



ASSETS AND BORROWING POLICY

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INTRODUCTION

Since becoming established in 2004, arc21 has incurred only revenue expenditure, receiving revenue funds from Member Councils to fund operational expenses, and contractual obligations.

As part of the ongoing development of the organisation, arc21 will soon become funded through Revenue and Capital sources of finance.

This document sets out the proposed treatment of Capital Assets and their associated funding. The policy will also be in accordance with Local Government Accounting Legislation, the Financial Reporting Standards, the DOE Accounting Directives, the Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice (SORP). In addition guidance will be taken from the Prudential Code.

GOVERNANCE ARRANGEMENTS

As a Local Government Body, arc21 is subject to the rules and regulations established by the Department of the Environment, in relation to Borrowing.

The Terms of Agreement, under which arc21 operates, will also apply to the procedures for the acquisition and disposal of Capital Assets together with any borrowing associated therewith.

In general, a business case will be produced setting out the justification for the investment in Capital Assets together with the method of financing, for approval, subject to the Financial Limits as outlined in the Terms of Agreement, by the Steering Group, Joint Committee and Member Councils.

The role of Member Councils will be vital due to the substantial value of both the capital assets and associated long term borrowing involved. In order that Member Councils can take due account of the issues, particularly affordability considerations, consultation with the Finance Sub Group will form a key element of the governance arrangements. Comments from the Finance Sub Group will be presented to the Steering Group for consideration.

In addition, in accordance with the Statutory regulations, arc21 will require the approval of the Department to borrow and, as a consequence, will also be subject to the policies and procedures in place by the DOE – Local Government Division, required when seeking such approval.

DEFINITION OF CAPITAL ASSET

An asset will be treated as capital if it brings benefits to the organisation beyond one year.

In accordance with Financial Reporting Standard –FRS 15, all costs associated directly with the asset will also be treated as capital.

ACQUISITION OF CAPITAL ASSETS

The organisation may acquire a range of assets such as :

- Land
- Buildings
- Plant and Machinery
- Vehicles
- Long Term Contracts

Capital assets may be acquired for the purposes of the organisation in general, for example for use by the organisation for operational purposes, or may be specifically acquired for the purpose of carrying out contractual obligations on behalf of Member Councils, for example Land may be acquired in support of a specific waste facility.

ASSET REGISTER

All assets will be recorded on an asset register and will include the following information ;

- The Type of Asset
- The name of the supplier (s)
- The date of acquisition
- The cost or value at the date of acquisition
- The estimated useful economic life
- The depreciation method and amount
- The revaluation details
- The method of financing
- The period of borrowing – if any
- The Loan Providers
- The terms of the Loan
- The repayments, including interest

DE MINIMIS VALUE

In general individual assets costing up to £5,000 will be purchased through revenue and will not be capitalised. In some circumstances, similar assets may be grouped and treated as capital although each individual item may be valued at less than £5,000.

REVALUATION

Assets will be revalued at least every five years and the Balance Sheet value adjusted accordingly. Any difference between the cost of the asset and its revaluation will be accounted for in the specific asset category and the Fixed Asset Restatement Account, in the Balance Sheet.

The revaluation will be conducted by the District Valuer or a suitably qualified valuer.

FINANCING OF CAPITAL ASSETS

Capital assets may be financed as follows;

- Loan Finance including Leasing
- Grant Aid
- Capital Receipts – proceeds from the sale of capital assets
- Capital Funds / Repairs and Renewals Funds
- Revenue Contributions

LOAN FINANCING - LOAN CHARGES

In the event that Capital Assets are acquired by Loans (including Leases), the amount so borrowed plus interest, known together as Loan Charges, will be charged to Member Councils on the following basis ;

- Capital Assets acquired for General Use

Charged on Annual Population Basis

- Capital Assets acquired for Contractual Obligations :

(For those Councils taking part in the related contract)

(1) During the Construction Phase

Charged on Total Estimated Contract Tonnage

(2) During the Operational Phase

Charged on Tonnage Delivered Basis

For cashflow purposes, the amount of Loan Charges payable during the year will be charged in advance to Member Councils to ensure that sufficient funds are available to meet the repayment commitments. Where the Loan Charges are estimated for the year, a year end reconciliation exercise will be undertaken and the appropriate adjustments made to Member Councils.

LOAN FINANCING – LOAN CHARGES (Continued)

In terms of Loan Charges specifically related to contractual obligations, the charges applied to Member Councils, when the contract is operational, will be based on the estimated tonnage for the year with adjustments being made at the end of the year to reflect the actual tonnage delivered, subject to any minimum guaranteed tonnage.

GRANT AID

Receipts by way of Capital Grant will be wholly used to reduce the level of borrowing, if any, required to acquire a Capital Asset.

Subject to any repayment conditions, the Capital Grant will be taken to the Deferred Grants Reserve Account and then allocated over the estimated economic life of the asset.

In this way the amount chargeable to Member Councils by way of Loan Charges will be reduced by the Capital Grant.

CAPITAL RECEIPTS – PROCEEDS FROM THE SALE OF CAPITAL ASSETS

In the event of Capital Assets being disposed, the amount received from the proceeds of sale will be treated as a Usable Capital Receipt and, subject to the Legislation, will be utilised to repay any loans outstanding on the specific asset sold with any remaining amount applied to borrowings on other assets.

Any amount remaining after all debt has been repaid may then be used only for the purposes of acquiring other Capital Assets, subject to the approval of the Joint Committee.

CAPITAL FUND AND RENEWAL AND REPAIRS FUND

A Capital Fund and Renewal and Repairs Fund may be established for the purposes of acquiring Capital Assets or for the purposes of funding major Renewal and Repairs Programmes during the estimated useful economic life of Assets.

Where a Capital Asset has been subject to a major Renewal and Repairs Programme, its useful economic life will be reviewed and the Balance Sheet / Asset Register adjusted accordingly.

REVENUE CONTRIBUTIONS

Revenue Contributions will be made out of revenue reserves for the purposes of financing Capital Assets, including the repayment of Loans / Leases, subject to the approval of the joint Committee.

REVIEW OF PUBLIC ADMINISTRATION

The ongoing Review of Public Administration (RPA) will impact upon the Assets and Liabilities of arc21 in the same way that it will impact on all other Local Government Bodies.

At this stage the impact is unknown and it is presumed that Legislation will be introduced in due course setting out the revised legal arrangements which will apply and at that time a review of the Capital Assets and Liabilities will be undertaken in accordance with RPA.