

Appendix 1. Accounting Policies

1. General Principles

The Statement of Accounts summarises the Authority's transactions for 2025/26 financial year and its position at the year-end 31st March 2026. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations (2015), which those Regulations require to be prepared in accordance with proper accounting practices. These practices under section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2025/26 (the Code), supported by the International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. Amounts in the statements have been rounded to the nearest £'000 unless otherwise indicated.

2. Accruals of Income and Expenditure

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

- 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 of 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 received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure 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 debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, 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.

4. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

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

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

6. Charges to Revenue for Non-Current Assets

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

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (the Minimum Revenue Provision) calculated on a prudent basis by the Council in accordance with statutory guidance. This is achieved through an adjusting transaction between the General Fund Balance and the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

7. Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. 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 and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the 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 year end balances in respect of council tax and NDR 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 under the statutory arrangements will not be made, the asset is written down and a charge made to the taxation and non-specific grant 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.

8. Employee Benefits

Benefits Payable During Employment

Short term employee benefits such as wages and salaries, paid annual leave, sick leave and expenses are paid on a monthly basis and charged on an accruals basis to the relevant service line of the Comprehensive Income and Expenditure Statement (CIES). An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end that employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to surplus or deficit on the provision of services, but then reversed out through the Movement in Reserves Statement to the accumulated absences account so that holiday entitlements are charged to revenue in the financial year in which the holiday 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 in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pension Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at year-end.

Post-Employment Benefits

Employees of the Council are eligible to join the Local Government Pension Scheme administered by Lancashire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions) earned as employees worked for the Council.

The Local Government Pension Scheme

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

The liabilities of the Lancashire County Pension Scheme attributable to Hyndburn Borough 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 projected earnings for current employees.

Liabilities are discounted to their value at current prices, the discount rate for 2025/26 will be confirmed in the Council's IAS 19 report, (5.8% at 31st March 2025) based on the indicative rate of return on high quality (AA rated) corporate bonds.

The assets of the Lancashire County Council Pension Fund attributable to Hyndburn Borough Council are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price
- Unquoted securities – professional estimate
- Utilised securities – current bid price
- Property – market value

The change in the Net Pensions Liability is analysed into the following components:

1. Service cost comprising:
 - Current Service Cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employee worked.
 - Past Service Cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

- Net Interest on The Net Defined Benefit Liability (Asset) i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – that is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
2. Re-measurements comprising:
- The Return on Plan Assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as other Comprehensive Income and Expenditure.
 - Actuarial Gains and Losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pension Reserve as Other Comprehensive Income and Expenditure.
 - Contributions paid to the Lancashire County Pension Fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the 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 accounting standards. In the Movement in Reserves Statement, this means there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

9. Events After the Reporting Period

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

10. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. 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 borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES 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 and loss (FVPL), and
- 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).

Financial Assets Measured at Amortised Cost

These are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Loans and receivables are recognised in the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure (FIIE) line in the Comprehensive Income and Expenditure

Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

However, the Council may also make loans to an organisation at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisation, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains or losses that arise on the De-recognition of an asset are credited or debited to the Financing and Investment income and Expenditure in the CIES.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where equivalent FVOCI), either on a 12-month or lifetime basis. 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 expectations 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 losses.

Financial Assets Measured at Fair Value through Profit and Loss

Financial assets that are measured at FVPL 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 arrive in the Surplus or Deficit on the Provision of Services.

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

- a) Instruments with quoted market prices – the market price
- b) 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 – quoted prices (unadjusted) in active markets for identical assets 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, either directly or indirectly.
- Level 3 – unobservable inputs for the asset.

The Council used Lea Hough Chartered Surveyors to provide a valuation of its property assets and liabilities in line with the highest and best use definition within the accounting standard; and MUFG Corporate Markets (previously Link Asset Services) to value its investments and borrowings. The highest and best use of the asset being valued is considered from the perspective of a market participant. The Council's surplus assets are judged to be Level 2.

11. 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 or contributions will be received.

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

12. Heritage Assets

The Council's heritage assets are held in the Haworth Art Gallery. The Gallery has four collections of heritage assets which are held in support of the primary objective of the museum i.e. maximise the recognition, appreciation and use of Haworth Art Gallery and its unique Tiffany Glass collection as a historic and contemporary art, education, leisure and tourism asset of local, regional and national importance.

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below.

The Tiffany Glass Collection – Includes handmade blown glass vases, glass tiles, jewels and mosaics; as well as pottery, metalwork and enamel items. The items are reported in the Balance Sheet at insurance valuation which is based on market values. The insurance valuations are updated periodically.

The Art Collection – Includes paintings (both oil and watercolour) as well as etchings, book illustrations and chromolithographs. It is reported in the Balance Sheet at market value.

Numismatics Collection – Comprises coins, medals and tokens. The medals show portraits of famous people through history, while the trade tokens have a strong local connection. The items are reported in the Balance Sheet at insurance valuation which is based on market values. The insurance valuations are updated periodically.

Community Collection – The items are reported in the Balance Sheet at insurance valuation which is based on market values. The insurance valuations are updated periodically.

The date of the latest valuation of Heritage Assets undertaken by Eric Knowles Antiquarian Services in December 2021. Assets within all four collections are deemed to have indeterminate lives and, in the case of the glass and art collections, a high residual value; hence the Council does not consider it appropriate to charge depreciation.

All four collections are relatively static and acquisitions and donations are rare. The Gallery is accredited by the Arts Council of Great Britain which means it has a statement of purpose, an acquisition and disposals policy, a guide to the documentation relating to the collections and a plan for the collections' care and conservation.

Civic Regalia – The Council also has a collection of civic regalia which is held at the Town Hall. It was last valued for insurance purposes by Precious Metals in November 2023.

13. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the authority.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods and services.

Intangible assets are initially measured at cost. Amounts are only revalued where the fair value of an asset can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost.

The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and 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 any sales proceeds greater than £10,000) to the Capital Receipts Revenue Account.

14. Interests in Companies and Other Entities

The Council no longer has material interests in other entities that have the nature of associates; Hyndburn BC therefore no longer prepares group accounts.

15. Inventories

Inventories are held in the Balance Sheet at purchase price. The cost of inventories is assigned using the First-In-First-Out costing formula.

16. Investment Property

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

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

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains

and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and 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 any sale proceeds greater than £10,000) the Capital Receipts Reserve.

17. Leases

The authority as lessee

The authority classifies contracts as leases based on their substance. Contracts and parts of contracts, including those described as contracts for services, are analysed to determine whether they convey the right to control the use of an identified asset, through rights both to obtain substantially all the economic benefits or service potential from that asset and to direct its use. The Code expands the scope of IFRS 16 Leases to include arrangements with nil consideration, peppercorn or nominal payments.

Initial measurement

Leases are recognised as right-of-use assets with a corresponding liability at the date from which the leased asset is available for use (or the IFRS 16 transition date, if later). The leases are typically for fixed periods in excess of one year but may have extension options.

The authority initially recognises lease liabilities measured at the present value of lease payments, discounting by applying the authority's incremental borrowing rate wherever the interest rate implicit in the lease cannot be determined. Lease payments included in the measurement of the lease liability include:

- fixed payments, including in-substance fixed payments
- variable lease payments that depend on an index or rate, initially measured using the prevailing index or rate as at the adoption date
- amounts expected to be payable under a residual value guarantee
- the exercise price under a purchase option that the authority is reasonably certain to exercise
- lease payments in an optional renewal period if the authority is reasonably certain to exercise an extension option
- penalties for early termination of a lease, unless the authority is reasonably certain not to terminate early.

The right-of-use asset is measured at the amount of the lease liability, adjusted for any prepayments made, plus any direct costs incurred to dismantle and remove the underlying asset or restore the underlying asset on the site on which it is located, less any lease incentives received.

However, for peppercorn, nominal payments or nil consideration leases, the asset is measured at fair value.

Subsequent measurement

The right-of-use asset is subsequently measured using the fair value model. The authority considers the cost model to be a reasonable proxy except for:

- assets held under non-commercial leases
- leases where rent reviews do not necessarily reflect market conditions
- leases with terms of more than five years that do not have any provision for rent reviews

- leases where rent reviews will be at periods of more than five years.

For these leases, the asset is carried at a revalued amount. In these financial statements, right-of-use assets held under index-linked leases have been adjusted for changes in the relevant index, while assets held under peppercorn or nil consideration leases have been valued using market prices or rentals for equivalent land and properties.

The right-of-use asset is depreciated straight-line over the shorter period of remaining lease term and useful life of the underlying asset as at the date of adoption. The lease liability is subsequently measured at amortised cost, using the effective interest method. The liability is remeasured when:

- there is a change in future lease payments arising from a change in index or rate
- there is a change in the authority's estimate of the amount expected to be payable under a residual value guarantee
- the authority changes its assessment of whether it will exercise a purchase, extension or termination option, or
- there is a revised in-substance fixed lease payment.

When such a remeasurement occurs, a corresponding adjustment is made to the carrying amount of the right-of-use asset, with any further adjustment required from remeasurement being recorded in the income statement.

Low value and short lease exemption

As permitted by the Code, the authority excludes leases:

- for low-value items that cost less than £5,000 when new, provided they are not highly dependent on or integrated with other items, and
- with a term shorter than 12 months (comprising the non-cancellable period plus any extension options that the authority is reasonably certain to exercise and any termination options that the authority is reasonably certain not to exercise).

Lease expenditure

Expenditure in the Comprehensive Income and Expenditure Statement includes interest, straightline depreciation, any asset impairments and changes in variable lease payments not included in the measurement of the liability during the period in which the triggering event occurred. Lease payments are debited against the liability. Rentals for leases of low-value items or shorter than 12 months are expensed.

Depreciation and impairments are not charges against council tax, as the cost of non-current 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.

The authority as lessor

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.

Finance leases

Where the authority 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 authority'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 premiums 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 non-current 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.

Operating leases

Where the authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the other operating expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease or where this is initiated by a service to the individual service, even if

this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

18. Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

19. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods and services, for rental 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.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on accruals basis, provided 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 (e.g. repairs and maintenance) is charged to the Comprehensive Income and Expenditure Statement as it is incurred.

Measurement

Assets are initially measured at cost, comprising the purchase price and 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 the management.

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

- Community assets and assets under construction – depreciated historical cost
- Surplus Assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- All other assets – the current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)

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 that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

From 1 April 2025, the Code requirements changed in respect of revaluations of property, plant and equipment. The Council is now required to revalue assets every five years or on a 5-year rolling basis, with annual indexation applied to assets during the four intervening years. Where indices cannot be obtained without undue cost or effort those assets will be revalued every 5 years, with a desktop

revaluation in year three. The Council has selected appropriate indices following advice from its internal valuers. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance for 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 line in the Comprehensive Income and Expenditure Statement

The Revaluation Reserve contains revaluation gains recognised since April 1st 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 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 line in the Comprehensive Income and Expenditure Statement.

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

Depreciation

Depreciation is provided for on all property, plant and equipment assets 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). The Council operates a straight-line method for depreciation over the useful economic life of the asset as follows:

Asset	Period (Years)
Operational Buildings	30 - 60*
Non-Operational Buildings	30 - 60*
Community Assets	5 - 50
Vehicles & Plant	2 - 20
Surplus Assets	15 - 35

*As part of the Council's five-year rolling revaluation programme, a revised estimated useful life of the asset (if applicable) may be applied, up to a maximum of 60 years.

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.

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

Component Accounting

Componentisation applies where an asset comprises two or more major components with substantially different useful economic lives. For the purpose of depreciation, each component is accounted for separately and depreciated over the course of its respective life.

The policy applied at Hyndburn Borough Council has a de minimis level of £500,000 asset value for the building element and a maximum number of components of five.

Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale.

Assets Held for Sale are assets where the:

- Asset is immediately available for sale
- Sale is highly probable
- Asset is actively marketed
- Sale is expected to be completed within twelve months

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at that date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

Disposals

When an asset is disposed of or decommissioned, 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. Receipts from disposals, if any, are 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). Any revaluation gains accumulated on 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. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Council's capital financing requirement. Receipts are appropriated to the Capital Receipts Reserve 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.

Infrastructure Assets

Infrastructure assets include footways and cycle tracks, street lighting, street furniture, sewers and culverts, and a small number of carriageways owned by the authority.

Infrastructure assets are generally measured at depreciated historical cost.

Depreciation is provided by the systematic allocation of their depreciable amounts over their useful lives. Depreciation is calculated on a straight-line basis. Annual depreciation is the depreciation amount allocated each year. Useful lives are determined as follows:

Type of Infrastructure Asset	Useful Life
Footways and cycle tracks	15 years
Street lighting	10 years
Street furniture	10 years
Sewers and culverts	10 years

Structures (Bridges)	40 years
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In accordance with the temporary relief offered by the 'Update to the Code and Specifications for Future Codes for Infrastructure Assets' this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The authority has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

The authority has determined in accordance with Regulation 30M England of the Local Authorities (Capital Finance and Accounting) (England/Wales) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

20. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made when an event has taken place on or before the balance sheet date:

- that gives the Council a legal or constructive obligation
- that probably requires settlement by a transfer of economic benefits or service potential, and
- where a reliable estimation can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle the provision is expected to be recovered from another party (e.g. from an insurance claim), it is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

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 Council's control. Contingent liabilities can also arise in circumstances where a provision would otherwise be made but either it is not sufficiently certain that the event will take

place or the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but are disclosed in a note to the accounts.

21. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance in the Movements in Reserves Statement. 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. The reserve is then transferred back into the General Fund Balance 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, financial instruments, local taxation, retirement and employee benefits. These do not represent usable resources for the Council – these reserves are explained in the relevant policies.

22. Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but 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 then reverses out the amounts charged so that there is no impact on the level of council tax.

23. VAT

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

24. 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 shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

The 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 authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The 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 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.