# STATEMENT OF ACCOUNTS 2008/09 – 2008 SORP AND ACCOUNTING POLICIES

**EXECUTIVE MEMBER:** Cllr. Allan Holliday, Deputy Leader of the Council
**LEAD OFFICER:** Julie Crellin, Head of Finance and Management Information Systems
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**Summary:**
This report is to inform members of revisions to the 2008/09 Statement of Accounts, due to the implementation of the 2008 Statement of Recommended Practice (SORP). The report also provides the draft Accounting Policies for Members consideration for inclusion within the 2008/09 Statement of Accounts.

**Recommendations:**
Members are asked to: -

1) Note the changes to the Statement of Accounts required by the 2008 SORP.
2) Agree the draft Accounting Policies (subject to review with the Audit Commission) outlined in Appendix A to this report, for inclusion within the 2008/09 Statement of Accounts.

## 1 INTRODUCTION

1.1 The Council is required by Statute to approve the Annual Accounts by the 30 June each year. The Audit Committee will consider the Statement of Accounts (subject to Audit) at its meeting of 26th June 2009. It is envisaged the Audit Committee will accept the Annual Accounts on behalf of the Council at this meeting. The Audit Commission will then commence its audit of the Accounts.

1.2 The Audit Commission will produce its Annual Governance Report in September and the Audit Committee will consider this at its September meeting. The Governance report will include a statement on whether the financial statements relating to 1st April 2008 to 31st March 2009, present fairly the financial position of the Authority. This report needs to be considered prior to the Accounts being signed off by the statutory deadline of the 30th September 2009.

1.3 The key dates, issues and areas requiring improvement were set out in the Final Accounts Timetable circulated to officers on the 17th February 2009. The Audit Committee received this closure of Accounts Plan, by memorandum from the Head of Finance on 23rd March 2009. There have also been a number of workshops held in March to provide additional training to officers on the Final Accounts Process.

## 2 SUMMARY OF THE CHANGES ARISING FROM THE 2008 STATEMENT OF RECOMMENDED PRACTICE (SORP)

2.1 The SORP is produced annually and shows how the UK Generally Accepted Accounting Principles (GAAP) is applied to the production of the Statement of Accounts. The 2008 SORP applies to the production of the 2008/09 Accounts within Local Government. The 2008 SORP has a relatively small number of substantive changes and, unlike the changes to the 2007 SORP, these are fairly minor.

2.2 To facilitate Members understanding of the accounts, the main accounting policies and the main changes required as a result of the 2008 SORP, a briefing note has been appended to this report (Appendix B).

## 3 STATEMENT OF ACCOUNTING POLICIES

3.1 The existing Statement of Accounting Policies has been reviewed to reflect the changes in the 2008 SORP and also to provide further explanation of other existing policies. These are attached at Appendix A.

3.2 The Accounting Policies 2008/09 are in the main a continuation of existing policies adopted by the Council. Areas of change relate to:

3.2.1 Policy 3 - Provisions: more comprehensive explanation.

3.2.2 Policy 5 - Government Grants and Contributions (Revenue): explicit recognition that Area Based Grant (ABG), Private Finance Initiative (PFI) and Revenue Support Grant (RSG) are general grants and cannot be applied to individual services. The impact of this is that the net cost of services will not reflect this grant income. Members will remember the material errors in 2006/07 and 2007/08 Accounts as a result of this incorrect application of general grant.

3.2.3 Policy 10 - Tangible Fixed Assets: more comprehensive explanation of asset categories, reflecting amendments to 2007/08 Accounts as a result of the external audit process.

3.2.4 Policy 11 – Financial Instruments: more comprehensive explanation of this area of reporting which was introduced for 2007/08 reporting.

3.2.5 Policy 16 – Interest in Companies: Group Accounts will be prepared in 2008/09 to reflect reconsideration by Finance of the materiality of the value of external interests. This is a prudent approach and a treatment note is being prepared for discussion with the Audit Commission.

3.2.6 Policy 17 – PFI: see policy 5 explanation.

3.3 Members are asked to agree the accounting policies as outlined (subject to review with the Audit Commission) to provide the basis for the preparing the 2008/09 Accounts. This is good practice and is a requirement of our Closure of Accounts Plan 2008/09.

**List of Appendices**

Appendix A: Draft Statement of Accounting Policies 2008/09 (subject to review with the Audit Commission)
Appendix B: Briefing note – Key changes to the Statement of Recommended Practice (SORP) 2009

**List of Background Documents:** Statement of Recommended Practice (SORP) 2009 – hardcopy held by Finance

# Draft Statement of Accounting Policies

## 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2008/09 financial year and its position at the year-end of 31 March 2009. It has been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2008: A Statement of Recommended Practice* (the SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories.

## 2. Accruals of Income and Expenditure

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

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed, and where there is a gap between the date supplies are received and their consumption they are carried as stocks on the Balance Sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the Balance Sheet.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the affective interest date for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure has 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 it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

## 3. Provisions

Provisions are made where an event has taken place that gives the council and obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account 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, there are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

## 4. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits that do not represent usable resources for the Council – these reserves are explained in the relevant policies below.

The type and purpose of the Council's reserves are explained in note XX on pages XX and XX

## 5. Government Grants and Contributions (Revenue)

Whether paid on account, by instalments, or in arrears, government grants and third party contributions and donations are recognised as income at the date that the Council satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general revenue expenditure (e.g. Revenue Support Grant, Area Based Grant and PFI grant in respect of the Copeland Centre) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

## 6. Retirement Benefits (Pensions)

Employees of the Council are members of the Local Government Pension Scheme administered by Cumbria County Council. The scheme provides defined benefits to members comprising lump sums payable on retirement and pension annuities payable during the period of retirement.

The liabilities of the scheme attributable to the Council are included in the Balance Sheet on actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates employee turnover rates, etc, and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of x%.

The assets of the pension fund attributable to the council are included in the Balance sheet at their fair value:

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

The change in the net pensions liability is analysed into seven components:

- Current service cost - the increase in liabilities as result of years of service earned this year – allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
- Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income and Expenditure Account
- Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account
- Gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service of accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs

- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains and Losses
- Contributions paid to the pension fund – cash paid as employer's contributions to the pension fund.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Statement of Movement on the General Fund balance 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 any amounts payable to the fund but unpaid at the year-end.

The Council also has restricted powers to make discretionary awards of retirement benefit in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

**7. <u>Value Added Tax</u>**

Income and expenditure excludes any amounts related to VAT, except where this is considered to be irrecoverable. All VAT collected is payable to HM Revenue and Customs, and VAT paid is (in the majority of circumstances) recoverable from them.

**8. <u>Overheads and Support Services</u>**

The costs of overheads and support services are charged to those that benefit from the supply or service, in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2008 (BVACOP). 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 multi-functional, democratic organisation
- Non-distributed costs – the cost of discretionary benefits awarded to employees retiring early.

These two costs are accounted for as separate headings in the Income and Expenditure Account as part of net cost of services.

**9. <u>Intangible Fixed Assets</u>**

Expenditure on assets that do not have a physical substance, but are identifiable and controlled by the Council (e.g. software licences), is capitalised, at cost, when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

**10. Tangible Fixed assets**

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

**Recognition**

Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year. Expenditure that secures, but does not extend the previously assessed standards of performance of the asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

**Measurement**

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet, using the following measurement bases:

Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Chartered Surveyors (RICS).

| | **Basis of valuation** | **Depreciation** | **Asset Lives** |
|---|---|---|---|
| Other land and buildings | Open market value for existing use or depreciated replacement cost | Straight line | 15-50 years |
| Vehicles plant and equipment | Historical cost | Straight line | 3-10 years |
| Community Assets | Historical cost | N/A | N/A |
| Non operational assets | Open market value | N/A | N/A |
| Infrastructure | Historical Cost | Straight Line | 14-20 years |

Revaluation of these assets is on a quinquennial basis undertaken on a rolling programme by CAPITA Symmonds, including revaluations as required if the Council becomes aware of factors indicating a change in valuation.

Operational properties of a specialised nature were valued on the basis of what it would cost to reinstate the asset or to acquire modern equivalent, adjusted to reflect the age, wear and tear and obsolescence of the existing asset.

Operational properties of a non-specialised nature were valued by reference to the open market value of equivalent assets of a similar type and condition, as evidenced by recent market transactions, and on the assumption that they would continue in their existing use.

Net current replacement cost is assessed as:

- Non-specialised operational properties – existing use value
- Specialised operational properties – depreciated replacement cost
- Investment properties and surplus assets – market value.

Assets included in the Balance Sheet at current value are re-valued where there have been material changes in the value but, as a minimum, every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

**Impairment**

The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review, or as a result of a valuation exercise, this is accounted for by:

- Where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account
- Where attributable to a general decline in prices - the loss is recognised in the Revaluation Reserve but only to the extent that this loss reverses gains attributable to the asset now being impaired. Where the impairment recognised exceeds the balance of revaluation gains attributable to the asset now being impaired, historical gains are removed from the revaluation reserve and the excess of impairment over historical gains is recognised in the Income and Expenditure Account for the year of account.

**Disposals**

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account 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).

Amounts in excess of £10,000 are categorised as capital receipts. Capital receipts are credited to the usable Capital Receipts Reserve and can then be used in accordance with the provisions of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 for new capital investment, or to set aside to reduce the Council's underlying need to borrow the capital financing requirement. Receipts are appropriated to the reserve from the Statement of Movement on the General Fund Balance.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance.

**Depreciation**

Depreciation is provided for on all assets with a determinable finite life, except for investment properties, by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.

Depreciation is calculated on the following bases:

- Buildings – straight line allocation over the remaining life of the property, as estimated by an authorised valuer
- Vehicles, plant and equipment and Infrastructure – straight line allocation over the estimated useful life of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- Community assets and non operational assets – no depreciation is provided on these classes of assets.

**Grants and contributions**

Where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the government grants deferred account. The balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

11 **Financial Instruments**

**Financial Liabilities**

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable plus interest accrued at the year end and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

**Financial assets**

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

**Loans and Receivables**

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Income and Expenditure Account to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

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

**Available-for-sale Assets**

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account 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 Income and Expenditure Account when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses (STRGL). The exception is where impairment losses have been incurred – these are debited to the Income and Expenditure Account, 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 Income and Expenditure Account. Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL.

Where fair value cannot be measured reliably (such as is the case for the investment in the Whitehaven 1992 Ltd company), the instrument is carried at cost (less any impairment losses).

## 12 Charges to Revenue for Fixed Assets

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance, or loans fund principal charges). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

## 13 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of fixed assets has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of council tax.

14 **Leases**

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council.

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

15 **Stocks and work in progress**

Stocks are included in the Balance Sheet at the latest price paid, with an allowance made in relation to the price rises since purchase. This is a departure from the requirements of the code of practice and SSAP9, which require stocks to be shown at actual cost or net realisable value if lower. The effect of the different treatment is not considered to be material.

16 **Interests in Companies and other entities**

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates, and joint ventures, and require it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as investments, ie at cost, less any provision for losses.

17 **Private Finance Initiative (PFI)**

In accordance with SSAP21 and FRS5, the terms of the PFI payments with regard to the Copeland Centre, are equivalent to an operating lease, in that transactions are dealt with purely within the income and expenditure account, and no asset is recognised on the Balance Sheet.

Government grants received for the PFI scheme, in excess of current in year expenditure, are carried forward as an earmarked reserve to fund future contract expenditure. Income and expenditure relating to the subletting of part of the PFI building to DWP & Copeland Homes is shown within trading operations (note X) as it is not directly attributable to any services provided by the Council.

18 **Prior period adjustment**

Material adjustments relating to previous years, arising from changes in accounting policies or for the correction of fundamental errors, are accounted for by restating the comparative figures for the previous period in the statement of accounts and notes, and adjusting the balance of reserves for the cumulative effect.

**BRIEFING NOTE – KEY CHANGES TO THE STATEMENT OF RECOMMENDED PRACTICE (SORP) 2008**

## 1. SUMMARY

1.1 This briefing note examines the changes in the SORP (Statement of Recommended Practice) 2008 and the implications for the closedown process. Unlike the changes to the 2007 SORP, these changes are fairly minor.

## 2. BACKGROUND

2.1 The SORP is produced annually and shows how the UK Generally Accepted Accounting Practice (GAAP) is applied to the production of the Statement of Accounts within Local Government. The 2008 SORP applies to the production of the 2008/09 Accounts. The 2008 SORP has only 15 substantive changes and, unlike the changes to the 2007 SORP, these changes are fairly minor.

2.2 The SORP Guidance Notes for Practitioners includes a summary table of amendments, additions and upgrades to the SORP Guidance notes for 2008/09. A working paper setting out the amendments etc and noting the implications for the Councils and the actions to be taken to address them is being drawn up as part of closedown work. This is a working document and will continue be updated when required throughout the closedown process.

2.3 Where applicable, the Accounting Policies for the 2008/09 have been redrafted to reflect changes to the SORP.

## 3 CHANGES

### 3.1 Area Based Grant (ABG)

3.1.1 From 2008/09 ABG will replace Local Area Agreement (LAA) grant. ABG is a non-ring-fenced general grant, no conditions on use are imposed as part of the grant determination ensuring full local control over how funding can be used. Its use is not restricted to supporting the achievement of LAA targets.

3.1.2 ABG will be paid directly to authorities and not through an accountable body like LAA grant.

3.1.3 ABG is a general grant which should be included in the Income and Expenditure Account with other general income sources such as income from the collection fund and NDR distribution.

### 3.2 Removal of Deferred Charges

3.2.1 Legislation allows for some items of expenditure to be treated as capital where it does not result in the creation of a fixed asset. An example of this is where grants are awarded to third parties for capital expenditure. These have traditionally been accounted for as deferred charges and written out through the Income and Expenditure Account.

3.2.2 Under the SORP 2008 these costs will be charged directly to revenue and reversed out in the Statement of the Movement on the General Fund Balance to the Capital Adjustment Account. Therefore the significant change is that the capital expenditure will not be transferred to the balance sheet before being written off, it will be transferred directly to revenue.

3.2.3 The other change is the name, these items will now be called 'Revenue Expenditure Funded from Capital Under Statute'.

**3.3 Cash Flow Statement**

3.3.1 The SORP has clarified that two methods are acceptable for the production of cash flow statements. Cash flows can be presented using either the 'direct method', whereby major categories of gross cash receipts and gross cash payments are disclosed, or the 'indirect method', whereby the net cash flow from revenue activities is derived by means of a reconciliation from the surplus or deficit on the Income and Expenditure Account for the year.

**3.4 Fixed Assets**

3.4.1 The main change here is the prohibiting of deathbed revaluations which will mean that we can now have gains and losses on the disposal of fixed assets.

3.4.2 Previously we have been required to revalue assets at disposal so that there is no gain or loss on disposal – this is now prohibited by the SORP. It would still be good practice to revalue the asset when the decision to sell is being made as that will allow for the assessment of bids. The accounting for gains and losses is unchanged.

**3.5 Equal Pay**

3.5.1 Many authorities are experiencing large numbers of claims for back pay from appeals about unequal pay arising from the implementation of the Single Status agreement.

3.5.2 A new section of the SORP on Back Pay Arising from Unequal Pay Claims has been included.

3.5.3 Copeland Borough Council does not currently have any equal pay claims.

**3.6 Annual Governance Statement**

3.6.1 The Accounts and Audit Regulations 2003 require English and Welsh authorities to 'conduct a review at least once in each financial year of the effectiveness of its system of internal control' and include a report on the review with the Statement of Accounts.

3.6.2 CIPFA guidance 'Delivering Good Governance in Local Government' recommends that the review of the effectiveness of the system of internal control should be reported in an Annual Governance Statement. There are some minor amendments to the Statement for 2008/09.

**3.7 Authorisation for Issue Date**

3.7.1 Local authority financial statements are required by legislation to be approved by the authority by 30 June.

3.7.2 There are three formal points at which the Statement of Accounts can be regarded as issued in some form:

- When the responsible finance officer certifies the statement as 'presents fairly' and makes them available to members for approval
- When the statement is ready for publication
- When the audit of the statement is certified closed, if later than the publication date

3.7.3 The SORP requires that at each of these stages the Statement of Accounts should reflect events up to an authorised for issue date relevant to that particular stage of the accounts process. It includes provisions in addition to the requirements of Regulation 10 of the Accounts and Audit Regulations 2003 for the authentication of the Statement of Accounts by the responsible finance officer where the statement changes its status. There is no requirement for re-approval by members.

**3.8 Pensions**

3.8.1 The 2008 SORP incorporates recent changes to Financial Reporting Standard (FRS) 17 which bring it into line with International Financial Reporting Standards (IFRS) by changing the fair valuation method for certain scheme assets and revising disclosure requirements.

3.8.2 Changes in the discount rate are to be treated as a change in estimation technique, not a change in accounting policies. However, depending on the size of the adjustment required to move to an appropriate rate, it might be necessary to disclose the facts of the change and the impact on the authority's financial position in the Statement of Accounting Policies.

3.8.3 It is not possible at this time to assess whether this additional disclosure will be required. The decision and, if applicable, amendment to the Statement of

Accounting Policies will be made when work on the Pensions disclosure note is undertaken.

**3.9 Depreciated Replacement Cost (Valuers)**

3.9.1 The Royal Institution of Chartered Surveyors (RICS) published Information Paper Number 10: The Depreciated Replacement Cost Method of Valuation for Financial Reporting in June 2007. Chapter 3 of the paper, which considers when depreciated replacement cost (DRC) should be used, concludes that: “DRC is only to be used when there is no active market for the asset being valued: that is where there is no useful or relevant evidence of recent sales transactions due to the specialised nature of the asset.”

3.9.2 The SORP proposes that DRC should only be used where market evidence of existing use value is not available.