

Accounting Policies

General Principles

In accordance with the Accounts and Audit (Wales) Regulations 2018, this Statement of Accounts summarises the Council's income and expenditure and financial position for the year ended 31 March 2018. 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 2017/18 (the Code).

The accounting convention adopted in the Statement of Accounts is principally historic cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The accounts have been prepared on a going concern basis i.e. on the assumption that it will continue to be in existence for the foreseeable future. All operations were classified as continuing and there were no significant acquisitions or discontinuations of service during the financial year.

1. Accounting policies issued but not yet adopted

This section will be updated in the statement of accounts for 2017/18 to highlight the impact of International Financial Reporting Standard 9 – Financial instruments, which is to be introduced in 2018/19. An initial review has indicated that whilst this may result in presentational changes and additional disclosures, there will be no impact on financial performance given the nature of current financial assets held. This will be reviewed in conjunction with WAO.

2. Accruals of Income and Expenditure

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

- revenue from the sale of goods is recognised when the Council 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 Council
- 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
- 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 debtors are not considered to be collectable, the balance is reduced by a provision for doubtful debt.

3. Cash and Cash Equivalents

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. Cash equivalents include Call Accounts and Money Market Funds that are repayable without penalty on notice of not more than twenty four 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

Accounting Policies

Council's control. Contingent assets and liabilities are not recognised in the accounting statements but are disclosed in note 32 to the accounts.

5. Deferred Liabilities

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

Obligations under finance leases are treated as deferred liabilities and measured on the basis disclosed in accounting policy 19.

6. Disposals and Capital Receipts

When assets are disposed of or decommissioned, proceeds from disposals are credited and the carrying amount of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement in order to calculate a gain or loss on disposal.

Council Fund receipts from disposals greater than £10,000 are treated as capital receipts. Capital receipts are appropriated to the Capital Receipts Reserve from the Council Fund Balance in the Movement in Reserves Statement and can only be used to pay for capital expenditure or to reduce the Council's underlying need to borrow (the Capital Financing Requirement (CFR)). Where sums are due but not yet received they are treated as deferred capital receipts.

The written-off value of disposals is not a charge against council tax or rent, as amounts are appropriated to the Capital Adjustment Account from the Council Fund Balance in the Movement in Reserves Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

7. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within twelve months of the year-end. They include such benefits as wages and salaries, paid annual leave, bonuses and paid sick leave for current employees. They are recognised as an expense for services in the year in which employees undertake the service for 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 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 on the Balance Sheet as a creditor. Pension strain is payable 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 are members of two separate pension schemes:

- the Teachers' Pension Scheme, administered by the Teachers Pensions Agency
- the Cardiff and Vale of Glamorgan Local Government Pension Scheme, administered by the Council.

Accounting Policies

The Council accounts for pension costs in the main accounting statements in accordance with International Accounting Standard 19 (IAS19). This requires recognition of the fact that although retirement benefits are not actually payable until an employee retires, the Council'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 Contribution Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme. The arrangements mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet.

Defined Benefit Schemes

The Local Government Pension Scheme is a defined benefit scheme and the liabilities of the scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method. This is 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 and projections earnings for current employees.

Liabilities are discounted to their value at current prices, using data from a basket of high quality corporate bonds and government gilts.

The assets of Cardiff and Vale of Glamorgan Pension Fund attributable to the Council are included on the Balance Sheet at their fair value:

- quoted and unitised securities – current bid price
- unquoted securities – professional estimate
- property – market value.

The net pension liability, which represents the Council's attributable share of the Pension Fund's assets and liabilities, is shown in the Balance Sheet.

The change in the net pensions liability is analysed in the following components:

- the current service cost (the increase in the liability as a result of pension earned by employees in the year rather than the cost of contributions paid into the fund) is charged to the net cost of services
- past service costs (the increase in the liability arising from current year decisions whose effect relate to pension earned by employees in earlier years) cover items such as the provision of enhanced or discretionary benefits on retirement and are charged to Corporate Management.
- gains and losses on settlements and curtailments (the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits) are also charged to Corporate Management.
- the net interest on the net defined benefit liability is the net interest expense for the period that arises from the passage of time and is shown within the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

Re-measurements comprising the following, are charged to the Pensions Reserve as Other Comprehensive Income and Expenditure:

- the return on the plan assets excluding amounts included in net interest on the defined benefit liability
- actuarial gains and losses as a result of updating values from the last actuarial valuation to reflect conditions at the balance sheet date.

Accounting Policies

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 material, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events identified after the date of authorisation for issue are not reflected in the Statement of Accounts.

9. Exceptional Items

Exceptional items of income or expenditure are not expected to recur frequently or regularly, but when they occur and when they are material in terms of understanding financial performance. They are included in the Comprehensive Income and Expenditure Statement as a separate line.

10. Financial Assets

Financial assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They 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.

Where a fair value price that would be received to sell an asset, is estimated and disclosed, either in the accounts or notes to them, inputs to the valuation techniques used to determine fair value are attributed to either of the following in the fair value hierarchy:

Level 1 – quoted prices in active markets for identical assets that the Council can access at the measurement date

Level 2 – inputs other than quoted prices that are observable for the asset

Level 3 – unobservable inputs for the asset.

Loans and Receivables: Initially measured at fair value and carried at their amortised cost. 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.

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.

Accounting Policies

Interest that is due but unpaid at the end of the year is recognised on the Balance Sheet as a current asset.

Investments at Fair Value: Available-for-sale assets are initially measured and carried 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.

Where the asset has fixed or determinable payments (e.g. interest), income is credited to the Comprehensive Income and Expenditure Statement for interest receivable 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 (e.g. dividends), income is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

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

Where a fair value price which is paid to transfer a liability, is estimated and disclosed, either in the accounts or notes to them, inputs to the valuation techniques used to determine fair value are attributed to the same levels as stated under the Financial Assets accounting policy.

Premiums or discounts incurred on the extinguishment of debt are charged immediately to the Comprehensive Income and Expenditure Statement, with regulation being used to mitigate the financial impact on the Council taxpayer by an adjustment from the Financial Instruments Adjustment Account. As such:

- 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.

Accounting Policies

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

12. Grants and Contributions

Grants and other contributions are accounted for on an accruals basis and recognised when:

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

Revenue

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 longer any reasonable assurance that the conditions will be met, sums received will not be recognised as a receipt of grant but as a repayment due to the awarding body and held on the Balance Sheet as a liability if it remains unpaid.

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.

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 and is shown as a creditor, as the unused element could be returned to the funder. Where a non-specific grant such as the General Capital Grant or Major Repair Allowance were to remain unapplied, it would be held as Capital Grants Unapplied Reserve.

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 and Capital Expenditure and Other Contributions Receipts in Advance.

13. Heritage Assets

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

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. The valuations are undertaken by A. N. Schoon, Antiques and Fine Art Valuer.

The unique nature of heritage assets makes reliable valuation complex. These difficulties are recognised by the Code and therefore many individual assets are not recorded in the accounts, but additional narrative disclosures are made about the nature and scale of such assets. Accordingly, only paintings, artefacts and civic regalia are shown at fair value in the Balance Sheet

Accounting Policies

and revalued externally at least every three years, based on an insurance valuation. The last valuation took place in 2016/17 and the next is due to take place in 2019/20

No depreciation charge is made on heritage assets.

14. Intangible Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council are 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 Council in the form of savings and improvements in service delivery. Intangible assets are included in the Balance Sheet at historic cost net of amortisation and are reviewed for impairment and 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 initially set between 3-5 years, and reversed in the Movement in Reserves Statement via transfer to the Capital Adjustment Account.

Gains or losses arising from disposal are recognised in the surplus or deficit on the provision of services

15. 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 on the Balance Sheet.

16. 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.

17. Investment Property

Investment properties are those held solely to earn rentals and/or for capital appreciation. Following a review, these are deemed to include:

- ground leases
- land held for future development as strategic sites
- all other land and buildings that meet investment property criteria, mainly shop premises.

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 and Jones Lang Lasalle who are Chartered Surveyors registered in accordance with the Royal Institution of Chartered Surveyors. Full valuations are undertaken every other year, with a desktop review undertaken annually. The last valuation was in 2016/17 and the next will be due in 2018/19.

Fair Value is deemed to be the market value assessed for each asset reflecting highest and best and market conditions at the balance sheet date. Local comparable rental evidence and market yields have been utilised for comparison purposes.

Investment properties are not depreciated. Gains and losses on revaluation and disposal are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. 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.

Accounting Policies

18. Joint Committees

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

19. 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 Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at fair value measured at the inception of the lease. 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 Council at the end of the lease period).

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

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, 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 Council as Lessor

Finance Leases

Accounting Policies

Where the Council 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 on 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 Council'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 on 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 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 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).

20. 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 if it meets the following criteria:

- be available for immediate sale in its present condition
- sale must be highly probable
- be actively marketed or have identified prospective purchasers
- the sale expected to be completed within one year.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where this results in a loss, this 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 previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale. Annual reviews are undertaken as to whether assets still meet the criteria for Assets Held for Sale and where this is not the case they are reclassified and revalued in accordance with the appropriate class.

Accounting Policies

21. Overhead and Support Services Costs

The costs of overheads and support services are allocated to directorates in accordance with the Council's arrangements for accountability and financial performance.

22. Prior Period Adjustments

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

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 Council'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.

23. Property, Plant and Equipment

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 of £1,000 with regards to the capitalisation of expenditure in connection with Council dwellings.

The Council recognises Voluntary Aided, Voluntary Controlled and Foundation Schools on the Council'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 on the Balance Sheet using the following measurement bases:

- 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 40% in the current valuation to adjust beacon values to existing use value.
- Other Land and Buildings - 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

Accounting Policies

and buildings, a detailed approach to DRC, known as Modern Equivalent Asset (MEA), is used, due to the much specialised nature of these assets.

- Vehicles, Plant Furniture and Equipment, Infrastructure Assets, Community Assets and Assets under Construction – Depreciated historical cost.
- Surplus Assets - Fair Value, based on highest and best use.

Revaluation:

Council dwellings, other land and buildings and surplus assets are required to be revalued periodically. Asset revaluations take place with an effective date of 1 April of the financial year and are undertaken by professional valuers.

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 or source any external valuation services. This ensures finance 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.

Revaluations of the Council's property assets are undertaken on a minimum 3 yearly rolling programme basis, or where there is a major refurbishment of an asset, a new valuation will be sought in the year of completion and a revision is made to the useful life. The planned valuation timetable is shown below:-

Asset	2017/18	2018/19	2019/20
Council Dwellings		X	
Other Land & Buildings - Schools			X
Other Land & Buildings – Other		X	
Surplus Assets	X	X	X

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.

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 as follows:

- 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)

Accounting Policies

- 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 and community assets), as well as assets that are not yet available for use (i.e. assets under construction). 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 range of useful lives:

Asset category	Initial Useful Life in years
Council Dwellings	50
Land	n/a
Buildings	3-65
Vehicles, Plant, Furniture and Equipment	5-15
Infrastructure*	7-120
Community Assets, Surplus Assets	n/a

*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.

These factors are:

- 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.

Accounting Policies

Assets that do not meet 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, 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.

24. 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 Council 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.

25. 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, is 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.

26. Reserves

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

27. Value Added Tax

Value Added Tax payable is included as an expense only to the extent that is not recoverable from HM Revenues and Customs. VAT receivable is excluded from income.