3. Critical Judgements in Applying Accounting Policy

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

• There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision and we believe we will remain a going concern into the future.

• The Council has the right to appoint the majority of delegates on the board of the Swimming Bath Trust and as management agents has control over the financial and operating policies of the pool. Also, the Council deficit funds the operations of the pool, which was £210k in the period 01/04/15-31/08/16. It has been determined that the Council has control of the Trust and should be treated as a subsidiary. However, due to the value of the leisure centre being revalued to nil in 2014/2015 the Council have decided not to prepare group accounts on the basis of immateriality. The Trust has submitted its final accounts to the Charity Commission and is in the process of beign wound up so this will be the last year it is included within our accounts.

• The Council's former insurers Municipal Mutual Insurance Limited ceased trading in 1992 and the Council became a party to the scheme of administration for liabilities outstanding at that time. Previously the administrators advised that the assets would at least match the liabilities and a solvent run off of the scheme could be expected. However the directors of MMI 'triggered' MMI's Scheme of Arrangement under section 425 of the Companies Act 1985 on 13 November 2012 and Ernst and Young LLP became responsible for the management of the MMI's business, affairs and assets in accordance with the terms of the Scheme. The claw back scheme to which Tewkesbury is subject provides for a maximum liability of £169,775. Ernst and Young suggested an initial levy rate of 15% to achieve a solvent run off and this was increased to 25% on 1 April 2016. We have provided for an additional 10% in long term provisions as we have not had any confirmation that this would be the final payment.

• The level of provision for business rate appeals under the business rate retention scheme has been calculated using historic appeals information. Those on the list at 31 March 2017 with a code of grounds where we have statistical information relating to the success and outcome of past appeals have been calculated using the average success rate and rateable value lost. The appeals relating to Virgin Media are treated separately as these are unique cases that were heard as part of a special programme and we will use a variety of sources to determine a suitable appeals provision, e.g. 1 April 2017 rating list figures.

• The Council is required to consider whether there are unlodged appeals in respect of Business Rate payments which could have a material impact on the Statement of Accounts. The current scheme, set up in 2013/2014, uses a baseline assessment of expected income from Business Rates. This has been used by DCLG to then set the risk that the council is exposed to from changes in income collected. This baseline was set for 5 years.
From 1st April 2017 a new rating list is in force and so appeals relating to the 2010 list can only be made: within six months of a notice or where the proposal is following a Valuation Tribunal or higher court decision (within six months of compilations, i.e. 30th September 2017) so the risk of unlodged appeals is minimal. Also the government has set a safety net which is 97.5% of the baseline figure so the maximum loss to the council will 2.5% of the baseline plus any allowed growth (£388,098 based on 2016-17 figures). This maximum is not material and we are already in a safety net position this year so have suffered this loss already. Therefore no allowance for unlodged appeals is necessary.

• IAS 19 disclosures include information on the assets that make up the Local Government Pension Scheme for the Council as required under 6.4.3.42 (8) of the Code of Practice. We have taken the decision to disclose, in summary, the categories that the Pension Fund have invested in. The Council does not directly influence the activities of the Fund and as the fund assets do not impact on the revenue account it is our decision that the disclosure is sufficient in line with section 6.4.3.42 (2) of the Code of Practice. Should further information be required on the categories of pension assets and the decision making on the strategy for investment then we would direct the query to the Pension Fund administrators.

• The Council joined a Local Authority owned company, Ubico, on the 1 April 2015. This company provides a range of environmental services for the Council. During the year Gloucestershire County Council joined, which has taken the number of owners up to a total of 7. Each Council has one share interest in Ubico.
We are required to consider whether the Council has an interest in this company and whether the Council should produce Group Accounts.
Our conclusion is that Ubico represents a separate vehicle. However when considering joint arrangements, under IFRS12, our assessment is that on the test of whether there is Joint Control per section 9.1.2.10 of the code, there is no evidence to support this.
We have then considered whether under IAS28, that we have significant influence, per 9.1.2.22 of the Code. This is due to their being 7 equal shareholders, which means our interest in Ubico is below the 20% threshold which is an indication of holding significant influence. Other factors which we have considered include representation on the board, participation in policy making, material transactions and management influence. Our judgement is that there is no persuasive evidence that the Council has a significant level of control over the strategic direction and operation of Ubico. Therefore Group Accounts do not need to be produced.
The Council has accounted for the cost incurred in operating a service contract with Ubico and also the interest the Council has as a Shareholder, however the Council's statements do not reflect any interest in assets and liabilities that we have in the company.
Ubico's Statement of Accounts are available from Companies House.

• A provision for future redundancies has been made in respect of a service restructure. The proposed restructure has been formally agreed by Council and the plan has been communicated to all affected employees. As it is unlikely that significant changes will be made to the plan, an expected completion date is communicated and the number of employees affected along with their job classifications are identified then a provision can be reliably estimated.

• The council has to make judgements whether a lease is an operating lease or a finance lease and has assessed the following:

- the council has bought a new refuse fleet which it leases to Ubico Ltd to use for Tewkesbury Borough refuse and recycling only. The lease is for 5 years and all costs associated with the fleet are recharged to the council. This along with other factors show that all the material costs and risks belong to Tewkesbury and so it is shown as an operating lease within our accounts.

- an investment property was recently purchased for £15m which included a tenant with a lease term remaining of 12 years. The authority has decided that, on the balance of the risk and rewards, this should be classified as an operating lease.

- the council built a new leisure centre and leases it to Places for People Ltd to run (for an initial lease term of 15 years). This is also considered to be an operating lease in the council's accounts due to factors such as lease term, peppercorn rent and residual value and demonstrates that the majority of risks and rewards are attributable to us.

• A decision has been made to classify the following Plant, Property and Equipment as investment properties:

- Challenge House was purchased for £15m purely for the in situ tenant and novation of the current lease to obtain rental income over the next 12 years. There is no service related provisions in the contract and it is held purely for the capital appreciation and revenue return.
- Former land on which Cascades stood (Spring Gardens) - this is not being used as car parking and is being held purely to obtain either a capital receipt or rental income.

The new leisure centre is not classified as an investment property and is instead an operational property. The leisure centre was built purely for the provision of leisure facilities and, although a slight return is made, it is incidental to the service provision for the borough.