

GMCA Audit Committee**12 April 2018****GMCA 2017/18 Accounting Policies and Critical Accounting Judgements****Report of: Treasurer to the Greater Manchester Combined Authority**

PURPOSE OF REPORT

The report provides an update on the proposed Accounting Policies and the Critical Accounting Judgements for the 2017/18 GMCA Statement of Accounts.

RECOMMENDATIONS:

That the Audit Committee note the proposals and that they will be asked to approve these within the Statement of Accounts when they are presented for full approval in July 2018.

CONTACT OFFICERS:

Richard Paver, Treasurer to GMCA
Tel - 0161 778 7004
Email – richard.paver@greatermanchester-ca.gov.uk

BACKGROUND PAPERS:

Statutory Orders supporting the transfer of functions to GMCA in 2017/18.
CIPFA Accounting Code of Practice and Practitioners Guidance notes for 2017/18.

RISKS/IMPLICATIONS

Financial: the risk from setting unsuitable accounting policies and determining critical accounting judgments is that the External Auditor could qualify the GMCA Accounts and require adjustments which have a negative impact on the Authority and Mayoral General Balances.

Staffing – no impact

Policy – no impact

Equal Opportunities – no impact assessment required

TRACKING/PROCESS	
-------------------------	--

Does this report relate to a major strategic decision, as set out in the GMCA Constitution (paragraph 14.2) or in the process (paragraph 13.1 AGMA Constitution) agreed by the AGMA Executive Board:		No
EXEMPTION FROM CALL IN		
Are there any aspects in this report which means it should be considered to be exempt from call in by the AGMA Scrutiny Pool on the grounds of urgency?		No
TfGMC	Overview & Scrutiny Committee	
N/A	N/A	

1. Introduction

- 1.1. During 2017/18 the Fire and Rescue and Police and Crime Commissioner functions transferred into GMCA. The GM Fire and Rescue Authority and the GM Office of the Police and Crime Commissioner were abolished on 7/5/17.
- 1.2. The GMCA Statement of Accounts for 2017/18 will include all the financial information relating to the delivery of the transferred functions therefore a thorough review of the GMCA Accounting Policies and Critical Accounting Judgments are crucial exercises to undertake early in the closedown process as these set the framework for the preparation of the Statement of Accounts.

2. Review of Critical Accounting Judgements

- 2.1. In applying the accounting policies during the preparation of the accounts, the Authority, in the first instance, has had to make certain judgements about complex in year transactions or those involving uncertainty about future events. The judgements are set out as a specific note to the accounts and underpin the accounts preparation process.

2.2. Complex In Year Transactions

2.2.1. The transfer of the Fire and Rescue and Police and Crime functions to GMCA.

This gives rise to complex in year transaction and the proposed Critical Accounting Judgement note to be included in the accounts covers the background to the transfer and the accounting treatment proposed for including balances from the two entities which have been abolished and the impact on the GMCA Single Entity and Group Accounts.

The Treasurer has agreed the proposed accounting treatment and Group position with Grant Thornton.

2.2.2. Private Finance Initiative (PFI)

PFI arrangements give rise to complex accounting entries and judgements. PFI is new to GMCA's accounting statements as these arrangements have novated to GMCA from the two transferring bodies. GMCA will continue to apply the accounting policies of the transferring entities to the PFI entries in the GMCA accounts.

2.3. Uncertainty about Future Events

- 2.3.1. Future levels of government funding continues to be a concern for local government as a whole. Both transferring entities included this concern in their 2016/17 accounts and it is deemed to be appropriate to continue to disclose that concern in the GMCA accounts.
- 2.4. The proposed Critical Accounting Judgements are set out in Appendix A.

3. Accounting Policies

- 3.1. With the GMCA accounts absorbing the financial arrangements of the transferring entities a thorough review of accounting policies was necessary to ensure that GMCAs policies covered the wider range of transactions and financial arrangements.
- 3.2. New accounting policies have been added for example around PFI arrangements. Some policies have been removed as the transactions they covered are not deemed to be material to the GMCA accounts.
- 3.3. The proposed Accounting Policies are set out in Appendix B

4. Recommendations

- 4.1. That the Audit Committee note the proposals and that they will be asked to approve these within the Statement of Accounts when they are tabled for full approval in July 2018.

Critical Accounting Judgements

In applying the accounting policies set out in the notes to the accounts, the Authority has had to make certain judgements about complex in year transactions or those involving uncertainty about future events. The following are significant management judgements made in applying the accounting policies of the Authority that have the most significant effect on the Statement of Accounts. Material estimation uncertainties are described in the notes to the accounts.

Government Funding

There is a degree of uncertainty about future levels of some of the major funding streams for parts of the Authority and Local Government as a whole. The Authority has had to consider a range of options on how to continue to provide some elements of its services with a reduced level of funding.

As part of these deliberations a possible reduction in its asset base across the Police and Crime and Fire and Rescue functions has been considered. However there is not currently a sufficient indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

Private Finance Initiative (PFI)

The Authority is deemed to control the services provided under its PFI arrangements for the Stretford Fire Station and various Police Station sites. This assessment was based on advice received from expert external advisors. The accounting policy for PFI's has been applied to these arrangements and the assets are recognised as Property, Plant and Equipment in the Balance Sheet.

Greater Manchester Devolution

Greater Manchester Fire and Rescue Authority (GMFRA)

The functions of the GMFRA that are exercisable in relation to the area of the Authority were transferred by Parliamentary Order to the Authority with effect from 8 May 2017. The Authority is the Fire and Rescue Authority for the area and the fire and rescue functions of the Authority are exercisable by the elected Mayor with all staff, properties, rights and liabilities transferring to the Authority.

Under the Order, all functions and decisions relating to such properties, rights and liabilities are to be exercised and made by the Mayor. Any payments and receipts arising from such properties, rights and liabilities are to be paid from and into the Mayoral General Fund.

The closing balance sheet of GMFRA will be brought into the Authority's 2017/18 balance sheet as an in year transfer using the absorption accounting methodology. The Authority's prior year comparative values will not be restated to include the GMFRA 2016/17 values.

Expenditure and income relating to Fire and Rescue functions within the Authority's 2017/18 accounting statements will be for an 11 month period 8 May 2017 to 31 March 2018.

Greater Manchester Police and Crime Commissioner (PCC)

The functions of the PCC in Greater Manchester, were transferred by Parliamentary Order, to the Authority with effect from 8 May 2017. The PCC functions are to be exercised by the elected Mayor, the legal entity known as the Police and Commissioner's Office ceased to exist with all staff, properties, rights and liabilities transferring to the Authority.

Under the Order, all functions and decisions relating to such properties, rights and liabilities are to be exercised and made by the Mayor. Any payments and receipts arising from such properties, rights and liabilities are to be paid from and into the Mayoral Police Fund to be kept by the Mayor by virtue of section 21 of the Police Reform and Social Responsibility Act 2011.

The closing balance sheet of the PCC will be brought into the Authority's 2017/18 balance sheet as an in year transfer using the absorption accounting methodology. The Authority's prior year comparative values will not be restated to include the PCC 2016/17 values.

Expenditure and income relating to Police and Crime functions within the Authority's 2017/18 accounting statements will be for an 11 month period 8 May 2017 to 31 March 2018.

Group Accounts Considerations

A review of the entities related to the Authority in 2017/18 has taken place and the conclusions are provided below:

Chief Constable of Greater Manchester Police (GMP)

GMP is to be included in the Authority's group accounts from 8 May 2017. The Mayor is responsible for the formal oversight of GMP, including provision of all funding, budget-setting, performance scrutiny and strategic policy development, and for ensuring GMP is run efficiently and effectively. Operational decision-making on day-to-day policing including the employment of police staff remains the responsibility of the Chief Constable.

Under the legislative framework and local arrangements, the Authority under sole instruction from the Mayor, is responsible for the finances of the Mayoral Police Fund including assets, liabilities and reserves. The Authority has responsibility for entering into contracts and establishing the contractual framework under which the Chief Constables officers and staff operate. The Authority receives all income and funding and makes all the payments for the policing activity from the GMCA Police Fund. The Police Fund is disclosed in the supplementary notes to the main GMCA accounting statements.

Expenditure and income included in the Chief Constables 2017/18 accounting statements and GMCAs group accounts will be for an 11 month period 8 May 2017 to 31 March 2018.

Transport for Greater Manchester (TfGM)

TfGM is to continue to be included in the Authority's group accounts. The Authority and/or the Mayor sets local public transport policy and is responsible for deciding how funds are spent on supporting and improving Greater Manchester's public transport network. The decisions of the Authority and/or the Mayor are implemented by TfGM and TfGM is responsible for implementing the policies of the Authority. TfGM's net expenditure after taking into account all sources of income and expenditure is financed by way of a Revenue Grant from the Authority. TfGM's corporate objectives are derived from the Authority's policy priorities, stakeholder consultation and its principal statutory obligations.

Strategic objectives and targets are set out in the Authority/TfGM Business and Performance Plan.

For information we have included details of transactions with the TFGM in the related parties note (note 41).

Greater Manchester Fund of Funds Limited Partnership (FoFLP)

In November 2016 the authority established FoFLP to act as a holding fund for ERDF funding. In May 2017, the fund received £15m funding from ERDF and £0.5m from the Authority. FoFLP will invest in sub funds that seek to support the shift towards a low carbon economy and for research and innovation. The fund has secured an additional £45m ERDF funding which has not yet been drawn down. On the grounds of immateriality it has been decided that **FoFLP is not to be included** in the group accounts.

NW Evergreen Holdings Limited Partnership (NWEH)

NWEH is to continue to be included in the Authority's group accounts. In September 2016 the Authority established NWEH to act as a holding fund for earlier tranches of ERDF funding. The Fund has received significant funding from ERDF and will invest in sub funds that provide opportunities to identify, research and negotiate investment opportunities in properties in the North West of England.

NW Fire Control Company

The NW Fire Control Limited Company (NWFCC) operates a regional control centre based in Warrington. The company has four equal partners namely: Greater Manchester Combined Authority, Cheshire, Cumbria and Lancashire Fire and Rescue Authorities.

NWFCC became operational during 2014/15 and it meets with the definition of a joint operation for group accounts purposes. However, on the grounds of immateriality it has been decided that **NWFCC is not to be included** in the group accounts. For information we have included details of the relationship with the company and its financial performance in the related parties note (note 41).

Commission for New Economy Limited (CNE)

CNE is a private company limited by guarantee without share capital. The Authority is the person with significant control and has previously included CNE in its group accounts. On the grounds of immateriality it has been decided that **CNE is not to be included** in the group accounts from 2017/18 onwards and the group position for 2016/17 has been restated to exclude the comparative figures for CNE.

Greater Manchester Accessible Transport Limited (GMATL)

GMATL is a private company limited by guarantee without share capital. The Authority is the person with significant control and has previously included GMATL in its group accounts. On the grounds of immateriality it has been decided that **GMATL is not to be included** in the group accounts from 2017/18 onwards and the group position for 2016/17 has been restated to exclude the comparative figures for GMATL.

Manchester Investment and Development Agency Service (MIDAS)

MIDAS is a private company limited by guarantee without share capital. The Authority is the person with significant control and has previously included MIDAS in its group accounts. On the grounds of immateriality it has been decided that **MIDAS is not to be included in the**

group accounts from 2017/18 onwards and the group position for 2016/17 has been restated to exclude the comparative figures for MIDAS.

Accounting Concepts and Policies

General Principles

The Statement of Accounts summarises the Authority's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These regulations require the Accounts to be prepared in accordance with proper accounting practices.

Expenditure and income relating to Police and Crime Commissioner functions and Fire and Rescue functions within the Authority's 2017/18 accounting statements will be for an 11 month period 8 May 2017 to 31 March 2018. Absorption Accounting will be used to bring the functions into the Authority's accounting statements in 2017/18.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and the Service Reporting Code of Practice 2017/18, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government Act 2003.

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.

Accounting Concepts

Going concern

The accounts are prepared on a going concern basis. This assumes that the Authority will continue in operation for the foreseeable future.

Qualitative characteristics

The usefulness of financial statements is enhanced if they are comparable. The Code of Practice promotes comparability by designating the form and content of the financial statements which include a comparison with the previous financial period. The 2017/18 statements include the transfer in by Absorption Accounting of the functions previously provided by the GM Police and Crime Commissioner and GM Fire and Rescue Authority.

These accounts, therefore, do not comply with the requirements of the Code of Practice in relation to the provision of comparative information. However, the Code of Practice acknowledges the primacy of legislative requirements which is that where an accounting treatment is required by law, then it must be applied, even if it contradicts any accounting concept or qualitative characteristic.

Accounting Policies

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 sale of goods is recognised when the significant risks and rewards of ownership are transferred to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;
- Revenue from the provision of services is recognised when we can reliably measure the completion of the transaction and where it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;
- 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 relating 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 on the basis of the cash flows fixed or determined by the contract; and
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance sheet.

Provision is made for debts that are not considered to be collectable – referred to as impairment of financial assets. This provision is calculated based on a risk assessment of each debt. The balance of debtors on the Balance Sheet is reduced by the amount of provision made.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions, Local Authorities and GM Waste Disposal Authority (GMWDA), repayable without penalty on notice of no more than 24 hours. At 1 April 2018 deposits with GMWDA will effectively cease when they become part of the Authority.

Cash equivalents are highly liquid investments that mature in no more than three months from the balance sheet date and that 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 Authority's cash management.

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, in other words, 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. If material errors are discovered in a prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Charges to Revenue for Non-Current Assets

The Comprehensive Income and Expenditure Statement is 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 Authority is not required to raise precepts, levies or district contributions to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to a minimum revenue provision (MRP) amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the 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.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an Officer's employment or an Officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an Officer or group of Officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority 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 made to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits – Pensions

Employees of the Authority are divided between two separate pension schemes: The Fire Service Pension Scheme for its uniformed firefighters and the Local Government Pension Scheme for all other staff.

The Police Pension Fund Account was established under the Police Pension Fund Regulations 2007 and is administered and managed by the Chief Constable on behalf of the Authority.

In accordance with proper practices the Authority has fully complied with the International Financial Reporting Standard IAS19 (Employee Benefits). All Pension schemes are classified as 'defined benefit' schemes under IAS19 and the accounting principles and their effect on the financial statements are explained below.

The Fire Service Pension Scheme

This is an unfunded scheme, which is administered by the Authority in accordance with Government Regulations. For such schemes as there are no investment assets, the IAS19 requires recognition of the liability and pension reserve in the Balance Sheet and transactions in the Comprehensive Income and Expenditure Account for movements in the liability and reserve. The primary objective is to allow the separation of the cost of providing pensions from the cost of running a fire and rescue service.

Under Government Regulations, if the amounts receivable by the pension fund for the year is less than amounts payable, the Authority must annually transfer an amount required to the deficit to the pension fund. Subject to Parliamentary scrutiny and approval, up to 100% of this cost is met by central government top-up grant. If however the pension fund is in surplus for the year, the surplus is required to be transferred from the pension fund to the Authority, who then must repay the amount to central government.

Local Government Pension Scheme

The Authority pays an employer's contribution into the Greater Manchester Pension Fund, which is a fully funded defined benefits scheme administered by Tameside Metropolitan Borough Council from whom an Annual Report is available.

The liabilities of the Greater Manchester Pension Fund attributable to the Authority 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 and projections of projected earnings for current employees.

The Police Pension Scheme

The Police Pension scheme for police officers is an unfunded defined benefit scheme administered by the Chief Constable. There are no investment assets built up to meet the pension liabilities and cash has to be generated from employee and employer contributions to meet actual pension payments as they eventually fall due.

Under the Police Pensions Fund Regulations 2007, if the amounts receivable by the pensions fund for the year is less than amounts payable, the Authority must annually transfer an amount required to the deficit to the pension fund. Subject to Parliamentary scrutiny and approval, up to 100% of this cost is met by central government top-up grant. If however the pension fund is in surplus for the year, the surplus is required to be transferred from the pension fund to the Authority, who then must repay the amount to central government.

Property, Plant and Equipment and Assets under Construction

These are assets having physical substance and being 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.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment 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 Authority and the cost of the item can be measured reliably. Exceptions to this are the Traffic Signals and Vehicles which are fully capitalised with no minimum level.

Repairs 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.

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; and
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Any revaluation of assets either upward or downward would be reflected in the Authority's asset base.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current 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 after any reversals of previous losses have been credited to the Surplus or Deficit on the Provision of Services.

Where decreases in value 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(s) in the comprehensive income and expenditure statement

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

- Assets under construction –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 – EUV)

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

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account. Where non-property assets that have short useful lives or low values (or both), for example vehicles, depreciated historical cost basis is used as a proxy for fair value.

Capitalisation of Interest/Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred. Borrowing costs are interest and other costs that the Authority incurs in connection with the borrowing of funds.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction. The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (in other words, it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Impairment

Assets are assessed each year as to whether there are indications that an asset may be impaired. Where reliable and consistent indications exist and 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(s) in the Comprehensive Income and Expenditure Statement

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) 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 of Property, Plant and Equipment

Depreciation has been calculated using a straight-line method (i.e. apportioned equally over each year of the life of the asset) for all assets. Depreciation is charged to the service with a corresponding reduction in the value of the asset. The depreciation charge is reversed in the Movement in Reserves Statement and a transfer made to the Capital Adjustment Account. Residual values, useful lives and depreciation methods are reviewed at each financial year end.

- Infrastructure assets - The estimated useful life of each asset has been determined by reference to the records kept by TfGM.
- Buildings – straight-line allocation over the useful life of the property as estimated by the valuer.

- Vehicles, plant and equipment – straight line allocation over the useful life of the asset as advised by a suitably qualified officer.
- Freehold land and community assets are not depreciated.

Where an asset has major components with different estimated useful lives, these are depreciated separately.

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.

Derecognition of Property, Plant and Equipment

An item of Property, Plant and Equipment is derecognised by disposal or when no future economic benefit or service potential is expected from its use. The carrying amount of a replaced or restored part of an asset is derecognised with the carrying amount of the new component being recognised. The written off value of disposals is reversed through the Movement in Reserves Statement to the Capital Adjustment Account.

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 for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal of £10,000 or more are categorised as capital receipts, are credited to the Capital Receipts Reserve (CRR), and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the relevant Mayoral or GMCA CRR from the relevant Mayoral or GMCA Balances in the movement in reserves statement.

The written-off value of disposals is not a charge against statutory funding, 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 relevant General Fund balance in the movement in reserves statement.

Revaluations

A rolling programme of revaluation of land and buildings is contained within the Authority's Asset Management Plan. This rolling programme caters for the re-valuation of all fixed assets and is carried out over 5 years.

Fair Value

The Authority measures some of its non-financial assets, such as Investment properties, and some of its financial instruments at fair value at each reporting date, if material. 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 Authority measures the fair value of an asset or liability on the same basis that market participants would use when pricing the asset or liability (assuming those market participants were acting 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.

Financial liabilities and financial assets are carried in the balance sheet at amortised cost, they are shown below. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions;

- For loans from the PWLB, new borrowing rates from the PWLB have been applied to provide the fair value
- For non PWLB loans payable, prevailing market rates have been applied to provide the fair value
- No early repayment or impairment is recognised
- The fair value of trade and other receivables and creditors is taken to be the invoiced or billed amount
- The fair value of the available for sale assets is the carrying amount

The Authority uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or 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 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 where market data is not available.

Componentisation Policy

The Code of Practice on Local Authority Accounting requires each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the asset to be depreciated separately. Where there is more than one significant part of the same asset which have the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge. In practice this can be achieved by only separately accounting for significant components that have different useful lives and/or depreciation methods. The requirement for componentisation for depreciation purposes is

applicable to enhancement and acquisition expenditure incurred and revaluations carried out from 1 April 2010.

Revenue Expenditure Funded by Capital Under Statute

Revenue Expenditure Funded by Capital under Statute (REFCUS) is expenditure of a capital nature that does not result in the creation of a non-current asset on the Balance Sheet. Expenditure is charged to the Deficit / (Surplus) on the Provision of Services as the expenditure is incurred. This is reversed out through the Movement in Reserves Statement and a transfer made to the Capital Adjustment Account.

Minimum Revenue Provision

The Authority is required to make a provision for the repayment of an element of the accumulated capital expenditure each year, financed by borrowing, through a revenue charge, in accordance with the Minimum Revenue Provision (MRP) requirements. Regulations have replaced the detailed formula for calculating MRP with a requirement to be prudent. The MRP policy is agreed by the Authority and details the basis of the provision. The MRP policy is detailed within the Treasury Management Strategy.

For all capital expenditure incurred before 1 April 2008 the Authority's policy is to adopt the regulatory method (4% of capital financing requirements).

For capital expenditure incurred on Metrolink and Greater Manchester Transport Fund Schemes after 1 April 2008, MRP is deferred until the year after the asset has been commissioned into use and will be on an annuity basis over the estimate useful life. For capital expenditure incurred on assets relating to Policing Services after 1 April 2008, MRP is charged on a straight line basis over the expected useful life of the asset. For capital expenditure incurred on Fire and Rescue Services between 1 April 2008 and 31 March 2012 using supported capital expenditure approvals, MRP is charged using the regulatory method, and after 1 April 2012 using unsupported borrowing, MRP is charged on a straight line basis over the expected useful life of the asset.

Capital and Revenue Grants and Contributions

Revenue Grants and Contributions

All revenue grants and contributions to the Authority relate to a specific service. Where conditions have been met revenue grants and contributions are credited to the relevant Running Costs line within Cost of Services. When the expenditure relating to specific grants has not been incurred the Authority has elected to make a contribution equivalent to the unspent amount of grant to an earmarked reserve. This reserve will be released in future financial years when the expenditure to which the grant relates is incurred.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as receipts in advance. 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-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Capital Grants and Contributions

Where conditions have been met, capital grants and contributions are credited to Taxation and Non Specific Grant Income in the Comprehensive Income and Expenditure Statement. The balance of the grant or contribution that has not been used to finance expenditure is transferred to the Capital Grants Unapplied Account via the Movement in Reserves

Statement. The amount of grant or contribution that has been used to finance expenditure is transferred to the Capital Adjustment Account via the Movement in Reserves Statement. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account when they have been applied to fund capital expenditure.

Grants and Contributions relating to Revenue Expenditure funded by Capital under Statute (REFCUS)

Where conditions have been met, these grants and contributions that are attributable to assets not owned by the Authority (Revenue Expenditure Funded by Capital Under Statute) are credited to the Capital Grants Receivable line within the Cost of Services. They are then transferred to the Capital Adjustment Account when the related expenditure has been incurred via the Movement in Reserves Statement. If the grant is not spent it goes to the Capital Grants Unapplied reserve via the Movement in Reserves Statement. When spent, it is transferred from the Capital Grants Unapplied reserve to the Capital Adjustment Account.

Any capital grants and contributions which have been received from the Department for Transport which relate to non-Authority projects are credited to the Creditors Account. When a grant and contribution is paid to the relevant district Authority the Creditors Account is reduced accordingly.

During 2017/18 the Authority was the accountable body for Transport for the North (TFN) receiving grant income from the Department for Transport on their behalf. This grant money has been paid out to relevant contractors performing work on behalf of TFN, and the balance will be paid over to TFN in the new financial year when it achieves statutory status and the Authority will cease to be the accountable body.

Local Taxation

Council Tax

Council Tax Precepts were set by GM Fire and Rescue Authority and GM Office for the Police and Crime Commissioner for the financial year 2017/18 in their capacity as major preceptors. The income from these precepts from 8 May 2017 became income due to GMCA under the Parliamentary Orders which abolished the two entities and transferred their functions to GMCA. The income received is to be accounted for in the Mayoral General Fund and the Mayoral Police Fund respectively.

In their capacity as billing authorities the District Councils of Greater Manchester act as agents: they collect and distribute council tax income on behalf of the major preceptors and themselves. The cash collected by the billing authorities from council tax debtors belongs proportionately to the billing authorities and the major preceptors. There will therefore be a debtor/creditor position between the billing authorities and GMCA to be recognised since the net cash paid to GMCA in the year will not be its share of cash collected from council tax payers.

NNDR

From the 1st April 2013 the District Councils as billing authorities of Greater Manchester have acted as agents; they have collected National Non Domestic Rates (NNDR) income on behalf of Central Government, the GM Fire and Rescue Authority up to 7 May 2017 and now for GMCA from 8 May 2017 as well as themselves.

The NNDR income distributed to each of the parties is the amount after deducting an allowance for the District Councils cost of collection. The NNDR cash collected by the billing authorities through the national scheme belongs proportionately to Central Government, the District Council and GMCA; there will therefore be a debtor/creditor position between these parties to be recognised since the net cash paid in the year to each party will not be their share of the cash collected from business ratepayers.

For 2017/18 Greater Manchester is a pilot area for the 100% Business Rates Retention Scheme and the relevant shares of NNDR income for 2017/18 are Central Government (0%), GM District Councils (99%) and GMCA (1%).

For both council tax and NNDR, the income reflected in the CIES in 2017/18 is GMCA's share of the income relating to that year. However the amount of council tax / NNDR income that can be credited to the General Fund for the year is determined by statute and may be different from the accrued income position shown in the CIES. An adjustment is made via the Movement in Reserves Statement for the difference between the income due under proper accounting practice and the income per statute.

Financial Assets

Financial assets are classified into two types:

- Loans and receivables - assets that have fixed or determinable payments but are not quoted in an active market
- Available for sale assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables (e.g. investments and debtors) are initially measured at fair value and carried at their amortised cost (when the interest received is spread evenly over the life of the loan). Credits to the Financing and Investment Income line within the Comprehensive Income and Expenditure Statement for interest received are based on the balance sheet amount of the asset multiplied by the effective interest rate for the financial instrument.

For the loans that the Authority has made this means the amount shown in the balance sheet is the outstanding principal receivable plus accrued interest. The amount of interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year per the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the Contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority 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 Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable plus accrued interest. The interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

For Lender Option Borrower Option (LOBO) loans the effective interest rate has been calculated over the life of the loan. This is an average and differs from the amounts actually paid in the year. The difference between the calculated interest charge and interest paid has been adjusted in the carrying amount of the loan and the amount charged in the Comprehensive Income and Expenditure Statement is the effective interest rate for the life of the loan rather than the amount payable per the loan agreement. A statutory over-ride allows the reversal of this difference through the Movement in Reserves Statement in order to charge the actual interest payable to the General Fund.

Impairment of non-financial assets

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 line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) 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.

Unquoted Equity Investments at Cost less Impairment

Unquoted Equity Investments at Cost less Impairment are recognised on the trade date, i.e. the date the Authority becomes committed to the purchase and would not be able to avoid acquiring it without breaking the contract, rather than the date the settlement takes place (if this is a later date).

If there is no quoted market price for the asset, then a reliable valuation technique should be applied. This could be a discounted cash flow analysis of dividends received or a valuation of the Authority's share of the company. The inputs to the measurement techniques are categorised into three levels:

- Level 1 inputs – quoted price in an active market for identical assets that the Authority can access at the balance sheet 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. If the application of all relevant valuation techniques produces a significant range of reasonable fair value estimates such that no valuation would be reliable, the instrument is exempted from fair value measurement and is carried at cost less impairment.

Value Added Tax (VAT)

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

Reserves and Balances

The Authority sets aside specific amounts as reserves for future policy 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 in that year to score against the Surplus and Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement and employee benefits and they do not represent usable resources for the Authority.

From 2017/18 onwards the Authority will keep memorandum accounts to hold the ring fenced reserves and balances relating the new Mayoral General Fund and the Mayoral Police Fund.

Earmarked reserves and general fund balances from GM Fire and Rescue Authority as at 7 May 2017 will transfer to the Mayoral General Fund.

Earmarked reserves and general fund balances from GM Office for the Police and Crime Commissioner as at 7 May 2017 will transfer to the Mayoral Police Fund.

Revenue

Revenue is a sub-set of income and is defined as the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth.

Revenue from sale of goods is recognised when the significant risks and rewards of ownership are transferred to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;

Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

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 has been recognised but cash has not been received or paid, a debtor 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.

Rentals receivable under operating leases and secondary rentals received and retained by the group under finance leases are credited to income as they arise. Any premia or incentives within the lease are recognised within income on an equal basis over the term of the lease.

Contingent assets

A contingent asset arises where an event has taken place that gives the Authority 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 Authority.

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.

Contingent liabilities

A contingent liability arises where an event has taken place that gives the Authority 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 Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

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

Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

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

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

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

Events after the balance sheet date

Events after the balance sheet date are those events that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue.

Where these provide evidence of conditions in existence at the balance sheet date, the amounts recognised in the accounts are adjusted.

Where these are indicative of conditions that arose after the balance sheet date the amounts in the accounts are not adjusted. This is known as a non-adjusting event and is disclosed as a note to the accounts.

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

Interests in Companies and Other Entities - Group Accounts

The Authority is required to produce group accounts where it has interests in subsidiaries, associates and/or joint ventures unless interest is considered not material. The group boundary is dependent upon the extent of the Authority's control or significant influence over the entity which is based on the requirements of IFRS10, IFRS11 and IAS 28.

Inclusion in the Authority group is dependent upon the extent of the Authority's interest and power to influence an entity. The Authority is considered to control an entity if it has power over the entity, exposure or rights to variable returns from its interest with the entity and the ability to use its power to affect the level of returns. The determining factor for assessing the extent of interest and power to influence is either through ownership of an entity, or representation on an entity's board of directors/trustees.

An assessment of all the Authority's interests has been carried out during the year, in accordance with the Code of Practice, to determine the relationships that exist and whether they should be included within the Authority's group accounts. As such, Group accounts have been prepared for the Authority to include Transport for Greater Manchester, Greater Manchester Police and North West Evergreen Holdings LP. The prior year figures for the group have been restated to remove those organisations which are classed as immaterial. These are: Greater Manchester Accessible Transport Ltd; Commission for New Economy; and Manchester Investment and Development Agency Service.

Discretionary Benefits

The Authority 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 that are applied to the Local Government Pension Scheme.

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 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 Authority. 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 which 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 so that holiday benefits are charged to the General Fund in the financial year in which the holiday absence occurs.

Private Finance Initiative (PFI)

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

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. When establishing the recognition point of an asset, the Authority considers when probable and future benefits of the asset will flow to it and the extent to which the cost of the asset can be reliably measured.

PFI and similar contracts recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Authority.

The amounts payable to the PFI operators each year are analysed into the following elements:

- **Fair value of the services received during the year** – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- **Finance costs** – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **Contingent Rents** – Increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **Payment towards liability** – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- **Lifecycle replacement costs** – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

The Authority is deemed to control the services provided under its PFI arrangement for the Stretford Fire Station site. The Authority also has a PFI contract for the construction and maintenance of 17 police stations across Greater Manchester whereby the contractor will operate and service the stations for 25 years after which ownership will revert to the Mayor of Greater Manchester for nil consideration. The accounting policy for PFI's and similar arrangements has been applied to these arrangements and the assets are recognised as Property, Plant and Equipment in the Balance Sheet.