Notes to the accounts

1. Accounting Policies

General principles

The Accounts have been prepared in accordance with the Accounts and Audit Regulations 2015 and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (issued by the Chartered Institute of Public Finance and Accountancy) supported by International Financial Reporting Standards (IFRS).

The Accounts have been prepared under the historical cost convention modified for the revaluation of certain categories of non-current assets and financial instruments.

Accruals of income and expenditure

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

Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.

Supplies are recorded as expenditure when they are consumed.

Expenses in relation to services received are recorded as expenditure when the services are received.

Interest payable on borrowings and receivable on investments is accounted for in the year to which it relates on the basis of the effective interest rate rather than amounts determined by the loan or investment agreement.

Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

A de minimus level of £5,000 is applied to any manual adjustments made

- Exceptions to this principle are electricity and similar quarterly payments which are charged in the revenue accounts at the date of meter reading rather than being apportioned between financial years.

- Similarly annual services paid by a single payment are normally debited or credited based on the renewal date. The effect of these exceptions is not considered material.

- Audit Fees – due to public interest in these disclosures a materiality threshold of £1,000 is applied

Notes to the accounts

Cash and cash equivalents

Cash represents cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months from the date of acquisition.

In the Cash Flow Statement cash and cash equivalents are shown net of bank overdrafts and other debit balances that form part of the Authority's cash and bank account management.

Exceptional items

When items of income or expenditure are material their nature and amounts are disclosed in the Comprehensive Income and Expenditure Statement or in the Notes to the Accounts.

Prior period adjustments, changes in Accounting Policies and estimates and errors

Where Accounting Policies change or changes are made that correct material errors affecting more than one financial year then the comparative figures for the previous financial year will normally be restated. Changes in accounting estimates are accounted for in the current year only and do not give rise to a prior period adjustment.

Charges to revenue for non-current assets

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

Depreciation attributable to the assets used by the relevant service.

Revaluation and Impairment losses on assets where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.

Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations.

However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement calculated in accordance with the policy on minimum revenue provision as determined by the Council. Depreciation, impairment losses and amortisations are replaced by revenue provision in the Statement of Movement in Reserves, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

Employee benefits

Benefits payable during employment

Employee benefits due to be settled within 12 months of the year-end, such as salaries and annual leave are recognised in the year in which the employee renders services to the Council. An accrual is made for the cost of holiday and other accrued time, earned by the employee but not taken before the year end. The accrual is made at the estimated payment rate applicable in the following financial year. The accrual is charged to the Surplus or Deficit on the Provision of Services but, then reversed out through the Movement in Reserves Statement so that the benefits are charged in the year in which they occur.

Termination benefits

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 and are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund to be charged with the amount payable to the pension fund in the year. The notional debits and credits for pension enhancement termination benefits charged in the Comprehensive Income and Expenditure Statement are removed in the Movement in Reserves Statement and replaced with the debits for the cash amounts payable to the pension fund and pensioners for the year.

Post employments benefits

Employees of the Council are eligible to be members of the Local Government Pension Scheme administered by Peninsula Pensions on behalf of Devon County Council.

This scheme is accounted for as a defined benefits scheme:

The liabilities of the pension fund 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 the employees, based on assumptions about mortality rates, employee turnover rates and projections of earnings for current employees.

The pension liabilities are discounted to their value at current prices.

The attributable assets of the pension scheme are measured at fair value:

- Quoted securities at current bid price.
- Unquoted securities at professional estimates.
- Unitised securities at current bid price.
- Property at market value.

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

Current service cost is the increase in liabilities arising from the service earned this year – charged in the Comprehensive Income and Expenditure Statement to the service for which the employee worked.

Past service cost is the increase in liabilities arising from current year decisions but relates to service earned in earlier years – debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

Net interest on the net defined benefit liability (asset), i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability(asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Re-measurements comprising:

The return on plan assets – excluding amounts included in the net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the pension fund – is the cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers 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 pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pension reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

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 employee 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.

Events after the reporting period

If a significant event occurs after the date of the Balance Sheet, but before the Statement of Accounts is authorised for issue, it will be shown by way of a note. An event will be considered significant if it is material and failure to mention it would mislead anyone reading the financial statements.

Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate for the instrument. The effective interest rate is the rate that discounts future cash payments over the life of the instrument to the amount that was originally recognised.

For most borrowings this means that the amount presented in the Balance Sheet is the principal outstanding; and the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.

- Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and receivables are initially measured at fair value and carried at amortised cost. Annual Credits to the Financing and Investment Income line of the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

Available for sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. Where the asset has a fixed or determinable payment then the annual credit to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement is based on the amortised cost of the asset multiplied by the effective interest rate. Where there is no fixed or determinable payment then income is credited when it becomes receivable by the Council. Instruments with quoted market prices are included in the Balance Sheet at the market price. Where fair value cannot be measured reliably then it is included at cost (less any impairment losses).

Government Grants and Contributions

Government grants and third party contributions are recognised as due when there is reasonable assurance that the Council will comply with conditions attached to the payment and that it will be received. Monies advanced as grants and contributions for which conditions have not been satisfied are carried on the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line or Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

Capital grants credited to the Comprehensive Income and Expenditure Statement are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Heritage Assets

These are assets that have historical, artistic, scientific, technological, geophysical or environmental qualities and are held for their contribution to knowledge and culture. These assets are recognised and measured at one of three values:

A valuation provided by a professional Valuer and Auctioneer.

Assets acquired between revaluations are valued at cost.

Insurance valuation.

Heritage Assets are not normally subject to depreciation, but will be reviewed periodically for impairment due to deterioration or damage.

Intangible Assets

Expenditure on assets that do not have a physical substance but which are identified and controlled by the Council is capitalised when it is expected that future economic benefits or service potential will flow to the Council for more than one financial year. Intangible assets are capitalised at cost and are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. Intangible assets are amortised over their estimated useful economic lives and debited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at cost and will be only be considered for inclusion where their value exceeds £10,000. The Council does not operate long term contracts of any significant value and purchases are charged to the revenue cost of service in the year of receipt.

Investment Property

Investment properties are those that are held solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured at fair value based on the highest and best price at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but revalued annually according to market conditions at year-end. Gains and losses on revaluation and on disposal are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Statutory arrangements do not permit revaluation and disposal gains and losses to have an impact on the General Fund Balance and hence are reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account or Usable Capital Receipts Reserve (for any sales proceeds greater than £10,000).

Jointly Controlled Operations and Assets

Jointly controlled operations are activities undertaken by the Council in conjunction with other ventures that involve the use of assets and resources of the ventures rather than the establishment of a separate entity. The Council operates the North Devon Crematorium jointly with North Devon District Council. The Council recognises 40% of the assets, liabilities and reserves on its Balance Sheet and 40 % of income and expenditure on its Comprehensive Income and Expenditure Statement. North Devon District Council recognises the other 60% share.

Leases

Leases are classed 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. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependant on the use of specific assets.

Finance Leases

Property, plant and equipment held under a finance lease is recognised on the Balance Sheet at the commencement of the lease at its fair value or if lower, at the present value of the minimum lease payments. The asset recognised is matched by a liability for the obligation to pay the lessor. Lease payments are apportioned between a charge for the acquisition of the interest in the property plant and equipment, which is applied to write down the lease liability, and a finance charge.

Property, Plant and Equipment recognised under a finance lease is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term. The Council is not required to meet the cost of depreciation on leased assets, but makes a prudent contribution in accordance with its policy and Minimum Revenue Provision. Depreciation is substituted by a revenue contribution from the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Operating Leases

Rentals paid under operating leases are charged on a straight-line basis over the term of the lease to the relevant service line in the Comprehensive Income and Expenditure Statement.

Where the Council grants an operating lease the asset is retained in the Balance Sheet. Rental income is credited on a straight line basis to the relevant service line in the Comprehensive Income and Expenditure Statement.

Oerheads and Support Services

For 2016/17, the Comprehensive Income & Expenditure Statement (CIES) reflects the Council's internal financial reporting arrangements, in previous financial years it followed the CIPFA costing principles of the Service Reporting Code of Practice (SERCOP).

The Council's internal reporting arrangements to committees exclude the allocation of overheads and support services between Council functions. The Expenditure and Funding note shows the movement from the internal management reporting arrangement to the CIES on a proper accounting basis.

Accounting for Local Tax

Non Domestic Information (NDR)

Retained Business Rate income included within the Comprehensive Income & Expenditure statement (CIES) for the year will be treated as accrued income.

Council Tax

Council Tax income included in the CIES for the year will be treated as accrued income.

Both NDR and Council Tax will be recognised in the CIES in the line Taxation and Non-specific grant income. As a billing authority the difference between the NDR and Council Tax included in the CIES and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund adjustment account and reported in the Movement in Reserves statement.

Each major preceptor's share of the accrued NDR and Council Tax income will be available from the information that is required to be produced in order to prepare the Collection Fund Statement.

Revenue relating to such items as Council Tax, rates etc shall be measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non exchange transactions and there can be no difference between the delivery and payment dates.Property Plant and Equipment

Physical assets that are used in the provision of services or for administrative purposes for more than one financial year are classified as Property, Plant and Equipment.

Recognition

All expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis. Expenditure that maintains, but does not add to an asset's potential to deliver future economic benefits (e.g. repairs & maintenance) is charged to revenue as it is incurred. Expenditure of less than £10,000 would not be recognised as capital expenditure but would be charged to the Comprehensive Income and Expenditure Statement as part of Net Cost of Services. However where significant quantities of items are acquired at the same time, e.g. personal computers, or the expenditure is financed from a capital grant, then it would be capitalised.

Measurement

Assets are initially measured at cost, comprising the purchase price and any costs attributable to bringing the asset to the condition necessary for it to operate in the required manner. The Council does not generally capitalise borrowing costs incurred whilst assets are under construction. Only assets or assets under construction over £1 million, funded by internal borrowing, will have interest added to the capital project, calculated at the average rate of interest available to the Council.

Donated assets are measured initially at fair value.

Infrastructure assets are carried at depreciated historic cost.

Community assets and assets under construction are carried at historic cost. All other assets have been included in the Balance Sheet at fair value for its existing use.

Where there is no market based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of fair value.

Revaluations

Where an asset is carried in the Balance Sheet at fair value, it is formally revalued at intervals of no greater than five years and the revised amount is included in the Balance Sheet. The Council has a rolling review of revaluations. Any increase in value from the amount at which that asset was included in the Balance Sheet immediately prior to the latest revaluation is matched by a credit to the Revaluation Reserve to recognise unrealised gains. Where a decrease in value is identified then it is accounted for by:

- Writing down the carrying amount up to the amount of previous accumulated gains for the asset that are carried in the Revaluation Reserve.

- Writing down against the relevant service line in the Comprehensive Income and Expenditure Statement either the full amount where there is no balance in the Revaluation Reserve for the asset or such amount as cannot be met from the balance for that asset in the Revaluation Reserve.

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

Impairments

Assets are assessed for impairment at the end of every year. If indications exist that an impairment is material then the recoverable amount of the asset is estimated and where it is less than the carrying amount then an impairment loss is recognised for the shortfall. Impairment losses are accounted for by:

- Writing down the carrying amount up to the amount of previous accumulated gains for the asset that are carried in the Revaluation Reserve.

- Writing down against the relevant service line in the Comprehensive Income and Expenditure Statement either the full amount where there is no balance in the Revaluation Reserve for the asset or such amount as cannot be met from the balance for that asset in the Revaluation Reserve.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line 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.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets with a determinable finite life, by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use. Freehold land, Community Assets and Assets Under Construction are not depreciated. Where an asset has major components with different estimated useful lives, these are depreciated separately. A component is deemed to be one where the estimated life of that part of the asset is less than half of the main (host) asset and the original or replacement cost is at least 25% of the overall value of the host asset and greater than £100,000.

Revaluation gains are also depreciated with an amount equal to the difference between the current value depreciation charged and the depreciation that would have been charged based on historical cost being transferred from the Revaluation Reserve to the Capital Adjustment Account.

Componentisation

The Code requires that each part of an item of Property, Plant and Equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Within the Council's asset portfolio there are a number of asset classes where componentisation will not be considered, including;

- Equipment – as this is considered immaterial

- Infrastructure – the adoption of the Code of Practice on Transport Infrastructure Assets in 2016/17 will require the separate valuation and depreciation of the components of the newly created Highways Network Asset

- Asset classes which are not depreciated – such as land, investment property, Heritage Assets, Community Assets, Surplus Assets and Assets Held for Sale.

The remaining assets which are contained with the operational portfolio are often of a specialised nature such as leisure centres. The Council requires the Valuers to provide component information for each asset which is then reviewed to assess if inclusion of different components will have a material impact on depreciation.

Disposals

When it becomes probable that the carrying amount of an asset will be recovered through disposal rather than continuing use, it is reclassified as an Asset Held for Sale. Depreciation is not charged on Assets Held for Sale. If assets no longer meet the criteria then they are reclassified as non-current assets.

When an asset is disposed of the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Receipts from the disposal are accounted for on an accruals basis and credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Amounts received for a disposal of an asset in excess of £10,000 are categorised as capital receipts. A proportion of housing capital receipts is required as payment over to Central Government as a "Housing Pooled Capital Receipt" and is charged to the Other Operating Expenditure line of the Comprehensive Income & Expenditure Statement. The same amount is appropriated from the Usable Capital Receipts Reserve and credited to the General Fund in the Movement in Reserves Statement. The balance of receipts is required to be credited to the Usable Capital Receipts Reserve and may be used to finance capital expenditure or reduce the Council's underlying need to borrow.

Upon disposal, any revaluation gains in the Revaluation Account are transferred to the Capital Adjustment Account. The net book value of the asset disposed of is written off against the Capital Adjustment Account. It is not a charge against council tax as the cost of the non-current asset is fully provided for under separate arrangements for capital financing.

Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged as an expense to the appropriate service revenue account in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement at the balance sheet date. When payments are eventually made they are charged to the provision set up in the Balance Sheet.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation that will only be confirmed by the occurrence of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise where a provision might be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Notes to the accounts

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset that will only exist after the occurrence of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

Reserves

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

Certain reserves are kept to manage the accounting processes for non-current assets, retirement and employee benefits and do not represent usable resources for the Council.

Revenue Expenditure Financed from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure statement in the year. Where the Council has determined to meet the cost from existing capital resources, a transfer to the Capital Adjustment Account from the General Fund Balance in the Movement of Reserves Statement reverses out the amounts charged so there is no impact on the level of council tax.

Revenue Recognition

Revenue relating to such things as council tax, business rates, etc shall be measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.