Statement of Accounting Policies

The accounts have been prepared in accordance with the relevant statutory requirements and the Code of Practice on Local Authority Accounting in Great Britain, published by the Chartered Institute of Public Finance and Accountancy (CIPFA). This statement explains the policies used to ensure the Council's financial position is fairly presented.

Capital Assets

All expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis. Expenditure on such assets is capitalised (subject to a deminimus level of £10,000), provided the asset benefits the Council for a period of more than one year. Expenditure on routine repairs and maintenance of fixed assets is charged directly to revenue.

Fixed assets are valued on the basis recommended by CIPFA and in accordance with guidance issued by the Royal Institute of Chartered Surveyors (RICS). Fixed assets are classified as follows:

- land, operational properties and other operational assets are included in the balance sheet at the lower of net current replacement cost and net realisable value

- non-operational assets, including investment properties and assets that are surplus to requirements, are included in the balance sheet at the lower of net current replacement cost and net realisable value.

- infrastructure assets and community assets are included in the balance sheet at historical cost, net of depreciation. Where historical cost is not available, a nominal value of £1 per item has been used.

- Council dwellings have been valued on the basis of Existing Use Value:Social Housing.

Other assets previously acquired under deferred purchase schemes are recognised and included in the balance sheet at their fair value.

Income from the disposal of fixed assets is accounted for on an accruals basis. Such income that is not reserved for the repayment of external loans, and has not been used for financing purposes, is included in the balance sheet as usable capital receipts unapplied.

Depreciation

The useful lives of assets are estimated on a realistic basis and reviewed on a regular basis and were necessary revised. All fixed assets are depreciated over their useful economic life according to the following policy:

- newly acquired assets are not depreciated in the year of acquisition and assets under construction are not depreciated until used.

- depreciation is on a straight-line method over the following periods:

Housing Stock:	Equivalent to the Major Repairs Allowance
Other Buildings:	Over remaining estimated life of asset
Freehold Land:	Not depreciated
Equipment/Vehicles:	5 years
Highways:	25 years
Bridges:	60 years
Community Assets:	Not Depreciated
Non-Operational Assets	Mostly not Depreciated

Capital Charges to Revenue

All service revenue accounts carry a capital charge for fixed assets used in the provision of services. This comprises depreciation plus a capital financing charge determined by applying a specified notional rate of interest to net asset values. The aggregate charge to individual services is determined on the basis of the capital employed in each service. The charge made to the HRA is in the main an amount equivalent to the Major Repairs Allowance awarded by central government.

External interest payable and depreciation are charged to the asset management revenue account, which is credited with capital charges charged to services. Capital charges therefore have a neutral impact on local taxation.

Amounts set aside for the repayment of external loans, to finance capital expenditure or as transfers to other earmarked reserves, are disclosed separately as appropriations on the Consolidated Revenue Account.

Deferred Charges

A deferred charge is capital expenditure, which does not result in a tangible fixed asset. Such expenditure, together with any matching grant income, has been written off to revenue. This write-off is offset by a matching transaction from the capital financing reserve. This expenditure is written off in the year it occurs.

Intangible Assets

The heading of Intangible Fixed Assets has been introduced to replace the Deferred Charges heading as a balance sheet item. Assets held under this heading comprise major items of computer software and these are amortised on a basis consistent with the consumption of the economic benefits of the asset.

Capital Receipts

Capital receipts arise from the disposal of assets such as land and council houses. The Council treats capital receipts of less than £10,000 as revenue income as allowed by the legislation. Capital receipts over £10,000 are divided into the two elements.

Capital receipts are where appropriate divided into a reserved part (based on any statutory requirements) and a useable part, the balance. Reserved receipts are credited to the Capital Financing Reserve and can only be used for specified purpose, generally the repayment of outstanding borrowing. Useable capital receipts are shown separately in the balance sheet and can be used either to finance capital expenditure, to repay grant in relation to the assets disposed of, or as a voluntary provision for credit liabilities.

Redemption of Debt

The Council administers a loans pool which includes all loans raised by the Council. Provision is made for principal repayments by charging a Minimum Revenue Provision (MRP) as well as voluntary repayments. The Minimum Revenue Provision is based on a percentage of loans outstanding of 4% for General Fund. From 1 April 2004 it was no longer mandatory to change a 2% MRP for Housing Revenue Account debt. However, a voluntary repayment equivalent to 2% has been made.

Government Grants and Contributions

Grants are allocated to either the service revenue account or, if a capital grant, to the government grants-deferred account. Amounts are released to the asset management revenue account over the useful life of the asset to match the depreciation charged on the asset to which it relates. All grants and other contributions are accounted for on an accruals basis.

Leases

Rentals payable under operating leases are charged to service revenue accounts.

Debtors and Creditors

The accounts of the Council are maintained on an accruals basis which means that amounts due to the Council or amounts owed by the Council are included, whether or not the cash has actually been received or paid in the year.

Work in Progress, Stocks and Stores

Work in progress, slower moving and obsolete stocks and stores are included in the accounts at the lower of cost or net realisable value. For higher turnover, values are recorded at either average price or latest invoice price.

Cost of Support Services
In accordance with CIPFA recommended practice, Support Services have been recharged across all services on the basis of time allocations, area occupied or actual usage, depending upon the nature of the costs.

The costs of the Corporate and Democratic and Non-Distributed costs as defined by CIPFA's BVAOP are allocated to separate objective expenditure heads and are not apportioned to other divisions of service. These items are clearly disclosed in the Consolidation Revenue Account.

Provisions
Provisions are sums set aside in respect of liabilities existing at the 31st March which are likely or certain to be incurred but their amount cannot be determined accurately. The use of provisions is included in the cost of services.

Reserves
Reserves are sums set aside out of the balances of the Council. Reserves are not included in service expenditure and are shown separately in the Consolidated Revenue Account and in the Notes to the Accounts.

Insurance Fund
The Authority makes annual contributions from revenue into an Insurance Fund and appropriate claims settlements paid by the Authority are charged to this Fund.

Pensions
The Council contributes to two different pension schemes. There is an unfunded Teachers Pension scheme and for other staff there is a funded Local Government scheme.

In accordance with proper practices the Council has within its statement of accounts for 2004/05 adopted in full the Financial Reporting Standard (FRS) 17. The FRS 17 represents a very substantial change in the way that retirement benefits are accounted for as it requires the Council to account for retirement benefits when it is committed to give them even if the actual giving will be many years in the future.

The important accounting distinction for pension schemes is whether they are classified as 'defined benefit' or 'defined contribution' schemes The accounting principles and their effect on the financial statements are explained below.

Defined Benefit Schemes
The Local Government Scheme is classified as a defined benefit scheme. For these schemes the FRS 17 requires recognition of the net asset/liability and a pensions reserve in the Consolidated Balance sheet and transactions in the Consolidated Revenue Account for movements in the asset/liability.

Defined Contribution Schemes
The Teachers Pension Scheme is a defined benefit scheme. However, as it is not possible for the Council to identify its share of the underlying liabilities then for the purposes of this statement it is classified as a defined contribution scheme. For these schemes the FRS 17 requires that the pensions cost reported for the year is equal to the contributions payable to the scheme for the accounting period. However any unfunded discretionary benefits within such schemes are to be accounted for in the same way as defined benefit schemes.

Further disclosure notes relating to the pensions transactions can be found in the Consolidated Revenue Account (note 10), the Consolidated Balance Sheet (note 14), and the Statement of Total Movements in Reserves (note 6).

In addition the implementation of FRS17 has had a material effect on substantial parts of the Statement of Accounts. In particular it should be noted that there has been a change in the estimation technique adopted, relating to the assessment of the liability for retirement benefits:

In assessing the liabilities for retirement benefits at 31 March 2004 for the 2003/04 Statement of Accounts, the actuary was required by the SORP to use a discount rate of 3.5% real (6.1% actual). For the 2004/05 Statement of Accounts, a rate based on the current rate of return on a high-quality corporate bond of equivalent currency and term to scheme liabilities is to be used. The actuary has advised that a rate of 2.4% real (5.4% actual) is appropriate. Application of this rate has resulted in an increase in liabilities measured at today's prices of £96.5m, adjusted for by an increase in actuarial losses recognised for the year in the Statement of Total Movements on Reserves.

The impact on the amount to be met from Government grants and local taxation remain unchanged but the costs disclosed for individual services has increased by £1.75m when compared to 2003/04.

The requirement to recognise the net pensions liability in the balance sheet has reduced the reported net worth of the Authority by 21%(12.5% in 2003/04).

Contingent Liabilities
Contingent Liabilities are not accrued in the accounting statements. They are disclosed by way of the notes to the accounts (Note 23 to the Consolidated Balance sheet) if there is a possible obligation, which may require a payment or transfer of economic benefits.

Investments
Investments are shown in the balance sheet at original cost, less any provision required for a permanent reduction in value.

Internal Interest
Interest is given to the General Fund and the Housing Revenue Account, based on the level of their Fund Balances.

Related Companies
Details of the companies in which the Council has an interest, and the nature of the relationship, are shown in the notes to the Balance Sheet.

The 2004 Code of Practice on Local Authority Accounting requires Local Authorities to consider all their interests and where they have a material interest in subsidiaries, associates and Joint Ventures a full set of group accounts is required. However, due to the complexity of this disclosure, transitional arrangements are available to allow Authorities more time to carry out this substantial undertaking.

The Council has utilised these transitional arrangements in 2004/05 and will adopt fully the new requirement for the 2005/06 accounts.

VAT
VAT is included in the expenditure and income only to the extent that it is irrecoverable.