Statement of Accounts 2007/2008

Wigan Council

Accounts

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Introductory Statements

FOREWORD by Cllr Terry Halliwell Cabinet Member (formerly with responsibilities for Organisational Change, Resources and Commissioning during 2007/08).

Once again I am delighted to introduce Wigan Council's Statement of Accounts. As the Cabinet Member with responsibility during 2007/08 for making sure the Council makes the best use of its resources then part of that responsibility was met by producing the Accounts. The Accounts shows local people what services have cost and how the funding for these services has been provided and provide reassurance to them of the care we take over the public funds that have been placed at our disposal by the local taxpayers and government.

The 2007/08 financial year can be seen as another successful one. Additional funds have been brought into the Council from external sources. Investment has been made in the public infrastructure of the area. The Council faced up to significant challenges when setting the budget for 2007/08. There were a number of service pressures facing the Council during the year particularly on Children's and Adult Services. The Council also wanted to respond to the concerns of residents expressed in various consultation exercises. All of these initiatives require funding to be found but strong budget monitoring and corrective action during the year has, despite these continuing budget pressures, resulted in an overall underspend against the 2007/08 budget.

Since the medium term financial strategy remains to achieve a balanced budget with no structural funding deficit then the prudent financial management and operational efficiencies achieved and reported under Gershon during 2007/08 have led to an improved position in balances and this result is to be welcomed. The delivery of services to all our citizens at a cost they can afford remains one of our essential priorities. Inevitably affordable growth and inescapable cost pressures go together with sound financial management practices. Feedback from local people will continue to help shape service levels as previously and local communities via the network of partnerships and townships will continue to have a significant role in how we prioritise services and spending.

Finally the Council has once again been awarded the excellent status awarded under the Comprehensive Performance Assessment (CPA). As part of that the Use of Resources assessment score is the maximum 4, testimony to the sound financial reporting, financial management and financial standing of the Council. The confirmation yet again from the Audit Commission that the Council maintains a strong record of improvement with excellent progress across a range of performance indicators along with effective political and managerial leadership is very much welcomed. Wigan has been and continues to be an efficient, low spending Council. In many aspects the quality of people's lives depends on what Wigan Council does and how it does it and as we all know sound finances make a significant contribution to sustained development and improvement in service levels and delivery.

Councillor Terry Halliwell
3rd June 2008

EXPLANATORY FOREWORD by the EXECUTIVE DIRECTOR OF BUSINESS SUPPORT SERVICES

Introduction

The Statement of Accounts is a statutory publication that sets out the financial results of the Council's activities for the year ended 31st March 2008. The accounts have been prepared in accordance with the requirements of the Statement of Recommended Practice (SORP) for 2007 and any other Accounting Codes of Practice published by the Chartered Institute of Public Finance and Accountancy (CIPFA). A number of additional reporting and disclosure requirements were introduced by the SORP 2007 and these are explained later in the foreword.

The overriding requirement of the SORP remains that the Statement of Accounts 'presents fairly' the financial position and transactions of the Council. This explanatory foreword is required by the SORP 2007 and similarly seeks to explain as fairly as possible the most significant matters reported in the accounts. Inevitably some technical language is used and a glossary to explain some of the technical terms is included later in the publication.

The Authority's accounts for the year 2007/08 are set out on pages 7 to 111 and in addition to this foreword they consist of:

- The Statement of Accounting Policies which explains the basis for the recognition, measurement and disclosure of transactions in the accounts.
- The Income and Expenditure Account which summarises the Council's day to day revenue income and expenditure on all services during the financial year 2007/08.
- The Statement of Movement on the General Fund Balance which reconciles the Income and Expenditure Account with General Fund Balances.
- The Statement of Total Recognised Gains and Losses which brings together all the recognised gains and losses of the Council.
- The Balance Sheet which sets out the overall financial position of the Council at 31 March 2008.
- The Cash Flow Statement which summarises the total movement of cash and cash equivalents.
- The Housing Revenue Account which separately summarises the transactions relating to the Council's housing stock.
- The Collection Fund which separately summarises the transactions in relation to National Non-domestic Rates and Council Tax.
- The Group Accounts which comprise the consolidated accounts of the Council and its interests in subsidiaries and associate companies.
- The Statement of Responsibilities for the Statement of Accounts which sets out the responsibilities of the Council and the Executive Director of Business Support Services for the accounts.

- The Annual Governance Statement which reviews how the Council conducts its business.

Significant Accounting Issues

The SORP 2007 has introduced a number of changes. Whilst the changes are mainly technical and presentational and do not impact on the level of balances reported they do amend the way the figures are reported. The main changes being :

- Financial Instruments based on FRS 25, FRS 26 and FRS 29.

- The replacement of the Fixed Asset Restatement Account and Capital Financing Account by a Revaluation Reserve and Capital Adjustment Account.

- New accounting requirements for Local Area Agreement Grant.

An explanation of the impact of any changes arising from implementing the SORP 2007 have been fully disclosed in the notes to the main accounting statements.

Revenue Expenditure in 2007/08

The actual surplus for the year is £4.409m and an overall comparison of the actual position for 2007/08 compared with the budgeted figures for the financial year is set out below.

	Original Estimate £'000	Actual £'000	Variations £'000
Net Position on Services	199,894	195,218	-4,676
Passenger Transport Levy	18,278	18,278	-
Receipts from Council Tax, Business Rates and Revenue Support Grant	217,905	217,905	-
Total Surplus(-)/Deficit for the year	**267**	**-4,409**	**-4,676**

The net improvement of £4.676m contains a number of significant items. The major item is the benefit from external interest charges of £2.2m mainly due to the fluctuating market rates that were difficult to predict at the outset of the year. Other benefits have come from income not certain when the budget was set e.g. the airport dividend of £1.250m, government grants such as the Performance Reward grant of £0.800m, and the receipt of £0.527m from the Local Authority Business Growth Incentive Initiative.

Further savings on programme areas such as the Brighter Borough Initiatives, IT Investment Projects and Highways Maintenance have also contributed to the surplus but these savings will be ring-fenced and carried forward to spend in 2008/09.

The saving from operational departments are spread across a large range of budget areas. There are better than expected income levels in some areas, additional grant over that anticipated when the budget was set and general savings in employee and running expenses that demonstrate a commitment to the efficiency agenda, continuous improvement and value for money. In anticipation of a major review of the services that provide support to the front line a number of posts were held vacant. Collectively all the departments have worked together to help fund spending pressures irrespective of which department is facing the specific demand led pressures.

The savings provide opportunities to revisit some of the risks and pressures facing the Council, particularly on job evaluation and some of our challenging major projects. The Council has a good record over many years of bringing in aggregate expenditure below budget and the Council, as a result, has been able to use the flexibility of balances to enhance services, deal with ‘emergency’ situations and provide valuable additional funding to the capital programme when necessary. If the level of balances held fall too low then this can place stress on the financial framework and potentially create instability and difficulties for the medium term forecast.

The following tables summarise the Council's income and expenditure.

Where the Money comes from:

	£’000	%
Grants	345,165	46.8
Council Tax	105,360	14.3
National Non Domestic Rates	96,491	13.1
Rents	64,229	8.7
Fees & Charges	126,007	17.1
Total	**737,252**	**100.0**

What the Money is spent on:

	£’000	%
Employees	292,270	39.6
Capital Financing	58,922	8.0
Other Operating Costs	381,651	51.8
Transfer to Balances	4,409	0.6
Total	**737,252**	**100.0**

Capital Expenditure 2007/08

The Council spent over £95m on its capital programme in 2007/08. The programme underpins the Council’s objectives and provides for investment in long term assets which are used to deliver the Council’s services. The largest spending areas were :-

- the continuing Wigan and Leigh Housing (WALH) Programme of £25.6m to renovate the Council’s housing stock to the Government’s decency standard.
- the Children and Young Persons programme of expenditure (£17.5m) on school buildings including the pre school Surestart projects.
- the Leigh Sports Village project (£17.6m)

The Council's other major investment areas were highways improvements and maintenance (£7.7m), aids and adaptations for disabled persons (£2.2m), Bickershaw Colliery reclamation (£1.4m) and a programme of capital repairs to maintain the fabric of Council buildings (£2.3m).

A number of capital projects spent less than originally planned in 2007/08 and expenditure on the following has been re-phased into 2008/09 and future years:

Vehicle Replacement Programme
Sure Start Future Programme
Trencherfield Mill Redevelopment
Wigan Pier Quarter Redevelopment
Westwood Park
Cleaner Safer Greener
Schools Programme – Strategic ICT in Schools
Leigh Sports Village
Housing Revenue Account – various projects
The Grange Community Centre
Pedestrian Schemes – A580 Newton Road

The Council spent money on a number of government supported programmes (these were a combination of a large number of capital and revenue based schemes). They were the Single Regeneration Budget programmes, Wigan's Regeneration Working Together, North West Coalfield Communities and Wigan's Regeneration Fund (combined total of £2.2m).

Other Matters

The Council continues to achieve an 'excellent' rating under the Comprehensive Performance Assessment (CPA). This independent assessment is all the more pleasing from a financial viewpoint because once again, under the Use of Resources element, the Council has been able to successfully meet the harder criteria and even managed to improve on the excellent scores achieved in the previous year.

Schools have responsibility for their budgets and may carry forward their own balances. In 2007/08 the cumulative level of balances held by the schools has increased by £2.017m and now stands at £8.983m. Whilst these balances are not available to the Council, the level of school balances remains a major concern at both national and local levels and so the Government expects local authorities working with the Schools Forum to implement a school balances clawback scheme to re-distribute excessive and uncommitted surplus revenue funding.

The Council's Accounting Policies have been substantially rewritten to better reflect the recommended layout of the SORP. The changes made are not considered substantive as there is no impact on the General Fund Balance and similarly no restatement to the prior year figures is necessary as a result of these changes.

Following a reclassification of the treatment of renovation loans granted to individuals a prior period adjustment has been made to correctly align the relevant accounts. The Balance Sheet figures for 2006/07 have been restated to show the impact of this reclassification. The entries being an increase in Long Term Debtors of £0.536m and a corresponding adjustment to the Capital Financing Account. This adjustment does not impact upon the opening balances retained by the Council.

The Council maintains an Insurance Fund to meet losses which are not insured commercially, where provisions are required to meet risks and funds are set aside to recognise this potential liability. The provision element of the Insurance Fund now stands at £8.255m. In addition a reserve of £6.069m has been created which provides a contingency against unforeseen future claims. The reserve also provides a prudent hedge against changes in the insurance market which may require premium increases.

The Council continues to act on behalf of all the councils in the North West as the accountable body for the North West Improvement Network (NWIN), a separate organisation with its own constitution. NWIN is seeking to develop capacity to support the long term sustainable improvement for local authorities using funding provided by the Government. The funds released to the Council have been used to fund a variety of spending programmes across the region. More recently the Council has been chosen to receive funding under the Regional Improvement and Efficiency Partnership (REIP). The Council, as the accountable body, will administer these funds in future years as well.

Financial Reporting Standard 17 (FRS17)

The application of Financial Reporting Standard (FRS) 17 requires employers to report the full cost of pension benefits as they are earned regardless of whether they have been paid for and the fact that they may not be due and payable for many years. This has resulted in a pension liability of £107m (a reduction of £43m due to improvements in investment returns and changes in actuarial assumptions) shown in the Balance Sheet.

This represents the Council's liability to the Greater Manchester Pension Fund and Discretionary Teachers' Pensions. This liability is matched by a pensions reserve and therefore has no impact on the Council's revenue balances.

Financial Instruments

The 2007 Statement of Recommended Practice (SORP) introduced a significant amount of technical accounting guidance relating to Financial Instruments. A Financial Instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another, examples include trade payables, financial guarantees and bank deposits. Financial Instruments in so far as the Authority is concerned relate to loans receivable and borrowings.

The Authority is required to disclose information that enables users of the financial statements to evaluate the nature and extent of any risks arising from Financial Instruments, for example credit risk, liquidity risk or market risk.

In terms of risk, the only element would be interest rate movements on the Authority's borrowings and investments. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates - the interest expense charged to the Income and Expenditure Account will rise
- borrowings at fixed rates - the fair value of the liabilities borrowings will fall
- investments at variable rates - the interest income credited to the Income and Expenditure Account will rise

- investments at fixed rates - the fair value of the assets will fall.

As PWLB loans is the only significant item and this is calculated on a fixed rate basis, then minimal risk is attached to the Authority. Full details of the impact of these requirements can be seen in notes 17 and 20 to the Accounts.

Housing Revenue Account (HRA)

The Council retains Wigan & Leigh Housing Company Ltd to manage the Council's housing stock and other housing activities (Homelessness and Housing Advice for example). The Council retains ownership of the housing stock and other associated assets.

The Council is required to keep a separate account in respect of Council housing. The HRA will show the major elements of expenditure (maintenance, management and capital financing) and income (rents, charges and Housing Subsidy).

The HRA commenced the 2007/08 financial year with a surplus of £4.3m. A reduction in the Management Fee payable and a reduced revenue contribution to capital contributed to the accumulated surplus at the end of the financial year increasing to £7.5m.

The statutory requirement to make a provision for the repayment of debt was removed in 2004/05 and during 2005/06 the Council made the decision not to make a voluntary repayment of debt for the following 3 financial years.

The Council maximised its potential to borrow additional funds to invest in housing stock refurbishment to meet the Government's Decent Homes target. Between 2002/03 and 2005/06 Wigan Council used the maximum £137.3m Government allocation of additional borrowing approvals awarded to the Council following Wigan & Leigh Housing's successful accreditation as a two star service/improving well under the Best Value Inspection Regime.

In 2007/08 a £16.3m contribution from the Major Repairs Reserve was used to provide additional funds for housing stock refurbishment, this reduced the Major Repairs Reserve balance to zero as at the 31st March 2008.

Council Balances and Reserves

The overall amount of General Fund Balances held by the Council at the 31st March 2008 is £25.898m and a proportion of this is required for revenue and capital investment support in future years.

Financial Outlook

The Council has published a Medium Term Financial Strategy for 2008/09 – 2010/11 which sets out the overall shape of the Council's budget, the robustness of the estimates and the adequacy of reserves.

The recent publication of the Government's Comprehensive Spending Review (CSR07) forms part of the government strategy to help all Councils make firmer financial plans for the next three years.

Reserve powers are held by the Government to protect Council Tax payers from excessive increases and this remains a priority for the Government. The Council in turn has twin objectives of minimising the cost to the taxpayer whilst minimising the effect on the Council of financial risk. As in the past balances are available to the Council to be used to smooth any tax increases over the medium term.

As the emphasis is increasingly on affordability and the prevention of excessive Council Tax increases, the Council has understandably responded by seeking to manage its financial affairs within these parameters. A rigorous and demanding budget challenge process is in place whereby growth, service pressures, savings and scenario submissions are considered within the Council's approved budget framework. This framework brings in the views of citizens, stakeholders and partnerships and the wider membership.

Funding the Council's Capital Programme remains an important part of the Revenue Budget strategy and the Council has a commitment to long term investment in the Borough. There will always be a requirement to prioritise between capital investment and the revenue spending on current services to achieve a balanced budget plan.

The Chancellor of the Exchequer has already set a 3% cashable efficiencies target for the next Comprehensive Spending Review (CSR), signalling a much tighter regime for the public sector compared with previous settlements. When this is set against public expectations for improved and increased services this will provide a challenging financial climate for all local authorities. Accordingly, the Council is looking critically at its management structures and new ways of working, particularly in the areas of collaborative working and shared services.

In overall terms the strategy is as in previous years to seek a balanced budget with no structural deficit and to ensure a prudent level of balances is maintained during the planning period. At the moment the capital programme is showing a deficit of resources that will need to be funded from reserves or further asset sales in later years.

Finally, the Council publishes a number of plans which make explicit the link between its financial planning horizons and its service plans. These plans are available in hard copy and on the Council's Web site. Principal among these is the Corporate Plan and this is underpinned by Departmental Service Plans which contain service objectives, priorities, performance targets and resources.

Concluding Remarks

The Council remains committed to sound financial management. This is demonstrated by the effective budget management by departments during the year but there are also, as always, risks and uncertainties to be managed. The national and international financial climate is currently undergoing significant changes and this volatility will need to be factored into any forward planning to ensure financial stability is in place to safeguard the continuing delivery of service priorities.

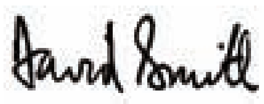
The early completion and publication of the Accounts is seen by many observers as a cornerstone of financial stewardship and governance. The accounting framework for local authorities continues to be changed year on year to bring it more in line with approved accounting standards. Given the level of changes, meeting the end of June statutory deadline for approving Accounts represents a considerable challenge and my thanks are due to all the staff who have contributed to achieving this target.

As explained earlier, the Statement of Accounts is intended to give the reader clear information about the Council's finances and therefore I would as always welcome any comments to improve the quality or content of it. To encourage this feedback a questionnaire for completing has been provided at the end of this publication.

Further Information

Further information about the accounts is available from the Finance Division of the Business Support Services Department, Corporate Accountancy Section, Civic Centre, Millgate, Wigan. The full Statement of Accounts will be made available on the Council website at the beginning of July. A Summary of the Accounts will be circulated for stakeholder comment and consultation after that date.

Interested members of the public have a statutory right for 20 working days to inspect the accounts before the audit is completed.   For 2007/08 the inspection date will start on the 28th July and the appointed day for raising queries with the External Auditors will be 26th August 2008.



D J SMITH MA PhD CPFA
Executive Director of Business Support Services.
26th June 2008

Statement of Accounting Policies

General Principles

The Statement of Accounts summarises the Council's transactions for the 2007/08 financial year and its position at the year-end of 31 March 2008. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2007 (the SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

The Statement of Accounts are prepared in accordance with the fundamental accounting principles relating to the qualitative characteristics of financial information as set out in the CIPFA code of practice; relevance, reliability, comparability, understandability and materiality.

The accounts are also prepared in accordance with the three pervasive accounting concepts as defined by the Code of Practice;

1. Accruals

The financial statements, other than cash flow information, are prepared on an accruals basis. The accruals basis of accounting requires the non-cash effects of transactions to be reflected in the financial statements for the accounting period in which those effects are experienced and not in the period in which any cash is received or paid.

2. Going Concern

The Statement of Accounts is prepared on a going concern basis, that is the accounts are prepared on the assumption that the Council will continue in operational existence for the foreseeable future. This means in particular that the income and expenditure account and balance sheet assume no intention to curtail significantly the scale of operation.

3. Primacy of Legislative Requirements

Local Authorities derive their powers from statute and their financial and accounting framework is closely controlled by primary and secondary legislation. To the extent that treatments are prescribed by law the accounting concepts outlined above may not apply in all cases. It is a fundamental principle of the CIPFA code of practice that, where specific legislative requirements and accounting principles conflict, legislative requirements shall apply.

Accruals of Income and Expenditure

The accounts of the Council are maintained on an accruals basis in accordance with the CIPFA code of practice. 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 stocks on the balance sheet.

- Works are charged as expenditure when they are completed, before which they are carried as work in progress on the balance sheet.

- Interest payable on borrowings and receivable on investments is accounted for in the year to which it relates, on a basis that reflects the overall effect of the loan or investment.

- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

Available-for-sale Assets

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Income and Expenditure Account when it becomes receivable by the Council.

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

- instruments with quoted market prices – the market price

- other instruments with fixed and determinable payments – discounted cash flow analysis

- equity shares with no quoted market prices – independent appraisal of company valuations.

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

Where assets are identified as impaired because of a likelihood arising from a past event the payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Charges to Revenue for Fixed Assets

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

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

The Council is not required to raise Council Tax to cover depreciation, impairment loses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement, excluding amounts attributable to HRA activity). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two. There is no requirement to make a repayment of housing debt.

Contingent Liabilities

Contingent Liabilities are not accrued in the accounting statements. They are disclosed by way of the notes to the accounts (Note 46a) if there is a possible obligation, which may require a payment or transfer of economic benefits.

Cost of Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2006.

The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council’s status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

These two cost categories are accounted for as separate headings in the Income and Expenditure Account, as part of Net Cost of Services.

Deferred Charges

Deferred charges represent expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets. Deferred charges incurred during the year had been written off as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of the deferred charges from the existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of Council Tax.

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 (including teachers) 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.

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-sales assets that have a quoted market price and/or do not have fixed or determinable payments.

Financial Liabilities

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

Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant / contribution, providing that there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred.

Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant, Performance Reward Grant, Local Authority Business Growth Incentive) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

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

Guarantees Entered Into Before 1 April 2006

Where the Council entered into a number of financial guarantees before 1st April 2006 these are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed.

Intangible Current Assets

The Authority measures the value of landfill allowances at lower of cost and net realisable value.

Intangible Fixed Assets

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

Leases

Finance Leases

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council. Rentals payable are apportioned between:

- a charge for the acquisition of the interest in the property (recognised as a liability in the Balance Sheet at the start of the lease, matched with a tangible fixed asset – liability is written down as the rent becomes payable), and
- a finance charge (debited to Net Operating Expenditure in the Income and Expenditure Account as the rent becomes payable).
- Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

Operating Leases

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

Loans and Receivables

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

Where, the Council has made loans at less than market rates (soft loans) a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the lender, 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. Reconciliation of amounts debited and credited to the Income and Expenditure Account to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

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

Pensions

The Council contributes to two different pension schemes. There is an unfunded Teachers Pension scheme administered by Capita Teachers' Pensions on behalf of the Department for Children, Schools and Families (DCSF) and for other staff there is a funded Local Government scheme administered by Tameside MBC.

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council. However, 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 contributions scheme – no liability for future payments of benefits is recognised in the balance sheet and the Education service revenue account is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

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

The liabilities of the Greater Manchester pension scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees. Liabilities are discounted to their value at current prices, using a discount rate of 3.2% (based on the indicative rate of return on high quality corporate bonds).

The assets of the Greater Manchester pension fund attributable to the Council are included in the balance sheet at their fair value:

quoted securities – mid-market value
unquoted securities – professional estimate
utilised securities – average of the bid and offer rates
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 Income and Expenditure Account to the revenue accounts of services for which the employees worked

past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs

interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income and Expenditure Account

expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account

gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs

actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions

Statutory provisions limit the Council to raising Council Tax to cover the amounts payable by the Council to the pension fund in the year. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

Provisions

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

Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Reserves

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

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and they do not represent usable resources for the Council.

Stocks and Work in Progress

Stocks are included in the balance sheet at the lower of cost or net realisable value. Work In progress is subject to an interim valuation at the year-end and recorded in the balance sheet at cost plus any profit reasonably attributable to the works. For stocks with a higher turnover level, values are recorded at either average price or latest invoice price.

Tangible Fixed Assets

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

Recognition: expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more that one financial year. A deminimus level of £6,000 is in place for the capitalisation of expenditure for repairs. Expenditure that secures but does not extend the previously assessed standards of performance of asset (eg repairs and maintenance) is charged to revenue as it is incurred.

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

- investment properties and assets surplus to requirements – lower of net current replacement cost or net realisable value.

- council dwellings, other land and buildings, vehicles, plant and equipment – lower of net current replacement cost or net realisable value in existing use for social housing.

- infrastructure assets and community assets – depreciated historical cost.

Net current replacement cost is assessed as:

- non-specialised operational properties – existing use value.
- specialised operational properties – depreciated replacement cost.
- investment properties and surplus assets – market value.

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account. The only exception to our valuation policy relates to land at Manchester Airport that is included in our balance sheet from a valuation provided by Manchester City Council's Valuer in 2007/08 based on the market value of this land.

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

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

- where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account.
- otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss due to the consumption of economic benefits is charged directly to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Disposals: when an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts in excess of £10,000 are categorised as capital receipts. 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 Usable Capital Receipts Reserve, and 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 statement of Movement on the General Fund Balance.

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

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

- Newly acquired assets with the exception of vehicles, plant and equipment are depreciated in the year following acquisition and assets under construction are not depreciated until they are used.

- Newly acquired vehicles, plant and equipment are depreciated in the year of acquisition on a pro-rata basis.

Depreciation is calculated on the following bases:

- council dwellings – equivalent to the major repairs allowance

- other buildings – straight line allocation over the life of the property as estimated by the valuer

- vehicles, plant and equipment – straight line allocation over a period of between 3 and 7 years, or over the asset's estimated remaining life

- highways infrastructure – straight line allocation over 25 years

- bridges – straight line over 60 years

- freehold land and community assets are not depreciated and non operational assets are seldom depreciated.

Where an asset has major components with different estimated useful lives, these are depreciated separately.

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.

VAT

Income and expenditure excludes any amounts related to VAT, as all VAT is payable to HM Revenue & Customs and all VAT paid is recoverable from it.