STATEMENT OF ACCOUNTS 2009/10 – 2009 SORP AND ACCOUNTING POLICIES

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Summary:
This report is to inform Members of revisions to the 2009/10 Statement of Accounts, due to the implementation of the 2009 Statement of Recommended Practice (SORP). The report also provides the draft Accounting Policies for Members' consideration for inclusion within the 2009/10 Statement of Accounts.

Recommendations:
Members are asked to: -

1) Note the changes to the Statement of Accounts required by the 2009 SORP.
2) Note the draft Accounting Policies outlined in Appendix A and Appendix B.
3) Agree that the appropriate Accounting Policy (either A or B) will be included in the 2009/10 Statement of Accounts (and that this will be dependent upon the outcome of the early opinion of the Audit Commission with respect to our consideration with regard to the treatment of the PFI contract).The outcome of discussions with the Audit Commission will be reported verbally at the meeting.

1 INTRODUCTION

1.1 The Council is required by Statute to approve the Annual Accounts by the 30th June each year. The Audit Committee will consider the Statement of Accounts (subject to Audit) at its meeting of 28th June 2010. 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 2009 to 31st March 2010, present a true and fair view of the financial position of the Authority. This report needs to be considered prior to the Accounts being completed by the statutory deadline of the 30th September 2010, and the Auditors' opinion received.

1.3 The key dates, issues and areas requiring improvement were set out in the Final Accounts Timetable circulated to officers on the 19th February 2010. The Audit Committee received an update report on the closure of Accounts at it's meeting of 17th March 2009. There have also been a number of workshops held in March to provide additional training to officers on the Final Accounts Process. The qualified Accountant Officers of the Accountancy team have attended a number of CIPFA and Audit Commission training sessions for the Northwest region in February and March. In addition, the Accountancy Services Manager and the Head of Finance attended a PFI-specific training session from CIPFA/Grant Thornton in late March.

2 SUMMARY OF THE CHANGES ARISING FROM THE 2009 STATEMENT OF RECOMMENDED PRACTICE (SORP)

2.1 The SORP is produced annually and sets out the proper accounting practices required for Statements of Accounts, by section21(2) of the Local Government Act 2003 prepared in accordance with the statutory framework established for England by the Accounts and Audit Regulations 2003. Members will recall that 2009/10 will be the last year of production of the SORP. In 2010/11 it will be replaced by the Code of Practice on Local Authority Accounting (the Code) which will be based on International Financial Reporting Standards (IFRS).

2.2 The 2009 SORP applies to the production of the 2009/10 Accounts within Local Government. The 2009 SORP includes a number of substantive changes.

2.3 To facilitate Members' understanding of the Accounts, the main accounting policies and the main changes required as a result of the 2009 SORP, a briefing note has been appended to this report (Appendix C).

3 STATEMENT OF ACCOUNTING POLICIES

3.1 The existing Statement of Accounting Policies has been reviewed to reflect the changes in the 2009 SORP and also to provide further explanation of other existing policies.

3.2 As reported to the 17th March meeting of the Audit Committee, the Council has requested an early opinion on our 2008/09 Restatement of Accounts reflecting the treatment of our preliminary consideration of the PFI scheme from the Audit Commission. Our consideration was submitted to the Audit

Commission at the end of March. This early opinion is due after the publication of this paper (16th April). As the treatment of the PFI scheme will impact on the Council's Accounting policies, two sets of Accounting Policies have been produced. Appendix A sets out the policies if the PFI scheme is judged to remain off balance sheet and Appendix B sets out the policies if the PFI scheme is judged to come "on" balance sheet, i.e. the Copeland Centre is accounted for as if it were an asset of the Council, since its inception (depreciated, revalued etc).

3.3 The Audit Committee will be reassured that preliminary detailed calculations have been prepared by the Accountancy Services Manager in relation to the scheme coming 'on' balance sheet. Members will remember at the meeting of 17th March the complexity of these accounting adjustments and the reliance upon information from the PFI case (at inception) was explained.

3.4 The Accounting Policies 2009/10 are in the main, a continuation of existing policies adopted by the Council. However, there are two significant changes to Accounting Policies in 2009/10 to reflect changes in the 2009 SORP. These are as follows:

3.4.1 **Private Finance Initiative (PFI), policy note 17**;

3.4.1.1 Members will remember that, whilst Local Authority Financial Statements will not be prepared on a fully IFRS compliant basis until 2010/11, in order to assist with the transition to IFRS for 2010/11, accounting in accordance with IFRS has been introduced early in a number of areas. The 2007 SORP introduced important changes to the accounting for Financial Instruments. Similarly, the 2009 SORP introduces changes to the requirements for accounting for PFI and similar contracts to bring the accounting treatment into line with government's adaptation of IFRIC 12 'Service Concession Arrangements'. Previously, the PFI contract was accounted for in accordance with FRS 5 'Substance of Transactions' and SSAP 21 'Accounting for Leases and Hire Purchase Contracts'.

3.4.1.2 As noted in paragraph 3.2, at the time of writing this report, the treatment of the PFI contract (whether it should come "on" balance sheet (i.e. as an asset of the Council) on the basis that it fulfils the requirements of IFRIC 12, or whether it will remain off balance sheet on the basis that the substance of this material transaction is that of an operating lease and the requirements of the IFRIC are therefore "overridden" on the basis that it's application would not present a 'true and fair' view) had not been confirmed with the Audit Commission.

3.4.1.3 If the Councils' PFI contract is judged as meeting the requirements of IFRIC 12 'Service Concession Arrangements', the Copeland Centre will come "on" the Council's balance sheet. The Copeland Centre coming 'on balance sheet' will have a significant impact on the 2009/10 accounts; all accounting entries relating to the contract from its inception will be 'stripped out' and reworked so as to account for the contract in accordance with IFRIC 12. The reworking goes back to financial year 2004/05.

3.4.1.4 The SORP requires that changes in accounting policies which result in material adjustments applicable to prior years be 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. This is known as a Prior Period Adjustment. As the Copeland Centre coming onto balance sheet as a result of this change in accounting policy results in a material adjustment applicable to prior years, a prior period adjustment is required. The requirement for this prior period adjustment has been set out in Appendix B Accounting Policy 18 - Prior Period Adjustments.

3.4.1.5 If the PFI contract is judged as meeting the requirements of IFRIC 12 but it is deemed that the accounting treatment under IFRIC 12 would not present a true and fair view of a 'material' item, the Copeland Centre will remain off balance sheet. No prior period adjustment will be required as the accounting treatment (that of an operating lease in accordance with SSAP 21) will remain the same as in previous years. Appendix A Note 18 – Prior Period Adjustments therefore makes no reference to the PFI contract. However, in accordance with the SORP which precludes material departure from the SORP without making the disclosures and quantifications that the SORP requires (see also para. 2.3.3), the notes to the accounts will include additional disclosure detailing and quantifying the impact of the difference in treatment.

3.4.2 Accounting for local taxes (Council Tax and National Non-Domestic Rates (NNDR))

3.4.2.1 Accounting for local taxes (Council Tax and National Non-Domestic Rates (NNDR)) was not covered in detail in previous SORPs, however the 2009 SORP now requires the Council acting as a Billing Authority for Council Tax and National Non-Domestic Rates be classified as an agency arrangement with the major Preceptors (Cumbria County Council and Cumbria Police Authority) and Government respectively. Previously, the Balance Sheet included all Local tax debtors and creditors and the Cash Flow Statement all related cash flows. Under 2009 SORP, only Copeland Council's share of these balances, and the amounts owed to/due from the major Preceptors or Government and the Councils' share of cash flows will be included.

3.4.2.2 As noted above in paragraph **Error! Reference source not found.**, the SORP requires that changes in accounting policies which result in material adjustments applicable to prior years be 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. The change in accounting policy for accounting for local taxes as set out at paragraph 3.4.2 results in a material adjustment applicable to prior years and the requirement for prior period adjustments has been set out in Accounting Policy 18 - Prior Period Adjustments in both Appendix A and Appendix B.

3.5 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 2009/10 Accounts. This represents good practice and is a requirement of our Closure of Accounts Plan 2009/10.

List of Appendices

Appendix A: Draft Statement of Accounting Policies 2009/10 – PFI not on balance sheet
Appendix B: Draft Statement of Accounting Policies 2009/10 – PFI on balance sheet
Appendix C: 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 2009/10

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2009/10 financial year and its position at the year-end of 31 March 2010. It has been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice* (the SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

This section discloses the specific accounting policies adopted by the Council for the completion of the accounts.

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 effective 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 an 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, they 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 34 on pages 68 to 70.

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)

The majority of 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 7.10%.

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.

Discretionary Benefits 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. Value Added Tax

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. Overheads and Support Services

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 under separate headings in the Income and Expenditure Account as part of Net Cost of Services.

9. Intangible Fixed Assets

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. The de-minimis level for recognition of capital expenditure has been set at £6,000.

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, such as a change in the economic climate.

Operational properties of a specialised nature, where there is no active market, are 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. Otherwise they are valued as operational properties as below.

Operational properties of a non-specialised nature are 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.

Some assets are held at nominal value in the asset register.

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). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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 depreciated 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 depreciated 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 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 depreciated cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the organisations, with the difference serving to increase the depreciated 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 depreciations. 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 (REFCUS)

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, e.g. housing renovation grants. 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

Finance 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. Rentals payable are apportioned between:

- A charge for the acquisition of the interest in the property (recognised as a liability in the Balance Sheet at the start of the lease, matched with a tangible fixed asset – the liability is written down as the rent becomes payable), and
- A finance charge (debited to Net Operating Expenditure in the Income and Expenditure Account as the rent becomes payable).

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets.

Operating Leases

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.

The Council also acts in the capacity as lessor for the lease of land and property. Rents due under operating leases are accounted for on an accruals basis as they become due. These are outlined in note X.

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 SORP 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 no material interests in companies and other entities that have the nature of subsidiaries, associates, and joint ventures. Group accounts have not been prepared on the grounds that, as in prior years, the amounts are immaterial to the overall Statement of Accounts. Interests in companies and other entities are recorded as investments, i.e. at cost, less any provision for losses.

17 **Private Finance Initiative (PFI)**

The terms of the PFI arrangement relating to the Copeland Centre meet the control and residual interest requirements of the adaptation of IFRIC 12 *Service Concession Arrangements* contained in the Government's Financial Reporting Manual (FREM). However, the specific details of the arrangement, including lease length compared to asset life and the non-specialised nature of the property, demonstrate the substance of the transaction to be equivalent to an operating lease. The PFI arrangement is of sufficient value that, in order to present a true and fair view of the Council's financial position, the PFI arrangement has therefore been accounted for as an operating lease in line with SSAP 21, and the PFI payments with regard to the Copeland Centre are dealt with purely within the income and expenditure account, and no asset is recognised on the Balance Sheet. In contrast to the commercial sector, there is no general concept of a 'true and fair' override applicable to the SORP that would allow departures from the SORP, the impact of the difference in treatment is therefore disclosed and quantified in note X.

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 2) 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.

There is one adjustment to the accounting policies adopted by the Council as a result of the 2009 SORP which requires significant changes to the 2008/09 accounts. This relates to requirements under the 2009 SORP to classify the Council acting as a Billing Authority for Council Tax and National Non-Domestic Rates as an agency arrangement with the major Preceptors and Government respectively. Previously, the Balance Sheet included all Local tax debtors and creditors and the Cash Flow Statement all related cash flows. Under 2009 SORP, only Copeland Council's share of these balances, and the amounts owed to/due from the major Preceptors or Government and the Councils' share of cash flows will be included. The effects of this prior period adjustment are disclosed at X.

Draft Statement of Accounting Policies 2009/10

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2009/10 financial year and its position at the year-end of 31 March 2010. It has been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice* (the SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

This section discloses the specific accounting policies adopted by the Council for the completion of the accounts.

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 effective 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 an 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, they 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 34 on pages 68 to 70.

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)

The majority of 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 7.10%.

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.

Discretionary Benefits 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. Value Added Tax

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. Overheads and Support Services

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 under separate headings in the Income and Expenditure Account as part of Net Cost of Services.

9. Intangible Fixed Assets

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. The de-minimis level for recognition of capital expenditure has been set at £6,000.

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, such as a change in the economic climate.

Operational properties of a specialised nature, where there is no active market, are 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. Otherwise they are valued as operational properties as below.

Operational properties of a non-specialised nature are 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.

Some assets are held at nominal value in the asset register.

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). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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 depreciated 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 depreciated 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 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 depreciated cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the organisations, with the difference serving to increase the depreciated 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 depreciations. 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 (REFCUS)**

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, e.g. housing renovation grants. 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**

Finance 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. Rentals payable are apportioned between:

- A charge for the acquisition of the interest in the property (recognised as a liability in the Balance Sheet at the start of the lease, matched with a tangible fixed asset – the liability is written down as the rent becomes payable), and
- A finance charge (debited to Net Operating Expenditure in the Income and Expenditure Account as the rent becomes payable).

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets.

Operating Leases

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.

The Council also acts in the capacity as lessor for the lease of land and property. Rents due under operating leases are accounted for on an accruals basis as they become due. These are outlined in note X.

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 SORP 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 no material interests in companies and other entities that have the nature of subsidiaries, associates, and joint ventures. Group accounts have not been prepared on the grounds that, as in prior years, the amounts are immaterial to the overall Statement of Accounts. Interests in companies and other entities are recorded as investments, i.e. at cost, less any provision for losses.

17 **Private Finance Initiative (PFI)**

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the service passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI scheme and as, through an option to purchase (at market value) the residual interest in the fixed asset at the end of the contract, the Council is deemed under IFRIC 12 to control, through beneficial entitlement, significant residual interest in the fixed asset, the Council carries the fixed assets used under the contracts on the Balance Sheet.

The original recognition of this asset was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the asset.

Fixed assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts paid to the PFI operator each year are analysed into five elements;

- Fair value of the services received during the year – debited to the relevant service in the Income and Expenditure Account.
- Finance cost – an interest charge on the outstanding Balance sheet liability, debited to interest Payable and Similar Charges in the Income and Expenditure Account.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to Interest Payable and Similar Charges in the Income and Expenditure Account.
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator.
- Lifecycle replacement costs – recognised as fixed assets on the Balance Sheet.

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.

There are two adjustments to the accounting policies adopted by the Council as a result of the 2009 SORP which requires significant changes to the 2008/09 accounts;

The first relates to requirements under the 2009 SORP to classify the Council acting as a Billing Authority for Council Tax and National Non-Domestic Rates as an agency arrangement with the major Preceptors and Government respectively. Previously, the Balance Sheet included all Local tax debtors and creditors and the Cash Flow Statement all related cash flows. Under 2009 SORP, only the Council's share of these balances, and the amounts owed to/due from the major Preceptors or Government and the Councils' share of cash flows will be included. The effects of this prior period adjustment are disclosed at X.

The second relates to requirements under the 2009 SORP to account for the PFI contract in a manner that is consistent with the adaptation of IFRIC 12 'Service Concession Arrangements' contained in the government's Financial Reporting Manual. Previously, the PFI contract was accounted for in accordance with FRS 5 'Substance of Transactions'. The effects of this prior period adjustment are disclosed at X.

BRIEFING NOTE – KEY CHANGES TO THE STATEMENT OF RECOMMENDED PRACTICE (SORP) 2009

1 SUMMARY

1.1 This briefing note examines the changes in the SORP (Statement of Recommended Practice) 2009 and the implications for the closedown process. Unlike the changes to the 2008 SORP, the changes introduced for 2009 are significant and result in a number of restatements of comparator figures (for 2008/09).

2 BACKGROUND

2.1 The SORP is produced annually and sets out the proper accounting practices required for the Statements of Accounts, by section21(2) of the Local Government Act 2003 prepared in accordance with the statutory framework established for England by the Accounts and Audit Regulations 2003. Members will recall that 2009/10 will be the last year of production of the SORP. In 2010/11 it will be replaced by the Code of Practice on Local Authority Accounting (the Code) which will be based on International Financial Reporting Standards (IFRS).

2.2 The 2009 SORP applies to the production of the 2009/10 Accounts within Local Government. The 2009 SORP includes a number of substantive changes.

2.3 Where applicable, the Accounting Policies for the 2009/10 have been redrafted to reflect changes to the SORP. The draft Accounting Policies are set out in Appendix A and Appendix B.

2 CHANGES

2.1 Private Finance Initiative (PFI)

2.1.1 Members will remember that, whilst Local Authority Financial Statements will not be prepared on a fully IFRS compliant basis until 2010/11, in order to assist with the transition to IFRS for 2010/11, accounting in accordance with IFRS has been introduced early in a number of areas. The 2007 SORP introduced important changes to the accounting for Financial Instruments. Similarly, the 2009 SORP introduces changes to the requirements for accounting for PFI and similar contracts to bring the accounting treatment into line with government's adaptation of IFRIC 12 'Service Concession Arrangements'. Previously, the PFI contract was accounted for in accordance with FRS 5 'Substance of Transactions' and SSAP 21 'Accounting for Leases and Hire Purchase Contracts'.

2.1.2 As reported to the 17th March meeting of the Audit Committee, the Council has requested an early opinion from the Council's external auditors (the Audit Commission) concerning our preliminary consideration of the appropriate accounting treatment of our PFI scheme i.e. should it come "on" balance sheet (i.e. as an asset of the Council) on the basis that it fulfils the requirements of IFRIC 12, or whether it will remain off balance sheet on the basis that the substance of this material transaction is that of an operating lease and the requirements of the IFRIC are therefore "overridden" on the basis that it's application would not present a 'true and fair' view.

2.1.3 If the Councils' PFI contract is judged as meeting the requirements of IFRIC 12 'Service Concession Arrangements', the Copeland Centre will come onto the Council's balance sheet. The Copeland Centre coming 'on balance sheet' will have a significant impact on the 2009/10 accounts; all accounting entries relating to the contract from its inception will be 'stripped out' and reworked so as to account for the contract in accordance with IFRIC 12. The reworking goes back to financial year 2004/05.

2.1.4 The SORP requires that changes in accounting policies which result in material adjustments applicable to prior years be 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. This is known as a Prior Period Adjustment. As the Copeland Centre coming onto balance sheet as a result of this change in accounting policy results in a material adjustment applicable to prior years, a prior period adjustment is required.

2.1.5 If the PFI contract is judged as meeting the requirements of IFRIC 12 but it is deemed that the accounting treatment under IFRIC 12 would not present a true and fair view of a 'material' item, the Copeland Centre will remain off balance sheet. No prior period adjustment will be required as the accounting treatment (that of an operating lease in accordance with SSAP 21) will remain the same as in previous years. However, in accordance with the SORP which precludes material departure from the SORP without making the disclosures and quantifications that the SORP requires (see also para. 2.3.3), the notes to the accounts will include additional disclosure detailing and quantifying the impact of the difference in treatment.

2.2 Accounting for Local Taxes (Council Tax and National Non-domestic rates)

2.2.1 Accounting for local taxes (Council Tax and National Non-Domestic Rates (NNDR)) was not covered in detail in previous SORPs, however the 2009 SORP now requires the Council acting as a Billing Authority for Council Tax and National Non-Domestic Rates be classified as an agency arrangement with the major Preceptors (Cumbria County Council and Cumbria Police Authority) and Government respectively. Previously, the Balance Sheet included all Local tax debtors and creditors and the Cash Flow Statement all related cash flows. Under 2009 SORP, only **Copeland Council's share** of these balances, and the amounts owed to/due from the major Preceptors or Government and the Councils' share of cash flows will be included.

2.2.2 As noted in paragraph 2.1.4, the SORP requires that changes in accounting policies which result in material adjustments applicable to prior years be 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. This change to the SORP will therefore result in a prior period adjustment in the 2009/10 Statement of Accounts.

2.3 True & Fair

2.3.1 The requirement for the accounts to be prepared on a "True and Fair view" basis as opposed to "Presenting Fairly".

2.3.2 This change has no practical effect on the way that the accounts are put together, but is a recognition of the convergence of local authority accounting requirements within UK GAAP.

2.3.3 There is no general concept of a 'true and fair' override applicable to the SORP that would allow departures from the SORP and give greater weight to UK GAAP or innovative accounting practices. This is in contrast to the commercial sector where the Companies Act 2006 requires the financial statements to give a true and fair view and takes precedence over any specific accounting provision. Authorities cannot opt to depart materially from the SORP in the interests of fairer presentation without also making the disclosures and quantifications that the SORP requires.

2.4 Long Term Financial Liabilities

2.4.1 Paragraph 4.105 of SORP requires the portion of long-term financial liabilities due to be settled within 12 months after the Balance Sheet date to be presented in current liabilities. This will require adjustment to 2008/09 comparative figures.

2.5 Disclosure of Officers Remuneration

2.5.1 Historically, there has been a requirement to disclose in a note to the accounts the number of officers whose remuneration in the year was £50,000 or more, grouped in rising bands of £10,000. The 2009 SORP reminded Authorities that legislation was planned that may change the reporting requirements for senior officers' salaries from 2009/10, i.e. all salaries above

£50,000. This legislation has since been enacted and it expands the information required to bring the disclosure more into line with that of the private sector, including further disclosure requirements for senior officers whose remuneration in the year was over £150,000. CIPFA have indicated they will shortly be bringing out guidance to assist with the interpretation of the instrument and disclosure requirement.

2.6 Removal of requirement for five note disclosures

2.6.1 The requirement to disclose in the statement of accounts information in 5 of the notes to the Income and Expenditure Account has been removed. These are: section 137 expenditure; expenditure on publicity; the building control account; Business Improvement District Schemes; and Income under the Local Authority Goods and Services Act.