CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of Meeting:	29th March 2011
Report of:	Borough Treasurer & Head of Assets
Subject/Title:	Final Accounts – Progress Report

1.0 Report Summary

1.1 This report provides Members with:-

- an update on the issues contained within the Audit Commission's Final Accounts Memorandum;
- progress to date on the implementation of International Financial Reporting Standard (IFRS) compliant accounts;
- updated accounting policies, and
- potential changes to how the Accounts are presented to Members for approval in the future.

2.0 Recommendation

2.1 Members are asked to note progress on preparations for producing year end accounts.

2.2 Members are asked to consider the impact of amended reporting requirements for the June Committee meeting

3.0 Reasons for Recommendations

3.1 Members of the Audit and Governance Committee are required to receive regular updates on progress in accordance with the work programme.

4.0 Wards Affected

4.1 Not applicable.

5.0 Local Ward Members

5.1 Not applicable.

6.0 Policy Implications

6.1 None.

7.0 Financial Implications (Authorised by the Borough Treasurer)

7.1 As covered in the report.

8.0 Legal Implications (Authorised by the Borough Solicitor)

8.1 None.

9.0 Risk Management

9.1 The restatement of financial statements in compliance with International Financial Reporting Standards (IFRS) has been identified as a specific risk in the 2010-11 Audit Plan. Regular liaison meetings are being held with the Audit Commission to review progress and keep the identified risks under review.

10.0 Background and Options

10.1 The Final Accounts Memorandum was reported to this Committee on 17th November 2010, the report contained an action plan with a number of recommendations to improve the closure of accounts process for 2010-11. An update against the Action Plan is included in Appendix 1 of this report.

10.2 An update on progress against the IFRS Action Plan was reported to this Committee on 25th January 2011. This process is now approaching its conclusion and the Council has recently completed the restatement of its 2009-10 Accounts into IFRS format, the Audit Commission are about to undertake a review of this process to ensure all the necessary requirements have been met.

10.3 As part of the preparation for the 2010-11 accounts the accounting policies have been updated to comply with International Financial Reporting Standards and to improve readability. The main changes to the policies for IFRS purposes relate to Employee Benefits, Grants and Contributions, Leases and Property, Plant and Equipment. The updated accounting policies for Cheshire East Council are included in Appendix 2 of this report.

<u>Changes to Account and Audit Regulations</u>

10.4 A consultation draft of the Account and Audit Regulations was recently issued which, should it to be adopted into law, will amend the role of the Audit and Governance Committee with regard to the approval of the Council’s Statement of Accounts.

10.5 At present there is a requirement for the Council’s draft unaudited accounts to be approved by Members before they are presented for audit. This currently takes place at this Committee at the end of June.

The audited accounts are then presented to this Committee for final approval in September.

10.6 Under the changed legislation there would be no need for Member approval of the Accounts before they were presented for Audit. Members would only be asked to approve the Accounts in September when the audit has been completed and any changes as a result of the audit have been reflected in the accounts. The lack of a requirement to formally approve the draft accounts does not preclude Members from scrutinising or challenging any aspect of the Accounts at any point in their preparation.

10.7 The draft Accounts will need to be approved by the Council's Section 151 officer (Borough Treasurer and Head of Assets) before being issued for audit, however this can take place outside of a committee.

10.8 If changes to legislation are not approved before June the next meeting of this Committee on 30th June will receive the 2010-11 Accounts for approval as in previous years. If the changes are adopted it is proposed that a summary presentation focusing on the key information and issues be presented. The draft Accounts would be made available to Members who wished to see them following the meeting.

11.0 *Access to Information*

The background papers relating to this report can be inspected by contacting the report writer:

Appendices

Appendix 1 – Update on Final Accounts Memorandum Action Plan
Appendix 2 – Accounting Policies

Name: Joanne Wilcox
Designation: Corporate Finance Lead
Tel No: (01270) 685869
Email: Joanne.wilcox@cheshireeast.gov.uk

Appendix 1

Update on Final Accounts Memorandum Action Plan

Recommendations

Recommendation 1

Implement a quality assurance process to improve the standard of the accounts presented for audit, ensure compliance with the Code of Practice and reduce the number of accounts compilation errors.

Responsibility: Jo Wilcox
Priority: High
Date: Early June (in accordance with the Closure Timetable)
Comments: The Closure Timetable requires the draft financial statements to be completed by the first week in June, this will allow sufficient time for the accounts to be checked by Finance Leads and for a quality control process to be completed independently from the officers responsible for the accounts. The timetable also allows for the Revenue Outturn Form and the Whole of Government Accounts return to be completed before the end of June, this will form an additional checking process to validate the figures included in the accounts.

Recommendation 2

Ensure that a full set of working papers to support the accounts is available when the accounts are submitted for audit.

Responsibility: Nick Finnan
Priority: High
Date: 1 July 2011
Comments: A review of working papers is currently underway based on advice and guidance from the Audit Commission. The working papers will be held in a central file and categorised for easy reference by service accountants and external audit. The standard of working papers will be checked on a regular basis, finance officers have been allocated responsibility for particular disclosures and notes to the accounts to ensure they are completed in accordance with the deadline to an acceptable standard. In addition, two finance officers from within Corporate Finance have previous audit experience and will carry out additional quality control checks.

Recommendation 3

As part of the reconciliation process, reconciling items should be cleared on a timely basis to ensure that income, expenditure and cash balances are accurately reflected in the ledger.

Responsibility: Gillian Officer
Priority: High
Date: Already implemented
Comments: Reconciliation procedures have improved during the year and have been completed on a more timely basis. Resource issues and the use of legacy systems in 2009-10 led to particular time pressures at year end that we do not expect to experience during this current year end process.

Recommendation 4

Remind staff they should evidence the operation of controls that they are responsible for operating

Responsibility: Employee Service Centre
Priority: High
Date: Already implemented
Comments: During 2009-10 the documentation surrounding the authorisation of payroll controls by supervisors was not completed on a timely basis, this has since been checked as part of the key systems audit work undertaken in 2010-11 to ensure that the paperwork is now completed on time.

Recommendation 5

Council to consider re-instating the control over the authorisation of income invoice requests.

Responsibility: Purchasing and Exchequer Services
Priority: High
Date: Already Implemented
Comments: In 2009-10 the control over the authorisation of income invoice requisitions was turned off. This has been revisited as part of the key systems audit work undertaken in 2010-11 and a response regarding the re-instatement of this control will be included in the internal audit report.

Recommendation 6

Strengthen managerial oversight of journals to ensure that the initial journal posted are accurate and that the need for correcting journals is kept to a minimum.

Responsibility: Jo Wilcox
Priority: High
Date: Already implemented
Comments: During 2009-10 a high proportion of journals related to the aggregation of the balance sheet and the transfer of financial information from legacy systems. Due to time pressures and lack of experience with the chart of accounts a significant number of journals were posted incorrectly and

required further journal entries to be made. The reduction in the number of journal entries required in the 2010-11 accounts and the increased knowledge and experience of staff should reduce the potential for error. In addition the standard practice for producing journals has been reviewed, all journals will be held centrally as part of the final accounts working papers, standard referencing will be used and checks of supporting documentation will be carried out.

Recommendation 7

Review the level of information recorded in the fixed asset register to ensure compliance with guidance.

Responsibility: Jo Wilcox
Priority: High
Date: Ongoing
Comments: An exercise to aggregate and produce a fixed asset register for Cheshire East was undertaken in 2009-10 in addition to the annual exercise of updating the register for revaluations, impairments and depreciation. Work has continued during 2010-11 to verify the information held in the asset register and ensure the assets are classified in accordance with International Financial Reporting Standards.

Recommendation 8

Strengthen the procedures in place to ensure that asset disposals or demolitions and the reclassification of assets between, for example, operational and non-operational are actioned promptly in the asset register.

Responsibility: Jo Wilcox/Rachel Moan
Priority: High
Date: Ongoing
Comments: A closer working relationship has developed with the Asset Management service during 2010-11. Rachel Moan has been nominated as Asset Champion and acts as the liaison officer between finance and asset colleagues responsible for managing the Council's assets. An asset data working group has been established to undertake a major piece of work on data reconciliations. The objective of the working group is to achieve a consolidated property asset knowledge base which provides the council property & finance teams with "one version of the truth".

Recommendation 9

Officers should formally record the steps taken to gain assurances around the qualifications and expertise of the experts on whose work they plan to place reliance to derive figures used in the accounts

Responsibility: Jo Wilcox/Rachel Moan
Priority: High

Date: Ongoing
Comments: The revaluation exercise for 2010-11 has been undertaken by the District Valuer and the instruction was agreed by Finance and Asset Management officers.

Recommendation 10

Officers should undertake corroborative procedures on the results of experts' work to assure themselves that the results fully address the work specified expectations; that the results are in line with expectations, and if not reasons for variations are understood.

Responsibility: Jo Wilcox/Rachel Moan
Priority: High
Date: March/April 2011
Comments: Sufficient time has been built into the timetable for the asset management service to scrutinise and challenge the information back from the valuers and use their local knowledge before using it as the basis of valuation.

Recommendation 11

Carry out a post implementation review to identify lessons learned from the restatement exercise, particularly around timing of work, adequacy of audit trail and control and accuracy of journal postings, to inform planning of the International Reporting Standards restatement exercise in 2010/11.

Responsibility: Jo Wilcox
Priority: High
Date: Already implemented
Comments: A post implementation review was carried out by Yvonne Jones, who was employed as an external consultant to work on the 2009-10 accounts. Following the review a number of briefings and meetings were held with finance staff to reflect on experiences and lessons learnt. A series of training sessions have been completed and a review of working practices and completion of working papers is ongoing. Co-ordination meetings are held on a fortnightly basis between Corporate Finance and Service Accountants which incorporate all aspects of accounting procedures and practices relating to capital and revenue.

Recommendation 12

Ensure that the methodology used to calculate the doubtful debt provision complies with the Council's accounting policy.

Responsibility: Andrew Rennie
Priority: High
Date: Already implemented.

Comments: The policy for calculating the doubtful debt provision has been updated and discussed with the Co-ordinators group to ensure that the methodology is complied with across all service areas.

Appendix 2 – Accounting Policies

General Principles

The Statement of Accounts summarises the Council's transactions for the 2010-11 financial year and its balance sheet position as at 31 March 2011. It has been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2010/11' ('The Code') and those International Financial Reporting Standards (IFRS) where the Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance notes. Exceptions are made to accepted accounting practice where this is overridden by legislative requirements. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of Non-Current Assets and Financial Instruments.

Expenditure and income are reported in accordance with a total cost basis of accounting. Gross total cost includes all expenditure attributable to the service or activity, including employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and depreciation. No categories of income are considered to be abatements of expenditure, and movements to and from reserves are excluded from total cost.

In producing the Statement of Accounts the following accounting concepts are applied:

- **Consistency**
  Cheshire East Council came into existence on 1 April 2009 and has determined its accounting policies based on a review of the policies adopted by the predecessor authorities and consideration of the best approach for the new authority. These accounting policies will be reviewed each year and the impact of any significant change in policies will be declared in the accounting statements so that useful comparisons can be made.

- **Materiality**
  The concept that any omission from, or inaccuracy in, the statement of accounts should not be so large as to affect the understanding of those statements by a reader, either in terms of the nature of the transactions or their value.

- **Going Concern**
  The principle that accounts are always prepared on the basis that the organisation will continue to operate for the foreseeable future. Following Local Government Reorganisation in Cheshire, the Council inherited the assets and liabilities of the district councils of Crewe and Nantwich, Congleton and Macclesfield and a proportion of the assets and liabilities of Cheshire County Council. Cheshire East Council is providing the same services as the demised Councils and therefore the going concern principle still applies.

Changes in Accounting Policies, Changes in Accounting Estimates and Errors

The Code 2010/11, the first to be based on IFRSs, specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position and transactions of the Council. The Code sets out the proper accounting practices required by section 21(2) of the Local Government Act 2003.

Under the IFRS based Code, authorities should select accounting policies, and account for changes in accounting policies, changes in accounting estimation techniques and correcting errors in accordance with International Accounting Standard (IAS) 8, except where interpretations or adaptions to fit the public sector are detailed in the Code.

Changes to accounting policies are applied retrospectively unless the Code specifies transitional provisions that should be followed. Changes for the current reporting period and, where practicable, the changes resulting from retrospective application are disclosed showing the adjustments on each financial statement.

Any changes to accounting estimates are as a result of changes that have occurred in the circumstances on which the estimate was based or as a result of new information or more experience. They do not relate to prior periods and are not the correction of an error.

Errors may occur in the recognition, measurement, presentation or disclosure of elements
of the financial statements. In line with the Code, material prior period errors have been corrected by retrospective restatement. Prior period errors are material if individual or collective misstatement or omission could influence the decisions or assessments of users taken on the basis of the financial statements.

Accruals of Income and Expenditure

Income and expenditure is included in the accounts on an accruals basis, apart from housing benefit payments and minor cash income, which are shown in the accounts when the expenditure is incurred or the income is received. In particular:

- Sales, fees, charges and rent due from customers are accounted for as income at the date the Council provides the relevant goods and 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 stocks on the Balance Sheet;

- Works are charged as expenditure when they are completed. Prior to this they are carried as work 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.

- The Council is a billing authority and collects National Non Domestic Rates (NNDR) under what is in substance an agency agreement with the Government for the collection of business rates. The same principle applies for Council Tax collected on behalf of the precepting bodies; Cheshire Police, Cheshire Fire Authority and Parish Councils. The income collected on an agency basis is not the income of the billing authority and is not included in the Comprehensive Income and Expenditure Statement.

- Where income or 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. The Council's policy is to provide in full for the non-payment of all debts over 6 months old unless a payment arrangement is in place or the debt is otherwise secured.

- Where income has been received in the year in relation to activities to be carried out in the following financial year, a receipt in advance is recorded in the Balance Sheet.

- Where payment has been made in relation to activities to be carried out in the following financial year, a payment in advance is recorded in the Balance Sheet.

- Severance costs arising from redundancies agreed on or before Balance Sheet date are accrued in the accounts.

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

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions that are immediately repayable without penalty. Cash equivalents are highly liquid investments held at the balance sheet date that are readily convertible to known amounts of cash on the balance sheet date with insignificant risk of change in value.

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

Charges to Revenue for Non-Current Assets

Service Income and Expenditure Accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and Impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off ; and
- Amortisation of intangible fixed assets attributable to the service

When setting the amount of Council Tax that it needs to raise, the Council does not need to raise an amount in respect of depreciation, impairment losses or amortisations. It does, however, need to raise an amount in respect of a contribution towards reducing the amount of borrowing that it has outstanding.

The Council finances a substantial proportion of its capital investment projects through borrowing. Outstanding borrowings are equal to the Council's Capital Financing Requirement (CFR). The CFR represents the Council's past capital expenditure which has not been, or will not be, financed directly from external income, capital receipts or by revenue contribution and which therefore needs to be charged to the Income and Expenditure Account in future years. The CFR is determined by reference to the Council's Balance Sheet at each year end. The provision for the repayment of debt that is charged to the Comprehensive Income and Expenditure Statement each year is determined in accordance with the policy set down in Note x, provision for the repayment of debt in the Notes to the Financial Statements.

This charge, in respect of redeeming the outstanding borrowing, replaces the charge made to the Comprehensive Income and Expenditure Statement, in respect of depreciation. This is achieved by means of an adjustment in the Movement in Reserves Statement. This adjustment, which is made between the Capital Adjustment Account and the General Fund, is equal to the amount of provision for the redemption of debt that needs to be charged for the year, less the amount of depreciation actually charged for the year.

Collection Fund

The Council is required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates (NNDR).

Up to 2008-09 the Council Tax income included in the Income and Expenditure Account (per the SORP) was the amount that was required to be transferred to the General Fund under regulations. From 1st April 2009 the amount included in the Comprehensive Income and Expenditure Statement for the year is the accrued income for the year. The difference between the two amounts is taken to a Collection Fund Adjustment Account.

Up to 2008-09 NNDR taxpayers' debtor and creditor balances and an allowance for doubtful debts were included on the Council's Balance Sheet. From 1st April 2009 the amount included in the Council's Balance Sheet is the amount of cash collected from NNDR taxpayers (less the amount retained in respect of a cost of collection allowance) that has not yet been paid to the Government or has been overpaid to the Government on the Balance Sheet date.

Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority.

Short-term compensated absences are periods during which an employee does not provide services to the employer, but benefits continue to be paid. Compensated absences may be accumulating or non-accumulating.

Short-term accumulating absences are those that are carried forward and can be used in future periods if the current period entitlement is not used in full (e.g. annual leave, and flexi leave). An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to Surplus or 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.

Short-term non-accumulating absences are those that cannot be carried forward for use in future periods if the current period entitlement is not used in full. Sick leave, maternity leave, paternity leave and jury service is non-accumulating. Non-accumulating compensated absences shall be recognised when the absence occurs.

Termination Benefits

Termination benefits are often lump-sum payments, but also include enhancement of retirement benefits, and salary until the end of a specified notice period if the employee renders no further service that provides economic benefit to the Council. They 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.

Termination Benefits 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.

Post-Employment Benefits

Most employees of the Council participate in one of two pension schemes, which meet the needs of employees in particular services (further details are provided in Note X to the financial statements). Both schemes provide final salary defined benefits to members (retirement lump sums and pensions) based on membership earned during the time that the employee was a member of the scheme.

Local Government Pension Scheme (LGPS)

All employees (other than teachers) and Councillors, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. The scheme, known as the Cheshire Pension Fund, is administered by Cheshire West and Chester Council.

Local authorities are required to implement International Accounting Standard 19 (IAS19) in full. The accounts have therefore been prepared in accordance with CIPFA's guidance on Accounting for Retirement Benefits. The Local Government Pension Scheme is accounted for as a defined benefit scheme:

- The liabilities of the Cheshire Pension Fund 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 retirement benefits earned to date by employees, based on actuarial assumptions (as detailed in Note X to the financial statements).

  Those liabilities are discounted to their value at current prices, using a discount rate which is based on the indicative rate of return on a high quality corporate bond at each year end as prescribed in IAS19. For 2010-11 this rate was X.X%, (5.5% in 2009-10).

- The assets of the Cheshire Pension Fund attributable to the Council are included in the Balance Sheet at their fair value as follows:
  - unquoted securities – professional estimate
  - quoted securities – current bid price
  - 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 a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

- **past service cost** – the increase in liabilities arising from current year decisions the effect of which relates to years of service earned in earlier years, 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, 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, credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **gains and losses on settlements and curtailments** – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees, credited or debited to the 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 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 Pensions Reserve

- **contributions paid to the pension fund** – cash paid as employer's contributions to the pension fund.

Statutory provisions limit the Council to raising Council Tax to cover the cash amounts payable by the Council to the pension fund in the year.

Teachers' Pensions

This scheme is administered by the Teachers' Pension Agency (TPA), on behalf of the Department for Education (DfE). Although the scheme is unfunded, the Government has established a notional fund as the basis for calculating employers' contributions. The Council contributes at rates determined by the DfE. The arrangements for the teachers scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme, no liabilities for future payments or benefits is recognised in the Balance Sheet and the Children's Service within the Comprehensive Income and Expenditure Statement is charged with the employers contributions payable to the scheme in year.

In addition, the Council is responsible for any payments relating to early retirements outside the standard terms of the scheme. This part of the scheme is accounted for on a defined benefit basis using the same policies that are applied to the Local Government Pension Scheme.

Financial Instruments

Financial Liabilities

Financial liabilities (i.e. Long-Term Loans raised by the Council) are initially measured at fair value and are 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 Interest Rate (EIR) 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 accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Repurchase of Borrowing

Premiums and discounts arise when external loans are repaid prematurely by the Council. Premiums arise when the rate of interest paid on the loan repaid early is in excess of current long term interest rates. Conversely, discounts arise when the rate of interest paid on the loan repaid early is below the level of current long term interest rates.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the 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's policy is that any premiums are charged to the General Fund balance over the shorter of the remaining life of the loan repaid early or over 10 years. Discounts are credited to General Fund over the shorter of the remaining life of the loan repaid or 10 years. 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; and available-for-sale assets.

Loans and Receivables

Loans and receivables are assets that have fixed or determinable payments but are not quoted in an active market. Examples include fixed term money market deposits, instant access accounts and call accounts. They are shown on the Balance Sheet initially at fair value, then subsequently at amortised cost using the Effective Rate of Interest method. 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. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Soft Loans

Soft loans are loans made to voluntary organisations or other bodies, at less than market interest rates. When a Soft Loan is made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the loan, resulting in a lower value for the loan being shown on the balance sheet. Interest is then credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement each year at a higher effective rate of interest than the rate receivable from the voluntary or other organisations, with the difference serving to increase the value of the loan on 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 so 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 of Reserves Statement. The Council operates a de minimis level of £250,000 for accounting for soft loans and consequently loans below this level are not written down on the balance sheet to reflect the interest foregone.

Where the value of a loan and receivables financial asset is deemed to be impaired, then the value of the asset is written down to its recoverable amount. The amount of the write down is charged in full to the Comprehensive Income and Expenditure Statement in the year the impairment is recognised. Where there is a revision to the value of the asset previously impaired then adjustments are made to the value of the asset and to the Comprehensive Income and Expenditure Statement in the year in which the revision is made.

The interest credited to the Comprehensive Income and Expenditure Statement in respect of loans and receivables is equal to the coupon rate of interest on the deposit/account.

Any gains and losses that arise on the derecognition of an 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 financial instruments that have a quoted market price and/or do not have fixed or determinable payments. Examples of available for sale assets used by the Council are UK Government bonds (gilts) and certificates of deposit (CDs). They are initially measured and carried at fair value. Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the bid or 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 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 or 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 or fair value falls below cost, 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 effective 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 derecognition 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 or losses previously recognised in the Available-for-Sale Reserve.

Interest

During the year surplus money is invested and the interest earned credited to the Income and Expenditure Account. Interest is paid to Cheshire West and Chester in relation to balances on the Insurance and Relocation Reserves which are managed by Cheshire East on behalf of the two authorities. Interest is also credited to schools on unspent balances held.

The accounting policy for interest payable on financial liabilities and interest receivable on financial assets is included in the accounting policies on financial liabilities and financial assets respectively.

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 a capital grant or contribution has been received, and conditions remain outstanding at the Balance Sheet date, the grant or contribution will be recognised as part of the Capital Grants Receipts in Advance. Once the condition has been met, the grant or contribution will be transferred from the Capital Grants Receipts in Advance and recognised as income in the Comprehensive Income and Expenditure Statement.

Where a capital grant or contribution has been recognised as income in the Comprehensive Income and Expenditure Statement, and the expenditure to be financed from that grant or contribution has been incurred at the Balance Sheet date, the grant or contribution shall be transferred from the General Fund to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure. This transfer shall be reported in the Movement in Reserves Statement.

Where a capital grant or contribution has been recognised as income in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed from that grant or contribution has not been incurred at the Balance Sheet date, the grant or contribution shall be transferred to the Capital Grants Unapplied Account, reported in the Movement in Reserves Statement. When the expenditure is incurred, the grant or contribution shall be transferred to the Capital Adjustment Account

Intangible Assets

Intangible assets are assets that do not have physical substance but are separately identifiable and controlled by the Council (e.g. software licences) as a result of past events and it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Recognition and Measurement

An Intangible fixed asset shall be recognised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Expenditure on such assets is capitalised in situations where the software costs are more than £10,000 and will bring benefits to the Council for more than one financial year. Expenditure on intangible assets costing less than £10,000 is charged in full to the Comprehensive Income and Expenditure Statement in the year that it is incurred.

Internally generated assets may be recognised subject to criteria being met. They can be capitalised when it is demonstrable that the project is technically feasible and is intended to be completed, with adequate resources being available, and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase.

Amortisation

An intangible asset with a finite useful life is amortised over its useful life reflecting the expected pattern of use of the economic benefits. If the pattern cannot be determined reliably, the straight-line method shall be used.

An intangible asset with an indefinite useful life is not amortised but shall be tested annually for impairment.

The values of intangible assets are reviewed at the end of each financial year for evidence of reductions in value. Impairment of intangible assets is treated in the same way as impairment of tangible assets. When an asset is disposed of or derecognised, the value of the asset is recognised in the surplus or deficit on the Provision of Services.

Expenditure on intangible assets is written down (amortised) to the Comprehensive Income and Expenditure Account on a straight line basis over the estimated economic life of the asset. The estimated economic life of a licence is assumed to be the shorter of 5 years or the period for which the licence has been granted.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses 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 the Capital Receipts Reserve.

Interest in Companies and Other Entities

The Council has an interest in Connexions Cheshire and Warrington, a controlled company set up by Cheshire County Council to promote employment and learning opportunities for young people across Cheshire. The ownership ratio was originally equal thirds but changed on 1st October 2010, to become 37.5% for Cheshire East Council, 37.5% for Cheshire West and Chester Council, and 25% for Warrington Borough Council. The results of the company indicate that there were no material transactions to report and there is no requirement to produce group accounts for the year

Financial Guarantees

The Council holds a £1 investment in South East Cheshire Enterprise Limited, a company limited by guarantee. In addition, as part of the agreement to outsource the Youth Service to Connexions, Cheshire East and Cheshire West and Chester Councils have agreed to act as guarantor for any pension liability of the company. This is treated as a contingent liability in the accounts and further details are provided in Note X.

Inventories and Work in Progress (Contracts)

Inventories are valued at the lower of cost or net realisable value. Stocks of stationery (apart from those held by Central Stores) are not included in the Balance Sheet since such stocks are incidental and deemed not to be material to the accounts.

Work in Progress (Contracts) applies to construction that the Council is undertaking for customers – not assets under construction – where the Council is the customer rather than contractor. (Assume CEBC doesn't act as contractor so N/A – if so, WIP is included at cost).

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 production of goods or is held for sale.

Recognition and Measurement

Investment properties are measured initially at cost and subsequently at fair value. 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. The gains and losses are not proper charges to the General Fund Balance and are reported in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

Jointly Controlled Operations and Jointly Controlled Assets

Cheshire Shared Services – Shared Services Agreement with Cheshire West and Chester Council

The Council has entered into an agreement with Cheshire West and Chester Council to deliver over 30 services via a shared services agreement. Services which could be operated as part of a shared services arrangement have been determined and assessed using the criteria of maintaining operational efficiency and identifying those services that utilised a single infrastructure that could not be disaggregated economically or in the short term.

The Joint Committee oversees the management of the services that are provided on a Cheshire wide basis on behalf of Cheshire East and Cheshire West and Chester Council's to ensure effective delivery of such services and to provide strategic direction. The Joint Operating Board supports the Joint Committee and is responsible for the governance and decision making of Cheshire Shared Services and is chaired by Julie Gill, Director of Resources, Cheshire West and Chester and Lisa Quinn, Borough Treasurer and Head of Assets, Cheshire East.

Business Plans and Service Delivery Statements have been developed for each Shared Service. The documents vary depending on the complexity of the service to be provided and on the length of the arrangement. The Service Delivery Statements are legal documents and detail the services hosted by Cheshire East and Cheshire West and Chester, the scope, agreed objectives and expected outcomes of the shared service arrangements. The roles and responsibilities of staff seconded to the host authority are contained within these statements.

Service Level Agreements (SLA's) have been prepared for all services and form part of the legal agreement between Cheshire West and Chester Council and Cheshire East Council. These set out the basis for services to be provided, identify which Council is hosting the service, the percentage of costs to be borne by each Council and the general reporting and performance management requirements.

The structure of the Shared Services Arrangement is that of a jointly controlled operation in accordance with International Accounting Standard 31. Each authority accounts directly for its part of the assets, liabilities, income, expenditure and cash flows held within or arising from the structure. Where expenditure has been recharged to the non host authority the analysis of net charge has been reflected in the accounts on the same subjective analysis as costs incurred directly.

Services hosted by Cheshire East

The following services form part of the core shared services and are hosted by Cheshire East

Service	East Recharge %	West Recharge %
Farms Estates	50.00%	50.00%
International Unit	50.00%	50.00%
Drug & Alcohol Team	50.00%	50.00%
Highway Maintenance Contract Management	54.00%	46.00%
Commissioned Community Equipment	51.00%	49.00%
Visual Impairment Services	52.00%	48.00%
Youth Offending Team	47.00%	53.00%

Services hosted by Cheshire West and Chester

The following services form part of the core shared services and are hosted by Cheshire West and Chester:

Service	East Recharge %	West Recharge %
HR & Finance Back Office	50.00%	50.00%
ICT	50.00%	50.00%
Civil Protection	50.00%	50.00%
Occupational Health	50.00%	50.00%
Archives	50.00%	50.00%
Libraries	50.00%	50.00%
Emergency Duty Team	52.00%	48.00%
Rural Touring Network	51.00%	49.00%
Approved Mental Health Professional	50.00%	50.00%
Autism Support	47.00%	53.00%
Sensory Impaired Services	52.00%	48.00%
Urban Traffic Control	44.00%	56.00%
Integrated Transport Services – Transport	51.00%	49.00%
Integrated Transport Services – Community Services	51.00%	49.00%
Integrated Transport Services – Looked After Children	51.00%	49.00%
Integrated Transport Services – Home to School	51.00%	49.00%
Children's Centres Development	50.00%	50.00%
Student Finance	50.00%	50.00%
Archaeological Service	50.00%	50.00%
Waste & Mineral Planning	50.00%	50.00%
Learning Resource Network	50.00%	50.00%
CBS Supplies	50.00%	50.00%

Landfill Allowance Trading Scheme (LATS)

The Landfill Allowance Trading Scheme will operate for 15 annual compliance periods and runs from 1 April 2005 to 31 March 2020. The scheme allocates tradable landfill allowances to each waste disposal authority in England. The Council can either buy, sell or carry forward landfill allowance depending on usage requirements above or below the annual capped allowance limit from or to another waste disposal authority. Allowances allocated by the Department for Environment, Food and Rural Affairs (DEFRA) or purchased from another authority are classified as current assets, measured at the weighted average value at which 2010-11 allowances have traded (£X). More detail is in Note X.

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 buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases 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 Council 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 the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and

- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution 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 benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a rent-free period at the commencement of the lease).

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset 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. A gain, representing the Authority's net investment in the lease, is credited to the same line in the

Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and

- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the 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.

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

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the 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 (eg 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 charged as an expense over the lease term on the same basis as rental income.

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 costing principles of the CIPFA Best Value Accounting Code of Practice 2010/11 (BVACOP).

The total absorption costing principle is used – the full cost of overheads and support services is 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 any depreciation and impairment losses chargeable on non-operational properties,

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

Pooled Budgets

The Council registered a partnership arrangement under Section 31 of the Health Act 1999 to commission services to Adults with Learning Difficulties within Cheshire. The contributions to the partnership are in the following proportions:

Cheshire East Council	61%
Central & Eastern Cheshire PCT	39%

This agreement runs until 31 March 2011 at which point the partnership will be terminated and considerations will be made with regard to a one year agreement for 2011/12 and then beyond this around the GP Commissioning Consortia which will replace the Primary Care Trust from 2012/13 onwards.

Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, 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 and Measurement

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 (ie repairs and maintenance) is charged as an expense when it is incurred

The Council applies capital expenditure de minimis levels of £10,000 for all assets other than property, where a £20,000 limit is applied.

Assets are initially measured at cost, comprising: the purchase price, and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost;

- All other Property, Plant and Equipment assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value). If there is no market-based evidence of fair value, an estimated fair value will be made using a depreciated replacement cost approach, or depreciated historical cost for non-property assets that have short useful lives, low values, or both.

The values of properties used in the accounts are based on certificates issued by the Assets Manager, Daniel and Hulme Property Consultants (RICS), Rory Mack Associates, and the District Valuation Service.

Accounting practice requires all properties to be revalued at least once every five years. All former district properties were revalued in 2009-10, and any residual assets were revalued in 2010-11 as part of the transition to International Financial Reporting Standards. Any increases in the valuation of properties since April 2007 arising from general price level movements are matched by corresponding credits to the Revaluation Reserve. Any revaluation increases/decreases that took place prior to 1 April 2007 are recorded in the Capital Adjustment Account.

Gains recognised on revaluation of Property, Plant and Equipment are matched by credits to the Revaluation Reserve to recognise an unrealised gain, unless the asset has previously been subject to an impairment loss or revaluation decrease charged to Surplus or Deficit on the Provision of Services. In this case the gain is credited to the Comprehensive Income and Expenditure Account.

Where a revaluation loss occurs as a result of revaluation to account for downward changes in market value, the decrease is recognised in the Revaluation Reserve to the extent the asset had previously been revalued upwards and thereafter in the surplus or Deficit on the Provision of Services

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. The objective is to ensure that assets are carried at no more than their recoverable amount. The Assets Manager produces a Certificate of Impairment each year detailing any evidence of impairment found during the preceding year. 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.

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 following strict criteria have to be met before an asset can be classified as held for sale.

- The asset must be available for immediate sale in its present condition and is being marketed for sale at a price reasonable in relation to its fair value
- The sale must be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated.
- The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet 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 (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority’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.

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.

Capital Receipts

Capital receipts are the amounts derived from the sale of capital assets. The Capital Receipts policy is to ensure that capital receipts are used in the most beneficial way to support corporate priorities and strategic objectives of the Council. The policy is intended to separate the use of resources from the means of acquiring resources therefore supporting the strategic approach to capital investment. This will mean that all receipts will be pooled centrally and allocation to capital projects will be via the Capital Asset Group. The Council has implemented a Disposals Policy as part of the Asset Management Plan, where property assets are not meeting the Council's objectives, their retention will be subject to asset challenge and a process of rationalisation and disposal for surplus/under-performing property will be adopted. No de minimis limit is applied to capital receipts.

Depreciation

The purpose of depreciation charges is to allocate the value of assets recorded in the balance sheet to the periods and services which are expected to benefit from their use.

Land and Buildings are separate assets and shall be accounted for separately, even when they are acquired together. Depreciation applies to all Property, Plant and Equipment, whether held at historical cost or re-valued amount, with two exceptions:

- investment properties carried at fair value; and
- land where it can be demonstrated that the asset has an unlimited useful life (excluding land subject to depletion, ie quarries and landfill sites).

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (ie freehold land and certain Community Assets) and assets that are not yet available for use (ie assets under construction).

Deprecation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer;
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer;
- infrastructure – straight-line allocation over 25 years.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. The objective is to ensure that Property, Plant and Equipment is accurately and fairly included in the authority's balance sheet and that the Comprehensive Income and Expenditure Statement properly reflects the costs of using those assets over their individual lives, through depreciation charges. The requirement for componentisation for depreciation purposes only applies to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2010.

The Council has determined a de-minimis asset value of £1.9 million as a basis for componentising depreciation charges.

Depreciation is provided for on all fixed assets with a finite useful life, with charges (a full year's charge) commencing in the year after acquisition. Depreciation is calculated on the straight line method, using the following asset lives:

Property (excluding land)	Valuer's assessment of the useful life of the asset. Including componentisation.
Land	No charge is made
Infrastructure	25 years
Vehicles	Suitably qualified officer's assessment of the useful life of the asset
Equipment	Suitably qualified officer's assessment of the useful life of the asset

No depreciation charges are made for land, assets under construction and community assets. Depreciation charges on non-operational assets are charged to the Income and Expenditure Account as non-distributed costs.

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.

Private Finance Initiative (PFI) and Similar Contracts

PFI and Similar Contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide services passes to the PFI contractor. The Council is deemed to control the services that are provided under its PFI scheme and, as ownership of the Property, Plant and Equipment will pass to the Council at the end of the contract for no additional charge, the Council carries the fixed assets used under the contracts on the Balance Sheet.

The Council is party to one PFI contract, which also involves Cheshire West and Chester Council, in respect of Extra Care Housing which terminates in 2039.

The original recognition of these assets has been balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. The Property, Plant and Equipment recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council. The amounts payable 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 Comprehensive Income and Expenditure Statement

- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to Financing and Investment Income and Expenditure line on the Comprehensive Income and Expenditure Statement

- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to Financing and Investment Income and Expenditure line on the Comprehensive Income and Expenditure Statement

- payment towards liability – applied to write down the Balance Sheet liability towards the PFI

- operator lifecycle replacement costs – recognised as Property, Plant and Equipment on the Balance Sheet.

Pooled Budgets

The Council registered a partnership arrangement under Section 31 of the Health Act 1999 to commission services to Adults with Learning Difficulties within Cheshire. The contributions to the partnership are in the following proportions:

Cheshire East Council	61%
Central & Eastern Cheshire PCT	39%

This agreement runs until 31 March 2011 at which point the partnership will be terminated and considerations will be made with regard to a one year agreement for 2011/12 and then beyond this around the GP Commissioning Consortia which will replace the Primary Care Trust from 2012/13 onwards.

Provisions

Provisions are made when the Council recognises that it has an obligation as a result of a past event, when it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year when the Council became aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they will be charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and, if no longer required, are reversed and credited back to the Comprehensive Income and Expenditure Statement. Where some or all of the payment required to settle an obligation is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service if it is virtually certain that reimbursement will be received if the obligation is settled. Details relating to the Council's provisions are provided in Notes XX.

Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies and are split between usable and non-usable. Usable Reserves are those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitation on their use. Unusable reserves cannot be used to provide services, this category includes reserves that hold unrealised gains and losses (e.g. the Revaluation Reserve).

Resources set aside for specific purposes or to meet predicted liabilities are held as “earmarked reserves”. The Council also sets aside sums as a more general reserve, called the General Fund, to cover the impact of unexpected events or emergencies or provide a working balance to help manage the effect of uneven cash flows. The Council seeks to maintain the General Fund at a level consistent with a detailed assessment of risk as set out in its Reserves’ Strategy. This assessment is updated annually as part of the Council’s Medium Term Financial Planning.

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 into 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 process for tangible fixed assets (Revaluation Reserve and Capital Adjustment Account) and retirement benefits (Pension Reserve). These are in effect accounting reserves rather than cash reserves.

Revenue Expenditure funded from Capital Resources 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 or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Movement in Reserves Statement so there is no impact on the level of Council Tax.

Single Status

Costs relating to 2010-11 pay have been included in the appropriate service line Costs relating to back pay for earlier years from 2006-07 to 2009-10 have been included in Other Operating Income and Expenditure. However, these costs have been transferred to an Equal Pay Back Pay Reserve until such time as the payments are made.

VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them. At the year end any amounts outstanding are represented by a debtor or creditor on the balance sheet.