estates department, who fall within the competence demands set out by the Royal Institution of Chartered Surveyors and who are valuers registered in accordance with the RICS Valuer Registration Scheme.

Fair Value is deemed to be the market value assessed for each asset reflecting highest and best use, echoing market conditions at the balance sheet date. The valuation method is term & reversion, with passing rents capitalised at appropriate yields and estimated reversionary rental values based on prevailing rents for similar properties. Local comparable rental evidence and market yields have been utilised for the valuations.

Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. Rentals received in relation to investment properties are credited to the relevant service line and result in a gain for the Council Fund Balance. However, revaluation and disposal gains and losses are not permitted to have an impact on the Council Fund Balance. The gains and losses are therefore reversed out of the Council Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

19. Joint Committees

The relevant proportion of the transactions and balances of Joint Committees are included within the Council's Comprehensive Income Expenditure Statement and Balance Sheet. These reflect the transactions and balances as per the draft accounts prepared for each Joint Committee.

20. 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. Leases are reviewed at inception and classed as finance or operating by reviewing arrangements such as:

- Transfer of ownership at the end of lease contract
- Option to purchase asset at price lower than fair value
- Lease term is for major part of economic life of asset
- Present value of minimum lease payments amounts to at least substantially all of the fair value of leased asset

- Leased assets are specialist and only lessee can use them without major modifications

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 Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at fair value measured at the lease's inception. The asset recognised is matched by a liability for the obligation to pay the lessor.

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, and
- 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 Authority at the end of the lease period).

For plant and equipment the Authority has set a de-minimis level of £75,000 for leases to be recognised as finance leases.

The Authority 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 Council 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

Payments for operating leases are charged to the relevant service line on an accruals basis. The charges are made evenly throughout the period of the lease.

The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement, as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is 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 of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

Operating Leases

Where the Authority 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 Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease).

21. 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. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

22. Overheads and Support Services Costs

The costs of overheads and support services are allocated to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2015/16* (SERCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SERCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Net Cost of Services.

23. Prior Period Adjustments

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error.

- Material errors discovered in prior period figures are corrected by amending opening balances and comparative amounts for the prior period

- 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 Authority's financial position or performance. Any change is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

24. Private Finance Initiative (PFI) and similar contracts

These are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor during the contract term. The Council does not have any such contracts at the balance sheet date.

25. Property, Plant, Equipment, Community and Heritage Assets

These assets are those that have physical substance used in the production or supply of goods or services, those intended to be held indefinitely and those for the promotion of culture and knowledge and expected to be used during more than one financial year.

Recognition:

Expenditure on the acquisition, creation or enhancement of such assets is capitalised on an accruals basis. All expenditure incurred on existing assets is assumed to result in enhancement of the asset and will be shown in the accounts as an addition to the asset. This, together with a 3-year rolling programme of revaluations, ensures that the values of land and buildings carried in the accounts are not materially misstated and ensures a sustainable cost/benefit approach to valuation and accounting for capital expenditure on land and buildings in the year.

Expenditure that maintains but does not add to an asset's potential to deliver benefits or service potential (i.e. repairs and maintenance) is charged to revenue as it is incurred.

The Council has a de-minimis policy with regards to the capitalisation of expenditure in connection with Council dwellings, as follows:

- External works requirement for capital expenditure to be over £1,000
- Heating requirement for capital expenditure to be over £1,000
- All other works over £500

The Council recognises heritage assets where it may have incurred separately identifiable expenditure on their acquisition, or preservation at historic cost, or where it has information on the value of the asset.

The Council recognises Voluntary Aided, Voluntary Controlled and Foundation Schools on the Authority's Balance Sheet if it owns the land and can accordingly direct the use of the assets.

Measurement:

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the specific asset into working condition for its intended use. The Council does not capitalise borrowing costs.

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

- Infrastructure Assets – depreciated historical cost. Not all roads and infrastructure are included in the Balance Sheet, as the balance sheet values reflect historic expenditure incurred on such assets from a point in time. Any roads adopted by the Council are not individually identified on the balance sheet and are effectively recorded at nil value. Accordingly, the Balance Sheet does not represent the true value and size of infrastructure assets. This will change in future years, but until then the asset values

presented in the accounts understate the real value of infrastructure assets held and used by the Council.

- Community Assets and Assets under Construction are included in the Balance Sheet at historic cost.
- Heritage Assets and their nature make determining a value for them complex. Valuations may lack reliability, there may be no market, providing an estimate of replacement cost may be difficult and the cost of determining a valuation for accounting purposes only may not be justified on cost benefit grounds. These difficulties are recognised by the Code and so many individual assets are not recorded in the accounts, but additional narrative disclosures are made about the nature and scale of such assets. Heritage assets are included at historic cost if included in the accounts and only measured at fair value where the benefits of doing so outweigh the costs.
- Council Dwellings – Existing use value for Social Housing (EUV-SH) This is the estimated amount for which a property should exchange, on the date of valuation, between a willing buyer and a willing seller, on the assumption that the property will continue to be let and used for social housing. The Council has used a discount factor of 41% to adjust beacon values to existing use value.
- The Code requires Surplus Assets to be valued at Fair Value, based on highest and best use. The main types of assets held within this class include historic development land and buildings awaiting suitable open market disposal or use for identified schemes, sites held for the purpose of the Cardiff Partnering Scheme, as well as former operational buildings awaiting disposal or alternative use.

All other assets are measured at Current Value. Where there is an active market for assets, Existing Use Value is used as the basis for determining current value. Where there is no market-based evidence, because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. For schools land and buildings, a detailed approach to DRC, known as Modern Equivalent Asset (MEA), is used, due to the much specialised nature of these assets. Non-property assets, such as plant and equipment, have short useful lives or low values (or both), and, therefore, depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at fair or current value are required to be revalued at least every five years. The Council must balance the requirement to ensure carrying amounts are not materially different from their fair or current value at the year-end, with the time, costs and resources involved in providing valuation services for accountancy purposes. It does this by:-

- Undertaking an annual impairment review of property with the Council's in-house valuation team to identify significant changes
- Using the experience and local knowledge of the in-house valuation team to provide valuation services to ensure financial services are made aware of all property issues affecting the Council
- Having an agreed rolling programme of revaluation which is shorter than the minimum 5 year cycle required by the Code in order to ensure there is sufficient, regular and consistent coverage of all classes of assets.

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 line.

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.

Revaluation:

Where required by the Code, asset revaluations take place with an effective date of 1 April of the financial year and are undertaken by in-house professional valuers, all of whom are RICS registered. This is in accordance with the Council's rolling programme of three year revaluations.

Charges to Revenue for Non-Current Assets:

Service lines are debited with the following amounts to record the cost of holding assets during the year:

- depreciation attributable to the assets used by the relevant service
- 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

The Council is not required to raise Council Tax to fund depreciation, impairment losses or amortisations. However, it is required to make a prudent provision from revenue towards the reduction in its overall requirement to borrow. Depreciation, impairment losses and amortisations are, therefore, replaced by this prudent provision in the Council 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.

Impairment and Downward Revaluation:

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired in value, either due to a significant reduction in service potential, e.g. service delivery from that asset ceasing, or significant permanent market value reductions (downward revaluation). Where either type of loss is identified, they are accounted for by:

- 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(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for 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 an allocation of their depreciable amounts over their estimated useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land, heritage and community assets), as well as assets that are not yet available for use (i.e. assets under construction). The Code also requires depreciation of buildings categorised as surplus assets. However, the Council does not depreciate these, as by their very nature they are no longer used in service delivery, depreciation is not consistent with the valuation approach adopted and, in the majority of cases, buildings on a site are planned to be demolished or are in a poor condition. For assets depreciated by the Council, it charges a full year's depreciation on capital expenditure incurred in the year.

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.

Depreciation is calculated on the following bases:

Asset category	Initial Useful Life in years
Intangible Assets	3-5
Council Dwellings	50

Land	n/a
Buildings *	3-125
Vehicles, Plant, Furniture and Equipment	5-15
Infrastructure **	7-120
Community Assets, Investment Properties, Heritage Assets, Surplus Assets and Assets Held for Sale	n/a

* Included within Buildings is City Hall with an initial useful life of 125 years

** Included within Infrastructure is the Cardiff Bay Barrage, which is being depreciated over the design life of 120 years

Component Accounting:

Where a single asset may have a number of different components, each having a different useful life, three factors are taken into account to determine whether a separate valuation of components is to be recognised in the accounts in order to provide an accurate figure for depreciation.

- **Materiality with regards to the Council's financial statements.** Componentisation will only be considered for individual non land assets that have a net book value of more than £1.5 million at the end of the financial year.
- **Significance of component.** For individual assets meeting the above threshold, where services within a building (Boilers / Heating / Lighting / Ventilation etc.), or items of fixed equipment (Kitchens / Cupboards) is a material component of the cost of that asset (> 30%), then those services/equipment will be valued separately on a component basis.
- **Difference in rate or method of depreciation compared to the overall asset.** Only those elements that normally depreciate at a significantly different rate from the non-land element as a whole, or that require a different method of depreciation will be identified for componentisation.

Assets that fall below the de-minimis levels, and the tests above, can be disregarded for componentisation on the basis that any adjustment to depreciation charges would not result in a material misstatement in the accounts.

Where assets are material and to be reviewed for significant components, it is recommended that the **minimum** level of apportionment for the non-land element of assets is:

- Plant and equipment and engineering services.
- Structure.

Professional judgement will be used in establishing materiality levels, the significance of components, useful lives, depreciation methods and apportioning asset values over recognised components.

Revaluations of the Council's property assets will continue to be undertaken on a 3 yearly rolling programme basis, at which point the revaluation takes into account the value and condition of the assets, relevant components and also de-recognition, where relevant. Where there is a major refurbishment of an asset, a new valuation will be sought in the year of completion and a revision to the useful life.

The Council does not currently undertake componentisation on infrastructure assets.

26. Provisions

Provisions are made when, as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount but the timing of the settlement is uncertain.

Provisions are charged as an expense to the appropriate service line in the year that the Authority becomes aware of the obligation, based on the best estimate of the likely settlement.

When payments are eventually made, they are charged to the provision, which is held on the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and provisions that are no longer required are credited back to the relevant service line.

27. Revenue Expenditure Funded from Capital under Statute (REFCUS)

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. 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 Council Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

28. Reserves

The Council sets aside amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts from the Council 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. The reserve is then appropriated back into the Council Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure. Certain reserves are maintained to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority.

29. Value Added Tax

Apart from certain cases where the Council funds supplies of goods or services to other persons or organisations, the Council is reimbursed for VAT. The revenue accounts have, therefore been prepared exclusive of this tax.