Appendix 1

The purpose of this appendix is to set out the accounting policies to be used for preparation of the 2019/20 statement of accounts.

INTRODUCTION

The purpose of this section is to explain the basis for the recognition, measurement and disclosure of transactions and other events in the accounts of South Lakeland District Council. Where individual transactions and other events are not covered by these policies they are accounted for in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice identified below.

The accounting policies are the main principles, bases, conventions, rules and practices that specify how these transactions and other events are reflected in the financial statements of the Council.

The accounts follow the appropriate accounting standards as required by the **CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (The Code)**. The Code constitutes a “proper accounting practice” under the terms of Section 21 (2) of the Local Government Act 2003. The Code is based on approved international accounting standards, except where these conflict with specific accounting or legislative requirements, so that the Council’s accounts present a true and fair view of the financial position and transactions of the authority.

The basic accounting convention adopted is historic cost, modified by the revaluation of certain categories of tangible non-current assets and financial assets.

The Accounting Policies that follow are presented in an order that, as far as possible, corresponds with the index to the notes to the accounts. A full index of Policies follows.

BALANCE SHEET

Policy 13 Fair Value Measurement
Policy 14 Property, Plant and Equipment
Policy 15 Intangible Assets
Policy 16 Non-Current Asset Disposal
Policy 17 Heritage Assets
Policy 18 Investment Properties
Policy 19 Definition of Capital Expenditure
Policy 20 Capital Grants and Contributions
Policy 21 Leases
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Policy 27 Contingent Liabilities
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COLLECTION FUND

Policy 19 Local Taxation and BIDs

1. FUNDAMENTAL ACCOUNTING CONCEPTS

a) Underlying Assumptions

Accruals

The financial statements, other than the cash flow information, are prepared on an accruals basis. This means that expenditure and income are recognised in the accounts in the period in which they are incurred or earned, not as money is paid or received.

Going Concern

The financial statements have been prepared on the assumption that the Council will continue in operation for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

b) Qualitative Characteristics of Financial Information

Understandability

These accounts are based on accounting concepts, treatments and terminology, which require reasonable knowledge of accounting and local government. However, all reasonable efforts have been made to use plain language and where technical terms are unavoidable they have been explained as they occur.

Relevance

The accounts have been prepared with the objective of providing information about the Council's financial performance and position that is useful to the reader in assessing the stewardship of public funds and for making future economic decisions.

Materiality
The Code permits the concept of materiality to be used in the preparation of the accounts. Omissions or mis-statements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or mis-statement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

Faithful Representation
The financial information is complete, neutral and free from error in that it:
- has been prepared so as to reflect the reality or substance of the transaction and activities underlying them, rather than their formal legal character;
- represents faithfully the transactions and events it purports to or could reasonably be expected to represent;
- is free from deliberate or systemic bias;
- is free from material error;
- is complete within the bounds of materiality and cost.

Comparability
The financial statements have been prepared to allow comparison of the Council's financial position over time. The Council reports financial performance in segments consistent with the internal management structure.

Verifiable
Information used to prepare the accounts can be verified. Where estimates have been used, the relevant assumptions underlying the estimation technique will be disclosed.

Timely
The statutory timeframe for preparation of the accounts will be adhered to.

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. It is a fundamental principle of local authority accounting that, where specific legislative requirements and accounting principles conflict, legislative requirements as shown in Appendix B to the Code shall apply. To satisfy the twin demands of accounting regulations and legislation, Local Authority accounts include a reconciling statement to disclose how legislation has had an impact on the general fund and other reserves (the Movement in Reserves Statement and supporting note).

2. ESTIMATION AND PRIOR YEAR ERRORS

In order to prepare the annual accounts by the specified deadline, it has been necessary to use estimation methods in relation to some transactions and events. The Council has applied the same methods this year as in previous years.

The estimation techniques that have been used are, in the Council's view, appropriate and consistently applied. Should the effect of a change to an estimation technique be material, a description of the change and, if practicable, the effect on the results for the current period and future years would be separately disclosed.

Where errors have occurred in relation to previous years' recognition, measurement, presentation, or disclosure of elements of financial statements, they are corrected retrospectively where material and disclosed in the notes to the statements.

3. POST BALANCE SHEET EVENTS

Events after the Balance Sheet date which relate to conditions that existed at the balance sheet date, are adjusted in the Accounts and disclosures. For events occurring after the Balance Sheet date relating to conditions that arose after that date, adjustments are not made in the Accounts but details are disclosed in a note. Events taking place after the date of authorisation are not reflected in the Statement of Accounts.

4. REVENUE AND EXPENDITURE RECOGNITION

Revenue in respect of services provided is recognised when (or as) performance obligations are satisfied by transferring promised services to the customer, and is measured at the amount of the transaction price allocated to that performance obligation. Where income is received for a specific performance obligation that is to be satisfied in the following year, that income is deferred.

The main sources of revenue for the Council are

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when ~~Revenue from the sale of goods is recognised when~~ the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- ~~Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.~~
- Revenue from Council Tax and Business Rates is measured at the full amount receivable (net of impairment losses) as they are non-contractual, non-exchange transactions. Revenue from non-exchange transactions shall be recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the authority, and the amount of the revenue can be measured reliably.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Income from the sale of non-current assets is recognised only when all material conditions of sale have been met, and is measured as the sums due under the sale contract.

Payment terms are standard reflecting cross government principles. Significant terms include 30 days for most services provided and 21 days for statutory licences.

In relation to expenditure

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, and the value is material, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

Where revenue and expenditure have 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 debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

5. COSTS OF SUPPORT SERVICES

The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.

6. VALUE ADDED TAX (VAT)

Value Added Tax is included within the accounts only to the extent that it is irrecoverable and therefore charged to revenue or capital expenditure as appropriate. VAT receivable is excluded from income.

7. RESERVES

The Council sets aside specific amounts as reserves for future policy purposes, contingencies and cash flow management. Reserves are created by appropriating amounts out of the General Fund in the Movement in Reserves Statement. When expenditure is incurred it is charged to the service revenue account in the Comprehensive Income and Expenditure Statement. The reserve is appropriated back into the General Fund in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. A list of reserves for specific purposes, and an explanation of their use, is included in the notes to the Accounting Statements.

Capital Reserves are kept to manage the accounting processes for non-current assets and retirement benefits. These are not available for use by the Council for revenue purposes, and some can only be used for specific statutory purposes. These reserves are explained in the relevant notes to the Accounting Statements.

8. EMPLOYEE BENEFITS

During Employment

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

An accrual is made at the end of each year for the cost of holiday entitlement and flexi-time balances not taken at the year-end. The accrual is based on the salary rates for the year in which it will be taken. The accrual is charged to the cost of services, but then reversed out in the Movement in Reserves Statement, so that benefits are charged to revenue in the year in which the holiday or flexi-time is taken.

Termination Benefits
These are benefits payable as a result of a decision taken by the Council to terminate an employee's employment before the normal retirement date, or as a result of an employee's decision to accept voluntary redundancy. They are charged on an accruals basis to the relevant service in the period when the Council can no longer withdraw the offer of benefits made to the employee or when the criteria for recognising a provision to cover such costs are met, whichever is the earliest.

Where termination benefits involve pension enhancements, statutory provisions require the amount charged to the General Fund to be the amount paid in the year and not that calculated in accordance with relevant accounting standards. The Movement in Reserves Statement therefore shows entries in and out of the Pensions Reserve to bring the treatment into line with the accruals requirements of Accounting Standards.

Retirement Benefits
The Council has adopted the accounting requirements under IAS19 – Retirement Benefits, as required by the Code. Employees of the Council are members of Cumbria County Pension Fund, part of the Local Government Pension Scheme. The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Cumbria Local Government Pension Scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of estimated earnings for current employees
- Liabilities are discounted to their value at current prices, using a discount rate and type of bond provided by the Actuary
- The assets of the Cumbria Local Government Pension Scheme attributable to the Council are included in the Balance Sheet at their fair value:
    - quoted securities at current bid price
    - unquoted securities by professional estimate
    - unitised securities at current bid price
    - property at market value

The change in the net pension's liability is analysed into the following components:

Component	Detail	Accounting Treatment
Current service cost	Increase in the present value of the defined benefit obligation resulting from employee service in the current period including interest on the current service cost.	Comprehensive Income and Expenditure Statement for appropriate service
Past service cost / gains	Change in the present value of the defined benefit obligation for service in prior periods resulting from a plan amendment or curtailment and any gain or loss on settlement.	Comprehensive Income and Expenditure Statement, Other Comprehensive Income and Expenditure
Net interest on the net defined benefit liability(asset)	Change during the period in the net defined liability (asset) that arises from the passage of time.	Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement

Other contributions to the Pension Fund including Gains/losses on settlements and curtailments	Result of actions to relieve Council of liabilities or events that reduce expected future service or accrual of benefits of employees	Debited to Net Cost of Services in Comprehensive Income and Expenditure Statement, Other Comprehensive Income and Expenditure
Re-measurements (return on plan assets, actuarial gains and losses)	Return on Plan assets not included in net interest. Changes in net pensions liability arising because events have not coincided with assumptions made at last actuarial valuation or changes to actuaries' assumptions split between demographic and financial assumptions	Accounted for in the Pensions Reserve and as part of Other Comprehensive Income and Expenditure.
Contributions paid to the Cumbria Local Government Pension Scheme	Cash paid as employer's contributions to the pension fund.	Not accounted for as an expense in Comprehensive Income and Expenditure Statement but charged against General Fund through Movement in Reserves
Other administration costs	Other costs of scheme administration	Debited to other operating expenditure

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits, and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

Any prepayments into the pension fund will be treated as a reduction to the pension liability.

Discretionary Benefits
The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award, and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Residual Arrangements
The Greater Manchester and West Yorkshire Pension Funds charge the Council for the full pensions of a small number of pensioners of local authorities that were replaced by South Lakeland District Council in the 1974 Local Government Re-organisation.

9. EXTERNAL INTEREST

Interest payments on external borrowings (Public Works Loans Board and other bodies) are fully accrued in order that each year bears the costs of interest related to its actual external borrowing. External interest income is credited to the Comprehensive Income and Expenditure Statement over the period to which it relates.

10. REVENUE GRANTS AND CONTRIBUTIONS

Government grants and contributions are accounted for on an accruals basis. Specific revenue grants and contributions are matched with the service expenditure to which they relate in the Comprehensive Income and Expenditure Statement unless there are conditions that have not been met. In such cases the income is credited to Receipts in Advance until the conditions are met. Once conditions are met the grant is transferred to the Comprehensive Income and Expenditure Statement.

Where there are no conditions outstanding, but expenditure has not been incurred, the grant is transferred to an earmarked reserve until the expenditure is incurred. It is then transferred to the General Fund Balance through the Movement in Reserves Statement.

Grants to cover general expenditure e.g. Revenue Support Grant (RSG) and Rural Services Delivery Grant are credited to the Comprehensive Income and Expenditure Statement within the Taxation and Non-Specific Grant Income line.

Repayments of Grants and Contributions are shown as a revision of an accounting estimate, and are set-off against the previous entries in the accounts.

11. CHARGES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE USE OF NON-CURRENT ASSETS

Service revenue accounts, support services and trading accounts are debited or credited 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
- Impairment losses attributable to the clear consumption of economic benefits on tangible non-current assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written-off
- Amortisation of intangible non-current assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual Minimum Revenue Provision (MRP) to contribute towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance). Depreciation, impairment losses and amortisations are therefore replaced by MRP in the Movements in Reserves Statement, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

12. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Expenditure incurred during the year that may be capitalised under statutory provisions, but does not result in the creation of non-current assets owned by the Council (REFCUS), has been charged as expenditure to the relevant service revenue account in the year. Examples include disabled facilities grants on private houses.

Where the Council has determined to meet the cost of this expenditure from capital resources, a transfer to the Capital Adjustment Account then reverses out the amounts charged to the Comprehensive Income and Expenditure Statement through the Movement in Reserves Statement, so there is no impact on the level of the Council Tax.

13. FAIR VALUE MEASUREMENT

Where asset and liability values on the balance sheet reflect their current value, these will be measured at Fair Value unless a different measurement basis is specified in the Code. This is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction, between market participants, at the measurement date. The fair value measurement assumes that the transactions to sell the asset or transfer the liability takes place whether:

a) In the principle market for the asset or liability, or
b) In the absence of a principal market, in the most advantageous market for the asset or liability

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access as the measurement date

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability

~~This definition will also be applied if disclosures about Fair Values are required for assets and liabilities measured on a basis other than fair value.~~

14. PROPERTY, PLANT AND EQUIPMENT

Recognition and Valuation
After initial recognition in the accounts at cost, non-current assets are valued on the basis required by International Standards and recommended by CIPFA and the Royal Institute of Chartered Surveyors (RICS).

Assets are carried in the Balance Sheet using the following measurement bases:

Operational Land and Buildings – current value or depreciated replacement cost (DRC) for specialist assets where there is no active market. ~~have been valued by the Council's external valuers at Current Value on the basis of market related evidence where available. Depreciated Replacement Cost (DRC) has been used on specialist assets where there is no active market.~~
Vehicles, Plant and Equipment – depreciated historic cost.~~The basis of the valuation, including that for vehicles, equipment and plant, is the net realisable value in existing use. Depreciated historic cost has been used as a proxy for Current Value for vehicles, plant and equipment.~~
Infrastructure assets and assets under construction – depreciated historic cost ~~are held at depreciated historic cost;~~

Community assets – historic cost. ~~are held at historic cost.~~

Revaluations
Revaluations of non-current assets are being carried out as part of a rolling programme over a four-year cycle. However, in addition material changes to asset valuations will be adjusted in the interim period as they occur, for example where there is enhancement expenditure in the year or as a result of an impairment review. Although a rolling programme is used, the Council's valuers will consider the carrying amounts of all land and building assets at the balance sheet date for the potential of material misstatement. Revaluations of non-current assets also take place when an asset is classified as Held for Sale.

Any gains on revaluation will be credited to the Revaluation Reserve, unless it reverses a previous loss on the same asset that was charged to service expenditure. In that event the equivalent gain will be credited back to where the charge was made in the Comprehensive Income and Expenditure Statement.

Losses on valuation will be debited to the Comprehensive Income and Expenditure Statement, unless it can be set against any previous gains in Revaluation Reserve for that asset.

Impairment
All categories of non-current assets or material individual assets are reviewed each year for evidence of reductions in value.

Where there is a material reduction in recoverable amount, the loss is reflected through an impairment charge to the service accounts, unless there is a revaluation surplus in the revaluation reserve for that asset, in which case it will be set off against that surplus.

Depreciation
Depreciation is provided for on all non-current assets with a finite useful life with the exception of Investment Properties, some Heritage Assets, Assets Under Construction and Assets Held for Sale. Where depreciation is provided for, assets are generally depreciated using the "straight line" method on the opening balance. Details of the relevant periods are shown in the Property, Plant and Equipment note to the accounts. The depreciation periods are reviewed each year.

In exceptional circumstances, where an event occurs in year that creates a material difference between the opening and closing valuation of an asset, a different approach may be used to provide a fair estimate of the value of using the asset in the year. This would base the depreciation charge on a value judged to best represent the year in question overall. This will only be done where it has a material impact on the depreciation charge and the details will be made explicit within the notes to the accounts.

Revaluation gains are also depreciated. An amount equal to the difference between current value depreciation and that which would have been charged on a historical cost basis, is transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Derecognition
Property, Plant and Equipment is derecognised on disposal or when it has no future economic ~~benefit~~ or social benefit.

The gain or loss from derecognition is the net of its disposal proceeds, if any, and its carrying amount and is included in the Other Operating Expenditure in the Surplus or Deficit on the Provision of Services.

Where part of an asset is being replaced or restored, the carrying amount of the existing part is derecognised and replaced with the recognised amount for the new part. Where the carrying amount of the existing part is difficult to identify, estimates based on the cost of the new part are used to establish the amount.

15. INTANGIBLE ASSETS

Expenditure on assets that do not have physical substance, but are identifiable and controlled by the Council (e.g. software licences), is capitalised when it will bring benefits to the Council for more than one financial year. The asset is normally held at historical cost, less any accumulated amortisation (depreciation) and impairment loss, unless there is an active market in which case fair value will apply.

The amortisation (depreciation) cost is charged to the relevant service account over the economic life to reflect the pattern of consumption of benefits. Where an intangible asset has an indefinite life no amortisation (depreciation) is applied. In line with tangible assets, the values of intangible assets (if in use) are reviewed periodically, and impairment, disposal and useful life policies are also applied and reviewed.

16. NON-CURRENT ASSET DISPOSAL

Held for Sale

Assets held for sale must be available for and in a physical condition appropriate for immediate sale, all approvals must be received or granted and their needs to be an expectation~~ed~~ that they will ~~to~~ be sold within one year. In most cases this will be when the Council approves its sale and marketing.

When an asset is classified as for sale, it is immediately revalued in its pre-reclassification asset class. It is then reclassified and shown on the Balance Sheet at the lower of this amount and fair value less costs to sell. When the asset is sold any gain or loss is shown in the Comprehensive Income and Expenditure Statement. Gains are only recognised up to the value of any losses previously posted to the Comprehensive Income and Expenditure Statement.

Receipts

Receipts from disposals are credited to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Amounts in excess of £10,000 are accounted for as Capital Receipts.

The balance of receipts, after taking account of costs of disposal, is credited to a Capital Receipts Reserve and can only be used for new capital investment or set aside to reduce the Council’s underlying need to borrow (the Capital Financing Requirement). Gains or losses on disposals are not a charge against Council Tax as amounts are provided for under separate capital financing arrangements. Amounts are appropriated from the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

17. HERITAGE ASSETS

Heritage Assets are those that are:

- held and maintained principally for their contribution to knowledge and culture and/or
- preserved in trust for future generations because of their cultural, environmental or historical associations

They include both tangible and intangible assets. Where the values of these items are individually and/or collectively immaterial they are included in the Balance Sheet at a nominal value, and reference is made to them in the notes to the Accounting Statements.

With the exception of the relaxations shown below, Heritage Assets are recognised and measured in accordance with the policy~~ies~~ on Property, Plant and Equipment~~or Donated Assets~~.

Land and Buildings
Where valuation methods cannot be applied due to the nature of the asset, for example Kendal Castle, a nil value has been used. No impairment or depreciation is therefore applicable in these cases.

Collections
The disparate collections held in various locations within the Council are reported in the Balance Sheet at valuation. This is estimated using the annual insurance value. When acquisitions are made they are initially recognised at cost, whereas donations will be recognised at valuation by reference to market information.

18. INVESTMENT PROPERTIES

Assets held and managed purely for rental income or capital appreciation are held as Investment Properties. The definition is not met if the property is used in any wat to facilitate the delivery of services or production of goods or is held for sale.

~~, and their~~ Investment Properties are measured initially at cost and subsequently are revalued annually and held at fair value. ~~a~~Annual revenue income and expenditure are reflected in the Comprehensive Income and Expenditure Statement within Financing and Investment Income and Expenditure. ~~They are not subject to depreciation but are re-valued annually at Fair Value according to market conditions at the year-end.~~

19. DEFINITION OF CAPITAL EXPENDITURE

All expenditure on the acquisition, construction, replacement or restoration of a tangible non-current asset has been capitalised and classified as property, plant, equipment, heritage asset or investment property, where it is probable that future economic benefits or service potential associated with the item will flow to the Council and where the cost can be measured reliably.

This will also include subsequent expenditure except where this only maintains the asset's potential to deliver the level of service anticipated when the asset was acquired. In this case, the expenditure will be treated as revenue and will be charged to the service account.

Where a component of an asset is replaced or restored the amount in the accounts relating to the old component is de-recognised. Major overhaul or replacement expenditure can also be capitalised if it relates to a non-current asset that has previously been depreciated.

A non-current asset is initially recognised at its cost, which is its purchase price plus any costs directly attributable to bringing it into working condition for its intended use. Directly attributable costs are the labour costs of own employees (e.g. site workers, in-house architects and surveyors) arising directly from the construction or acquisition of the specific asset, the incremental costs to the Council that would have been avoided only if the particular non-current asset had not been constructed or acquired.

Costs will be ineligible to the extent that they relate to activity that takes place before the intention to acquire or construct a particular non-current asset has been confirmed. Examples include project appraisals and feasibility studies.

The Council has adopted an aggregate de-minimis level of £10,000 for expenditure on capital schemes; if expenditure in a single financial year is less than £10,000 it will still be capitalised if this is part of an ongoing scheme which in total is £10,000 or more. Expenditure on schemes below this level is charged to the Comprehensive Income and Expenditure Statement in the year it is incurred.

20. CAPITAL GRANTS AND CONTRIBUTIONS

Capital grants and contributions received for the purposes of financing capital expenditure are credited to Taxation and Non-Specific Grant Income and Expenditure in the Comprehensive Income and Expenditure Statement on an accruals basis, unless there are conditions that have not been met. In this case, the income is credited to Capital Grants Receipts in Advance until the conditions are met. It is then transferred to the Comprehensive Income and Expenditure Statement.

When there are no conditions outstanding and the related expenditure to be financed from that grant has been incurred, the grant is transferred to the Capital Adjustment Account and reported through the Movement in Reserves Statement.

Where there are no conditions outstanding but the related expenditure has not been incurred the grant is transferred to Capital Grants Unapplied Reserve and reported in the Movement in Reserves Statement. When the expenditure is incurred the grant is transferred to the Capital Adjustment Account with appropriate reporting in the Movement in Reserves Statement.

Repayments of Grants and Contributions are shown as a revision of an accounting estimate and set off against the previous entries in the accounts. Repayment is regarded as capital expenditure and transfers are made between the Comprehensive Income and Expenditure Statement and the Capital Adjustment Account with the transfer being reported in the Movement in Reserves Statement.

21. LEASES

~~General~~Finance 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. The Council currently has no material finance leases.~~The Council~~

~~enters into leases both from and to external organisations/individuals. The nature of the lease can be either operational or finance with the determining factor being the amount of risks and rewards that pass with the lease. The Council currently has no Finance leases.~~

Operating Leases
Rentals payable are charged directly to Service costs in the Comprehensive Income and Expenditure on a straight-line basis over the period of the lease. This generally means they are charged when they become payable.

Rents received are credited to Service costs in the Comprehensive Income and Expenditure Statement as they are due.

22. FINANCIAL ASSETS

The classification of financial assets is determined by the cash flow and business model characteristics of the assets as set out in The Code, and is determined at the time of initial recognition.

Financial assets are classified into the following categories:
- financial assets at amortised cost,
- financial assets at fair value through other comprehensive income, and
- financial assets at fair value through profit and loss.

The authority's business model is to hold investments to collect contractual cash flows. Financial Assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

~~Financial assets are recognised when the Council becomes party to the contractual provision of the financial instrument or, in the case of trade receivables, when the goods or services have been delivered~~. ~~Financial assets are derecognised when the contractual rights have expired or when the asset has been transferred and the Council has transferred substantially all of the risks and rewards of ownership or has not retained control of the asset.~~

Financial assets are initially recognised at fair value plus or minus directly attributable transaction costs for financial assets not measured at fair value through profit or loss. Fair value is taken as the transaction price, or otherwise determined by reference to quoted market prices, where possible, or by valuation techniques.

~~Financial assets are classified into the following categories:~~
- ~~financial assets at amortised cost,~~
- ~~financial assets at fair value through other comprehensive income, and~~
- ~~financial assets at fair value through profit and loss.~~

~~The classification is determined by the cash flow and business model characteristics of the financial assets, as set out in The Code, and is determined at the time of initial recognition.~~

Financial Assets at Amortised Cost
Financial assets measured at amortised cost are recognised when the Council becomes party to the contractual provision of the financial instrument or, in the case of trade

receivables, when the goods or services have been delivered and initially are measured at fair value.

~~Financial assets measured at amortised cost are those held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and where the cash flows are solely payments of principal and interest. This includes most trade receivables, loans receivable, and other simple debt instruments~~.

After initial recognition, these financial assets are measured at amortised cost using the effective interest method, less any impairment. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the life of the financial asset to the gross carrying amount of the financial asset.

For most of the loans that the Council has made, this means that the amount included in the Balance Sheet is the outstanding principal receivable, and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Financial assets are derecognised when the contractual rights have expired or when the asset has been transferred and the Council has transferred substantially all of the risks and rewards of ownership or has not retained control of the asset.

The Council has made loans to voluntary organisations and other bodies at less than market rates (soft loans). When soft loans are 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 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 voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets at Fair Value through Other Comprehensive Income

Financial assets measured at fair value through other comprehensive income are those held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and where the cash flows are solely payments of principal and interest.

Financial Assets at Fair Value through Profit and Loss

Financial assets measured at fair value through profit or loss are those that are not otherwise measured at amortised cost or fair value through other comprehensive income. This includes derivatives and financial assets acquired principally for the purpose of selling in the short term.

Legislation requires that any changes in the fair value of financial assets charged to the Surplus or Deficit on the Provision of Service is to be reversed out to through the Movement in Reserves Statement to the Unusable Reserves.

Expected Credit Loss Model ~~Impairment~~

For all financial assets measured at amortised cost or at fair value through other comprehensive income (except equity instruments designated at fair value through other comprehensive income), lease receivables and contract assets, the Council recognises a loss allowance representing expected credit losses on the financial instrument.

The Code requires that local authorities shall not recognise a loss allowance for expected credit losses on a financial asset where the counterparty for a financial asset is central government or a local authority for which relevant statutory provisions prevent default.

The Council adopts the simplified approach to impairment, in accordance with the Code, and measures the loss allowance for trade receivables, contract assets and lease receivables at an amount equal to lifetime expected credit losses. For other financial assets, the loss allowance is measured at an amount equal to lifetime expected credit losses if the credit risk on the financial instrument has increased significantly since initial recognition, and otherwise at an amount equal to 12-month expected credit losses.

For financial assets that have become credit impaired since initial recognition, expected credit losses at the reporting date are measured as the difference between the net present value of all the contractual cash flows that are due to the Council in accordance with the contract for the instrument and the net present value of all the cash flows that the Council expects to receive, discounted at the original effective interest rate. Any adjustment is recognised in the Surplus or Deficit on the Provision of Service as an impairment gain or loss.

23. FINANCIAL LIABILITIES

Financial liabilities are recognised when the Council becomes party to the contractual provisions of the financial instrument or, in the case of trade payables, when the goods or services have been received. Financial liabilities are de-recognised when the liability has been extinguished – that is, the obligation has been discharged or cancelled or has expired.

Financial liabilities are initially measured at fair value and carried at their amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the life of the asset, to the amortised cost of the financial liability.

Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount (balance carried forward) 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 included in the Balance Sheet is the outstanding principal repayable, and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement. Accounting for debt re-structuring or early settlement will be in accordance with the Code and relevant statute.

24. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents include:

- petty cash
- amounts held in instant access accounts

- the consolidated payments and income accounts with the Council's main bankers

25. BAD DEBTS

The Council continually reviews its debts as part of its monitoring process taking account of past recovery rates and any relevant advice from external bodies. Provision is made for impairment of debts, which for most services is calculated as 25% of all debts between 6 months and one year old, 50% of all debts between 1 and 2 years old and 100% of all debts over two years old.

Separate amounts are calculated for Council Tax, NNDR, Housing Rents and Benefits. These reflect increasing levels of provision dependent on the stage of recovery, with anything over two years being fully provided for.

26. PROVISIONS

The Council makes general provisions for significant liabilities or losses, which are likely or certain to be incurred but are uncertain as to the amounts or dates on which they will arise. For example the Council may be involved in a court case that could eventually result in the requirement to make a settlement or pay compensation.

Provisions are charged to the appropriate service in the year that the Council becomes aware of the obligation, based on the best estimate of the amount that might be paid. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Provisions are reviewed at the end of each financial year and where it is apparent that it is no longer needed or the amount needs to be changed, then amounts are either credited back to revenue or additional sums charged to revenue to increase the provision.

Details of each provision are included in Notes to the Accounting Statements.

27. CONTINGENT LIABILITIES

Where there is a possible obligation to make a payment, but the amount and timing is not certain, no entry is required to be made in the accounts. However, for each class of contingent liability which the Council has the following commentary has been included in the notes to the Accounting Statements:

- the nature of the contingency
- a brief description
- an estimate of the financial effect (where appropriate)
- an indication of the issues relating to the amount and level of certainty of any payment

28. CONTINGENT ASSETS

Contingent assets occur where a possible asset arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of the Council. No entry is required to be made in the accounts. However, for each class of contingent asset which the Council has, the following information has been included in the notes to the Accounting Statements:

- a commentary on the nature of the contingency
- a brief description

- an estimate of the financial effect (where appropriate)
- an indication of the issues relating to the amount and level of certainty of any receipt.

29. LOCAL TAXATION AND BIDs

The Council is a billing authority for the district, collecting Council Tax and Business Rates on behalf of itself, the County Council (including fire service), Cumbria Police and Crime Commissioner and Central Government. Under statute these transactions are managed through the ‘Collection Fund’. In line with agency accounting, the Council only recognises its own share of income and expenditure and the Collection Fund balance sheet.

Statute sets out the income and expenditure to be charged against the General Fund in the year; this will equal the approved Council Tax precept and budgeted level of retained business rates, including shares of prior year surpluses or deficits. The income recognised in the Comprehensive Income and Expenditure Statement is on an accrued basis and so includes the Council’s share of any in year surplus or deficit. Any difference to the statutory amounts will be reversed out to the Collection Fund Adjustment Account, through the Movement in Reserves Statement.

The Council also collects the ‘BID levy’ from ratepayers within the Kendal and Ulverston Business Improvement Districts. This is on an agency basis and so these amounts are excluded from the Council’s income and expenditure.