

## Statement of Accounts 2022/23

## Accounting Policies

**1. Accounting Policies**

- 1.1. This note sets out the accounting policies followed in compiling the Council's accounts. The aim of the note is to explain the basis of the figures in the accounts and to disclose policies that are significant and relevant to the Council.

**1.2. General Principles**

The Statement of Accounts summarises the Council's transactions for the 2022/23 financial year and its position at the year-end of 31 March 2023. The Council is required to prepare an annual Statement of Accounts (by the Accounts and Audit regulations 2015) in accordance with proper accounting practices.

These practices primarily comprise; the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ('the Code') and the Service Reporting Code of Practice 2022/23 supported by International Financial Reporting Standards (IFRS) and statutory guidance.

The Statement of Accounts has been prepared on a going concern basis. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

**1.3. Prior Period Adjustments**

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or performance.

**1.4. Accruals of Income & Expenditure**

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

- Revenue from contracts from service recipients, whether for services or the provision of goods, is accounted for when (or as) the goods or service are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services provided are recorded as expenditure when the services are received rather than when payments are made.

- 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.

#### 1.5. **Cash and Cash Equivalents**

Cash is represented by cash in hand.

Cash equivalents are deposits with financial institutions payable without penalty or notice, maturing in not more than one day and are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement the cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

#### 1.6. **Provisions, Contingent Liabilities and Contingent Assets**

##### Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits and a reliable estimate of the potential liability can be reasonably calculated.

Provisions are charged as an expense to the Comprehensive Income & Expenditure Statement in the year that the Council recognises the obligation and are shown at the best estimate of the eventual outcome at the Balance Sheet date.

Payments to settle the obligation are charged against the provision. Any difference between the provision and the actual settlement figure are charged to the Comprehensive Income & Expenditure Statement when the obligation is settled.

##### 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. Contingent liabilities also arise where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount cannot be measured reliably.

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 that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

#### 1.7. Reserves

The Council sets aside specific and general amounts as reserves for future purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in 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 be included in the surplus / deficit on the provision of services in the Comprehensive Income & Expenditure Statement. The reserve is then appropriated back in to the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets and retirement benefits and do not represent usable resources to the Council. Transactions with these reserves are explained in the relevant accounting policies below.

#### 1.8. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that;

- the Council will comply with the conditions attached to the payments and
- the grants / contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income & Expenditure Statement until conditions attached to the grant / contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant / contribution are required to be consumed by the Council as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants / contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors.

When conditions are satisfied, the grant / contribution is credited to the relevant Service line or Taxation and Non-Specific Grant income in the Comprehensive Income & Expenditure Statement.

Where capital grants are credited to the Comprehensive Income & Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. When the grant has been applied, it is posted to the Capital Adjustment Account.

#### Business Improvement District

A business improvement district (BID) scheme applies across Andover Town Centre. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Council acts as an agent under this scheme. Only the following amounts are recognised in the Council's Comprehensive Income & Expenditure Statement:

- BID levy amounts payable on the Council's properties within the BID scheme area are shown as service expenditure under the relevant service.
- BID levy collection costs are shown in the net cost of services under the relevant service.

#### Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy is charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy is used to fund infrastructure projects to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges (5% for the Council) may be used to fund revenue expenditure.

### **1.9. Employee Benefits**

#### Benefits Payable During Employment

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

An accrual is made for the cost of holiday entitlement and accrued flexible working hours (based on an average per employee) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is charged to the surplus or deficit on the provision of services but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year that the absence occurs.

#### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service line in the net cost of services in the Comprehensive Income & Expenditure Statement.

#### Post-Employment Benefits

The Council's employees are entitled to join the Local Government Pension Scheme administered by Hampshire County Council. This scheme provides defined benefits to members (retirement lump sums and pensions) earned as employees work for the Council.

The liabilities of the pension fund attributable to the Council are included in the Balance Sheet based on an actuarial valuation.

Full details of the valuation method are shown in the employee benefits note to the core financial statements.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pension Reserve to remove notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

#### 1.10. **Events after the Balance Sheet Date**

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

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

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

#### 1.11. **VAT**

Income and expenditure excludes any amounts related to VAT to the extent that it is recoverable from HM Revenue & Customs.

#### 1.12. **Overheads and Support Services**

The cost of overheads and support services are accounted for under two separate headings, Corporate & Support and Central Costs, in the Expenditure & Funding Analysis and the Comprehensive Income & Expenditure Statement as part of the net cost of services. They are not charged to service segments.

#### 1.13. **Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council (e.g. software licences) is capitalised when it is expected that the future economic benefits will flow to the Council.

Intangible assets are measured initially at cost. The balance is amortised over the useful life of the asset to the relevant service line in the Comprehensive Income & Expenditure Statement to reflect the pattern of consumption of benefits.

Amortisation is not permitted to have an impact on the General Fund Balance. These charges are reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

#### 1.14. **Investment Property**

Investment properties are those that are used solely to earn rental income and / or capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Investment properties are not depreciated but are revalued annually according to market conditions. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure section in the Comprehensive Income & Expenditure Statement. The same treatment is applied to gains / losses on disposal.

Investment properties under construction are measured at fair value once it is possible to measure reliably the fair value of the investment property, and at cost before that date.

Rentals received in respect of leases on investment properties are credited to the financing and investment income section and result in a gain for the General Fund balance. However, revaluation and disposal gains / losses are not permitted to have an impact on the General Fund balance. The gains / losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for sale proceeds) the Capital Receipts Reserve.

#### 1.15. **Property, Plant and Equipment**

Assets that have physical substance and are held for use in the provision of services, for rental to others or for administrative purposes on a continuing basis are classified as property, plant and equipment (PPE).

##### Recognition

Expenditure on the acquisition, creation or enhancement of PPE 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 secures but does not add to an asset's potential to deliver future economic benefits (i.e. repairs and maintenance) is charged as an expense when it is incurred.

A de minimis level of £10,000 is applied to capital expenditure. Any expenditure on land, equipment or other chattels below this amount is not recognised as an asset.

##### Measurement

Assets are initially measured at cost, comprising:

- the purchase price

- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

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

- infrastructure and community assets – depreciated historical cost
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value).

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

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, 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 & Expenditure Statement where they arise from the reversal of a loss previously charged to a service.)

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income & Expenditure Statement.

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

### Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income & Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to relevant service lines in the Comprehensive Income & Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would be charged if the loss had not been recognised.

### Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to Other Operating Expenditure line in the Comprehensive Income & Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income & 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). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. Receipts are required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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 from the General Fund Balance in the Movement in Reserves Statement.

### Depreciation

Depreciation is provided for on all 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).

Where an asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Componentisation of an asset will be considered where:

- The carrying value of an asset is greater than £1M and
- The component is at least 20% of the carrying value of the asset and
- The change in depreciation after componentisation is greater than £10,000 per annum.

Revaluation gains are also depreciated, 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.

## **1.16. Heritage Assets**

Heritage assets are assets held primarily for their *historical, artistic, scientific, technological, geophysical or environmental qualities and maintained for their contribution to knowledge and culture.*

The Council does not have a policy in respect of the purchase, preservation, management and disposal of Heritage Assets.



Heritage assets are either excluded from the Balance Sheet or included within Community Assets, valued at historic cost. The Code requires Heritage Assets to be classified separately on the Balance Sheet and to be valued at fair value. The Council has not re-stated Heritage Assets in accordance with the Code due to their immaterial overall value. The impact of this is explained in note 19.

#### 1.17. **Charges to Revenue for Non-Current Assets**

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding 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 losses can be written off.
- Amortisation of intangible assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, impairment losses, revaluation or amortisation. Depreciation, impairment losses, revaluation and amortisation are therefore replaced in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserve Statement.

#### 1.18. **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 & Expenditure Statement in the year. Where the Council has determined to meet the cost of these charges from existing capital resources, a transfer in the Movement in Reserves Statement from the General Fund balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of Council Tax.

#### 1.19. **Leases**

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

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

##### Criteria for determining whether a lease is finance or operating in nature

A number of factors are considered in determining whether a lease should be classified as finance or operating. Three of these are over-riding, the remainder are considered holistically to assess the nature of a lease.

Leases of land will be considered operating leases unless the land will be permanently impaired as a result of the lease (e.g. the land is used for mining).

Where it is almost certain that the lessee will retain the asset in perpetuity or until the end of the asset's useful economic life, the lease will be classified as a finance lease.

Where the Council leases a building to a tenant, the building element of the lease will be considered to be operating in nature if the lessee is required to return the building in a repaired condition at the end of the lease.

Factors that indicate a lease might be a finance lease include:

- Where the net present value of lease payments is more than 80% of the asset's purchase price.
- Where the lease period is longer than 75% of the asset's useful life.
- Where there are options to extend the primary lease at rates substantially lower than market rents.
- Where ownership transfers to the lessor at the end of the lease or there are options to buy the asset at the end of the lease term on favourable conditions which are reasonably certain to be taken up.
- Terms included in the lease which penalise the lessee more than the lessor in the event that the lessee cancels the lease.

#### Council as Lessee – Finance Leases

Assets held under finance leases are recognised on the Balance Sheet at the commencement of the lease at fair value measured at the lease's inception (or the present value of the minimum lease payments if lower). The asset recognised is matched by a liability for the obligation to pay the lessor.

Lease payments are apportioned between;

- a charge for the acquisition of the interest in the asset – applied to write down the lease liability and
- a finance charge (debited to the financing and investment income and expenditure line in the Comprehensive Income & Expenditure Statement).

Assets recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation, revaluation and impairment losses are therefore substituted by a revenue contribution 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.

#### Council as Lessee – Operating Leases

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

#### Council as Lessor – Finance Leases

There are no leases that qualify as finance leases where the Council is the lessor.

### Council as Lessor – Operating Leases

Where the Council grants an operating lease over an asset, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income & Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease).

## **1.20. Financial Instruments**

### Financial Liabilities

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

For most of the borrowings that the Council has, the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income & Expenditure Statement is the amount payable for the year according to the loan agreement.

### 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 cashflow characteristics. There are three main classes of financial assets measured at:

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

### Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at their fair value. They are subsequently measured at their amortised cost. Annual credits to the financing and investment income and expenditure line in the Comprehensive Income & Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective interest rate for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the

Comprehensive Income & Expenditure Statement is the amount receivable for the year in the loan agreement.

Where the Council makes a soft loan (i.e. at less than market rate or with an interest free period), the loan will be shown in the balance sheet at carrying value rather than amortised value unless the value of the advance is greater than £500,000 or there is significant discounting of interest rates.

Any gains or losses that arise on the derecognition of an asset are credited or debited to the financing and investment income and expenditure line in the CIES.

#### Expected Credit Loss Model

The Council recognises expected credit losses on all its financial assets held at amortised cost either on a 12-month or lifetime basis. Only lifetime losses are recognised for trade receivables.

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 the risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

#### Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at Fair Value through Profit or Loss are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market price – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

### 1.21. Inventories

Inventories are included in the Balance Sheet at the lower of cost or net realisable value.

### 1.22. Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties, and some of its financial instruments, such as equity share holdings, at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either

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

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

When measuring the fair value of a non-financial asset, the 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 it in its highest and best use.

The Council uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates and unknowns. This takes into account the three levels of categories for inputs to valuations for fair value assets:

- Level 1 – quoted prices in active markets for identical assets or liabilities that the Council 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.