STATEMENT OF ACCOUNTING POLICIES

1. GENERAL PRINCIPLES

The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain 2005. The Code of Practice has been developed by the CIPFA/LASAAC Joint Committee in accordance with the Accounting Standards Board's code of practice for the development of Statements of Recommended Accounting Practice (SORPs).

The Code of Practice is based on approved accounting standards and the Urgent Issue Task Force's Abstracts extant at 30 September 2004, except where these are inconsistent with specific statutory requirements, and supersedes previous Codes of Practice. The Code of Practice constitutes a 'proper accounting practice' under the terms of section 66(4) of the Local Government and Housing Act 1989.

2. ACCOUNTING CONCEPTS

The accounting policies referred to are consistent with the fundamental concepts of:

Going concern – the accounts have been drawn up on the basis that the authority is going to continue in its operational existence for the foreseeable future.

Accruals – Income and expenditure is recognised in the period to which they relate rather than when the related cash is received or paid.

The primacy of legislation - Where there is conflict between legislative requirements and accounting principle, legislative requirements will prevail.

3. ESTIMATION

Where actual amounts to be included within the accounts are uncertain estimates are used. The estimate is based on the best assessment of information available at the time of closing the accounts. When the actual figures are determined any difference arising is accounted for in the year when the actual is determined.

4. FIXED ASSETS

All expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis in the accounts. Expenditure on fixed assets is capitalised, provided that the fixed asset yields benefits to the authority and the services it provides for more than one year. This excludes expenditure on routine repairs and maintenance of fixed assets, which is charged direct to service revenue accounts.

Fixed assets were originally valued and recorded in the accounts as at 1 April 1994. These valuations were based upon certificates issued by the Council's Chief Valuer and Estates Surveyor. Additions since that date are included in the accounts at cost. The Council has a rolling programme of revaluations under which all assets will be revalued over five years. A loss in value from other impairments, such as obsolescence or decline in Market value, is taken to the fixed asset restatement reserve.

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 in existing use. Investment properties are included in the balance sheet at the lower of net current replacement cost and net realisable value (open market value). Infrastructure assets, community assets and assets that are surplus to requirements are included in the balance sheet at written down historical cost. Council dwellings have been included in the balance sheet at their open market value in existing use.

Where assets are acquired under leases, the leasing rentals payable are charged to revenue. The cost of assets and the related liability for future rentals payable are not shown in the balance sheet but are disclosed in the notes. (See Note 2, Page 11).

Where a fixed asset has been disposed of, income derived is credited to the usable capital receipts reserve, and accounted for on an accruals basis. Where applicable, the proportion reserved for the repayment of external loans is credited to the capital financing reserve. Upon disposal, the net book value of the asset is written off against the fixed asset restatement account. (See Note 13, Page 26).

5. DEPRECIATION

In accordance with the provisions of FRS 15, assets are depreciated on a straight-line basis over their useful economic life. The only general exceptions to this are freehold land and non-operational investment properties. Subsequent expenditure on a fixed asset that maintains or enhances the previously assessed standard of performance of the asset does not negate the need to charge depreciation.

6. INTANGIBLE ASSETS

Intangible Assets are payments of a capital nature where no fixed asset is created but which are expected to yield future economic benefits to the Council. Previously improvement and reinstatement grants were included as deferred charges however they do not fall into the category of intangible assets and therefore they have been written out of the accounts.

7. BASIS OF CHARGES FOR CAPITAL

Asset charges are made to users at the minimum level required under the Accounting Code of Practice. Such charges cover the annual provision for depreciation, where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest to the net amount at which the asset is included in the balance sheet. Currently this rate is 3.5% for Assets held at Current Values and 4.8% for those held at historic cost. The charge met by the Housing Revenue Account is an amount determined by statutory provision (currently 3.5%).

External interest payable and the provision for depreciation are charged to the asset management revenue account. This account is also credited with the capital charges charged to services. Capital charges therefore have no impact on the amounts the Council needs to raise from local taxation or tenants rents.

Amounts set aside from revenue:

- to finance capital spending, or
- As transfers to other earmarked reserves

are disclosed as appropriations, within the Consolidated Revenue Account, after net operating expenditure.

Amounts are no longer set aside for the repayment of debt, as the Council has been debt free throughout the period.

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8. CAPITAL EXPENDITURE CHARGED TO REVENUE

The Local Government and Housing Act 1989 allows local authorities to finance an unlimited amount of capital expenditure through its revenue accounts. The Council's policy has been to finance a significant amount of Housing Revenue Account capital expenditure in this way.

The Council has also obtained capitalisation directions for additional pension contributions made during 2005/06 of £579,803 (General Fund) and £271,846 (Housing Revenue Account). These amounts have been charged to a capital reserve that was specifically established for this purpose.

A capitalisation direction has also been received enabling the transfer of £270,000 from capital balances to the General Fund Revenue Account in respect of the Commutation Adjustment arising from past grant commutation.

9. INVESTMENTS

Investments are shown in the Consolidated Balance Sheet at cost.

10. STOCKS AND STORES

Separate stores are maintained in the Fleet Operations and Building Maintenance Services. Leisure Centres stocks were transferred to the leisure management contractor when the management of the leisure centres was outsourced in January 2006. Stores are valued in the accounts at the lower of cost or net realisable value.

11. DEBTORS AND CREDITORS

The revenue and capital accounts of the Council are maintained on an accruals basis in accordance with the Code of Practice and FRS 5. That is, sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year. An exception to this principle relates to electricity and similar periodic receipts and payments, which are charged at the date or meter reading rather than being apportioned between financial years. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

The recoverability of the Authority's General Fund debts is considered each year through an analysis by age and type of debts outstanding at 31 March. An appropriate provision is made for any bad debts / losses that are anticipated. An analysis of size and type of debts outstanding at 31 March on the Housing Revenue Account has also been undertaken in accordance with the Housing Revenue Accounts (Arrears of Rent and Charges) Directions 1990.

12. CAPITAL RECEIPTS

Capital Receipts from the sale of assets are treated in the accounts as laid down by regulations made under the Local Government Act 2003. Under the act 75% of council house sales and 50% of other Housing Revenue Account asset sales must be paid over to a pool for re-distribution. There are however transitional arrangements in force for debt free authorities whereby some of the poolable receipts can be retained providing they are spent on housing. In 2005/06 the transitional arrangements mean that of the 75% poolable amount 50% can be retained. The amount that remains with the Council is credited to usable capital receipts and is therefore available to fund capital expenditure.

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13. GOVERNMENT GRANTS

Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other capital contribution, the amount of the grant or contribution is credited initially 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 of the asset to which it relates. (See Note 11, Page 26.) Grants and contributions towards deferred charges are written out directly against the relevant deferred charge within the revenue account. Grants and subsidies have been credited to the appropriate revenue and capital accounts and accruals have been made for balances known to be receivable for the year to 31 March 2006.

14. COST OF SUPPORT SERVICES AND SERVICE ADMINSTRATION

Administrative expenses are allocated over all services and to all users including services to the public, trading undertakings, capital accounts and services provided for other bodies and other support services, on a consistent basis applicable to the service provided, i.e. actual time spent by staff, area occupied, per capita, actual use etc.

15. PROVISIONS

The Council sets aside provisions for specific future expenses or losses, which are likely or certain to be incurred, but uncertain as to the amount or the dates on which they will arise. The only provision included is for bad and doubtful debts (Note 6, Page 25).

16. RESERVES

The Council has set aside certain revenue and capital amounts as earmarked reserves. They include reserves for the District Development Fund, pensions deficit, debenture, insurance, housing repairs, on-street parking, building control and future museum acquisitions. All other fund balances represent working balances for the purpose of the specific fund and are made up of accumulated surpluses and deficits derived over a period of time. All fund balances and reserves are reviewed periodically as to their size and appropriateness.

There are two statutory reserves, which have subsequently been renamed as ‘Accounts’ within the consolidated balance sheet. These are the fixed assets restatement account, which represents the balance of the surplus or deficits arising on the periodic revaluation of fixed assets; and the capital financing account, which represents amounts set aside from revenue resources or capital receipts and grants to finance expenditure on fixed assets or for the repayment of external loans. (See also Notes 11/12/16 on pages 26 and 28 and the Statement of Movements in Total Reserves on page 32).

17. PENSIONS

From 1 April 2003 accounting policies relating to pensions represent a change to those applied in previous years. Previous policy was to recognise liabilities in relation to retirement benefits only when employer’s contributions became payable to the pension fund or payments fell due to the pensioners for which the council was directly responsible. The new policies better reflect the commitment in the long term to increase contributions to make up any shortfall in attributable net assets in the pension fund.

The change has had the following effects on the results of the prior and current periods.

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- The overall amount to be met from Government grants and local taxation has remained unchanged, but the costs disclosed for individual services are 0.62% (2.24% 2004/05) lower after the replacement of employer's contributions by current service costs and Net Operating Expenditure is 0.76% (2.65% 2004/05) lower than it would otherwise have been.

- The requirement to recognise the net pensions liability in the balance sheet has reduced the reported net worth of the authority by 5.54% (5.21% 2004/05).

18. INTERNAL INTEREST

Interest is credited to the Housing Revenue Account based in the level of its fund balances. The amounts are calculated using the average rate of interest on approved investments, as prescribed in the Housing Revenue Account Item 8 Credit and Item 8 Debit (general) Determinations 2005/06.

19. VALUE ADDED TAX (VAT)

VAT is included in the accounts only to the extent that it is irrecoverable from HM Revenue and Customs. VAT can only be recovered on partially exempt activities where all activities accounts for less than 5% of total VAT on all the Council's activities. The partially exempt proportion for 2005/06 was 4.31% (3.30% 2004/05).