

Committee(s)	Dated:
Audit and Risk Management Committee	29 May 2018
Subject: City Fund and Pension Fund Financial Statements update 2017/18	Public
Report of: The Chamberlain	For Information
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Summary

The City Fund and Pension Fund financial statements are currently being produced for the 2017/18 financial year. The Accounts and Audit Regulations 2015 set out the requirements for the approval and publication of the City Fund and Pension Fund Financial Statements. From the 2017/18 financial year, the timetable for the preparation and approval of accounts has been brought forward to a draft accounts deadline of 31 May and an audit deadline of 31 July 2018. Approval of each year's financial statements has been delegated by the Court of Common Council to the Finance Committee.

Recommendation(s)

Members are asked to:

- Note the report.

Main Report

Background

1. The Accounts and Audit Regulations 2015 set out the requirements for the approval and publication of the City Fund and Pension Funds Financial Statements. From the 2017/18 financial year, the timetable for the preparation and approval of accounts has been brought forward to a draft accounts deadline of 31 May and an audit deadline of 31 July 2018.
2. The 2009 Account and Audit Regulations removed the requirement to present the draft accounts for approval by Members.
3. Approval of each year's financial statements has been delegated by the Court of Common Council to the Finance Committee.

Current Position

4. The City Fund and Pension Fund draft financial statements are currently being produced for the 2017/18 financial year in order to meet the accelerated deadline of 31 May 2018.

5. The Financial Services Division will hand the draft financial statements to the external auditor, BDO, following signature by the Chamberlain. The external auditors will then undertake their work to provide Members with an audit opinion no later than 31 July 2018.
6. The draft financial statements will be circulated to Members of the Committee at the same time as they are handed over to the external auditor for Members to scrutinise.
7. The accounting policies adopted by the Corporation for the City Fund and Pension Fund Accounts are included at Appendix 1.
8. As soon as reasonably possible after the conclusion of the audit, and in any event by 31 July 2018, the City is required to publish the 2017/18 City Fund and Pension Fund Financial Statements including the Audit Opinion on its website. Copies of the published statements will also be placed in the Members' Reading Room. The final management letters from BDO on its audit will be presented to the Court of Common Council for information.

Conclusion

9. The City Fund and Pension Fund financial statements are currently being produced for the 2017/18 financial year. The Accounts and Audit Regulations 2015 set out the requirements for the approval and publication of the City Fund and Pension Fund Financial Statements.
10. From the 2017/18 financial year, the timetable for the preparation and approval of accounts has been brought forward to a draft accounts deadline of 31 May and an audit deadline of 31 July 2018.

Appendices

- Appendix 1 – City Fund and Pension Fund Accounting Policies

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City Fund Accounting Policies

1. The accounting policies set out the specific principles, bases, conventions, rules and practices applied in preparing and presenting the financial statements.

1.1. General Principles

The Statement of Accounts summarises the City Fund transactions for the 2017/18 financial year and its position at the year end of 31 March 2018. The City Corporation is required to prepare the City Fund annual Statement of Accounts in accordance with proper accounting practices by the Accounts and Audit Regulations 2015. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.2. Accruals of Expenditure and Income

The accounts of the City Fund are maintained on an accruals basis. Consequently, activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the significant risks and rewards of ownership are transferred to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the City Fund
- Revenue from the provision of services is recognised when the percentage of completion of the transaction can be measured reliably and it is probable that economic benefits or service potential associated with the transaction will flow to the City Fund
- 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.
- 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
- 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
- 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 it is subsequently identified that 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

1.3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours less cheques and BACS payments issued but not presented. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

1.4. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

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 City Fund'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.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period and are disclosed in the notes.

1.5. Charges to Revenue for Non-current Assets

Services are debited with 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
- amortisation of intangible assets attributable to the service.

The City Fund is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, if it had a borrowing requirement it would be required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount, the Minimum Revenue Provision (MRP), calculated on a prudent basis

determined in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation would then be replaced by the MRP by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves.

1.6. Employee Benefits

(a) Short-term employee benefits

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

The cost of leave earned but not taken by employees at the end of the period is recognised within the Surplus or Deficit on the Provision of Services to the extent that employees are permitted to carry forward leave into the following period. However, statutory regulations require this cost to be reversed out of the accounts and this is achieved by crediting the revenue account for 'adjustments between accounting basis and funding basis under regulations' within the Movement in Reserves and debiting the 'statutory adjustments account' on the balance sheet.

(b) Termination benefits

Termination benefits are amounts payable as a result of a decision to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring. Where termination benefits involve the enhancement of pensions, statutory provisions require the City Fund Balance to be charged with the amount payable by the employer to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination 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.

(c) Retirement benefit costs

(i) Pension Costs – City of London Staff

With the exception of serving police officers and teachers, City of London staff are eligible to contribute to the City of London Pension Fund, which is a funded defined benefits scheme. The estimated net deficit on the Fund is the responsibility of the City of London Corporation as a whole, as one employer, rather than the specific responsibility of any of its three funds (City Fund, City's

Cash and Bridge House Estates). The Corporation and its three funds have a policy in place to share the net defined benefit cost of the pension fund across the three funds. As such the City Fund recognises the net defined benefit cost along with a share of scheme assets and scheme liabilities. The total net defined benefit cost is apportioned across the Corporation's three funds based on the proportion of pensionable payroll of each fund.

- The liabilities attributable to the City Fund are included on 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 including mortality rates, employee turnover rates and projections of earning for current employees
- Liabilities are discounted to their value at current prices
- The assets attributable to the City Fund are included in the balance sheet at their fair value using estimated bid values where necessary

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

- Service cost comprising:
 - current service cost, the increase in liabilities as a result of years of service earned this year, allocated in the comprehensive income and expenditure statement to the services for which the employees worked
 - past service cost, the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement as part of non-distributed costs
 - net interest on the net defined benefit liability is charged to the financing and investment income and expenditure line of the comprehensive income and expenditure statement. The interest 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 at the beginning of the period considering any changes in the net defined benefit liability during the period as a result of contribution and benefit payments
- Remeasurements comprising:
 - the return on plan assets, excluding amounts included in the net interest on the net defined benefit liability, 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, 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 City Fund unallocated reserve to be charged with the amount payable 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 pension reserve to remove the notional debits and credits for retirement benefits and replace them with debits for 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 City Fund unallocated reserve of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

(ii) Pension Costs – Police Officers and Judges

The Police Pension Scheme is unfunded. Prior to 1 April 2006 each police authority was responsible for paying the pensions of its own former employees on a “pay as you go” basis. Under the current arrangements the City Fund no longer meets pension costs directly; instead it contributes a percentage of police pay into the Police Pension Fund. At the year end the Police Pension Fund is balanced to zero by either receiving a contribution from the City Fund equal to the amount by which the amounts payable from the Pension Fund for the year exceed the amounts receivable or, by paying to the City Fund the amount by which sums receivable by the Pension Fund for the year exceed the amounts payable. Where the City Fund makes a transfer to the Pension Fund, the Home Office will pay an equivalent top-up grant to the City Fund. Where a transfer is made out of the Pension Fund, the City Fund must pay the amount to the Home Office.

The payment of pensions to former judges is the responsibility of the Treasury with the City of London reimbursing the Treasury for the City Fund's share of the liability. The City Fund's estimated liability has been determined by independent actuaries in accordance with IAS19.

The accounting treatment for the estimated liabilities on the Police and Judges schemes are similar to that outlined above for the City of London Pension Scheme.

(iii) Pension Costs - Teachers

The payment of pensions to former teachers under the Teachers' Pension Scheme is administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE). The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority. However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it was a defined contribution scheme and no liability for future payments of benefits is recognised

in the Balance Sheet. The Community and Children's Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

1.7. Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

(a) Adjusting Events

Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.

(b) Non-adjusting Events

Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but, where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.8. Financial Instruments

(a) 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

Loans and receivables are recognised when the City Fund becomes party to a financial instrument contract (any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another) or, in the case of trade receivables, when the goods or services have been delivered. They are initially recognised at fair value, defined as the amount for which an asset could be exchanged or a liability settled, assuming the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price. After initial recognition they are measured at amortised cost using the effective interest method, less any impairment.

Available for Sale

Available for sale assets are recognised when the City Fund becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. The City Fund has investments in money market funds and another small unquoted equity investment. Although they meet the definition of available for sale assets they are not adjusted for any movement in fair value as they are held at cost.

Impairment

At the end of the reporting period, the City Corporation assesses whether any of the City Fund financial assets are impaired. They are impaired and impairment losses recognised if there is objective evidence of impairment as a result of one or more events which occurred after the initial recognition of the asset and which has an impact on the estimated future cash flows of the asset. The impairment of receivables is based on the age and type of each debt with the percentages applied reflecting an assessment of the recoverability. The loss is recognised in expenditure and the carrying amount of the asset is reduced through a provision for impairment of receivables. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through expenditure to the extent that the carrying amount of the receivable at the date of the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Where investments are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments), the asset is written down and a charge made to the Financing and Investment Income and Expenditure.

(b) Financial Liabilities

Financial liabilities are recognised when the City Fund 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 discharged, that is, the liability has been paid or has expired.

1.9. Interest Income

Interest is credited to the City Fund and Housing Revenue Account based upon average balances held by the Chamberlain and invested by him in the London Money Markets.

1.10. Government Grants and Other Contributions

Whether paid on account, by instalments or in arrears, government grants and third-party contributions and donations are recognised as income at the date that

the authority satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received.

Where a grant or contribution has been received but the conditions of entitlement have not been satisfied, the grant or contribution is treated as a receipt in advance.

(a) Revenue

Specific, ring-fenced, revenue grants are credited to the appropriate service revenue accounts. Non-ring-fenced grants to finance the general activities of a local authority (e.g. Revenue Support Grant) are disclosed in the Comprehensive Income and Expenditure Account within taxation and non-specific grant income.

(b) Capital

Where a capital grant or contribution has been recognised as income in the Comprehensive Income and Expenditure Statement, and the expenditure to be financed from the grant or contribution has been incurred at the Balance Sheet date, the grant or contribution is transferred from revenue to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure. This transfer is reported in the Movement in Reserves Statement.

Where a capital grant or contribution has been recognised as income in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed from that grant or contribution has not been incurred at the Balance Sheet date, the grant or contribution is transferred to the Capital Grants Unapplied Account within the usable reserves section of the balance sheet reflecting its status as a capital resource available to finance expenditure. This transfer is reported in the Movement in Reserves Statement.

When, at a future date, the expenditure to be financed from the grant or contribution is incurred, the grant or contribution is transferred from the Capital Grants Unapplied Account to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure. This transfer is reported in the Movement in Reserves Statement.

1.11. Business Improvement Districts

A Business Improvement District (BID) scheme applies across an area of the City (Cheapside). The scheme is funded by a BID levy paid by non-domestic ratepayers. The Authority acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

1.12. Community Infrastructure Levy

The City Corporation has elected to charge a Community Infrastructure Levy (CIL). The levy is charged on new builds (chargeable developments for the Authority) with appropriate planning consent. The City Corporation charges for and collects the levy, which is a planning charge. The income from the levy will

be used to fund a number of infrastructure projects to support the development of the area. CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges may be used to fund revenue expenditure.

1.13. Heritage Assets

Heritage assets are those assets intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Where the cost or value of heritage assets cannot be obtained at a cost which is commensurate with the benefits to the users of the financial statements, such assets will not be recognised in the Balance Sheet. The City Corporation does not consider the expense of obtaining information on cost or values to be justified and therefore recognises on the City Fund balance sheet only those heritage assets for which information on costs is readily available. The City Corporation considers that heritage assets will have indeterminate lives and high residual values; hence the City Corporation does not consider it appropriate to charge the City Fund depreciation for these assets (see note 16 for details of these assets).

1.14. Investment Property

Investment properties are those that are used 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 initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the Unallocated Reserve. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the Unallocated Reserve. The gains and losses are therefore reversed out of the Unallocated Reserve in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

1.15. Contingent Assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the City Fund. Contingent

assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the debtor (or cash where consideration has been received) and the related revenue are recognised in the financial statements of the period in which the change in circumstances occurs. Where an inflow of economic benefits or service potential is probable (rather than virtually certain) and can be reliably measured, contingent assets are disclosed as notes to the accounts.

1.16. Contingent Liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the City Fund. Contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits or service potential has become probable. If it becomes probable that an outflow of future economic benefits or service potential will be required for an item previously dealt with as a note to the accounts, a provision is recognised in the financial statements for the period in which the change in probability occurs (except in circumstances where no reliable estimate can be made). Where a contingent liability exists, but a reliable estimate cannot be made, a note is disclosed in the accounts unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

1.17. Provisions

Provisions are made where an event has taken place that gives the City Fund a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the City Fund may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation from the City Fund. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the City Fund becomes aware of the obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the City Fund settles the obligation.

1.18. Leases

Leases are classified as finance leases when substantially all the risks and rewards of ownership are transferred 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. Freehold land has an indefinite life and the land within the lease is recorded as an operating lease unless it is an immaterial part of the lease.

(a) Finance Leases

(i) City Fund as Lessee

The City of London recognises property, plant and equipment held under finance leases as assets at the commencement of the lease at amounts equal to its fair value and, where material, liabilities at the lower of the present value of the minimum lease payments or the fair value of the property. The asset recognised is matched by a liability for the obligation to pay the lessor. Minimum lease payments are apportioned between a finance charge (interest) and a reduction of the outstanding liability. The finance charge element is allocated to revenue and is calculated so as to produce a constant periodic rate of interest on the remaining balance of the liability. Where liabilities are immaterial, a liability is not recognised and the full rental is charged to revenue over the term of the lease.

(ii) City Fund as Lessor

Amounts due from lessees under finance leases are recorded in the Balance Sheet as a debtor at the amount of the net investment in the lease. The lease payments receivable are apportioned between repayment of the debtor and finance income. The finance income is credited to revenue and calculated so as to give a constant periodic rate of return from the net investment. The asset is written out of the balance sheet as a disposal. A gain, representing the net investment in the lease is credited to income and the difference shown as a gain or loss on disposal. Where the lessee acquires the asset through payment of a premium at the commencement of the lease, this is included as a capital receipt and there is no remaining finance lease asset.

(b) Operating Leases

(iii) City Fund as Lessee

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

(iv) City Fund as Lessor

Assets subject to operating leases are included in the Balance Sheet according to the nature of the assets. Rental income from operating leases is credited to the Comprehensive Income and Expenditure Statement. Credits are made on a

straight-line basis over the period of the lease, even if the payments are not received on this basis (e.g. there is a premium paid at the commencement of the lease).

1.19. Overheads

The costs of support service overheads are generally apportioned between all services on the basis of employee time spent or other resources consumed on behalf of user services. Similarly, with the exception of vacant properties, the costs of support service buildings (including capital charges) are apportioned on the basis of the office area utilised by each service.

1.20. Property, Plant and Equipment

Property, plant and equipment comprises the following classes of tangible long-term assets; council dwellings, other land and buildings, leasehold improvements, vehicles plant and equipment, infrastructure assets, community assets, assets under construction and surplus assets.

(a) Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised provided that the expenditure is material (generally in excess of £50,000) and the asset yields benefits to the City Fund, and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of property, plant and equipment which is charged directly within service costs.

(b) Valuation

Property, plant and equipment are measured initially at cost, representing the cost directly attributable to acquiring or constructing the asset so that it is capable of operating in the manner intended. Assets are then carried in the Balance Sheet using the following measurement bases:

- Properties regarded as operational - current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), or where this cannot be assessed because there is no market for the subject asset, the depreciated replacement cost, based on modern equivalent assets, as an estimate of current value.
- Council dwellings – current value, determined using the basis of existing use value for social housing
- Non-operational assets under construction – historic cost
- Infrastructure, community and heritage assets - historic cost, net of depreciation, where appropriate
- Vehicles, plant and equipment - cost, net of depreciation, as a proxy for current value.

- Surplus assets – fair value, estimating highest and best use

All properties included on the balance sheet at current or fair value are revalued at least once within a five-year period as part of a rolling programme with subsequent additions being included in the accounts at their cost of acquisition until the asset is next revalued. Revaluations are carried out sufficiently regularly to ensure that their carrying value is not materially different from their value at the year end.

(c) Revaluations

An increase arising on revaluation is taken to the revaluation reserve unless the increase is reversing a previous impairment loss charged to Surplus or Deficit on the Provision of Services on the same asset or reversing a previous revaluation decrease charged to Surplus or Deficit on the Provision of Services on the same asset, in which case it is credited to expenditure to the extent of the loss or decrease previously charged there.

Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation, i.e. a significant decline in an asset's carrying amount during the period that is not specific to the asset (as opposed to impairment – see below), the decrease is recognised in the Revaluation Reserve to the extent that there is a balance on the reserve for the asset and, thereafter, against the Surplus or Deficit on the Provision of Services.

Legislation prescribes that revaluation gains or losses charged to Surplus or Deficit on the Provision of Services are not proper charges to the City Fund. Such amounts are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal inception following implementation from the 2007 Statement of Recommended Practice. Gains arising before that date have been consolidated in the Capital Adjustment Account.

(d) Impairments

An impairment loss arises if the carrying amount of an asset exceeds its recoverable amount. This could be caused by such factors as a significant decline in an asset's value during the period (i.e. more than expected as a result of the passage of time, normal use or general revaluation), evidence of obsolescence or physical damage of an asset, a commitment by the authority to undertake a significant reorganisation, or a significant adverse change in the statutory or other regulatory environment in which the authority operates.

An annual assessment takes place as to whether there is any indication that an asset may be impaired. An impairment loss is recognised in the Revaluation Reserve to the extent that there is a balance on that reserve relating to the specific asset and thereafter to the Surplus or Deficit on the Provision of Services.

The reversal of an impairment loss previously recognised in Surplus or Deficit on the Provision of Services will not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Any excess above this carrying amount is treated as a revaluation gain and charged to the Revaluation Reserve.

Legislation prescribes that impairment losses and reversal of impairment losses charged to Surplus or Deficit on the Provision of Services are not proper charges to the City Fund. Such amounts are transferred to the Capital Adjustment Account and reported in the Movement of Reserves Statement.

(e) *De-recognition*

The carrying amount of an item of property, plant and equipment is derecognised:

- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal

The gain or loss arising from de-recognition of an asset is the difference between the net disposal proceeds, if any, and the carrying amount of the asset. The gain or loss arising from de-recognition of an asset is included in Surplus or Deficit on the Provision of Services under other operating expenditure.

Legislation prescribes that the gain or loss is not a proper charge to the City Fund or Housing Revenue Account. As a result, the City Fund or Housing Revenue Account is debited (in the case of a gain) or credited (in the case of a loss) with an amount equal to the gain or loss on disposal with the consequent entry being:

- an increase in the Capital Receipts Reserve of an amount equal to the disposal proceeds
- a charge to the Capital Adjustment Account of an amount equal to the carrying amount of the asset

If the asset derecognised was carried at a re-valued amount, an additional entry is required; the balance on the Revaluation Reserve is written off to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

The Capital Receipts Reserve can only be used for new capital investment or set aside to reduce any underlying need to borrow (the capital financing requirement). A proportion of receipts relating to Housing Revenue Account disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government.

(f) Depreciation

Depreciation is provided for on all property, plant and equipment with a finite useful life, other than freehold land. The depreciation charge is calculated by allocating the Balance Sheet value of the asset, less its residual value, to the periods expected to benefit from its use; generally, the straight-line method has been adopted.

The costs of services include charges for depreciation for all property, plant and equipment used in the delivery of services based on the value of assets at the start of the year. Where the effects of major additions or disposals occurring during the year are material, these are also reflected in capital charges to service revenue accounts. Freehold land, certain community assets and assets under construction are not directly used in the delivery of services and therefore do not attract a charge for capital.

(g) Components

Assets other than Housing Revenue Account (HRA) Dwellings

Large assets, for example a building, are reviewed to ascertain whether differences in the useful lives of components would have a material impact on the level of depreciation and/or carrying value of the overall assets. These reviews are undertaken:

- when an asset is acquired
- when an asset is enhanced
- when an asset is revalued

Where there is a material impact on depreciation and/or the carrying value, the components are treated as separate assets and depreciated over their own useful economic lives.

HRA Dwellings

The components of HRA dwellings are reviewed at the same stages as indicated above. However, upon review, all the main components in HRA dwellings (e.g. roofs, windows, central heating, lifts and electrics) are treated as separate assets and depreciated over their own useful economic lives. This facilitates the use of the Major Repairs Reserve which is classified by Government as 'capital' funding.

1.21. Fair value measurement

The authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is 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 transaction to sell the asset or transfer the liability takes place either:

- a. in the principal 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.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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 at 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

1.22. Reserves

Specific amounts have been set aside as reserves for future policy purposes or to cover contingencies. Details of the City Fund's earmarked reserves are set out in 10. Certain reserves are required by the Code to manage the accounting process for long-term assets and retirement benefits and do not represent usable resources. Details of these unusable reserves are set out in note 28.

1.23. Revenue expenditure funded from capital under statute

Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance

Sheet as a long-term asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to revenue and impact on that year's council tax. These items are generally grants and expenditure on property not owned by the authority and amounts directed under statute.

Such expenditure is charged to Surplus or Deficit on the Provision of Services in accordance with the general provisions of the Code. Any statutory provision that allows capital resources to meet the expenditure is accounted for by debiting the Capital Adjustment Account and crediting the City Fund unallocated reserve and inclusion as a reconciling item in the Movement in Reserves Statement.

1.24. Value Added Tax

Income and expenditure excludes any amounts related to VAT as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from it.

1.25. Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority-maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements. Therefore, schools' transactions, cash flows and balances are recognised in each of the financial statements of the authority as if they were the transactions, cash flows and balances of the authority.

1.26. Accounting for Council Tax and National Non-Domestic Rates

The council tax and National Non-Domestic Rates (NNDR) income included in the Comprehensive Income and Expenditure Statement is the City Fund's share of accrued income for the year. However, regulations determine the amount of council tax and NNDR that must be included in the City Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the City Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the City Fund's share of the end of year balances in respect of council tax and NNDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Pension Fund Accounting Policies

- 1.1. The pension fund statements have been prepared in accordance with the following Regulations: the LGPS Regulations 2013 (as amended), the LGPS (Transactional Provisions, Savings and Amendments) Regulations 2014 (as amended), the LGPS (Management and Investment of Funds) Regulations 2016; and with the guidelines set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 having regard to the Statement of Recommended Practice, Financial Reports of Pension Schemes (2015).
- 1.2. The pension fund accounts are accounted for on an accruals basis for income and expenditure, with the exception of transfer values in and out, which are accounted for on a cash basis.
- 1.3. The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.
- 1.4. Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the fund account.
- 1.5. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 13). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).
- 1.6. Acquisition costs are included in the purchase costs of investments.
- 1.7. Assets and liabilities in overseas currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Transactions during the year are translated at rates applying at the transaction dates. Surpluses and deficits arising on conversion are dealt with as part of the change in market values of the investments.
- 1.8. The cost of administration is charged directly to the fund.
- 1.9. Income due from equities is accounted for on the date stocks are quoted ex-dividend.
- 1.10. Income from overseas investments is recorded net of any withholding tax where this cannot be recovered.
- 1.11. Income from bonds and index-linked securities, cash and short-term deposits is accounted for on an accruals basis.
- 1.12. Income from other investments is accounted for on an accruals basis.

- 1.13. The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profit and losses realised on sales of investments and unrealised changes in market value.
- 1.14. Normal contributions, both from members and employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate. Additional contributions from employers are accounted for in accordance with the agreement under which they are paid, or in the absence of such agreement, when received.
- 1.15. Under the rules of the Scheme, members may receive a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement. Where a member can choose to take a greater retirement grant in return for a reduced pension these lump sums are accounted for on an accruals basis from the date the option is exercised.
- 1.16. Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations 2013. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.
- 1.17. Administration and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT.