STATEMENT OF ACCOUNTING POLICIES

P1. GENERAL PRINCIPLES

The general principles adopted in compiling the Accounts are consistent with The 'Code' of Practice on Local Authority Accounting in the United Kingdom ('The 'Code'') and the Service Reporting Code of Practice; issued by CIPFA and supported by International Financial Reporting Standards (IFRS).

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

IAS 1 'Presentation of Financial Statements' specifies the information to be included in the financial statements but not the format. In addition the standard specifies the information to be disclosed within the financial statements on the face of the statements or in the associated notes. One of the key requirements of the standard is that assets and liabilities or income and expenditure should not be offset against each other.

P2. ACCRUALS 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:

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Salaries, wages and employment related payments are recognised in the period in which the service is received from employees. The cost of annual leave entitlement earned but not taken by employees at the end of the financial year is recognised in the Accounts to the extent that employees are permitted to carry forward the leave entitlement.
- Goods and Services are recorded as expenditure when they are consumed, and where there is a gap between the date supplies are received and their consumption, they are carried as stock on the balance sheet where the stock category value is more than £10,000.
- A minimum transaction value of £1,000 has been applied in determining whether to accrue for income and expenditure in line with the first and third bullet points above.
- Capital works are charged as expenditure when they are completed, before which they are carried as Assets under Construction on the balance sheet.
- Interest receivable on investments is accounted for 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 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.

Where the council is acting as an agent for another party (for example collection of NNDR and Council Tax), income and expenditure are recognised only to the extent that commission is receivable by the Council for the agency services or the Council incurs expenses directly on its own behalf in rendering the service.

P3. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions

Provisions are made where an event has taken place that gives the Council an obligation that has a high probability of a settlement being required by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the Council may be involved in a court case that could eventually result in the agreement of a settlement or the payment of compensation.

Provisions are charged 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. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year; where it becomes more likely that a transfer of economic benefits will not now be required, (or a lower settlement than anticipated is made) the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party, (e.g. from an insurance claim) this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation which will only be confirmed by the occurrence of an uncertain future event/s which is not wholly in the control of the Council. Contingent liabilities also arise where the amount of the obligation cannot be reliably measured.

Contingent liabilities are not recognised in the Balance Sheet, but disclosed in a note to the Accounts.

Contingent Assets

A contingent asset arises where an event has taken place, which gives the Council a possible asset; which will only be confirmed by the occurrence of a future event/s not wholly within the Council’s control.

Contingent Assets are not recognised in the Balance Sheet, but disclosed in a note to the Accounts.

P4. RESERVES

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

Certain reserves (Unusable Reserves) are held to manage the accounting processes for non current assets, financial instruments, collection fund and retirement benefits and do not represent usable resources for the Council. These reserves are explained in the relevant policies below.

P5. GOVERNMENT GRANTS AND CONTRIBUTIONS

Whether paid on account, by instalments or in arrears, government grants, third party contributions and donations are recognised as income at the date that the Council satisfies the conditions of entitlement to the grant/contribution, and there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate.

Conditions specify the future use of the asset. For example Disabled Facilities Grant is given to the Council to finance disabled adaptations within the community and if the grant is not spent on these items it has to be returned.

Government Grants and Contributions (Revenue)

Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Revenue Grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. Where conditions are satisfied, the grants or contributions are credited to the Service line of the Comprehensive Income and Expenditure Statement.

Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Comprehensive Income and Expenditure Statement after the Net Cost of Services.

Government Grants and Contributions (Capital)

Capital grants and contributions without conditions; are credited to the Comprehensive Income and Expenditure Statement, and reversed out of the General Fund/Housing Revenue Account in the Movement in Reserves Statement. Where grants and contributions expenditure remains to be incurred, the monies are credited to the Capital Grants Unapplied Account (usable reserve) in the Balance Sheet. For Capital Grants and Contributions with conditions, if the conditions remain to be met, the monies are credited to Capital Grants Receipts in Advance Account (Creditor), and reviewed annually to determine whether the Grant or Contribution should be repaid. Where the Grant/Contribution can be applied, it is posted to the Capital Adjustment Account. Grants and Contributions in the Capital Grants Unapplied Account should eventually be transferred to the Capital Adjustment Account.

P6. RETIREMENT BENEFITS

Employees and Councillors of the Council are members of The Local Government Pension Scheme, administered by Essex County Council. The Scheme provides defined benefits to members of the scheme (retirement lump sums and pensions), earned as employees/councillors work for the Council.

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

- The liabilities of the Essex County Council Pension Scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method- i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.4% (based on the indicative rate of return on high quality corporate bonds).
- The assets of the Essex County Council Pension Fund attributable to the Council are included in the balance sheet at their fair value as follows:
    - quoted securities – current bid price
    - unquoted securities - professional estimate
    - unitised securities - current bid price
    - property - market value

The change in the net pension liability is analysed into seven components:

- Current Service Cost - the increase in liabilities as a result of years of service earned this year, allocated to the service line of the Comprehensive Income and Expenditure Statement.
- Past Service Costs - the increase in liabilities arising from current year decisions whose effect relates to years of service in earlier years charged to the Surplus/Deficit on provision of services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Interest Cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to Finance and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Expected Return on Assets - the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return - credited to Surplus/Deficit on Provision of Services line in the Comprehensive Income and Expenditure Statement.
- Gains/Losses on Settlements and Curtailments - the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees - debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.

- 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 - debited or credited to the Pension Reserve.
- Contributions paid to the Essex County Council Pension Fund – the cash paid by the Council as employer's contributions to the pension fund; which is not treated as an expense in the Council's Accounts.

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

The negative balance that arises on the Pension Reserve at the end of the relevant accounting period reflects the beneficial impact to the General Fund of being required to account for retirements on a cash basis rather than as benefits as earned by the employee.

Discretionary Benefits
The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme. These powers were not used in 2012/13.

P7. TERMINATION PAYMENTS

Termination payments are amounts payable as a result of the Council's decision to terminate an employee's employment before the normal contractual (fixed term contract) or retirement date or an employee's decision to accept voluntary redundancy.

Termination payments are charged to the Comprehensive Income and Expenditure Statement on an accruals basis, on demonstration of the commitment to the termination arrangements.

For termination payments' involving enhanced pension payments, statutory legislation requires that the General Fund balances are charged with the amount payable by the Council to the Pension Fund, not the amount calculated according to relevant accounting standards. In line with the Pension Fund accounting policy, arrangements are made through the Movement in Reserves Statement to replace the accounting arrangements with regulatory requirements.

P8. VALUE ADDED TAX

Income and expenditure within the Comprehensive Income and Expenditure Statement excludes any amount related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

P9. OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the Service Reporting Code of Practice. The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core-costs relating to the Council's status as a multi-functional, democratic organisation.
- Non-Distributed Costs; the costs of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in The Service Reporting Code of Practice and are accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Cost of Services.

P10. INTANGIBLE FIXED ASSETS

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the appropriate revenue account over a seven year period, which reflects the assets consumption.

A de-minimis amount of £10,000 is applied to all intangible assets.

Internally generated assets are capitalised where it is demonstrated that the project is technically feasible and is intended to be completed, the costs are directly attributable to bringing the asset into operation and the costs can be reliably measured.

Since Intangible assets have short useful lives and are low in value, the council has elected to adopt a depreciated historic cost valuation for these assets.

P11. PROPERTY, PLANT AND EQUIPMENT

Assets that have physical substance and are held for use in the production or supply of goods and services, for rental or administration purposes and are expected to be used during more than one financial year; are classified as Property, Plant and Equipment.

Plant and Equipment includes all vehicles but excludes all miscellaneous furniture and equipment with an individual value of less than £10,000.

Recognition
Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of assets (e.g. repairs and maintenance) is charged to revenue as it is incurred.

A de-minimis amount of £10,000 is applied to all property, plant and equipment.

Measurement
Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. The Council does not capitalise borrowing costs.

Donated assets are measured at fair value. Any difference between the fair value and the consideration paid is credited to the Taxation and Non Specific Grants line of the Comprehensive Income and Expenditure Statement, unless there is a condition on the donation. Should there be a condition, the gain is held in the Donated Assets Account until the condition is met or the asset is returned. Gains credited to the Comprehensive Income and Expenditure Statement is reversed out of the General Fund Balance to the Capital Adjustment account in the Movement in Reserves Statement.

Assets are then carried in the balance sheet using the following measurement basis:

- Dwellings- fair value, determined using the basis of existing use value for social housing (EUV/ SH).
- Infrastructure assets and community assets at depreciated historical cost.
- Assets under construction are held at historic cost.
- All other property assets – fair value, determined by the amount that would be paid for the asset in its EUV.
- The council has elected to use the depreciated historic cost, as a proxy to fair value, for non property assets with low value and short useful lives; for example furniture and equipment assets.
- It is assumed all assets are fully expended at the end of their useful life and therefore it is assumed there is no residual value.
- Where there is no market-based evidence of fair value because of the specialist nature (for example Leisure Centre, Day Centre's etc.) depreciated replacement cost (DRC) is used as a proxy for fair value.

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

Where there is a decrease in valuation, which is due to a price decrease and is directly attributable to one particular asset; the revaluation loss is accounted for as follows:

- Where there is a revaluation gain balance for the asset in the Revaluation Reserve, the loss is written against the balance up to the amount of the accumulated gain.
- Where there is no revaluation gain against the asset in the Revaluation Reserve or insufficient balance; the loss is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

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

Valuation

Asset valuations were carried out as at 1st April 2013 by Wilks, Head and Eve LLP.

Valuations of General Fund Land and Buildings are carried out on an annual basis, as at the 1st April. Council dwellings will continue to be valued annually by assessing the value of Beacon properties. A number of Beacon properties have been identified as being typical for a particular size and type of dwelling. These properties are valued and the assessed value is applied to all properties of a similar size and type. This is the accepted method of valuation for Council dwellings under ‘The ‘Code’’.

Impairment

Assets are assessed at each year end as to whether there is an indication of impairment. Where impairment exists and differences in value are estimated to be material, an impairment loss is recognised.

Impairment losses are accounted for as follows:

- Where there is a balance on the Revaluation Reserve against the asset, the loss is written down against the balance up to the amount of the accumulated gains.

- Where there is no balance in the Revaluation Reserve or insufficient balance, the loss is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

Where a previous impairment loss is reversed, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusting for depreciation that would have been charged had the loss not been recognised.

Where the impairment is permanent the treatment is the same as disposal of asset at nil value.

Disposals – Assets Held for Sale

When it becomes probable that an asset will be disposed of or decommissioned, the asset is reclassified as an Asset Held for Sale – a current asset within the Balance Sheet. In order to be classified as an Asset Held for Sale, the following conditions need to be met:

- The asset must be available for immediate sale and the sale must be highly probable.
- An active marketing plan is being followed and supported by management.
- The asset should be marketed for sale at a price that is reasonable, relative to its fair value.
- The sale is expected to be concluded within 12 months.

If these conditions are not fulfilled the asset should be classified as a Surplus Asset.

The asset is revalued before reclassification and carried at fair value less the cost of disposal. On disposal, any loss is recorded in the Other Operating Expenditure line of the Comprehensive Income and Expenditure Statement.

Assets which are abandoned or scrapped are not reclassified as Assets Held for Sale. The book value of such assets is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement; with receipts from the asset, if any, being credited to the same line. Any accumulated gains held in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received in excess of £10,000 are categorised as capital receipts.

A proportion of receipts relating to dwelling disposals (75%), net of statutory deductions and allowances and up to a cap set by Central Government, the balance of these receipts are required to be credited to the capital receipts reserve and can only be used for capital investment in new social housing to a maximum of 30% of total capital costs.

All other housing receipts are appropriated to the capital receipts reserve within the Movement in Reserves Statement and are ring fenced to the Housing Revenue Account.

The written off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account within the Movement in Reserves Statement.

The Council will use the Net Book Value at the start of the year of disposal rather than revaluing the asset at the time of disposal to determine the profit or loss on the sale.

Depreciation:
Depreciation is provided for on all Property, Plant and Equipment 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. The estimated useful life of each asset is determined at the start of the year after the asset is brought in to use.

Assets that are not yet available for operational use, e.g. Assets under Construction, are not depreciated.

Depreciation is calculated on the following basis:

- Dwellings - the Major Repairs Allowance is used as a proxy for depreciation in the Housing Revenue Account.
- Other buildings – straight line allocation over the life of the property as estimated by the valuer no longer than 35 years.
- Vehicles, Plant and Equipment – straight line allocation over the life of the asset of between 5 and 7 years.
- Infrastructure – straight line allocation over a minimum of 20 years.

Where an item of Property, Plant and Equipment has major components with different estimated useful lives, these are depreciated separately (refer to policy on Componentisation).

Revaluation gains are also depreciated at the start of the year after the asset has been revalued, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Componentisation
A component is a part of an asset, which has to be separately identified for the purposes of assisting more accurate financial reporting and asset management.

A component must have the following factors:

- A significantly different useful life from the parent asset.

- A significantly different cost to the parent asset.
- Provide an economic or service benefit to the Council's services, which is materially different to the rest of the asset.

Taking into account the above, the following guidelines have been applied in order to implement the accounting requirements efficiently and effectively:

- A de-minimis value of £150,000, or 25% or more of the value of the parent building component.
- Componentisation must take place at the valuation, acquisition and enhancement of the parent asset.

Under the 'Code' componentisation is not retrospective and effective from 1 April 2010. The application of componentisation will result in a change in the accounting estimate under the 'Code'.

In line with the above policy, the following assets have been componentised as a result of the full revaluation of the Council's asset base:

- Dunmow Sports Centre.
- Lord Butler Fitness and Leisure Centre.
- London Road Offices Saffron Walden.
- Oaks Wood Park.

Each asset has been split into at least 2 material components.

Investment Properties

The definition of an Investment Property has been tightened under the application of IFRS. To be classified as an Investment Property, the asset needs to be held solely for the purpose of generating income or capital appreciation.

As a result of this tighter definition it is deemed that the Council has no Investment Properties.

P12. CHARGES TO REVENUE FOR FIXED ASSETS

Service revenue accounts, 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.
- Impairment losses attributable to the clear consumption of economic benefits on Property, Plant and Equipment used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (This is calculated using 'option 3' the reducing life method). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

P13. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Expenditure that may be capitalised under statutory provisions but does not result in the creation of fixed assets for the Council (for example Disabled Facilities Grants) has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources, or by borrowing, a transfer to the Capital Adjustment Account from the General Fund Balance, within the Movement in Reserves Statement, then reverses out the amounts charged so there is no impact on the level of council tax.

P14. HERITAGE ASSETS

The Council's Heritage Assets are held for the primary objective of increasing the knowledge, understanding and appreciation of the Council's history and local area. Under the SORP, Heritage Assets are to be recognised and measured in accordance with the Council's accounting policies on property, plant and equipment (P10, above). However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The Council's collections of heritage assets are accounted for as follows:

Property Heritage Assets: Saffron Walden Motte and Bailey Castle

This asset is held on the balance sheet at historic cost incurred since April 2007 as the Council considers that the cost of obtaining a robust valuation would be disproportionate to the benefit of the user of the financial statements. The carrying value of the property assets will be reviewed annually for evidence of impairment in relation to physical damage.

Heritage Assets not held on Balance Sheet: Saffron Walden Museum Artefacts

The remaining heritage assets are not included on the balance sheet because the Council considers that obtaining reliable valuations of such items, which are large in number and are mostly unique and specialist in nature, is not straightforward and it would be disproportionately expensive to obtain accurate accounting valuations for the purpose of including these asset values on the Council's balance sheet. The collection of heritage assets will be annually reviewed for impairment as a result of damage or doubts over authenticity and be accounted for in line with the Council's impairment arrangements. The collection of artefacts is relatively static, acquisitions and disposals are rare. Donations to the collection where material will be valued and accounted for accordingly.

In general, heritage assets are deemed to have indeterminate lives and a high residual value, hence the Council does not consider it appropriate to charge depreciation.

P15. LEASES

The Council as lessee

Finance Leases
The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council. Where the lease covers land and buildings, each element is considered separately. Rentals payable are apportioned between:

- a charge for the acquisition of the interest in the property (recognised as a liability in the Balance Sheet at the start of the lease, matched with Property, Plant or Equipment, valued at fair value)-the liability is written down as the rent becomes payable), and
- a finance charge (debited to Net Operating Expenditure in the Income and Expenditure Account as the rent becomes payable)

Property, Plant and Equipment recognised under finance leases are accounted for using the policies applied generally to these assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Council is not required to raise Council Tax to cover depreciation, revaluation or impairment losses on leased assets. These charges are therefore replaced by a revenue provision in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

Operating Leases
Leases where no risks or rewards are transferred to the Council are accounted for as operating leases. Rentals payable are charged to the relevant service line within the Comprehensive Income and Expenditure Statement on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

The Council as Lessor

Operating Leases
Where the Council grants an operating lease over Property, Plant and Equipment (for example the lease of Turpin's Bowling Hall), the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. These credits are based on a straight line basis over the life of the lease, even if this does not match the pattern of payments.

P16. CASH AND CASH EQUIVALENTS

Cash and bank balances are recorded at the current value of these balances in the Council's cash book. Cash equivalents are investments, excluding Fixed Term Deposits; that can be converted to cash in a short time frame, for known amounts, with insignificant risk of a change in value. Fixed Term Deposits have been classified as Short Term Investments, as by their very nature they cannot be called in earlier than the date of their maturity.

P17. FINANCIAL INSTRUMENTS

Financial Liabilities
Financial Liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

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 that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables
Loans and Receivables are initially measured at fair value and carried at their amortised cost. Annual credits to 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. For all the loans the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

P18. INVENTORIES

A de-minimis level of £10,000 has been set for the recognition of stock in the Council's balance sheet. The various stock categories are valued as follows:

- Vehicle fuel: valued at average cost.
- Housing stores: valued at the latest purchase price paid.

Whilst this is a departure from IAS 2 which requires stocks to be shown at the lower of cost and net realisable value, the effect of the different treatment is not material.
Work in Progress is valued at cost, which includes an element of the Council's cost of supervision and management.

P19. INTERESTS IN COMPANIES AND OTHER ENTITIES

Material entities over which the Council has the power to exercise control/significant influence, or joint influence, to obtain economic or other benefit, are classified as a subsidiary/associate or Joint Venture relationship. Where material, such transactions will result in the preparation of Group Accounts and specific disclosures.

An annual review of the council's relationships with other entities is undertaken each year to evaluate whether there are any group arrangements.

The Council has no arrangements which would result in Group accounting and reporting for 2013/14.

The Council does however participate in a joint operation which is not performed through a separate entity. The Parking Partnership is a joint committee arrangement (Refer to Note 17.2) where The Council records its share of the joint committee arrangement's income and expenditure, gains and losses, assets and liabilities and cash flows within its statutory accounts.

P20. PRIVATE FINANCE INITIATIVE (PFI)

The Council has a sports PFI scheme, which falls under the arrangements of the International reporting Standard – IFRIC 12 'Service Concession Arrangements'.

PFI and similar contracts are agreements to receive services, where the responsibility for making available Property, Plant and Equipment needed to provide the service passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the assets will pass to the Council at the end of the contract period for no additional charge, the Council carries the assets used under the contract on the Balance Sheet.

The original recognition of these assets at fair value was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets over the life of the contract. For the Council's sport centre scheme the liability was written down by an initial Capital contribution of £4.035m.

Non Current Assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amount payable to the PFI operator each year is analysed into five elements:

- Fair value of the services during the year – debited to the relevant service line in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge of 8.29% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator.
- Lifecycle replacement costs – debited to the relevant service in the Comprehensive income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance sheet liability towards the PFI operator.

P21. LONG-TERM DEBTORS

These are amortised by an annual amount equalling the annual repayments of principal paid by borrowers.

P22. COUNCIL TAX

The Council as 'billing' authority acts as agent with regards to the collection and distribution of Council Tax on behalf of itself and Essex County Council, Essex Police Authority, Essex Fire Service and the various town and parish councils. In line with these agency arrangements, in order to reflect the risks and rewards accurately within the Council's accounts, the following transactions need to be reported:

- A debtor/creditor to reflect the difference between the various preceptors share of the cash collected in the year and the cash paid to the preceptors on account in line with the appropriate regulations will be included in the Council's balance sheet.
- The council's cash flow statement only includes the council's share of council tax, net of cash collected and precepts paid to it.

P23. NATIONAL NON DOMESTIC RATES (NNDR)

The accounting treatment for NNDR is based on the principle that the Council is the 'billing' authority, and acting as the agent for Central Government in the collection of NNDR. The following accounting arrangements have been put in place:

- NNDR income is not included in the Council's Comprehensive Income and Expenditure Statement, as it is not part of the council's operating activities.
- The cost of collection received by the Council is reported as Income in the Comprehensive Income and Expenditure Statement.

- NNDR debtors and creditors and impairment losses are not the assets or liabilities of the Council and are excluded form the balance sheet.
- Any amounts charged to NNDR taxpayers over and above those to be passed to Central Government (for example costs of pursuing unpaid NNDR debts) are accounted for as income in the Council's Comprehensive Income and Expenditure Statement.

P24. CARBON REDUCTION COMMITMENT SCHEME

The Council does not participate in Central Government's Carbon Reduction Commitment Scheme as the Council's utility consumption was below the scheme's threshold.

P25. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

The Council has not identified any material errors in preparing the 2013/14 financial statements.

The Council has made no material changes to the accounting policies apart from those required under the 'Code'.

P26. EVENTS AFTER THE REPORTING PERIOD

Such events can be both favourable and unfavourable, occurring between the end of the reporting period and the date when the Statement of Accounts are authorised for issue.

Where the event is material to the content of the Accounts and there is evidence that the event existed at the end of the reporting period, the Statement of Accounts is adjusted to reflect the impact of the event.

Events arising after the reporting period are not adjusted in the Accounts for. A disclosure is made detailing the nature of the event and the estimated financial impact.

P27. STANDARDS ISSUED BUT NOT ADOPTED

The Council is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the 'Code' of a new standard that has been issued, but not yet required to be adopted. This requirement applies to accounting standards that come into effect for financial years commencing on or before 1st January of the financial year in question. Disclosure requirements are expected to be included in in the Code of Practice issued for 2014/15

- IFRS 13 – Fair Value Measurement (May 2011) (adopted in part)
- IFRS 10 – Consolidated Financial Statements (May 2011)
- IFRS 11 – Joint Arrangements (May 2011)
- IFRS12 – Disclosure of Interests in Other Entities (May 2011)
- IAS 27 – Separate Financial Statements (as amended in May 2011)
- IAS 28 – Investments in Associates and Joint Ventures (as amended in May 2011)
- IAS 32 – Financial Instruments; Presentation – Offsetting Financial Assets and Financial Liabilities (as amended in December 2011)
- IAS1 – Presentation of Financial Statements – (as amended in May 2011)
- Annual Improvements to IFRSs 2009-2011 Cycle

P28. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance sheet at 31 March 2014 for which there is a risk of material adjustment in the forthcoming financial year are as follows: