South Somerset District Council

Notice of Meeting

Audit Committee

Making a difference where it counts

Thursday 26th April 2012

10.00 a.m.

Main Committee Room,
Council Offices,
Brympton Way,
Yeovil,
Somerset BA20 2HT

The public and press are welcome to attend.

Disabled Access is available at this meeting venue.

If you would like any further information on the items to be discussed, please ring the Agenda Co-ordinator, **Andrew Blackburn** on Yeovil (01935) 462462
email: andrew.blackburn@southsomerset.gov.uk

This Agenda was issued on Wednesday, 18th April 2012

Ian Clarke, Assistant Director (Legal & Corporate Services)

Beacon Authority

2007-2008
Neighbourhood and Community Champions: The Role of Elected Members

2006-2007
Improving Rural Services Empowering Communities

2005-2006
Getting Closer to Communities

This information is also available on our website: www.southsomerset.gov.uk

INVESTOR IN PEOPLE

Audit Committee Membership

Chairman	Derek Yeomans
Vice-Chairman	Ian Martin
John Calvert	Roy Mills
John Dyke	John Richardson
Marcus Fysh	Colin Winder
Tony Lock	

South Somerset District Council – Corporate Aims

Our key aims are: (all equal)

- Jobs – We want a strong economy which has low unemployment and thriving businesses
- Environment – We want an attractive environment to live in with increased recycling and lower energy use
- Homes – We want decent housing for our residents that matches their income
- Health and Communities – We want communities that are healthy, self-reliant and have individuals who are willing to help each other

Members' Questions on Reports prior to the Meeting

Members of the Committee are requested to contact report authors on points of clarification prior to the Committee meeting.

Information for the Public

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance, to the extent that it affects the authority's exposure to risk and weakens the control environment and to oversee the financial reporting process.

The Audit Committee should review the Code of Corporate Governance seeking assurance where appropriate from the Executive or referring matters to management on the scrutiny function.

The terms of reference of the Audit Committee are:

Internal Audit Activity

1. To approve the Internal Audit Charter and annual Internal Audit Plan;

2. To receive quarterly summaries of Internal Audit reports and seek assurance from management that action has been taken;

3. To receive an annual summary report and opinion, and consider the level of assurance it provides on the council's governance arrangements;

4. To monitor the action plans for Internal Audit reports assessed as "partial" or "no assurance;"

5. To consider specific internal audit reports as requested by the Head of Internal Audit, and monitor the implementation of agreed management actions;

6. To receive an annual report to review the effectiveness of internal audit to ensure compliance with statutory requirements and the level of assurance it provides on the council's governance arrangements;

External Audit Activity

7. To consider and note the annual external Audit Plan and Fees;

8. To consider the reports of external audit including the Annual Audit Letter and seek assurance from management that action has been taken;

Regulatory Framework

9. To consider the effectiveness of SSDC's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action is being taken;

10. To review the Annual Governance Statement (AGS) and monitor associated action plans;

11. To review the Local Code of Corporate Governance and ensure it reflects best governance practice. This will include regular reviews of part of the Council's Constitution and an overview of risk management;

12. To receive reports from management on the promotion of good corporate governance;

Financial Management and Accounts

13. To review and approve the annual Statement of Accounts, external auditor's opinion and reports to members and monitor management action in response to issues raised;

14. To provide a scrutiny role in Treasury Management matters including regular monitoring of treasury activity and practices. The committee will also review and recommend the Annual Treasury Management Strategy Statement and Investment Strategy, MRP Strategy, and Prudential Indicators to Council;

15. To review and recommend to Council changes to Financial Procedure Rules and Procurement Procedure Rules;

Overall Governance

16. The Audit Committee can request of the Assistant Director – Finance and Corporate Services (S151 Officer), the Assistant Director – Legal and Corporate Services (the Monitoring Officer), or the Chief Executive (Head of Paid Services) a report (including an independent review) on any matter covered within these Terms of Reference;

17. The Audit Committee will request action through District Executive if any issue remains unresolved;

18. The Audit Committee will report to each full Council a summary of its activities.

Meetings of the Audit Committee are held monthly including at least one meeting with the Council's external auditor, although in practice the external auditor attends more frequently.

Agendas and minutes of this committee are published on the Council's website at www.southsomerset.gov.uk

The Council's Constitution is also on the web site and available for inspection in council offices.

Further information can be obtained by contacting the agenda co-ordinator named on the front page.

Audit Committee

Thursday 26th April 2012

Agenda

Preliminary Items

1. **To approve as a correct record the Minutes of the previous meeting held on 22nd March 2012**

2. **Apologies for Absence**

3. **Declarations of Interest**

In accordance with the Council's Code of Conduct, which includes all the provisions of the statutory Model Code of Conduct, members are asked to declare any personal interests (and whether or not such an interest is "prejudicial") in any matter on the agenda for this meeting. A personal interest is defined in paragraph 8 of the Code and a prejudicial interest is defined in paragraph 10.

4. **Public Question Time**

Page Number

Items for Discussion

5. **Update on Proposed Introduction of Community Infrastructure Levy........... 1**

6. **Accounting Policies for 2011/12 Statement of Accounts 8**

7. **Date of Next Meeting 27**

Audit Committee – 26th April 2012

5. Update on Proposed Introduction of Community Infrastructure Levy

Strategic Director: *Rina Singh (Place & Performance)*
Assistant Director: *Martin Woods (Economy)*
Service Manager: *Andy Foyne, Spatial Policy Manager*
Lead Officer: *Jean Marshall, CIL Coordinator*
Contact Details: *jean.marshall@southsomerset.gov.uk or 01935 462589*

Purpose of the Report

To provide a general overview of the proposed introduction within South Somerset of the Community Infrastructure Levy (CIL).

Recommendations

That members note the report and endorse the proposed methodology.

Background

On 23rd February 2012, Full Council endorsed a recommendation from the District Executive Committee to commence work on a proposed move towards adoption of a Community Infrastructure Levy (CIL). CIL is a tariff-based approach to assist in funding infrastructure associated with growth from new development within the District and effectively will replace that part of S106 planning obligation contributions which are currently secured and pooled for provision of strategic infrastructure projects such as roads, schools and sports facilities. Section S106 agreements will remain but their use is becoming more restricted by CIL legislation and will only be able to be used in the future for achieving site specific infrastructure.

At present the work on this project is being carried out through the Project Management Board for the Local Development Framework.

Progress Made

Approach to Development Contributions

Work has been undertaken by Consultants Tym/Baker as part of the Infrastructure Plan evidence base to support the Core Strategy proposals for the district, which recommended that, for the Council to secure funding to provide necessary infrastructure, identified in their report[1], the Council should proceed to adopt a CIL alongside the Core Strategy. Their associated report on the methodology for such a move 'Approach to developer contributions' makes further recommendations on how such a move could be achieved. That report has been published as part of the Core Strategy Evidence Base.

This report sets out the initial progress made towards adoption of CIL and a brief overview of the process required. An initial timeline of key stages is attached at Appendix A.

Resources

The Spatial Policy Team Leader post has been further seconded to fill the role of CIL Coordinator. This role will be combined with further support for the Core Strategy and it

[1] Report on Infrastructure Planning in South Somerset

is accepted that priorities for the work will fluctuate depending on the various stages of the CIL project. An initial officer group has been identified to coordinate the early stages of work and to identify a project plan and task timeline and it is envisaged that this group will be expanded as the project progresses and more specialist work is identified. Admin support is also currently identified from within the planning admin team and S106 Monitoring Officer.

Implications for the Core Strategy

In agreeing a proposed move towards CIL, amendments have been made to the proposed policies of the Core Strategy to reflect the current intention to move to CIL. The Core Strategy and introduction of the CIL, which also has to go through an Examination process, can be dove-tailed towards the adoption stage to minimise costs and allow for adoption of a CIL Charging Schedule alongside the Core Strategy. There are clear benefits of doing this, both in terms of cost savings in the procedural arrangements required but also maximising the ability to collect CIL monies as early as possible. For a CIL Charging Schedule to be adopted an up to date Core Strategy is required and thus it is proposed to hold the examination into CIL alongside the Core Strategy and adopt both together, in Spring 2013 at the earliest.

Process Overview

There are 3 main strands of work which need to be progressed in order to adopt CIL.

- Publication of a Charging Schedule
- Administrative process
- Governance

Charging Schedule

The CIL process is set out in statutory regulations and requires a series of key stages to be undertaken. The initial requirement is to establish the infrastructure requirements, likely costs and likely funding and for CIL to be adopted, there needs to be a funding “gap” which CIL will, in part, be used to fill. This work has been done as part of the Core strategy evidence base and a funding shortfall is identified in the first 5 years of the Core Strategy growth proposals.

Once a gap has been established, and therefore CIL can be adopted in principle, two rounds of consultation are required. The first of these is on the Preliminary Draft Charging Schedule and consultation on this ended 4th April, although an extension has been allowed for a consortium of developers to submit further evidence by 18th April. The consultation responses, which include responses to the evidence base behind the document will need to be considered further and then a second consultation on the Draft Charging Schedule will follow during the summer. It is this consultation document which will then proceed to examination alongside the Core Strategy where an independent examiner will consider the document and representations received.

Further work is also ongoing on the Charging Schedule evidence base and the proposed CIL rates to ensure accuracy. Additional work will be required to consider the representations and challenges to the evidence presented as part of this initial consultation and prior to the publication of the Draft Charging schedule. This will also be subject to further Committee consideration prior to publication.

Administrative Process

There are a few other authorities that have now adopted CIL or who are further through the process and lessons can be learned from their experiences. SSDC are slightly ahead of other Somerset authorities but are working closely with West Dorset who are at a similar stage. There are some computer systems now in place for the extensive additional administration process and further investigations into these and consideration as to how these will sit within our existing computer system and S106 monitoring will be ongoing. There will be a requirement to set up new procedures for the collection of CIL through the planning application process and there are implications for legal services, through non payment and for finance, through overseeing the monies collected. These processes will also need to link to new governance arrangements and reporting of CIL expenditure on projects.

Governance

There are significant new governance arrangements, which will be required prior to adoption of any Charging Schedule. There is a need to ensure that any monies collected are directly spent on infrastructure projects in accordance with a “priorities list”, which will be derived from the Infrastructure database. A transparent process will be needed to establish a governance arrangement and decision-making mechanism for this spend. This work will be undertaken by a member-working group, which would report to District Executive and through it to Full Council. Initially this work has been delegated to the PMB to establish terms of reference and membership of a new member working group for consideration and approval by District Executive.

Work has yet to commence on this as the governance arrangements will need to be concluded prior to the adoption of the Core Strategy and Charging Schedule and before any monies are collected. It is likely that work on this will commence during the summer 2012.

Financial Implications

The move to CIL will maximise returns on funding for infrastructure projects over and above section 106 returns currently received, particularly given the increased limitations in use of S106s for strategic infrastructure post 2014.

Administration and collecting costs can and should be met out of CIL funds in the future.

By not adopting a CIL approach early the Council would also incur additional cost of updating the CIL evidence base and market and viability testing and of running separate consultation and Examination for the CIL charging schedule.

A further list of initial risks identified is attached at Appendix B.

Corporate Priority Implications

The Community Infrastructure Levy and Plan is relevant to all themes within the Corporate Plan but is specifically relevant to theme 3, improving the housing, health and well being of our citizens, and in particular targets aimed at increasing the supply of ready to develop housing sites and children and young people’s satisfaction with parks and play areas and adult participation in sport and active recreation.

Background Papers: *Report on Infrastructure Planning in South Somerset - January 2012.*
CIL Evidence Base 2012.
Approach to Developer Contributions - January 2012.

Appendix A

CIL Provisional Timeline to Adoption

Key Dates

4th April – End of PDCS consultation

18th April – evidence submission deadline by consortium

Week beginning 30th April – officer group meeting re initial outcomes of PDCS consultation

Week beginning 5th May PMB re initial outcomes of PDCS

11th May to 4th July CIL Coordinator away on Annual Leave

July – Valuer input into viability testing required

End July/early August - Consideration of DCS by officer group then PMB

Provisional

September 2012 – DX consideration of DCS

20 Sept – Full Council consideration of DCS

4 Weeks consultation – end September end-October

End October - Submission Charging schedule to SoS

November - Examination to follow Core Strategy

January 2013 – Inspectors report on Charging schedule

Notification period for adoption (6 weeks)

April 2013 - Adopt CIL Charging Schedule alongside CS

Risks associated with CIL

There are a number of risks associated with CIL and these will change as the project progresses. Initial major risks are identified as follows.

CIL or No CIL

The changes to legislation for S106's means that the Council will not be able to secure the same level of contributions towards infrastructure from major schemes in the future. This fact, together with more limited grant funding generally for infrastructure, means that unless the Council move to adoption of CIL there will be less money available and less ability to provide infrastructure through planning obligation. CIL is seen as a major component of the Government's strategy for infrastructure funding in the future and the risk of not moving to CIL is that development would take place without the support of infrastructure.

Timescale alongside Core Strategy (Local Plan)

There is a risk on running concurrently with the Core Strategy, in that this relies on no major changes being proposed to the Core Strategy through the Consultation process or external Examination. A similar risk applies that changes in national legislation, possibly to CIL and Affordable Housing are made. Any of these would need to be dealt with if they occur and may result in potential delay of both the Core Strategy (Local Plan) and the CIL process. If the delay were substantial, additional costs of redoing work would be incurred. If affordable housing is brought into CIL, the viability appraisals currently done by the consultants would need to be varied and the costs associated with S106 and CIL would change in terms of balance, as affordable housing remains as a S106 obligation at the present. Changes in legislation cannot be predicted and therefore it is considered appropriate to continue along the current proposed timescale and adjust if circumstances change. This risk is common to most Local Authorities at present.

Evidence Base

The consultants have prepared marketing and viability data which will be outdated and will incur additional costs to review if the project is delayed and there would be additional costs of running separate consultation and examinations too. There is also the risk of the evidence being seriously challenged and needing further external work or viability/valuation work undertaken. It is known that a consortia of local developers are carrying out additional viability work and may challenge some of the assumptions made but this has yet to be received and considered. The risk can be managed by working alongside the development industry to agree assumptions and the important element of CIL is to ensure that the level of charge set is such that it doesn't prevent development coming forward (as no development would also mean no CIL money for infrastructure) but also to ensure that the necessary infrastructure to support the development can also be achieved. If the rate is incorrectly set the Council will need to move swiftly to reconsider the evidence and develop a new Charging Schedule following the legislative process.

Setting the CIL charging rate too high would also risk development shifting to other locations where CIL is set at lower rates or putting parts of the development industry at risk in an already difficult economic climate.

The Infrastructure Database, which will be used for identifying and prioritising CIL spend, may also be challenged as part of the Core Strategy evidence base in terms of its accuracy and 'reasonableness' and a mechanism is also required to ensure this infrastructure database is kept up to date and that the only strategic infrastructure to be funded through CIL (where this is known) is identified.

Financial Implications

The move to CIL will maximise returns on funding for infrastructure projects over and above S106 returns as identified in the Consultant's reports, particularly given the increased limitations in use of S106s for strategic infrastructure post 2014. Setting the rate too high, as indicated above, would however be a significant risk which would require urgent reconsideration of the Charging Schedule.

Administration and collecting costs of running the CIL can and should be met out of CIL funds although there is inevitably going to be a cost in setting up of new processes and procedures including new software for monitoring and administration of CIL.

There is a financial implication of any challenge to the CIL or IDP evidence base and market and viability testing already undertaken may need updating. Any slippage in the timescale would also result in separate Examination for the CIL Charging Schedule with additional associated costs.

Resources

At present the Coordinator role for overseeing the initial stages of implementing a CIL has been met through secondment of the Spatial Policy Team leader (until December 2012). Any unplanned absence through sickness or other work priorities on the Core Strategy or other projects could have implications for the current CIL timescale. Additional resources from the current S106 Monitoring Officer role and admin within the planning department is also being used at present but as further details are established into the working processes for implementing CIL this will need to be carefully reviewed. There are also resource implications in the period immediately before the introduction of CIL for legal as S106's will need to be cleared prior to the introduction of the new system and for finance in terms of monies being collected.

Resources in terms of IT staffing and the capacity of the IT system will also need to be addressed when further details are known of the implications of a new administrative system as noted above. There may need to be additional upgrades of the physical hardware to accommodate the software and that will have financial implications.

Communications

Although CIL has been introduced on a national basis, there is evidence that there is a considerable lack of understanding at all levels on the subject and a careful communications strategy for all those who will be affected by CIL will be needed. This will need to include developers, builders and agents from the development industry side, stakeholders and infrastructure providers who deliver infrastructure, Town and Parish Councils as well as Members and the public in general. This is a critical area as the risks of a lack of understanding or transparency in the way CIL is implemented or operated could be considerable.

Governance

Governance and the way in which CIL monies are distributed and against which projects will need to be carefully considered and appropriate mechanisms put in place to oversee the collection and distribution of CIL to projects within the District Council's remit, the County Council and other infrastructure providers remit and the spending process and reporting of any monies apportioned to the Town and Parish Councils. A structure will be required to consider these matters and there are implications for other departments especially finance and legal. Initially the PMB has been asked to oversee the arrangements but these will need to be developed as greater detail into how the process needs to work is identified. There are risks associated with how this new governance is set up and the way in which Members are involved and the mechanism of deciding on spend is agreed and these risks will need to be identified as greater detail on governance process is determined.

Audit Committee– 26th April 2012

6. Accounting Policies for 2011/12 Statement of Accounts

Strategic Director:	*Mark Williams, Chief Executive*
Assistant Director:	*Donna Parham (Finance and Corporate Services)*
Service Manager:	*Amanda Card, Finance Manager*
Lead Officer:	*Amanda Card, Finance Manager*
Contact Details:	*amanda.card@southsomerset.gov.uk or 01935 462542*

Purpose of the Report

To request that members of the Audit Committee approve the Accounting Policies for 2011/12 so that the Statement of Accounts 2011/12 can be prepared on this bases.

Recommendations

That members approve the Accounting Policies, paying particular attention to the key accounting policy change relating to heritage assets.

Background

It is a statutory requirement for all local authorities to produce financial statements that are compliant with International Financial Reporting Standards (IFRS) by 2011/12. In order to prepare IFRS compliant accounts for 2011/12, the Council needs to revise its accounting policies.

The proposed Accounting Policies are attached in Appendix 1.

Key Accounting Policy Changes

There has been one key accounting policy change impacting on the Council relating to Heritage Assets. A Heritage Asset is an asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. The Council's Heritage Assets are predominantly the museum stock that is held at the Community Heritage Access Centre. There is now a requirement to disclose Heritage Assets separately on the Balance Sheet where valuations are known.

Financial Implications

There are no financial implications in accepting this report and the associated recommendations. There is no requirement for valuations for Heritage Assets to be verified by external valuers. Where the cost of obtaining valuation information is not commensurate with the benefits, the Council will not recognise these assets in the Balance Sheet.

Background Papers: *Code of Practice on Local Authority Accounting in the United Kingdom 2011/12: Guidance Notes for Practitioners*
Audit Committee – 27th January 2011 - Preparation of 2010/11 Statement of Accounts and IFRS
Statement of Accounts 2010/11

Appendix 1

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. The Authority is required by the Accounts and Audit Regulations 2003 to prepare an annual Statement of Accounts. Those regulations require the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted is principally historical cost, modified by the evaluation of certain categories of non-current assets and financial instruments.

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 – where there is a gap between the date supplies are received and their consumption, they are carried as inventories 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 rate 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. The largest estimate of this nature is the amount accrued in respect of housing benefit subsidy. This calculation is based upon the pre-audited return. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge is made to revenue for the income that might not be collected.

- Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure.

3. Receipts and Payments in Advance

Receipts in advance represent income received in the current year in respect of fees and charges (including our proportion of Council Tax) for the forthcoming years. They are included as a liability (within Creditors) on the Balance Sheet.

Payments in Advance represent amounts paid in the current year in respect of goods and services for the forthcoming years. They are included as an asset (within Debtors) on the Balance Sheet.

4. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more that 24 hours.

Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. SSDC will include deposits in Money Market Funds and Business Reserves in Cash Equivalents.

In the Cash Flow Statement, cash and cash equivalents are shown net of the bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

6. Exceptional Items

When items of income and expense are material, their nature and amount are disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to the understanding of the Authority's financial performance.

7. Charges to Revenue for Non-Current 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.

- Revaluation and impairment losses attributable to the service 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, revaluation and 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.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution to the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

8. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include benefits such as wages and salaries, paid annual leave and paid sick leave and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for service in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward to the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus and Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer’s employment before the normal retirement date or an officer’s decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy. Where termination benefits involve the enhancement of pension, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Post Employment Benefits

Employees of the Authority are members of the Local Government Pension Scheme administered by Somerset County Council, which provides defined benefits to members (retirement lump sums and pensions) earned as employees worked for the Authority.

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

The liabilities of the Somerset County Council pension scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to the 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 based on the yield on the iBoxx AA, rated over the 15 year Corporate Bond Index.

- The assets of the Somerset County Council pension fund attributable to the Council are included in the balance sheet at their fair value on a current bid price.

- The change in net pension liability is analysed into seven components:
    - Current service cost – the increase in liabilities as a result of years service earned this year is allocated to the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
    - Past service costs – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years is debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement 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 is debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
    - 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 is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
    - Gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees is debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
    - Actuarial gains and losses – changes in the net pension liability that arise because events have not coincided with assumptions made in the last actuarial valuation or because the actuaries have updated their assumptions are debited or credited to the Statement of Total Recognised Gains and Losses.
    - Contributions paid to the Somerset County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to the pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measure the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Discretionary Benefits
The Council also has restricted powers to make discretionary awards of retirement benefits 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.

9. Events after the Balance Sheet Date

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

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

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

10. Financial Instruments

Financial Liabilities
Financial liabilities are recognised on the Balance Sheet when the Authority becomes party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest of the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

This means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over a minimum period equal to the outstanding term on the loan or 10 years (if shorter) against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified 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 recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. This means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made a number of car loans, bicycle loans and loans for learning to members of staff at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the members of staff, 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 Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to, or from, the Financial Instruments Adjustment Account in the Movement in Reserve Statement.

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 relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset’s original effective interest rate.

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

Available-for-sale Assets
Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provision of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. All assets currently held by the Council are instruments with quoted market prices and the value is based on market price.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for Sale Financial Assets. The exception is where impairment losses have been incurred - these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Available-for-Sale 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 Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effect interest rate. Otherwise the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses previously recognised in the Available-for-Sale Reserve.

11. Government Grants and Contributions

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

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

12. Intangible Fixed Assets

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

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

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and loss are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

13. Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the [FIFO/weighted average] costing formula.

Long term contracts are accounted for on the basis of charging the Surplus and Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

14. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or productions of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amounts at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

15. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and building elements are considered separately for classification.

The Authority as Lessee

Finance Leases
Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

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

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

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by revenue contributions in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases
Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease.

The Authority as Lessor

Finance Lease
Where the Authority grants a finance lease over a property of an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals are apportioned between:

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

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

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

Operating Leases
When the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charges as an expense over the lease term on the same basis as rental income.

16. 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 Service Reporting Code of Practice (SERCOP) 2011/12. The total absorption costing principal is used where 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 and impairment losses on Assets Held for Sale

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

17. Property, Plant and Equipment

Assets that have physical substance and are held for use in provision of services or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition
Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. There are two exceptions to this:

- The expenditure incurred is below £10,000, except Capital Grants where the limit is £1,000. In such cases expenditure is charged direct to the revenue accounts.
- The asset is acquired through an operating lease when rental payments are charged to the revenue account.

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 (such as purchase price; any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management).

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

- Infrastructure, community assets and assets under construction – depreciated historical cost
- All other assets – fair value, determined as the amount that would be paid for the asset in existing use (existing use value – EUV).

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

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

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against the balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

Capital expenditure incurred in enhancing assets or increasing their useful life is classed as enhancing expenditure.

Assets which have been significantly enhanced are brought forward in the five-year rolling programme to ensure that the independent valuer can correctly assess their new carrying value, this ensures that any potential overstatement only reflects a short timing difference between the enhancement taking place and the valuer assessing its impact on the asset's carrying value.

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

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

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

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the life of the property as estimated by the valuer.
- Vehicles, plant and equipment - straight-line allocation over the life of the asset.
- Infrastructure – straight-line allocation over the life of the asset.

The following standard estimated lives are used for newly acquired assets:

	Years
Sports and Leisure Centres	40
Public Conveniences	50
Vehicles	10
Cremators	10
Office Buildings	60

Where an asset includes a number of components with significantly different asset lives, these components are then treated as separate assets and depreciated over their own useful economic lives. See Component Accounting Policy.

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

Assets that are sold during the year are treated as if sold on 31 March and the service accounts receive a full year's charge for depreciation as appropriate. Assets acquired during the year attract no charge.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts in excess of £10,000 received from disposals are categorised as capital receipts and credited to the Capital Receipts Reserve, which can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. If the proceeds are £10,000 or less, they are not treated as capital receipts but are instead credited to revenue.

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

A proportion of receipts relating to housing disposals is payable to the Government. In practice this relates only to mortgage repayments, 75% of which must be paid over to the Government.

18. Component Accounting

Components of non-current assets do not always have the same useful lives and may depreciate or wear out at different rates throughout their life. Therefore, it is appropriate to depreciate each significant component separately over its useful life, in order that the Comprehensive Income & Expenditure Account is fairly charged with the consumption of economic benefits of those assets.

Where a significant component is expected to wear out more quickly than the overall asset, it is depreciated over a shorter period of time and any subsequent expenditure on restoring or replacing the component is capitalised (with any carrying amount of the replaced component being written off to the Comprehensive Income and Expenditure Statement).

From 1st April 2010, components will be recognised when an asset is enhanced, acquired or re-valued. Where a component is replaced or restored, the carrying amount of the old component is derecognised.

- Land and individual buildings will be valued separately.

- Assets are deemed to be material and considered for componentisation when the cost or value in the Balance Sheet is at least £500,000 (approximately 1% of the authority's non current assets).

- Each asset will be reviewed individually by the valuer to determine whether any part of a material asset has a differing useful life or method of depreciation. The assets will be reviewed by the following:
  - Sub Structure
  - Superstructure (frame, upper floors, roof, stairs, external walls, windows, external doors, internal walls, partitions, internal doors)
  - Internal finishes (walls, floors and ceilings)
  - Fixtures (sanitary, water, disposal equipment)
  - Engineering services (heating, air treatment, gas installations, lifts, protective, communications)
  - External works

- Where component spend is worth 20% of the total cost value of the asset it is deemed to be significant. Where information is not readily available to determine the value of components, a best estimate will be accounted for and detail of how the estimate was arrived at, in liaison with relevant professional advice, will be documented.

19. Heritage Assets

A heritage asset is an asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. There is no requirement for valuations for heritage assets to be verified by external auditors, nor is there any prescribed minimum period between valuations. Where the cost of obtaining valuation information is not commensurate with the benefits, the Council will not recognise these assets in the Balance Sheet.

The Council's heritage assets are predominantly the museum stock that is held at the Community Heritage Access Centre (CHAC). Items within the museum stock can be viewed by appointment. The six principal collections of heritage assets held include:

- Firearms;
- Ceramic, sculptures, bronzes and woodcarvings;
- The art collection and photos;
- Antique furniture, rugs and tapestries;
- Medals; and
- Antiquarian books and manuscripts.

The Authority recognises these collections on the Balance Sheet using its base as the detailed insurance valuations held by the Authority in respect of the collections. The collections are deemed to have indeterminate lives; hence the Authority does not consider it appropriate to charge depreciation.

Other heritage assets consist of historical buildings (Dawes Twine Works, Burlingham Barn and the Four Follies), Civic Regalia and the Crematorium's Book of Remembrance. They are presently valued at historic cost, which is £1. There is no depreciation charge on these heritage assets because it has been estimated that the assets have a useful life of such length that any depreciation charge would be negligible and can be ignored on the basis of materiality.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment. Disposals of any heritage assets are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

20. Provisions, Contingent Liabilities and Contingent Assets

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

Provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

Where some or all of the payments required to settle a provision are expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settle the obligation.

Contingent Liabilities
A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the Council's control. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

21. Reserves

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

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority.

22. 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 non-current assets has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of council tax.

23. VAT

The Council does not include VAT as part of income or expenditure, whether of a capital or revenue nature except where it is not able to recover VAT.

24. Related Party Transactions

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council.

The materiality of the transaction has been considered before justifying inclusion in the statements. Transactions disclosed elsewhere in the statement of accounts are not cross referenced in the note. Disclosure is only required where the Council has gone beyond providing financial assistance to having a relationship with the assisted organisation that allows it to exert control over the organisation's financial and operational policies.

25. The Collection Fund

Billing authorities in England are required by statute to establish and maintain a separate fund for the collection and distribution of amounts due in respect of council tax and national non-domestic rates (NNDR).

There is no requirement for a separate Collection Fund Balance Sheet as balances are distributed across the Balance Sheets of the billing authority, the Government and precepting authorities.

Further details on the Collection Fund use can be found on page ##.

26. Accounting for Council Tax

The collection of Council Tax income is in substance an agency arrangement, the cash collected by the Council from council tax debtors belongs proportionately to the Council and the major preceptors. There will be therefore a debtor/creditor position between the Council and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of the cash collected from council taxpayers.

The Council Tax income included in the Taxation and Non Specific Grant Income line in the Comprehensive Income and Expenditure Statement shall be the accrued income for the year. This is calculated by taking the demand on the Collection Fund plus the authority's share of the carry forward surplus/deficit on the Collection Fund as at the 31st March 2011. This amount is then adjusted for the authority's share of the surplus/deficit of 31st March 2010 that has not been distributed or recovered in the current year.

The difference between the income included in the Taxation and Non Specific Grant Income line in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the Collection Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the General Fund in the Movement in Reserves Statement.

27. Accounting for National Non-Domestic Rates

The Council, as an agent on behalf of Central Government carries out the collection of National Non-Domestic Rates (NNDR). Cash collected from NNDR taxpayers by the Council (net of the cost of collection allowance) belongs to the Government and the amount not yet paid to the Government at the Balance Sheet date shall be included in the Balance Sheet as a creditor; similarly, if the cash paid to the Government exceeds the cash collected from NNDR taxpayers (net of the cost of collection allowance), the excess shall be included in the Balance Sheet as a debtor.

NNDR debtor and creditor balances with NNDR taxpayers and the impairment allowance for doubtful debts are not assets and liabilities of the Council and are not recognised in the Council's Balance Sheet.

7. Date of Next Meeting

The next scheduled meeting of the Audit Committee will be held on Thursday, 24th May 2012 at 10.00 a.m. in the Main Committee Room, Council Offices, Brympton Way, Yeovil.
