

Accounting and Financial Policies

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1 Introduction

- 1.1 In order to maintain sound financial management and to ensure that the organisation complies with Treasury guidance and best practice, the Gambling Commission is committed to undertaking a review of its accounting and financial policies on an annual basis. This formal review is particularly important at the present time as the Commission seeks to implement the accounting and reporting changes under IFRS requirements.
- 1.2 The Commission's current Accounting Policies have been reviewed against HM Treasury's IFRS Financial Reporting Manual (iFReM) guidance (Appendix A) to ensure statutory reporting requirements are continuing to be met.

2 Financial Policy Approval Process

- 2.1 It is proposed that the financial policies shall be considered and approved as follows, prior to formal adoption by the Commission:
- Finance Services Manager to prepare and review.
 - Director of Finance to review and agree.
 - Draft policies made available for review by MB.
 - Chief Executive, as Accounting Officer to review and agree.
 - Final policies published on Intranet.

3 The Financial Policies

- 3.1 The proposed Gambling Commission financial policies are detailed in Table A below. For guidance, the most significant amendments to the current financial policies are:
- Application fee income for 2007/08 onwards (Policy Area 1)
 - Licence fee income for 2007/08 onwards (Policy Area 1)
 - Fixed Asset Capitalisation (Policy Area 13)
- 3.2 Over the course of the year, the financial policies in relation to income recognition and capital accounting have been reviewed, resulting in further clarification. The associated papers presented to the Board are detailed in Appendix A and Appendix B. These revisions will be formally adopted within the financial policies, and presented to the Board for approval.

Table A

The Financial Policies

Policy area	Policy Aims	Policy Statement
<p>1. Fee Income</p>	<p>The Commission will work with DCMS to ensure that fees are set at such a level as to allow the recovery of the full cost attributable to the provision of each licensed service, including an appropriate contribution to overheads, in line with HM Treasury guidance on Fees and Charges.</p> <p>The Commission will ensure the efficient and effective collection of fees and account properly for that income and associated costs.</p> <p>Income will be matched to the work and costs associated with that income and drawn down accordingly</p>	<p>Fees will normally be reviewed and set annually by DCMS in consultation with the Commission. Exceptionally, fees may be set for interim periods.</p> <p>Fees will be set to allow the recovery of the costs fully attributed to each licensing service.</p> <p>Under the 2005 Act, a licence application must be accompanied by the full fee to be valid. This fee income shall be recognised in accordance with the work undertaken in processing the application. Income will therefore be assigned as “Work In Progress” (WIP) within the Balance Sheet, and shall only be allocated as income as work is completed.</p> <p>Allocation of WIP will be undertaken on a monthly basis, using revenue drivers linked to licensing activity. The accuracy and relevance of each revenue driver will be reviewed regularly.</p> <p>Regular reconciliations (at least monthly) of the application fee income and WIP shall be undertaken and any surplus WIP shall be transferred to reserves and any shortfall will be funded from the appropriate reserve account.</p> <p>Annual fees must be paid on or before the annual anniversary of the grant of the licence, in accordance with the 2005 Act and Regulations made under that Act.</p> <p>Income received in respect of personal licences and personal licence maintenance fees shall be allocated over a five year period on an accruals basis. This allocation will be on a ‘straight line’ basis.</p>

Policy area	Policy Aims	Policy Statement
		<p>The Commission’s fee income, derived from its core activity of regulation, is considered to be its ‘Operating Income’ in a reporting context.</p> <p>The disclosure of the Turnover in statutory financial reports will conform with UK GAAP requirements, and HM Treasury and FReM guidance.</p> <p>Reconciliation of fee income between bank balances and the Commission information systems shall be carried out on a regular basis (at least monthly).</p>
<p>2. Grant-In-Aid Income</p>	<p>Compliance with the terms and conditions of Grant-in-Aid funding to the Commission</p>	<p>The Commission will plan and account for Grant-in-Aid income on an accruals basis in accordance with UK GAAP requirements, and HM Treasury and FReM guidance.</p> <p>In accordance with FReM guidance, revenue and capital Grant-in-Aid funding will be accounted for as ‘Financing’, and reported within the ‘Reserves’ section of the Income and Expenditure Statement.</p> <p>The Commission will comply with the terms and requirements of Grant-in-Aid funding as set out in the Funding Agreement and Management Statement and Financial Memorandum.</p>

Policy area	Policy Aims	Policy Statement
<p>3. Budgeting and Forecasting</p>	<p>Compliance with the targets and reporting requirements of the Funding Agreement and the Management Statement and Financial Memorandum agreed with DCMS.</p> <p>The Commission will have comprehensive budgeting and planning processes in place to enable accurate forecasting and reporting of income and expenditure streams</p>	<p>The financial forecast within the Corporate Plan will cover a period of at least three years.</p> <p>The Commission will maintain a three year rolling budget forecast, which will be reviewed annually as a part of the review of the Commission’s Corporate Plan.</p> <p>The Commission will undertake an annual planning and budgeting process, which includes non-financial performance measures and current financial forecasts. The budgeting process will ensure the involvement and ownership by department managers of the financial budgets and related non financial performance measures for their area of operational responsibility.</p> <p>The Commission will undertake financial re-forecasting exercises at quarterly intervals throughout the financial year and monitor performance accordingly</p> <p>Budgets will be prepared in a transparent way and will recognise the need to conduct the Commission’s operations in a cost effective and efficient manner.</p>

Policy area	Policy Aims	Policy Statement
<p>4. Management Information</p>	<p>The Commission will agree the annual budget and will receive reports on quarterly re-forecasts.</p> <p>Management information will be reported to each meeting of the Commissioners,</p> <p>Management information will be provided to DCMS as required in the Funding Agreement and the Management Statement and Financial Memorandum.</p> <p>Production of timely, accurate and ‘user friendly’ departmental management information</p> <p>The Commission will maintain a high level of transparency and accountability to the industry for the fees it charges and to other stakeholders for the activities conducted.</p>	<p>The Commission will prepare and agree a comprehensive, balanced budget in advance of each financial year.</p> <p>A summary of the financial and non financial performance of the Commission’s operations will be provided to each Commission meeting.</p> <p>A summary of the financial and non financial performance of the Commission’s operations will be provided to the sponsor department in accordance with the terms and conditions of the Funding Agreement and the Management Statement and Financial Memorandum.</p> <p>The Commission will prepare and distribute financial and non-financial departmental management information reports, on at least a monthly basis, to departmental heads and budget holders.</p> <p>Material variances to forecast/budget will be highlighted and budget holders will be required to provide commentaries covering their current and anticipated departmental performance within agreed timescales.</p> <p>Reports and management commentaries will be reviewed by senior management, including the designated Accounting Officer.</p> <p>A departmental “Balanced Scorecard” report will be produced on a monthly basis, incorporating financial and non-financial Key Performance Indicators.</p> <p>The Commission will make appropriate information on its financial and non-financial performance publicly available in its annual report and in support of any consultation on its fees.</p>

Policy area	Policy Aims	Policy Statement
<p>5. Treasury Management</p>	<p>The proper management of cash in line with Government's requirements and the effective conduct of business. Sufficient safeguards to ensure that the Commission is adequately protected against fraud and error.</p>	<p>Treasury management comprises the management of all monies and capital market transactions in connection with the cash and funding sources of the Commission.</p> <p>The responsibility for treasury management lies with the Accounting Officer, but will be delegated to the Director of Finance as appropriate.</p> <p>The Commission will ensure that all income received and other cash handling arrangements are controlled and secure in order to minimise the risk of fraud and error. Appropriate segregation of duties shall be adopted to ensure that all income is handled and recorded. Banking of income will be carried out in a timely manner and at the earliest opportunity.</p> <p>Bank reconciliations shall be undertaken on a regular basis (at least monthly).</p> <p>The Commission's bank accounts will be kept in credit and, under the terms of the Grant-in-aid funding agreement and 2006/07 Management Statement and Financial Memorandum, working capital balances will be kept to a minimum. Regular cash flow forecasting exercises will be undertaken to ensure these requirements are met.</p> <p>The Commission can only borrow money through DCMS.</p> <p>The principle of maximising the earning of interest income through transferring funds surplus funds to a reasonable to deposit accounts will be reviewed and agreed with DCMS.</p> <p>Although it is envisaged that the minimal bank balance requirement shall no longer be applicable from 2007/08, the Commission will continue to undertake regular working</p>

Policy area	Policy Aims	Policy Statement
		<p>capital forecasting.</p> <p>The number of bank accounts in use will be restricted to one current account and one deposit account unless there is a specific need to separately account for funds held 'in trust' for repayment to a third party. The opening of any additional bank accounts must be approved by the Accounting Officer.</p> <p>The amount of cash held at any location will be kept to an absolute minimum, with cash receipts being banked promptly. Where cash balances are held, i.e. petty cash imprests, inspector imprest accounts etc, they will be regularly accounted for, and reconciled to the accounting records (at least monthly).</p> <p>The Commission will review the performance of its bankers regularly (at least every three years) with the aim of ensuring access to competitive banking services by means of regular benchmarking, eg deposit interest, bank charges and range and delivery of service facilities such as ebanking.</p> <p>The regular review of the services provided by the banking provider will be conducted in accordance with the government's guidelines on procurement within the public sector.</p> <p>The Commission will regularly update forecasts (at least monthly) of its funding requirements to maximise the benefits that can be derived from the various funding and treasury management arrangements in place.</p>

Policy area	Policy Aims	Policy Statement
<p>6. Travel and Subsistence</p>	<p>Expenses incurred by Commissioners, management and staff must be wholly and exclusively business related, and subject to an approval process in accordance with the Commission's financial and delegated authority policies.</p> <p>The Finance/Procurement team will obtain the most economic, effective and efficient means of managing travel and related expenditure. This will include the provision of a centralised ordering function, limiting the number of suppliers where appropriate, to obtain discounts for repeat business and/or to maintain control.</p>	<p>All claims for reimbursement of business related expenditure will be made in accordance with the Commission's travel and subsistence policy and must be supported by the required documentary evidence.</p> <p>Train and air travel and accommodation costs will normally be arranged through the Commission's central purchasing arrangements.</p> <p>All personal expense reimbursements must carry a declaration by the claimant that the expenditure has been properly and reasonably incurred.</p> <p>The Commission will operate a 'self certification' policy for expense claims of £350 or less in any one month. To ensure propriety and relevance, the Director of Finance shall undertake regular expense claim audits, on a risk based sample. Claims in excess of £350 must be authorised by the appropriate line manager with delegated authority.</p> <p>A benchmarking exercise will be undertaken regularly to ensure that all travel related goods and services are being acquired in a cost effective and efficient manner.</p> <p>Any amendments or alterations to the Travel and Subsistence policy shall be approved by HMRC prior to adoption by the Commission.</p>

Policy area	Policy Aims	Policy Statement
7. Debtors	<p>The Commission will actively seek to recover all monies owed to them.</p> <p>Agreed debt recovery procedures will be followed to ensure that all debts are recovered in a cost effective and timely manner.</p>	<p>The Commission will adopt a commercial approach to working capital management, through the use of regular debtor status reporting. The status reports will be reviewed for the recoverability of monies owed to the Commission.</p> <p>The Commission will follow normal commercial debt recovery procedures to ensure that any outstanding debts are recovered in a cost effective and timely manner.</p> <p>Any bad debts will be considered by the Accounting Officer prior to being written off as non-recoverable, in accordance with financial and delegated authority policies.</p>

Policy area	Policy Aims	Policy Statement
<p>8. Payroll and Pension</p>	<p>The Commission aims to provide its staff with a timely, accurate and responsive payroll and pension processing service.</p>	<p>The appointment of all employees to the Commission will be conducted in accordance with the Commission's policies and procedures. Policies relating to terminations and resignations of employees are also in place.</p> <p>The Director of Finance will be responsible for keeping all records relating to the processing and reconciliation of payroll. Pension records shall also be maintained by the HR function.</p> <p>All payments to employees will be made in accordance with the HR Pay & Reward policy, and in accordance with the Commission's (financial) payroll processing procedures. The Finance team will ensure that payments, made by or on behalf of the Commission, are timely and accurate and in line with statutory obligations.</p> <p>The outsourced payroll processing service will be reviewed at least every three years, to ensure the service is being provided in a cost effective and efficient manner.</p> <p>Payroll and Pension provisions/ contributions shall be accounted for in line with FReM guidance.</p>

Policy area	Policy Aims	Policy Statement
<p>9. Governance</p>	<p>In order to maintain and build upon its reputation as an effective regulator, the Commission will ensure a high level of transparency in its governance activities.</p>	<p>The Commission will review its responsibility for good governance to ensure that its policies and procedures promote a high level of transparency and accountability in its dealings with the industry and other stakeholders.</p> <p>The Commission will strive to minimise and manage the risks to the organisation effectively by adopting best practice approaches to risk management. The Risk Committee will meet at least quarterly</p> <p>All employees are required to comply with the Commission’s anti-fraud policy.</p> <p>The Commission recognises it has a duty to protect public assets and will ensure that its policies and procedures meet the standards of probity expected of public sector bodies, as well as ensuring that the resources available to it are applied only in the furtherance of the Commission’s legitimate strategies and objectives.</p> <p>The declaration of interests and the acceptance of hospitality and gifts will conform with the Codes of Conduct for Commissioners and employees.</p>

Policy area	Policy Aims	Policy Statement
<p>10. Procurement</p>	<p>Government and EU regulations must be adhered to.</p> <p>Payments must utilise terms and conditions to ensure good treasury management.</p> <p>Management information should be kept to adhere to government requirements.</p> <p>Value for Money (VFM) must be achieved.</p> <p>Delegation limits will be set and a clear segregation of duties achieved between purchasing, ordering and receipting.</p>	<p>The Director of Finance is responsible for ensuring that the Commission complies with its legal obligations concerning UK and European procurement regulations.</p> <p>The Director of Finance is responsible for making all payments to the Commission’s suppliers of goods and services.</p> <p>The Commission will seek to achieve value for money in all procurement activities, in accordance with ‘best commercial practice’ and the guidance issued from time to time by the National Audit Office, the Public Accounts Committee or other relevant bodies. In order to achieve this and to maintain sound financial control, the Commission will establish a central Purchasing function.</p> <p>Management and staff will comply with the Commission’s delegated authority policy, which provides the level of authority necessary for committing the organisation to expenditure on goods and services. These delegations incorporate clear financial limits, and shall be observed by all staff prior to the issue of orders to external parties.</p> <p>The Commission is committed to the payment of suppliers in accordance with:</p> <ul style="list-style-type: none"> - any agreed contractual terms and conditions; - the Commission’s payment approval processes and delegated authorities; and - the UK Government prompt payment policy, which provides that all suppliers of goods and services to a government body should be paid within 30 days of receipt of a valid invoice for the satisfactory receipt of those goods or services, unless different contractual conditions apply.

Policy area	Policy Aims	Policy Statement
		<p>(Detailed statistics will be kept of prompt payment performance for inclusion in the monthly management reports, and the Commission’s annual report.)</p> <p>An appropriate separation of duties, for internal control purposes, will be applied to the Commission’s procurement and payment processes.</p> <p>All orders raised, goods and services received, invoices received and payments made will be promptly and properly recorded on the accounting system.</p>
<p>11. Value Added Tax Accounting (VAT)</p>	<p>The Commission is not required to be registered for VAT accounting because of its regulatory body status.</p>	<p>The Commission is not VAT registered and accounts for all financial transactions on a VAT inclusive basis. Although there are no immediate plans to apply for VAT registration, the Commission will periodically review this position.</p>

Policy area	Policy Aims	Policy Statement														
<p>12. Fixed assets</p>	<p>The Commission needs to ensure that fixed assets acquired are recognised and properly accounted for in accordance with UK GAAP and Government Accounting requirements, and the Funding Agreement and/or the Management Statement and Financial Memorandum agreed with the sponsor department.</p>	<p>The Commission’s accounts will be prepared under the historical cost convention, subject to any modification for the revaluation of fixed assets to current value, in accordance with UK GAAP and FReM guidance.</p> <p>Depreciation will be charged to assets throughout their estimated useful lives or lease periods as appropriate. Depreciation is provided on a straight line basis to write off the cost or valuation of the asset evenly over the asset’s anticipated useful life. At present, these are:</p> <table data-bbox="1308 643 1957 898"> <tr> <td>IT Hardware</td> <td>4 years</td> </tr> <tr> <td>IT Software Licences</td> <td>over the life of the licence</td> </tr> <tr> <td>IT Software Development</td> <td>7 years</td> </tr> <tr> <td>Fixtures & Fittings</td> <td>10 years</td> </tr> <tr> <td>Furniture</td> <td>10 years</td> </tr> <tr> <td>Equipment</td> <td>7 years</td> </tr> <tr> <td>Telecoms</td> <td>7 years</td> </tr> </table> <p>All “Start Up” costs associated with the office move to Birmingham and its fitting out shall be defined as Fixed Assets and capitalised accordingly. Ongoing purchases shall only be defined as a Fixed Asset if the original purchase price of an item is £2,500 or more.</p> <p>A register of fixed assets will be maintained by the Director of Finance. Assets will be inventory checked annually and a review of their values and useful lives will be undertaken. Any significant discrepancies in values or useful lives will be adjusted as necessary.</p> <p>The disposal of fixed assets, whether by sale or write off, will be approved by the Accounting Officer.</p>	IT Hardware	4 years	IT Software Licences	over the life of the licence	IT Software Development	7 years	Fixtures & Fittings	10 years	Furniture	10 years	Equipment	7 years	Telecoms	7 years
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Policy area	Policy Aims	Policy Statement
13. Security	The physical security of the Commission’s assets must be maintained. This includes security over the information held on the Commission’s information technology systems.	<p>The Commission will establish an over-arching strategy on security and policies governing information, people, asset and IT security and procedures for business continuity. This will be the responsibility of the Director of Corporate Services.</p> <p>It shall be the responsibility of the Head of Intelligence to establish the Commission’s policy on security of its data.</p> <p>The Head of IT shall ensure that adequate and up to date firewall and virus protection measures are in place to maintain the integrity and security of the IT network.</p> <p>The Finance function will be responsibility for ensuring that the maintenance of financial and statistical information comply with the security policies and practices in place.</p> <p>The Director Of Finance will ensure that suitable security measures are contractually in place with third parties that hold the Commission’s financial information, eg payroll and pensions, and that conformity with those measures is regularly monitored.</p>

Policy area	Policy Aims	Policy Statement
14. Audit Arrangements	The Commission will be subject to an external audit by the National Audit Office (NAO), and will have an internal audit function in place which complies with the relevant public sector standards.	<p>The Commission's Accounts will be audited by NAO in accordance with the requirements of the 2005 Act.</p> <p>The Commission will operate an internal audit function which will review financial and other operational areas to confirm the existence and satisfactory operation of appropriate systems of risk management and internal control and to recommend improvements where considered necessary.</p> <p>The Commission's Audit Committee will review the work of the internal audit function and follow up on any recommendations made by NAO in their annual management letter.</p> <p>The Commission will contract out the internal audit function while this remains a cost effective solution.</p>
15. Intellectual property rights and patents	Procedures will be put in place to protect the Commission's intellectual property.	<p>Any activities that give rise to ideas, designs and inventions which may be patentable, are collectively known as intellectual property and will remain the property of the Commission.</p> <p>The Director of Finance is responsible for establishing procedures to deal with any patents accruing to the Commission, including arrangements with contractors.</p>
16. Sustainability	The Commission shall formulate and adopt an environmental strategy to ensure that its activities are consistent with the Government's strategy for sustainable development.	The Commission will develop, and regularly review its Environmental Strategy, identifying the impact that the Commission has on the environment, and how this impact can be managed.

Appendix A

Income policy review

Introduction

1. The Commission has now completed the majority of its start up activity, in particular the Commission received significant fee income from fees charged under the Gambling Act 2005 for the first time in 2007/08 and must make arrangements to account properly for this income.
2. This paper reviews the Commission's accounting policy for income, reviews the Commission's income for 2007/08 in the light of that policy and proposes the approach to income recognition which the Commission will take in its 2007/08 accounts in compliance with that policy.
3. The impact of the revised policy with regard to the treatment of Personal Licence fee income is that an additional £550,000 has been identified within Personal Licence Income for the year 2007/08.

Current income accounting policy

4. The Commission receives income from the following sources:
 - Application fees for operating licences
 - Annual fees for operating licences
 - Fees for personal licences
 - Refresher fees for personal licences
 - Fees for changes to licences
 - Grant in Aid from DCMS.
5. The current policy on income accounting was agreed in September 2006 by the Transition Executive Group.

Accounting requirements

6. The Commission is required to account in accordance with the Government financial reporting manual (FReM). The manual describes the application of government accounting arrangements and relevant accounting standards to the Commission. Income accounting issues are covered in Chapter 4 of the manual which covers the operating cost statement.
7. The key requirements of the FReM, insofar as they are relevant to the Commission's position, are compliance with:
 - FRS5 Substance of Transactions Application Note G
 - UITF Abstract 40: Revenue Recognition and Service Contracts
8. In addition, the potential impact of IAS18 Revenue has been considered in preparation for compliance with IFRS.

The issues

Grant in aid

9. The FReM requires that GIA received for revenue purposes is treated as contributions from controlling parties giving rise to a financial interest in the residual interest of the Commission. As such GIA is treated as financing and credited to the I&E reserve. This is consistent with 2006/07 treatment.

Nature of fee income

10. The Commission's income from fees is (with the very minor exception of a fee for copy licences) all attributable to Regulations made by the Secretary of State under the 2005 Act and all fees are subject to HMT guidance on fees and charges. The key features are:
 - Operator annual fees are in the nature of a levy. As such they cover costs other than those directly attributable to those who hold licences (eg. enforcement for the illegal sector, elements of research work)
 - Other fees are fees and as such must relate to the costs of the services provided.
 - All fees are payable in advance and are non-refundable under the terms of the 2005 Act. To constitute a valid application, the correct fee must be paid in advance. Annual fees must be paid in advance otherwise the licence is no longer valid (subject to the proper termination arrangements). Similarly, applications for changes and variations are payable on application.

Application of UITF Abstract 40

11. Under the FReM, the terms of UITF Abstract 40 apply to the Commission.
12. Under the Act, the payment of fees to the Commission is made in full in advance and without the possibility of refund. No service requirement rests with the Commission in respect of the operator and the exercise of the Commission's functions do not constitute a contractual arrangement with operators. There is therefore no service contract within the meaning of UITF 40.

Application of FRS 5

13. The FReM position on FRS 5 is:

The objective of the application note is to ensure that entities report turnover in accordance with the substance of their contractual arrangements. It sets out the basic principles of revenue recognition, and specifically addresses different types of arrangement that give rise to income that had been subject to differing interpretations in practice in the past.
14. The Commission's turnover for these purposes is the income derived from fees. As described in paragraph 10 (above) the Commission does not have a contractual relationship with those paying the licence fees. However:
 - Work carried out by the Commission from annual fees are not directly related to the payment of the annual fee, but the clear intention of the 2005 Act and the fees consultation is that the fees will be used to support the Commission's ongoing activity.

- The Secretary of State has made it clear that the Commission's costs should be met from fees.
 - The level of activity will vary from month to month, but income from fees collected will be required to fund the Commission's activities over a 12 month period.
 - Because the Commission re-licensed the industry and new licences were predominantly issued in the last quarter of the calendar year, the majority of the Commission's income (currently some 99%) is receivable in that period.
15. It is therefore the Commission's view that the substance of the Commission's transactions requires that income be taken evenly across the calendar year. The following paragraphs set out the consequences of this approach for the Commission's fee income.
16. This approach is consistent with the requirement of IAS 18 Revenue which will apply under IFRS requirements.

Operator application fees

17. Income from operator application fees will be recognised over the target period for issuing a licence (up to 3 months). The policy set out in Appendix A was relevant for 2007/08 when bulk re-licensing was taking place, but since November 2007, WIP has not been material and income has been recognised as licences are issued. cleared. Volumes are now much lower and a simpler approach reflecting the Commission's normal working arrangements will deliver materially reliable income figures.

Operator annual fees

18. Income from operator annual fees will be recognised evenly over the period to which they relate. Deferred income in the balance sheet reflects a creditor to the Consolidated Fund, which would inherit the asset should the Commission be wound up.

Personal licence fees

19. Current policy is to take personal licence fees over 60 months, the period for refreshment of such licences. In the light of the Commission's experience to date, this does not reflect the pattern of cost associated with personal licences. The main cost burden falls on application, most notably the cost of the CRB and other checks. (The CRB check equivalent fee for a variation or change of control). Consequently, the policy will be to recognise 60% of the fee on receipt and take the balance over the rest of the licence period before refreshment.

Appendix B

Capital Accounting Policy

Introduction

1. The Commission has now completed the majority of its start up activity, in particular the building fit out, the installation of the IT infrastructure and the installation of key software.
2. This paper reviews the Commission's current accounting policy for capital, reviews the Commission's expenditure to date in the light of that policy and proposes the approach to capitalisation which the Commission will take in its 2007/08 accounts in compliance with that policy.
3. The impact of the policy is that, in line with FReM guidance and international reporting standards, work undertaken by PKF and by the Commission's own staff that relates to the development of software has been capitalised. Direct costs totalling £1.27m have therefore been capitalised within the year 2007/08.

Current capital accounting policy

4. The current policy on capital accounting was agreed in September 2006 by the Transition Executive Group. The policy is:

The Commission's accounts will be prepared under the historical cost convention, subject to any modification for the revaluation of fixed assets to current value, in accordance with UK GAAP and FReM guidance.

Depreciation will be charged to assets throughout their estimated useful lives or lease periods as appropriate. Depreciation is provided on a straight line basis to write off the cost or valuation of the asset evenly over the asset's anticipated useful life. At present, these are:

- *IT Hardware 4 years*
- *IT Software 7 years*
- *Fixtures & Fittings 10 years*
- *Furniture 10 years*
- *Equipment 7 years*
- *Telecoms 7 years*

All "Start Up" costs associated with the office move to Birmingham and its fitting out shall be defined as Fixed Assets and capitalised accordingly. Ongoing purchases shall only be defined as a Fixed Asset if the original purchase price of an item is £2,500 or more.

A register of fixed assets will be maintained by the Head of Finance. Assets will be inventory checked annually and a review of their values and useful lives will be undertaken. Any significant discrepancies in values or useful lives will be adjusted as necessary.

The disposal of fixed assets, whether by sale or write off, will be approved by the Accounting Officer.

Accounting requirements

5. The Commission is required to account in accordance with the Government financial reporting manual (FReM). The manual describes the application of government accounting arrangements

and relevant accounting standards to the Commission. Capital accounting issues are covered in Chapter 5 of the manual which covers tangible and intangible fixed assets.

6. The key requirements of the FReM, insofar as they are relevant to the Commission's position, are compliance with:
 - FRS 15 Tangible fixed assets
 - SSAP 4 accounting for government grants
 - UITF Abstract 24 Accounting for start up costs
 - SSAP 13 Accounting for research and development.
7. In addition, the potential impact of IAS38 Intangible assets has been considered in preparation for compliance with IFRS.

The issues

8. The Commission's capital expenditure has, to date, largely been associated with the start up of the organisation following its move to Birmingham. In line with UITF Abstract 24, start up costs are only capitalised where they would be capitalised on the basis of business as usual. The key areas for capital spend have been:
 - Tangible assets: physical infrastructure, fixtures and fittings, ICT infrastructure
 - Intangible assets: IT software and software development.
9. Tangible assets will be accounted for in line with FRS 15 under the Commission's current policy. It is not anticipated that this will raise any particular or significant issues and will be consistent with the treatment of assets in 2006/07.
10. For intangible assets, the following issues are relevant:
 - The Commission has concluded its relationship with Fujitsu for the delivery of ICT services, including software
 - Software development work by the Commission, through its own staff and its consultants, PKF has been completed.
 - Software from Fujitsu (principally MEMEX, Meridio, KOFACS and Snowdrop) and developed in house (Licence Manager) are installed and operating
11. The FReM provides:
 - 5.3.7 "The objectives of SSAP13 are to ensure that expenditure on pure and applied research is expensed in the period in which it is incurred and that development expenditure is capitalised only where there is a clearly defined project for which expenditure can be separately identified and which an entity expects to complete with the result that the development costs will be exceeded by future revenues.

Adaptation of SSAP13 for the public sector context

- 5.3.8 The following adaptations to SSAP13 apply to entities required to prepare their financial statements in accordance with the guidance in this Manual.

Recognition and measurement

- a) Development expenditure should be capitalised where there is a clearly defined project for which expenditure can be separately identified and which an entity expects to complete with the result that an asset will be brought into use or in the case of entities engaged in profit making activities, where the project is commercially viable.
 - b) Internal costs, including the charge for the cost of capital, should not be capitalised if they relate to activities that can only be carried out by in-house staff. “
12. It is the Commission’s view that elements of the work undertaken by PKF and its own staff in the development of the software now in use satisfy the requirement that the expenditure can be separately identified and has been brought into use as an asset. Further, the internal costs do not relate to activity which could only be undertaken in-house.
13. IAS 38, which will apply to accounts after the adoption of IFRS, is covered by the IFRS based FReM. This provides, “*When capitalising internally generated intangible assets, such as software, only directly attributable costs, including staff costs and staff-related costs, should be capitalised.*”
14. It is the Commission’s view that elements of the work undertaken by PKF and its own staff in the development of the software now in use satisfy these requirements.

Application

15. The Commission will apply its policy to ensure that capital is accounted for in accordance with FReM requirements. In particular, the Commission will capitalise the appropriate staff and consultancy costs attributable to the development of those software packages brought into use during the year.

