Cyngor Castell-nedd Port Talbot
Neath Port Talbot Council

Neath Port Talbot County Borough Council

Audit Committee

18th March 2020

Report of the Director of Finance and Corporate Services

Matter for Decision

Wards Affected – All wards

Accounting policies 2019/20

Purpose of the Report
The purpose of this report is to consider and approve the draft accounting policies for inclusion in the 2019/20 Statement of Accounts.

Background
The Council uses the Chartered Institute of Public Finance (CIPFA) Code of Practice on Local Authority Accounts to ensure it complies with accounting regulations and international financial reporting standards.

CIPFA published "Telling the Story" to encourage updates to the presentation of the accounts and the following non material notes were updated in the Council's 2018/19 statement:

- Heritage assets – details in note reduced
- Trading operations – removed
- Agency services – houses to homes removed
- Termination benefits – integrated into exit packages note
- Contingent liabilities and assets - removed
- Trust funds – removed
- Jointly controlled assets – removed
- Landfill sites – removed.

These items still need to be reviewed each year, to ensure that they remain immaterial.

There have been no significant changes to the Code for 2019/20, however, CIPFA has introduced guidance on streamlining the closing process and actively encouraged a focus on presenting the accounting statements to improve their readability, whilst still complying with the regulations. This proposes that only significant policies are disclosed.

Draft accounting policies 2019/20
Neath Port Talbot Council's accounting policies have been rewritten to ensure the disclosures assist the accounts users to understand the transactions, other events and conditions that are reflected in the financial report. The proposed changes to the policies are included in Appendix 1 with Appendix 2 showing the draft updated policies.

In addition to the accounting policies, it is foreseen that other notes will be updated to reflect the streamlining process, as follows:

- Heritage assets – not material so note removed
- Inventories – not material so note removed
- Deferred Capital Receipts Reserve – small value table removed
- Annual Governance Statement – publish as a separate document.

Financial Impact
There are no financial impacts.

Integrated Impact Assessment
The first stage assessment, attached at Appendix 3, indicates that a more in-depth assessment is not required. The report focuses on presenting the accounting statements to improve their readability, whilst still complying with the regulations.

Valleys Communities Impacts
There are no implications in respect of this item.

Workforce impacts
There are no workforce implications in respect of this item.

Legal Impacts
There are no legal implications in respect of this item.

Risk Management
There are no risk management issues in respect of this item.

Consultation
There is no requirement under the Constitution for external consultation on this item.

Recommendation
It is recommended that Members approve the draft accounting policies for inclusion in the statement of accounts for 2019/20.

Reason for proposed decision
To approve the updates to the draft accounting policies in advance of the 2019/20 closure of accounts process.

Implementation of Decision
The decision is proposed for implementation after the three day call in period.

Appendices

Appendix 1	Proposed amendments to accounting policies
Appendix 2	Draft accounting policies 2019/20
Appendix 3	Impact assessment – first stage

Background Papers
CIPFA streamlining the accounts.
Statement of accounts

Officer Contact
Mrs Janet North, Chief Accountant, Technical and Exchequer
☎ 01639 763635
E-mail: j.north@npt.gov.uk

Appendix 1

Proposed amendments to accounting policies

Proposed 19/20	Original note	Background
i	i	General principles – minor simplification of wording.
ii	ii	Accruals of expenditure and income – title changed to recognition of income and expenditure. Updated to include government grants.
iii	iv	Prior period adjustments, etc., – changed heading to remove estimates and errors. Reduced wording as we do not expect any in 2019/20.
iv	xv	Property, plant and equipment-presentation changed to summarise the position and make the treatment of assets easier to understand. Grouped all capital accounting notes.
v	v	Charges to revenue for non-current assets - removed intangible assets as there are none in Neath Port Talbot.
vi	vii	Financial instruments-reworded to reflect the position in Neath Port Talbot rather than include all the wording in the Code guidance.
vii	ix	Heritage assets-no changes.
viii	xiii	Leases – the Council is lessee for one finance lease and lessor for operating leases. Words amended to reflect these only.
ix	xvi	Service concessions-wording amended.
x	xix	Revenue expenditure funded from capital under statute-minor wording changes.
xi	iii	Cash and cash equivalents - wording simplified.
xii & xiii	vi	Employee benefits-wording simplified. Split into two notes, one for employee benefits, the other retirement benefits.
xiv	x	Interest in companies and other entities–no change.
xv	xi	Inventories-note updated and long term contract element removed as this is covered in “recognition of income and expenditure”.
xvi	xiv	Overhead and support costs – minor wording changes.
xvii	xvii	Provisions, contingent liabilities and contingent assets– summarised though same meaning.
xviii	xviii	Reserves – minor changes to wording.
xix	xx	Schools – lots of words removed, but no change to the message.
xx	xxi	VAT – words updated as we don’t need to tell the informed reader that HMRC deal with VAT.
n/a	viii	Government grants and contributions. No longer in a separate note as now included with “recognition of income and expenditure”. Business improvement districts removed as not Neath Port Talbot’s - we just collect the income and hand it over to the BID companies.
n/a	xii	Joint operations – removed as not a significant accounting policy.
n/a	xxii	Fair value measurement – much reduced description incorporated into the PPE note.

Appendix 2

Draft accounting policies

i. General principles

The statement of accounts summarises the Council's financial transactions for 2019/20 and its position at 31st March 2020. The Council is required to prepare an annual statement of accounts by the Accounts and Audit (Wales) Regulations 2014 (as amended by The Accounts and Audit (Wales) (Amendment) Regulations 2018), in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, supported by International Financial Reporting Standards (IFRS).
The accounts are prepared on a going concern basis.

ii. Recognition of income and expenditure

Activity is accounted for in the year that it takes place, not when cash payments are made or received. In particular:

- revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- 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 inventories on the balance sheet.
- services received (including employees services) are recorded as expenditure when the services are received, rather than when payments are made.
- interest receivable on investments and payable on borrowing 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.
- Government grants and third party contributions are recognised when there is reasonable assurance that the Council will comply with any conditions attached to the payments, and that grant monies and contributions will be received. Where conditions attached to grants and contributions remain outstanding, monies received to date are carried forward in the balance sheet as creditors (receipts in advance) until the conditions have been satisfied.
- 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 are not considered collectable, the balance is reduced by a provision for doubtful debts.

iii. Changes in accounting policies and prior period adjustments

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively, unless stated otherwise, by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

iv. Property, plant and equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

Appendix 2

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis subject to a de-minimus limit of £10,000, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains, but does not add to an asset's potential to deliver future economic benefits or service potential, such as repairs and maintenance, is charged as an expense when it is incurred.

Assets are initially measured at cost, comprising of the purchase price and any costs attributable to bringing the asset to an operational condition. The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, that is estimated at highest and best use from a market participant's perspective. Where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.
Assets are carried in the balance sheet using the following measurement basis:

Asset type	Measurement basis	Revaluation year	Depreciation basis (straight line unless not finite usable life)
Other operational land and buildings	Existing use value or depreciated replacement cost if no market based evidence.	Rolling programme across five years	Land n/a Buildings 3 to 40 years
Vehicles, Plant, Furniture and Equipment	Existing use value or depreciated historical cost if of low value or short life.	n/a	5 to 20 years
Infrastructure assets	Depreciated historical cost	n/a	40 years
Community assets	Depreciated historical cost	2019/20	5 to 40 years
Surplus assets	Fair value	2020/21	5 to 40 years
Assets under construction	Depreciated historical cost	n/a	n/a
Assets held for sale	Revalued immediately before reclassification	Every year	n/a
School assets	Depreciated replacement cost (modern equivalent asset)	2021/22	Land n/a Buildings usually 50 years, though varied for agreed closures
Service Concession	Existing use value or depreciated replacement cost if no market based evidence.	2022/23	Land n/a Buildings 3 to 40 years

Revaluations
The Council's internal valuers undertake this exercise in accordance with the professional standards of the Royal Institution of Chartered Surveyors. Assets included in the balance sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, but as a minimum every five years. The Council must balance the requirement to include asset values at their fair or current value each year end with the costs involved in providing valuations. To ensure the information is materially correct, the Council valuers undertake an annual review to identify any significant impairments or change in the usage of assets.

The revaluation reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the capital adjustment account.

Impairment and downward revaluation
Assets are assessed at each year end as to whether there is any indication that an asset may be impaired in value because of a change in service potential or significant and permanent changes to the market value.

- Where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the revaluation reserve, the carrying amount of the asset is written down against the relevant service lines in the comprehensive income and expenditure statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service lines in the comprehensive income and expenditure statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Disposals
When an asset is disposed of or decommissioned, the carrying amount of the asset in the balance sheet is written off to the other operating expenditure line in the CIES against any receipts arising from the disposal as a gain or loss on disposal. If more than £10,000 is received at disposal, this is treated as a capital receipt and kept in a reserve that can only be used for capital purposes.

Componentisation
Where a single asset may have a number of different components, each having a different useful life, three factors are taken into account to determine whether a separate valuation of components is to be recognised in the accounts in order to provide an accurate figure for depreciation. These factors are:

- materiality with regards to the Council's financial statements. Componentisation will only be considered for individual non land assets that have a net book value of more than £2.5m or 0.5% of total net book value.
- significance of component. For individual assets meeting the above threshold, where services within a building, such as boilers, heating, lighting, ventilation, etc., are a material component of the cost of that asset, i.e. greater than 30%, then those services will be valued separately on a component basis.
- difference in rate or method of depreciation compared to the overall asset. Only those elements that normally depreciate at a significantly different rate from the

non-land element as a whole, or that require a different method of depreciation will be identified for componentisation.

Assets that do not meet the test above can be disregarded for componentisation on the basis that any adjustment to depreciation charges would not result in a material misstatements in the accounts.

v. Charges to revenue for non-current assets

Services are charged the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service.
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the revaluation reserve against which the losses can be written off.

vi. Financial instruments

These are recognised in the balance sheet when the Council becomes a party to the contractual provisions and are initially measured at fair value.

Financial liabilities are carried at their amortised cost. For most of the Council's borrowing, it means that the amount presented in the balance sheet is the outstanding principal repayable, plus accrued interest. Annual interest, which is the amount payable for the year according to the loan agreement, is charged to the financing and investment income and expenditure line within the comprehensive income and expenditure statement. The Council has spread the cost of historical premiums and discounts arising from debt rescheduling over the term of the replacement loan. The reconciliation of amounts charged to the comprehensive income and expenditure statement to the net charge required against the general fund balance is managed by a transfer to or from the financial instruments adjustment account in the movement in reserves statement.

Financial assets are classified to reflect the business model for holding the financial assets and their cash flow characteristics and are held at fair value.

The Council's investments at 31st March 2020 had a historic rate of default of 0.00#% and there is no impairment allowance included for these financial assets, as the risk is immaterial. The Council's debtors position, excluding council tax, is included within the financial assets statement. These debts have been reviewed and although there is no significant financing component, funds are set aside for any potential impairment based on a collective assessment of the value and age of the outstanding debt.

vii. Heritage assets

Heritage assets are defined as assets that have historical, artistic, scientific, technological, geographical or environmental qualities, which are held and maintained principally for their contribution to knowledge and culture.

The Council holds heritage assets on the balance sheet in relation to works of art. Assets are included when an insurance valuation has been undertaken and the valuation for the individual asset is £5,000 or more. In the absence of historic cost, the insurable sum is deemed as an appropriate and relevant method of valuation, with the last valuation undertaken by Sotheby's in 2003. These items are considered to have indeterminate lives and a high residual value, consequently the Council does not consider it appropriate to charge depreciation.

viii. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

The Council holds one finance lease, as a lessee, for other land and buildings, which is recognised on the balance sheet. This is matched by a liability for the obligation to pay the lessor.

Where the Council grants an operating lease as a lessor for property or land, the asset is retained in the balance sheet and rental income is credited to the comprehensive income and expenditure statement.

ix. Service concessions

These are agreements for services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the contractor. The Council is deemed to control the services provided under the contract and as ownership of the assets will pass to them at the end of the contract period, the Council carries the assets on its balance sheet as part of property, plant and equipment.

Further details of service concession costs and liabilities can be found in note ##.

x. Revenue expenditure funded from capital under statute

Legislation requires defined items of revenue expenditure charged to services within the comprehensive income and expenditure statement to be treated as capital expenditure. This is transferred from the general fund balance via the movement in reserves statement to the capital adjustment account and is included in the capital expenditure and financing disclosure at note ##.

xi. Cash and cash equivalents

Cash includes cash in hand, overnight deposits and bank overdrafts. Cash equivalents can be quickly converted to known amounts of cash with low risk of change in value. Cash equivalents held as part of treasury management operations are included as short term investments.

xii. Employee Benefits

Short term employee benefits such as wages and salaries, paid annual leave, sick leave and expenses are paid on a monthly basis and reflected as expenditure on an accruals basis in the relevant service line in the comprehensive income and expenditure statement.

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer’s employment before the normal retirement date or an officer’s decision to accept voluntary redundancy. They are charged on an accruals basis to the comprehensive income and expenditure statement.

xiii. Retirement Benefits

The Council participates in two formal pension schemes, the Local Government Pensions Scheme, which is administered by the City and County of Swansea Pension Fund and the Teachers’ Pension Scheme, administered by the Teachers Pension

Agency. Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees who worked for the Council.

The nature of the teachers' scheme prevents the Council's individual share of the pension liability from being separately identified. The scheme is therefore accounted for as if it were a defined contribution scheme.

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

i. The assets attributable to the Council are measured at fair value at the balance sheet date, after deducting accrued expenses. The attributable liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities of the fund discounted to their present value. Net pension assets are recognised only to the extent that the Council is able to recover a surplus, either through reduced contributions in the future or through refunds from the scheme. Unpaid contributions to the schemes are recorded as creditors due within one year.
ii. For pension charges, the change in defined benefit asset or liability is analysed and charged to the comprehensive income and expenditure statement as follows:
    - Current service cost, past service cost and gains / losses on curtailments and settlements are included within Cost of Services;
    - Net interest on the net defined benefit liability is included within financing and investment income and expenditure; and
    - Actuarial gains / losses are incorporated within other comprehensive income and expenditure.

Further details for pensions can be found in note ##.

xiv. Interest in companies and other entities

The Council holds no material value interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and therefore there is no requirement to prepare group accounts. Transactions for the Council's companies are included within the Council's own single entity accounts.

xv. Inventories

Inventories are included in the balance sheet at average purchase price or latest purchase price, which is a departure from normal practice which values stock at the lower of cost or net realisable value. The effect of this departure is not material.

xvi. Overhead and support costs

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

xvii. Provisions, contingent liabilities and contingent assets

Provisions are based on the Council's obligations arising from a past event, the probability that a transfer of economic benefit will take place and when a reliable estimate can be made of the value of the obligation. They are charged to the appropriate service revenue account in the year the obligation becomes known and are reviewed at each balance sheet date.

Contingent liabilities and assets are included where an event has taken place that gives a possible obligation or asset arising from past events, which will only materialise if certain events not wholly within the control of the Council take place. They are not recognised in the balance sheet, but disclosed in a note to the accounts when material.

xviii. Reserves

Usable reserves are set aside for future policy purposes or contingencies.
Unusable reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement and employee benefits and do not represent usable resources for the Council.

xix. Schools

Schools assets, liabilities, reserves, transactions and cash flows are included in the Council's financial statements, which complies with the accounting Code.

xx. Value added tax (VAT)

VAT payable is excluded from spend except when it cannot be recovered from HMRC. VAT receivable is excluded from income.

Impact Assessment – First Stage

1. Details of the initiative

Initiative description and summary: Accounting policies 2019/20	
Service Area: Technical Accounts	
Directorate: Finance and Corporate Services	

2. Does the initiative affect:

	Yes	No
Service users		✔
Staff		✔
Wider community	✔	
Internal administrative process only		✔

3. Does the initiative impact on people because of their:

	Yes	No	None/ Negligible	Don't Know	Impact H/M/L	Reasons for your decision (including evidence)/How might it impact?
Age		✔				There is no impact on this protected characteristic.
Disability		✔				There is no impact on this protected characteristic.
Gender Reassignment		✔				There is no impact on this protected characteristic.
Marriage/Civil Partnership		✔				There is no impact on this protected characteristic.
Pregnancy/Maternity		✔				There is no impact on this protected characteristic.
Race		✔				There is no impact on this protected characteristic.
Religion/Belief		✔				There is no impact on this protected characteristic.
Sex		✔				There is no impact on this protected characteristic.
Sexual orientation		✔				There is no impact on this protected characteristic.

Impact Assessment – First Stage

4. Does the initiative impact on:

	Yes	No	None/ Negligible	Don't know	Impact H/M/L	Reasons for your decision (including evidence used) / How might it impact?
People's opportunities to use the Welsh language		✔				There is no impact
Treating the Welsh language no less favourably than English		✔				There is no impact

5. Does the initiative impact on biodiversity:

	Yes	No	None/ Negligible	Don't know	Impact H/M/L	Reasons for your decision (including evidence) / How might it impact?
To maintain and enhance biodiversity		✔				There is no impact
To promote the resilience of ecosystems, i.e. supporting protection of the wider environment, such as air quality, flood alleviation, etc.		✔				There is no impact

Impact Assessment – First Stage

6. Does the initiative embrace the sustainable development principle (5 ways of working):

	Yes	No	Details
Long term - how the initiative supports the long term well-being of people		✔	
Integration - how the initiative impacts upon our wellbeing objectives		✔	
Involvement - how people have been involved in developing the initiative		✔	
Collaboration - how we have worked with other services/organisations to find shared sustainable solutions		✔	
Prevention - how the initiative will prevent problems occurring or getting worse		✔	

Impact Assessment – First Stage

7. Declaration - based on above assessment (tick as appropriate):

A full impact assessment (second stage) **is not** required	✔
Reasons for this conclusion	
This report is prepared to approve the streamlining of the closing process and actively encouraged a focus on presenting the accounting statements to improve their readability, whilst still complying with the regulations.	

A full impact assessment (second stage) **is** required	x
Reasons for this conclusion	

	Name	Position	Date
Completed by	Janet North	Chief Accountant - Technical and Exchequer	13-Jan-2020
Signed off by	Huw Jones	Head of Finance	15-Jan-2020