LONDON BOROUGH OF CAMDEN	**WARDS:** All
REPORT TITLE Accounting Policies for the Statement of Accounts 2024/25	
REPORT OF Executive Director Corporate Services	
FOR SUBMISSION TO Audit and Corporate Governance Committee	**DATE** 4 April 2025

SUMMARY OF REPORT
Annually, the Council reviews the accounting policies that will be applied to its financial statements against the relevant legislative framework and guidance to ensure that the policies remain appropriate. The Audit and Corporate Governance Committee is asked to approve the accounting policies for preparing the 2024/25 statement of accounts.

LOCAL GOVERNMENT ACT 1972 – ACCESS TO INFORMATION

Code of Practice on Local Authority Accounting in the United Kingdom 2024/25

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RECOMMENDATIONS

The Committee is asked to:

1) Approve the Accounting Policies as set out at Appendix A for the financial year 2024/25.

2) Delegate authority to the Executive Director Corporate Services, following consultation with the Chair of the Committee, to approve any further amendments to the accounting policies that are found to be required during preparation of the accounts, noting these will be reported to the Committee when the accounts are presented for approval.

SIGNED	**Signed by the Director of Finance**
DATE	**24 March 2025**

1. Introduction

1.1 The Council is required to prepare its financial statements in accordance with the Accounts and Audit Regulations 2015 as well as relevant accounting standards. The Council's statutory responsible financial officer – the Executive Director Corporate Services – is required to certify the statement of accounts as being prepared in line with the relevant legislation and accounting standards.

1.2 For the 2024/25 financial statements, local authorities must determine their accounting policies in line with relevant regulations and the Chartered Institute of Public Finance and Accountancy (CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 ('the Code').

1.3 The Code requires that the Council determine appropriate accounting policies, which are "the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements." Unless specified in the Code or regulations, an authority must determine the accounting policies that are most appropriate to its circumstances. In line with best practice, authorities should review those policies annually to ensure they remain appropriate and reflect any changes in the Code or best practice.

1.4 The Committee's terms of reference state that it will "review and approve any proposed changes to accounting policies produced within CIPFA guidelines." The proposed change to the accounting policies from prior years – other than updating the financial year referred to and minor formatting changes – are shown in Appendix A as tracked changes. All other accounting policies remain unchanged.

2. International Financial Reporting Standard 16 (IFRS 16): Leases

2.1. On 1 April 2024 it became mandatory for local authorities to adopt IFRS 16, an accounting standard which updates the rules regarding the accounting treatment of leases.

2.2. The main impact is to remove the distinction between operating leases and finance leases where an organisation leases assets from another body and to introduce a new 'right of use' asset classification, with those assets matched by a corresponding liability on the balance sheet. As such, the introduction of IFRS 16 will increase the Council's assets and liabilities.

2.3. For example, under the previous arrangements where the Council was, for example, leasing a building for 10 years and it was deemed that this represented an operating lease, the rental charge would simply be accounted for as an expense in the Council's income and expenditure statement.

2.4. Under the new arrangements, the Council will now recognise that property as a 'right of use' asset with a corresponding liability reflecting the value of the net present value of payments due to the lessor over the course of the lease period, effectively mirroring the previous arrangements for assets held by the authority on finance lease terms. The asset is then depreciated over the lease term and the liability reduced as payments are made.

2.5. IFRS 16 has been adapted by the Code so that leases also include those arrangements where there is no payment involved, for example, if the Council has been given use of a building for free.

2.6. The impact of IFRS 16 on arrangements where the Council is the lessor is limited with the distinction between finance and operating leases effectively retained. The main impact is in respect of sub-leases i.e. those assets the Council holds on a lease which it then leases out. The impact of this is considered to be immaterial.

2.7. IFRS 16 also has implications for the treatment of service concession arrangements, which in Camden means the two historic Private Finance Initiative (PFI) schemes it has. The impact of the changes requires the Council to remeasure the lease liability associated with assets provided under these arrangements where there is an index applied to future service concession payments. The impact of these changes is considered immaterial.

2.8. The Code of Practice is generally quite prescriptive on how IFRS 16 is to be applied and therefore the Council does not need to determine policies. However, in some cases, it has been deemed prudent to make changes in the policies to reflect some of these mandatory requirements for context and clarity notably:

- Arrangements not lasting more than 12 months are deemed as 'short term' and exempted from the arrangements.
- Right of use assets must be depreciated over the shorter of the asset's useful life or the lease term.
- The cost model will be applied to these assets i.e. their value on the balance sheet is the value at which they were recognised less depreciation, unless this would not be an accurate proxy for current value in which case the revaluation model will be used.
- The requirement to remeasurement the lease liability in service concession arrangements to reflect the application of an index to future payments.
- Sale and leaseback arrangements require the Council to reflect the value of the right of use asset created in how it accounts for gains and losses on disposal.

2.9. There are two key areas of discretion where the Council needs to determine an accounting policy:

Low value threshold

2.10. IFRS 16 requires organisations to determine a low-value threshold below which arrangements will not be considered leases and therefore no asset or liability is recognised. The principle of de minimis (setting a threshold below which expenditure will not be recognised as creating an asset) will apply to right-of-use assets as it does to property, plant and equipment owned by the Council It is proposed that the threshold to be adopted in Camden be set at £10,000. This is by far the most common threshold being adopted across local government and aligns with the Council's capital de minimis level – the threshold below which expenditure will not be recognised as creating or enhancing an asset – and is therefore consistent with the current treatment of capital spend.

2.11. This threshold is based on the value of the asset if bought new, so a second-hand vehicle where the lease liability is only £5,000 would not be exempt if the cost of purchasing that vehicle new was £10,000 or greater.

2.12. While the Council has several arrangements that fall below the proposed threshold, for example, several photocopiers leased by schools, it is not considered that exempting these will lead to the accounts being material misstated through their exemption. The Code still requires a disclosure to be made regarding these low value leases and in the highly unlikely event the cumulative impact of exempting these arrangements is found to be material then the Executive Director Corporate Service will take steps to address this using his delegated power to make changes to policies.

2.13. If the amounts involved were material, there is an exemption in the Code specifically for leases of low value items that allows potential right of use assets to be disregarded if their value as new is below a threshold, even if the aggregate effect for qualifying leases would be material. It is anticipated that the successful application of the de minimis policy will mean that the Council will not need to apply this exemption

Incremental borrowing rate

2.14. Lease repayments are broken down into repayment of the amount borrowed – known as the 'principal' – and interest. In some lease arrangements, the rate of interest will be set out either explicitly or implicitly and therefore that rate will be applied to the lease arrangement.

2.15. However, for some arrangements the rate of interest will not be identifiable. In these circumstances, the Council is required to apply an incremental borrowing rate, defined by IFRS 16 as the 'the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment'.

2.16. It is proposed that the Council use as its incremental borrowing rate the Public Works Loans Board (PWLB) annuity rate, unless it is deemed that another method is more appropriate in the circumstances of the lease. This is again the most common rate being adopted by local authorities, representing that the PWLB is generally the most cost effective and common way in which the authorities borrow money.

2.17. There are other areas in which IFRS 16 will need interpretation, but as with many other accounting areas, it is considered prudent to not try to apply a blanket accounting policy. For example, as referred to above right of use assets must be held at cost unless it would be inappropriate to do so. Consideration was given to whether ‘inappropriate’ could be defined in the accounting policies, for example, with reference to market rents and regular rental reviews, but it was felt that this should be considered on a case-by-case basis and reflect the individual circumstances of each lease.

3. Further Changes to Accounting Policies

3.1. It is noted that the 2024/25 Code identifies other changes in accounting standards beyond IFRS 16. Changes to the Code as a result of these standards are very limited and have little to no impact on the preparation of the Council’s accounts. These changes do not require adjustments to accounting policies for the London Borough of Camden

- Changes on the classification of liabilities as current or non-current based on rights to defer settlement and covenants (International Accounting Standard 1 (IAS 1)).
- A temporary mandatory exemption from recognition and disclosure of information about deferred tax assets and liabilities related to Pillar Two Model Rules (IAS 12). This only applies to subsidiaries, joint ventures and other entities that form part of the group entity structure of a local authority, where a local authority produces consolidated group accounts.
- Introduction of specific disclosure requirements related to supplier finance arrangements and their impacts on an entity’s liabilities and cash flows (IAS 7 / IFRS 7).

3.2. A delegation is sought to the Executive Director Corporate Services, so that if it becomes apparent during the 2024/25 accounts preparation and audit that further amendments to the accounting policies are needed, the Executive Director Corporate Services will be able to make those changes under his delegated authority following consultation with the Chair of the Committee. Any such changes will be reported to the Committee when the accounts are presented for approval.

3.3. The Committee is advised that officers plan to conduct a more fundamental review of the accounting policies for 2025/26. The 2023/24 Code introduced revised guidance, reflecting changes to IAS 1 Presentation of Financial Statements, on accounting policies with a view to streamlining and focussing on material matters. Given the issues the Committee is aware of with respect to the accounts and audit backstop, it has not been possible up to this stage to undertake such a review. Officers will be happy to take on board any direction from the Committee when undertaking the review should there be any comments at this stage.

4. Legal Comments of Borough Solicitor

4.1. The starting point of internal audit, and thereafter of the external audit is the requirement for a relevant authority to keep specified accounts and comply with the general requirements for accounts including following proper practices in regard to revenue accounts and accounting for capital expenditure.

4.2. Regulation 7 of the Accounts and Audit Regulations 2015 requires a statement of accounts to be prepared in accordance with those Regulations and also proper practices in relation to accounts. Proper practices are defined by Section 21(2) Local Government Act 2003 as accounting practices which a local authority is required to follow by statute or ones which are contained in codes identified for this purpose by the Secretary of State in regulations. Under the regulations, to which the local authority must have regard, proper practices are defined as the accounting practices contained in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

5. Finance Comments of the Executive Director Corporate Services

5.1. The implications of IFRS 16 are generally technical involving the transfer of the accounting from revenue to capital basis and do not have direct financial implications. Whereas previously an annual rental payment would have been simply a charge to a service, that expenditure is now split between a reduction of the lease liability, which as a balance sheet adjustment does not show as a charge to services, and a financing cost.

5.2. Depreciation – the expense representing the usage of assets over time – will be charged to services on right-of-use assets over the period of the lease. However, depreciation is a non-cash expense which under accounting rules is reversed from service expenditure to a non-useable reserve known as the Capital Adjustment Account, which absorbs the timing difference between the financing of capital assets and their usage. This therefore does not create an additional financial impact.

5.3. In the General Fund, the lease liability reduction is matched by a payment of Minimum Revenue Provision (MRP), which when added to the financing cost element of payments leads to no overall impact on the General Fund balance from the prior method of lease accounting.

5.4. For the Housing Revenue Account (HRA), MRP is not payable. Depreciation charges to the HRA are required to be matched by a payment to the Major Repairs Reserve (MRR), so the increase in assets will lead to a genuine charge to the HRA. However, the MRR can then be used to pay down the capital financing associated with the lease, which again should mean no meaningful impact on resources.

5.5. The Council's Capital Financing Requirement, which reflects the underlying need to borrow to finance capital spending not paid for by other resources will increase because of IFRS 16, but this will have no meaningful financial impact as the financing of those assets is planned through the payments made each year to reduce the liability and the matching MRP.

5.6. As capital assets, it is also open to the Council to use other sources of capital financing such as grants or capital receipts to fund the arrangements should it wish.

6. Environmental Implications

6.1. There are no environmental impacts arising from this report.

7. Appendices

Appendix A: Draft Accounting Policies 2024/25

Appendix A: Draft Accounting Policies 2024/25

1. Concepts and Principles

1.1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2024/25 financial year and its position at the year ending 31 March2025. The Statement of Accounts has been prepared in accordance with the Accounts and Audit Regulations 2015. These regulations require the accounts to be prepared in accordance with 'proper accounting practice'. These practices are set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 ('the Code'), based on International Financial Reporting Standards and statutory guidance.

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

1.2. Recognition of Income and Expenditure

In line with the Code, the accruals basis of accounting is used, meaning activity is accounted for in the year that it takes place rather than when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Goods and services are recorded as expenditure when they are consumed rather than purchased.
- 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.

1.3. ~~Government~~ Grants and Contributions

~~Government g~~Grants and contributions~~, including those from non-government organisations,~~ shall be recognised when there is reasonable assurance that the Council will comply with the conditions attached to them, and that the grants or contributions will be received.

If there are outstanding conditions the grants and contributions must be shown as liabilities on the balance sheet until the conditions are met. Once all conditions have been met, grants and contributions must be credited to the Comprehensive Income and Expenditure Statement and cannot be deferred.

1.4. Debtors and Creditors

Both debtors and creditors are recognised and measured at amortised cost.

The Authority recognises an allowance for expected credit losses on debtors and the amount of expected credit losses are updated at each reporting date to reflect changes in credit risk since initial recognition of the respective debtor.

1.5. Charges to Revenue for Non-Current Assets

Services are debited with the following charges 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; and
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to use Council Tax to fund depreciation, revaluation and impairment losses or amortisation of non-current assets. However, it is required to make an annual contribution from revenue towards provision for the reduction in its overall borrowing requirement calculated on a prudent basis as determined by the Council in accordance with statutory guidance.

1.6. <u>Reserves</u>

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. There is no net charge against Council Tax for the expenditure.

The category of unusable reserves includes those reserves which are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement, and employee benefits and do not represent usable resources for the Council. These reserves are explained in the relevant notes.

1.7. <u>Council Tax and National Non-Domestic Rates (NNDR)</u>

Billing authorities act as agents, collecting Council Tax and Non-Domestic Rates (NNDR) on behalf of the major preceptors (including government for NNDR) and, as principals, collecting Council Tax and NNDR for themselves. Billing authorities are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council tax and NDR (i.e. the Collection Fund) and calculate a separate surplus and deficit on each. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of Council Tax or NNDR could be less or more than predicted.

Accounting for Council Tax and NNDR

The Council Tax and NNDR income included in the Comprehensive Income and Expenditure Statement (CIES) is the Council’s share of accrued income for the year. However, regulations determine the amount of Council Tax and NNDR that must be included in the Council’s General Fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the General 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 Council’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.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due (fixed or determinable) under the statutory arrangements will not be made, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

1.8. Fair Value Measurement

Where applicable, the Council measures its assets and liabilities and provides disclosures in accordance with IFRS 13 Fair Value Measurement. 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:

- In the principal market for the asset, or
- In the absence of a principal market, in the most advantageous market for the asset.

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

When measuring the fair value of a non-financial asset, the Council 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 Council 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 Council'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.

1.9. Events After the Balance Sheet Date

These are events that occur between the end of the reporting period and the date when the Financial Statements are authorised for issue. Two types of event can be identified:

- Adjusting events – those which provide evidence of conditions that existed at the end of the reporting period. Where material, the financial statements and notes will be adjusted to include the impact within the figures in the accounts.
- Non-adjusting events – those that are indicative of conditions that arose at the end of the reporting period. The accounts are not amended but if the event is material a disclosure is made in the notes to the accounts.

1.10. Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits and cash equivalents which are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

1.11. 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 in the current and future years affected by the change therefore 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, or other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting the opening balances and comparative amounts for the previous 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.

2. Non-Current Assets

2.1. Property, Plant & Equipment

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

All expenditure on the acquisition, creation or enhancement of PPE above the Council's de-minimis of £10,000 is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

PPE are initially measured and subsequently valued on the basis required by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS). PPE are classified in the groupings required by the Code of Practice.

2.1.1. *Measurement after Recognition*

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

- Infrastructure, community assets and assets under construction – depreciated historical cost
- Dwellings – current value, determined using the basis of existing use value for social housing (existing use value for social housing – EUV-SH)

- All other assets except surplus assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)
- Surplus assets – fair value, in accordance with IFRS 13

Infrastructure assets include carriageways, footways, cycleways, structures such as bridges, street lighting, street furniture, traffic management systems, electric vehicle charging points and land which form as single integrated network of assets. They are measured at a modified form of historical cost basis. Opening balances for infrastructure assets are measured on a depreciated historical cost basis. The accounting rules that applied before 1 April 1994 mean that the carrying amount only reliably includes expenditure of acquisition and enhancement incurred after this date. Expenditure incurred before this date is only included to the extent that it had not been financed before the end of the 1993/94 financial year.

Under commercial accounting practice, depreciated historical cost would represent the amount of capital expenditure on infrastructure assets that has yet to be financed. For the Council, this is managed instead through the consolidated arrangements for reducing the Capital Financing Requirement through Minimum Revenue Provision.

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Revaluations of PPE are planned on a five-year cycle with a proportion of the asset base being revalued each year. Material changes to asset valuations resulting from works or similar investment outside of the agreed revaluation of assets cycle will be adjusted in the period as they occur.

Right of use assets held as Property, Plant and Equipment are held at depreciated historical cost unless it is deemed that this would be inappropriate as a proxy for the asset's current value, in which case the asset will be held at revaluation and revalued on the same basis as other assets in the same asset class.

2.1.2. *Impairment*

Impairment reviews on groups of assets are undertaken each year. Impairment is recognised where the asset's carrying value is greater than its net recoverable value in use or through sale, and the loss is specific to the asset, or group of assets. Losses not specific to the assets or group of assets, such as a general fall in the market prices will be treated as revaluation losses.

Impairment losses are recognised against historical cost and revalued net book value. Losses for revalued assets will be recognised against the revaluation reserve to the limit of the credit balance for that asset in the revaluation reserve, and thereafter in surplus or deficit on the provision of services in the CIES. Losses for assets which have not been revalued will be recognised in the surplus or deficit on provision of services in the CIES.

The impairment review includes an annual assessment of whether there is an indication that the recoverable value of any impaired assets has increased, reversing part or all of the impairment.

2.1.3. *Depreciation and Amortisation*

Depreciation is provided for on all PPE equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Buildings – straight-line allocation over the useful life of the property as estimated by a qualified valuer.
- HRA dwellings are depreciated based on advice of our external valuation firm.
- Vehicles, plant, and equipment – allocation over 10-20 years unless otherwise advised by a responsible qualified officer.
- Information technology assets – allocation over 5 years unless otherwise advised by an appropriate person with knowledge of information technology.
- Infrastructure – straight-line allocation over 15 - 50 years, according to asset type.

Right of use assets held as Property, Plant and Equipment will be depreciated over the shorter of the lease term or the useful economic life.

Where an item of Property, Plant and Equipment asset whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Componentisation will not be applied retrospectively. Where Property, Plant or Equipment has been revalued or there has been significant enhancing expenditure it will be considered for componentisation where:

- The total cost of the component is significant both in terms of gross value and as a percentage of the overall value of the asset
- The pattern of depreciation or overall depreciable life of the component is significantly different to the useful economic life of the main asset.

The Council does not charge depreciation in the year of acquisition of an asset but does charge a full year’s depreciation in the year of disposal (i.e. depreciation on opening balances).

Where assets are revalued the accumulated depreciation at the beginning of the year is written down to the revaluations reserve.

Amortisation is the measurement of the cost or revalued amount of the economic benefits of the intangible non-current assets that have been consumed during the financial year.

Consumption includes the wearing out, using up or other reduction in the useful economic life of a non-current asset, whether arising from use, passing of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

Infrastructure assets comprise a single network comprised of many components. The Council has determined that infrastructure components are replaced on average, at the end of their useful lives when they are fully depreciated. Therefore, no amounts are deducted from the carrying value of infrastructure for replacement of parts of the network.

Where infrastructure components are derecognised otherwise, the carrying amounts are not charged against Council Tax.

2.2. Lease and Lease Type Transactions

~~The Council has acquired some assets by means of a lease. The Council assesses whether or not the leases need to be disclosed on the balance sheet in line with IAS17. Where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the PPE from the lessor to the lessee, it is classified as a finance lease. All other leases (not reported on the Balance Sheet) are classified as operating leases.~~

A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time and the Council will account for these arrangements in accordance with IFRS 16 as interpreted and adapted by the Code of Practice.

~~The Council as Lessee~~

~~Finance Leases~~

~~Finance leases are initially recognised on the Balance Sheet with assets and liabilities at their fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). Where a contract does not detail an interest rate for a specific asset, or provide sufficient information for its calculation, the interest rate implicit in the lease in the first instance is estimated based on interest rates for other assets within the lease. If there is no interest rate detailed in the lease then a suitable interest rate is applied.~~

~~PPE held under finance leases are depreciated over the lease term if this is shorter than the asset's estimated useful life.~~

~~Repayments of finance leases and interest payments are calculated using the actuarial method (allocating interest to the related period) and assumes that a single payment is made at the end of the contract year. Where a contract starts part way through a single financial year, payments will be apportioned to that financial year based on the number of days of the contract year within the reported financial year.~~

~~Operating Leases~~

~~Rentals paid under operating leases are charged to revenue as an expense in the year in which they are paid, and no provision is made for outstanding lease commitments.~~

2.2.1. *Right of Use Assets*

Where the Council has deemed that it has a contractual arrangement that qualifies as a lease in which it is the lessee, it will recognise liability for the discounted amount of the future lease payments on the balance sheet matched with a right of use asset on the balance sheet whose cost is deemed to be the amount of the ~~with an equivalent~~ liability.

Arrangements which would otherwise qualify as a lease are exempt from recognition if either:

- The period of time for which the Council has the right to use the asset does not exceed 12 months – referred to as a short-term lease; or
- The value of the ~~underlying~~ right of use asset is lower than the council's capitalisation threshold of £10,000~~– referred to as a low-value asset~~.

Where the rate of interest in a lease arrangement is not explicit or implicit in the lease, the Council will use the Public Works Loans Board (PWLB) annuity rate at the date of the commencement of the lease as the incremental borrowing rate to be applied to the lease arrangement. The PWLB annuity rate may not be applied if it is deemed appropriate to apply an alternative rate given the circumstances of the lease and that to not use that alternative rate would have a significant impact on the Council's accounts.

Lease payments are apportioned between:

- a charge for the acquisition of the right to use the property, plant or equipment which is applied to write down the lease liability, and
- a finance charge (i.e. Interest cost) which is debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Right-of-use assets recognised under leases are accounted for using the policies applied generally to Property, Plant and Equipment assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life. This will include valuation where the cost model does not provide a reliable proxy for the current value of the right-of-use asset, for instance investment property. All investment property held as right of use assets must be held at Fair Value and therefore require annual revaluation,

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Depreciation and revaluation and impairment losses is a non-cash expense which under accounting rules is reversed from service expenditure to a non-useable reserve known as the Capital Adjustment Account, which absorbs the timing difference between the financing of capital assets and their usage. This therefore does not create an additional financial impact

Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements.

In the General Fund, the lease liability reduction is matched by a payment of Minimum Revenue Provision (MRP), which when added to the financing cost element of payments leads to no overall impact on the General Fund balance from the prior method of lease accounting.

For the Housing Revenue Account (HRA), MRP is not payable. Depreciation charges to the HRA are required to be matched by a payment to the Major Repairs Reserve (MRR), so the increase in assets will lead to a genuine charge to the HRA. However, the MRR can then be used to pay down the capital financing associated with the lease, which again should mean no meaningful impact on resources.

~~*The Council as Lessor*~~

~~2.2.1.~~2.2.2. *Lessor Arrangements*

Where the Council has a contractual arrangement granting use of asset to another party it~~s~~ will determine whether substantially all the risk and rewards incidental to use of the asset are passed to the lessee or remain with the Council. Where the risks and rewards are substantially transferred, this is known as a finance lease. Where they remain with the Council, this shall be deemed an operating lease.

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet. Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property - applied to write down the lease debtor (together with any premia received), and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement.

When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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 therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Where the arrangement has been deemed an operating lease, the asset remains on the Council's balance sheet and the income is credited to the Comprehensive Income and Expenditure Statement on a straight-line basis over the duration of the lease.

~~2.2.2.~~2.2.3. *Service Concession Arrangements*

Service concession arrangements (formerly classed as Private Finance Initiative (PFI) and similar contracts) are contractual arrangements between the Council and an operator where responsibility for providing public services, using assets provided either by the operator or the Council, passes to the operator for a specified period of time. These arrangements are accounted for under IFRIC 12, IFRS 16, the Code of Practice and the additional provisions of IPSAS 32 Service Concession arrangements (grantor).

Where the PFI operator's right to third party income is recognised in deductions to the unitary payment, a proportion of the finance lease creditor is re-allocated to a deferred income balance based on the proportion of fixed payments from the Council and expected third party payments. The deferred income balance is amortised to the CIES on a straight-line basis over the life of the PFI scheme.

The Council's ongoing liabilities for these service concessions are recognised on the balance sheet. This has been done by recognising a finance lease creditor and writing it down accordingly. Where indexation is applied to future payments, the liability will be remeasured and adjusted in accordance with IFRS 16.

The assets acquired with these service concessions will be depreciated over the estimated useful life of the assets.

Lifecycle costs will be capitalised in line with the directions of the Code of Practice on capitalising expenditure for these service concessions.

2.3. Investment Properties

Investment properties are properties used solely to earn rentals or capital for appreciation or both. The Council evaluates the costs of an investment property when they are incurred, including acquisition costs and costs incurred to add to, replace part of, or service an investment property, but not including minor repairs and maintenance. Investment property is initially measured at cost, i.e. purchase price, transaction costs and directly attributable expenditure. After initial recognition the property is measured at fair value, and not depreciated. The fair value of investment property shall reflect market conditions at the end of the reporting period, i.e. open market value.

2.4. Intangible Assets

Expenditure on non-monetary assets without physical substance is capitalised when future economic benefits or service potential are created and expected to flow from the intangible asset to the Council. Intangible assets shall be measured initially at cost and held at historic cost. They are not revalued in a revaluation cycle.

Amortisation

The depreciable amount of an intangible asset is amortised over its useful life (5 years unless otherwise advised by a qualified professional), on a straight-line basis.

2.5. Revenue Expenditure Funded from Capital under Statute

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

2.6. Income from Sale of Property, Plant and Equipment

Proceeds from the disposal of PPE are capital receipts. Any income which has not been reserved and not been used to finance capital expenditure in the period is shown in the balance sheet as capital receipts unapplied.

The treatment of HRA capital receipts is determined by the Local Government Act 2003 as amended from 1 April 2012 in order to make new provision for the pooling of housing receipts by:

- The Local Authorities (Capital Finance and Accounting) (England)(Amendment)(No.2) Regulations 2012 (SI2012/711); and
- The Local Authorities (Capital Finance and Accounting) (England)(Amendment)(No.3) Regulations 2013 (SI2013/476).

These amendments allow local authorities to retain the receipts generated by Right to Buy sales for replacement housing provided they can sign up to an agreement with the

Government that they will limit the use of the net Right to Buy receipts to 40% of the cost of the replacement homes within a 5-year period from the point of receipt.

The written-off value of disposals is not a charge against Council Tax, as the cost of PPE is fully provided for under separate arrangements for capital financing.

Where the authority has sold and leased back an asset it will account for the proceeds in accordance with IFRS 16, reflecting in its accounts only the proportion of the asset sold once the value of the right of use asset created has been taken into account.

2.7. Heritage Assets

Heritage assets are defined as a tangible asset with historical, artistic, scientific, technological, geophysical, or environmental qualities that is held and maintained principally for their contribution to knowledge and culture; or an intangible asset with cultural, environmental, or historical significance. The Council's Heritage Assets which comprise Mayoral Regalia and Silverware and Art Collections are reported in the balance sheet at valuation rather than fair value, reflecting the fact that exchanges of heritage assets are uncommon.

The Council's valuations are based on a current insurance valuation (based on market values) supplemented by auctioneer's valuation where obtained. Revaluations are carried out as and when the insurance is updated.

3. Employee Benefits

3.1. Benefits Payable During Employment

Benefits payable during employment include:

3.1.1. *Short-term employee benefits*

Those that are due to be settled within 12 months after the year-end in which the employee rendered the services, include:

- wages, salaries, and social security contributions.
- short-term compensated absences
- bonuses and similar payments
- non-monetary benefits

Wages and salaries will be based on actuals, other benefits will be estimated at cost to the Council.

3.1.2. *Other long-term employee benefits*

Those that do not fall due wholly within 12 months after the end of the period in which the employee rendered the services, include:

- long term compensated absences (long service or sabbatical leave)
- long-service benefits
- long-term disability benefits
- bonuses payable
- deferred compensation paid

All gains and losses and past service costs will be recognised in the Surplus or Deficit on the Provision of Services.

3.2. Termination Benefits

Termination benefits are amounts payable due to a decision made by the Council 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. Termination benefits are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the Council can no longer withdraw the offer of the benefits or when the Council recognises costs for a restructuring. Disclosures in respect of employee exit packages following termination are made in the year of notification, not the year of payment.

3.3. Post-Employment Benefits

Employees of the Council can belong to three separate pension schemes:

- The Teachers' Pension Scheme – administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE). The employer's pension cost charged to the accounts is fixed by the contribution rate set by the DfE on the basis of a notional fund. This is unchanged from last year.
- Ex-ILEA (Inner London Education Authority) – This is a funded scheme administered by the London Pensions Fund Authority (LPFA), part of the Local Government Pension Scheme. The amount paid to LPFA is fixed by the contribution rate set by their actuaries in accordance with the Local Government Pension Scheme.
- Other Employees – Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. The amounts paid to the Camden Pension Fund are fixed by a rate set by the Council's actuary at the triennial valuation.

All schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council. However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the education service revenue account is charged with the employer's contributions payable to Teachers' Pensions in the year.

3.4. The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme: the liabilities of the Camden 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 projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a range of financial assumptions as determined by the actuaries of the Camden Pension Fund and of the LPFA.

The assets of the Camden Pension Fund and the LPFA attributable to the Council are included in the Balance Sheet at their fair value:

- 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 the following components:

a) *Service cost, comprising*

- Current service cost - the increase in liabilities as a result of years of service earned this year and is allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
- Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. This is debited to the Cost of Services in the Comprehensive Income and Expenditure Statement.
- Net interest on the net defined liability, i.e. net interest expense for the authority – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

b) *Remeasurement*

These are changes in the net pensions liability that arise through changes in asset values, updates to actuarial assumptions or other experience not reflected in assumptions at the last actuarial valuation. Any increase in the net liability is debited to the Pensions Reserve and any decrease is credited to the Pensions Reserve.

c) *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 (including teachers) and 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.

4. Financial Instruments

4.1. Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. These are initially measured at fair value and are carried at their amortised cost, although it is a requirement of the Code of Practice to show the fair values in the Financial Instrument note.

Annual charges to the Financing and Investment Income and Expenditure line in 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. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the Council's borrowings this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest). Interest charged to the

Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

4.2. Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. The Council may hold three main classes of financial assets measured at:

- Amortised cost, and
- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI)

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

4.3. Expected Credit Losses

The Council recognises expected credit losses on all of its financial assets held at amortised cost either on a 12-month or lifetime basis, where material. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

5. Provisions and Contingent Liabilities

5.1. Provisions

The Code defines a provision as "a liability of uncertain timing or amount". A provision can only be established in the accounts if it meets the following criteria as listed in the Code:

- The authority has a present obligation as a result of a past event, i.e. an event has taken place that either binds the authority to transfer economic benefits as a result of legislation, a contract or other operation of law or creates a valid expectation by another party that the authority will transfer economic benefits as a result of it accepting certain responsibilities, arising from the Council's actions.
- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, and
- A reliable estimate can be made of the amount of the obligation.

If the above conditions are not met a provision must not be recognised in the financial statements. Provisions are charged to the relevant service account in the Comprehensive Income and Expenditure Statement in the year the Council becomes aware of the obligation. When the obligation is settled the costs 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 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.

The provisions contained within the balance sheet are spilt between short (Current Liabilities) and long-term provisions (non-current liabilities).

5.2. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. A contingent liability can also be a present obligation that arises from past events but is not recognised because it is not probable that an outflow of economic benefits or service potential will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

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

5.3. Contingent Assets

A contingent asset is when there is a possible transfer of economic benefit to the Council from past events and their existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Council.

If it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the financial statements of the year in which the change occurs. A material contingent asset should be disclosed in the narrative notes to the accounts if the inflow of economic benefits is probable.

6. Group Accounts

6.1. Interests in Companies and Other Entities

The Council has fully reviewed the various IFRS standards relating to group relationships and after consideration of all the criteria the Council has determined that the consolidation of all related organisations would not have a material effect on the Council's financial position. Consequently, no group accounts have been prepared.

The Code ~~of Practice on Local Authority Accounting in the United Kingdom~~ confirms that the balance of control for local authority-maintained schools 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 (and not in Group Accounts). 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.

The Council has one wholly owned subsidiary, Camden Living, and owns just under 20% of another company Camden Learning.

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