Agenda Item No. 10

Audit Committee - 15 April 2019

Accounting Policies 2018/19

1. Summary of report

1.1 This report sets out the significant accounting policies that will be used in the preparation of the 2018/19 Statement of Accounts.

1.2 The main changes to the accounting policies for the 2018/19 financial year are as a result of new accounting standards than have been adopted and a review to streamline and remove some complex accounting terms to aid the readers of the accounts. This has reduced the length of the policies overall by approximately six pages.

1.3 As shown in the report, the new accounting standards themselves have very little impact on the authorities Statement of Accounts with the exception of some new disclosures and the amended accounting policies to reflect the changes to recognition and measurement of financial instruments. These accounting standard changes will also have no impact on the level of the Council's reserves.

1.4 Reviewing the accounting policies prior to completion of the statement of accounts is seen as good practice and also provides guidance for Audit Committee members when reviewing the accounts to ensure the policies are appropriate for the Council.

2. Recommendations:

2.1 Audit Committee are asked to note the accounting policies **(Appendix 1)** for use in the completion of the financial statements for 2018/19.

3. Governance

3.1 The statement of accounts summarises the Authority's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The Authority is required to prepare an annual statement of accounts in accordance with the Accounts and Audit (England) Regulations 2015. Those regulations require the statement of accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (hereafter referred to as the 'Code') and are supported by International Financial Reporting Standards (IFRS).

4. Changes in accounting policies

4.1 There have been changes to the Code for 2018/19 following the adoption of IFRS 9 – Financial Instruments. The Code specifies how the Council should classify and measure financial assets and liabilities in line with IFRS 9.

Financial Assets

Financial assets are recognised based on their contractual cash flow characteristics as follows:

- Amortised cost – a financial asset is measured at amortised cost if both of the following conditions are met:
    - the asset is held purely to collect contractual cash flows; and
    - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Fair value through other comprehensive income – financial assets are classified and measured at fair value through other comprehensive income if they are held by both collecting contractual cash flows and selling financial assets.
- Fair value through profit or loss – any financial assets that are not held as either amortised cost or fair value through comprehensive income are measured at fair value through profit or loss.

The Code allows an irrevocable decision at initial recognition to measure a financial asset or liability that would otherwise have been measured at fair value through profit or loss, to be measured at fair value through other comprehensive income.

Financial Liabilities

All financial liabilities are measured at amortised cost.

4.2 A further amendment to the Code for 2018/19 relates to the adoption of IFRS 15 – Revenue from Contracts with Customers. Revenue will now be recognised when, or as, control over the goods or services is transferred to the customer. In contrast, IAS 18 (the accounting standard that IFRS 15 replaces) based revenue recognition around an analysis of the transfer of risks and rewards. Revenue is recognised when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether tests are met, revenue is recognised either over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. As reported in the 2017/18 Statement of Accounts this change has had no material impact on the Council.

4.3 The remainder of the accounting policies have been reviewed and a number of minor amendments, additions and deletions have taken place following the publication of the CIPFA Streamlining the Accounts: Guidance for Local Authorities which seeks to not simply reduce the page count but to also focus on:

- who the principal users of the accounts are and what information they need;
- improving clarity by removing unnecessary levels of detail; and
- to enable users to better understand the councils financial position and performance.

4.4 Appendix 1 shows the final amended version of the accounting policies proposed for 2018/19 (a full version of the accounting policies outlining all of the minor amendments referred to in 4.3 above can also be made available to panel members if required).

5. Resource and Legal Considerations

5.1 The council must produce annual accounts in line with the Accounts and Audit Regulations 2015, in a timely fashion on an annual basis. The Code of Practice is updated on an annual basis.

6. Risk Management

6.1 Failure to correctly and fully apply accounting policies could result in external audit requesting amendments to the accounts or even qualification of the accounts.

7. Equality implications

7.1 The accounting policies are part of the publication of the statement of accounts for the relevant year. The statement of accounts is published on the council's website.

8. Consultation

8.1 The S151 Officer has been consulted and has approved these policies. No community consultation activity is required for the accounting policies. However, as part of consultation regarding the presentation of financial information, residents have the opportunity to comment when reviewing the statement of accounts.

8.2 The accounting policies have also been shared with the council's external auditors Grant Thornton.

Background Papers

Code of Practice on local authority accounting in the United Kingdom 2018/19

Accounts and Audit Regulations 2015

IAS8 (International Accounting Standard) Accounting Policies, Changes in Accounting Estimates and Errors

IFRS 15 – Revenue from Contract with Customers

IFRS 9 – Financial Instruments

CIPFA Streamlining the Accounts: Guidance for Local Authorities

James Walsh
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4 April 2019

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1. Significant accounting policies

General principles

The statement of accounts summarises the council's transactions for the 2018/19 financial year and its position at the year end of 31 March 2019. The council is required to prepare an annual statement of accounts by the Accounts and Audit Regulations 2015 in accordance with proper accounting practices. These practices comprise the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the statement of accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Accruals of expenditure and income

The revenue accounts of the council are maintained on an accruals basis in accordance with proper accounting practices. In particular:

- Revenue from contracts for services or provision of goods are recognised when the council provides them to the customer.
- Supplies and services are recorded as expenditure when the goods are consumed or services received.
- Interest payable on borrowings and receivable on investments is accounted for 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 income 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. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected

There is a de-minimis level in place for all accruals of income and expenditure. This level is reviewed annually and is currently set at £2,500. Accruals are not required to be made for individual transactions under this value, with the exception of the following:

- Any grant where applying the de-minimis level would affect the claim;
- Accruals which are calculated using system automated reports;
- For a group of similar transactions where there would be a material impact upon the management or financial accounts of not processing the accrual, for example trading services.
- Accruals for schools income and expenditure.

Cash and cash equivalents

The council identifies cash as being both cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are any deposits made with financial institutions that have an initial maturity period of less than three months and readily convertible to known cash amounts with insignificant risk of change in value.

Prior period adjustments, changes in accounting policies and estimation errors

Prior period adjustments arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively 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/relevant information about the effect of transactions, other events and conditions on the council's financial position/performance. Where a change is made it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

Council Tax and Non-domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities and major preceptors share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Employee benefits

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy. These are charged on an accruals basis to the relevant service at the earlier of when the council can no longer withdraw the offer of those benefits or when the council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the general fund balance to be charged with the amount payable by the council to the pension fund or individual in the year, not the amount calculated according to the relevant accounting standards.

Post employment benefits

Employees of the council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE)
- The Local Government Pension Scheme, administered by Wolverhampton City Council
- The NHS Pension Scheme, administered by NHS Pensions

All these schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council.

Arrangements for the teachers' pension scheme and NHS pension scheme mean that liabilities for these benefits cannot be identified to the council. These schemes are therefore accounted for as if they were a defined contributions scheme. For both schemes no liability for future payments of benefits are recognised in the balance sheet. The employer's contributions payable in the year for teachers are charged to the Childrens surplus or deficit on provision of services. The employer's contributions payable in the year for NHS pensions are charged to the public health surplus or deficit on provision of services.

Local government pension scheme
The local government scheme is accounted for as a defined benefit scheme.

The liabilities of the West Midlands Metropolitan Authorities Pension Fund attributable to the council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of future earnings for current employees.

Liabilities are discounted to their value at current prices, based on the weighted average of spot yields on high quality corporate bonds.

The assets of the West Midlands Metropolitan Authorities Pension Fund attributable to the council are included in the balance sheet at their fair value:

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

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
  - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated to the services for which the employees worked
  - Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years
  - Net interest on the net defined benefit liability, i.e. net interest expense for the council – the change during the period in the net defined benefit liability that arises from the passage of time. Calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

- Re-measurements comprising:
  - The return on plan assets – excluding amounts included in net interest on the net defined benefit liability
  - Remeasurement gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions

- Contributions paid to the West Midlands Metropolitan Authorities Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the general fund balance to be charged with the amount payable by the council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards.

Discretionary benefits

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

Fair value measurement

The council measures some of its non-financial assets such as surplus assets and investment properties and available for sale financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or

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

The council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the council's financial statements are categorised within the fair value hierarchy, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the council can access at the measurement date

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability.

Financial instruments

Financial assets

Financial assets are classified into two types:

- Amortised cost
- Fair Value through Profit or Loss (FVPL)

The council's business model is to hold investments to collect contractual cash flows. If payments are solely principle and interest they are classified as amortised cost. Otherwise they are classed as FVPL.

Financial assets measured at amortised cost

Financial assets measured at amortised cost are recognised on the balance sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the surplus and deficit on provision of services for interest receivable are based on the carrying amount of the asset multiplied by the effective interest rate for the instrument. For most of the loans that the council has made, this means that the amount presented in the balance sheet is the outstanding principal receivable and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Expected credit loss model

The council recognises expected credit losses on all its assets held at amortised cost either on a 12 month or lifetime basis. The expected credit loss model also applies to lease receivables. Only lifetime losses are recognised for debtors held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place due to the borrower defaulting. Where credit risk is assessed to be high then losses are assessed on a lifetime basis. If risk the risk is assessed to be low then losses are assessed on a 12 month basis.

Financial assets measured at FVPL

Financial assets measured at FVPL are recognised on the balance sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value.

Fair values are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis

Financial liabilities

Financial liabilities are recognised on the balance sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost.

Gains and losses on the repurchase or early settlement of borrowing are credited or debited to the CIES in the year of repurchase/settlement. Where premiums and discounts have been charged to the surplus or deficit on provision of services as a result of The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2007 (SI 2007/573), these regulations allow the impact on the general fund balance to be spread over future years. The council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was paid. For discounts receivable, statute limits this to a maximum of 10 years

Government/non-government grants and contributions

Whether paid on account, by instalments or in arrears, grants and third party contributions and donations are recognised as income due to the council when there is reasonable assurance that;

- the grants/contributions will be received
- the council will comply with any conditions attached to the payments

Where the conditions have not been satisfied the grant/contribution will be carried on the balance sheet as creditors. When the conditions have been satisfied the grant/contribution will be recognised in the CIES by either crediting:

- the relevant service line (attributable revenue grants/contributions)
- taxation and non-specific grant income (non-ringfenced revenue grants and all capital grants)

Where capital grants are credited to the CIES, they are reversed out of the general fund balance in the movement in reserves statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Joint operations

These are arrangements by which the parties that have joint control of the arrangement have the rights to the assets and obligations for the liabilities relating to the arrangement e.g. Better Care Fund (BCF). All parties have joint control with decisions of the activities of the arrangement requiring unanimous consent from all parties. The council recognises on its balance sheet the assets that it controls and the liabilities that it incurs and debits and credits the CIES with the expenditure it incurs and the share of income it earns from the activity of the operation.

Interests in companies and other entities

An assessment of the council's interests has been carried out during the year in accordance with the Code of Practice to determine the group relationships that exist. Inclusion in the group is dependent upon the extent of the council's control over the entity demonstrated through ownership, such as a shareholding in an entity or representation on an entity's board of directors.

The council does have a number of interests in companies and other entities, the majority of which are not material and thus the production of group accounts are not required for these interests.

Investment properties

Investment properties are properties held by the council to solely earn rentals and/or capital appreciation. They are recognised only when it is probable that future economic benefits or service potential will flow to the council, and that the cost or fair value of the expenditure can be measured reliably.

Investment properties are initially measured at cost, except where acquired through a non-exchange transaction which are measured at fair value.

After recognition investment properties are measured at fair value. Any gain or loss from a change in fair value is recognised in the CIES. The same treatment is applied to gain and losses on disposal.

Investment properties measured at fair value are not subject to depreciation.

Rentals received in relation to investment properties are credited to the financing and investment income line and result in a gain for the general fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the general fund balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards of ownership of a non-current asset to the lessee. All other leases are classified as operating leases. The council does not hold any material finance leases.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The council as lessee

<u>*Operating leases*</u>

Rentals paid under operating leases are charged to the CIES as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

Finance leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease as its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge – debited to the CIES.

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue 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.

The council as lessor

Operating leases

Where the council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the balance sheet. Rental income is credited to the Other Operating Expenditure line in the CIES. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Finance leases

The council does not hold any material finance leases as a lessor.

Private Finance Initiative (PFI)/Public-Private Partnership (PPP) schemes

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 council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the council at the end of the contracts for no additional charge, the council carries the assets used under the contracts on its balance sheet as part of Property, Plant and Equipment.

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

- Fair value of the services received during the year – debited to the relevant service in the CIES
- Finance cost – interest is charged on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the CIES
- 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)

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the provision of goods and services, or for administrative purposes, and are expected to be used for more than one year.

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis. This is provided that it is probable that future economic benefits or service potential will flow to the council, and that the cost of the expenditure can be measured reliably. Any expenditure that does not meet this criteria i.e. it maintains the asset's potential to deliver future economic benefits and service potential (day to day servicing/repairs and maintenance), is charged to revenue as it is incurred.

The council does not set a de-minimus level for capitalising costs as it considers that spend that is of a capital nature should be accounted for as such.

Where the council incurs capital spend on or revalues any property, plant and equipment this will be reviewed to determine whether there are any material components. An identifiable component within a main asset (e.g. a lift within a building) will be recognised separately and accounted for like any other piece of property, plant and equipment. The council will only review material components where the main asset has a gross book value of £1 million. Individual components will only be recognised where the value is greater than £150k or they represent a significant proportion of the main asset.

Measurement and depreciation

Property, plant and equipment are initially measured at cost, except donated assets which are measured at fair value. Where it is a donated asset the measurement of the asset at fair value does not constitute a revaluation and is not recognised as such.

After recognition property, plant and equipment assets are depreciated and valued as shown below.

	Valuation basis	Asset life	Depreciation method
Operational land and buildings - general	Existing use value	10-80 years	Straight line (including car park land)
Operational land and buildings - specialised	Depreciated replacement cost	10-100 years	Straight line
Plant, vehicles and equipment	Current value*	3-10 years	Straight line
Infrastructure	Depreciated historic cost	15-30 years	Straight line
Community assets	Historic cost	No determinable asset life	Not depreciated
Surplus assets	Fair value - market value	10-80 years	Straight line
Assets under construction	Historic cost	n/a	Not depreciated

*For vehicles, plant and equipment due to their short operational lives the council uses depreciated historic cost as a proxy for current value.

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.

Disposals

When property, plant and equipment assets are disposed of or decommissioned the net gain or loss is taken to the CIES.

Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts (75%) relating to mortgages given to former tenants who purchased their properties under the right to buy scheme is payable to the government. The balance of the receipts is credited to the capital receipts reserve.

Impairment of non-current assets

At the end of the financial period all non-current assets (excluding non-current assets classified as held for sale) are assessed by type of asset for an indication of any possible impairment. If there is an indication of a possible impairment, an estimate of the new asset value is made. If there is no indication of a possible impairment no further action is taken.

If the conditions that gave rise to an earlier impairment no longer exist the impairment is reversed out of the CIES and reinstated to the asset value. This reversal will not exceed what would be the carrying amount for the asset at the reversal date had the impairment not taken place. Any excess to this amount is treated as a revaluation gain and recognised in the revaluation reserve.

Non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this existing net book value or fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is recognised. Any gains in fair value are recognised only up to the amount of any previous losses previously recognised. Depreciation is not charged on assets held for sale.

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

Intangible assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the council as a result of past events (e.g. software licenses) are recognised as intangible assets if it is probable that future benefits created by the asset will flow to the council.

Intangible assets are initially measured at cost. After recognition intangible assets are carried at cost less accumulated amortisation and impairments.

Amortisation of intangible assets is carried out where a finite useful life is identified. Amortisation is based on what is determined to be a pattern that reflects the use of economic benefits. If this pattern is not determinable then the asset is amortised on a straight line basis.

Heritage assets

The accounting policy for heritage assets as laid out below makes no distinction between tangible and intangible heritage assets. The assets the council holds cover both tangible (e.g. war memorials) and intangible (e.g. the audio-visual material held within the Epstein Archive) heritage assets.

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

The council includes the Council House, Town Hall and Walsall Library/Museum buildings within its asset base. Although these are historical buildings, they are operational assets i.e. the council uses them to deliver its services. These are included within property, plant and equipment and valued using the depreciated replacement cost (DRC) methodology, and depreciated over their remaining useful life.

The council's heritage asset collections are accounted for as follows:

Art collections

The art collections are reported on the balance sheet at insurance valuation, based on market values. These assets are deemed to have indeterminate lives and a high residual value. Therefore the council does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation in line with the gallery's acquisition policy. Acquisitions are initially recognised at cost and donations are recognised at insurance valuation.

Museum collections

The museum collections are reported at insurance valuation, based on market values for those items over £1,000. The council maintains an inventory of this collection however there is no readily available valuation held by the council for items of less than £1,000. The council believes that the benefits of obtaining a valuation for these items to the user of the accounts would not justify the cost given the specialised nature of this archive. As such the council has not recognised items less than £1,000 on the balance sheet.

For those assets held on the balance sheet they are deemed to have indeterminate lives and a high residual value. Therefore the council does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at insurance valuation if the value is over £1,000.

Local history archive

The council's local history archive has no readily available valuation held by the council. There is no definitive market value for these types of assets as they are normally obtained by donation. The council believes that the benefits of obtaining a valuation for these items to the user of the accounts would not justify the cost given the specialised nature of this archive. As such the council has not recognised this archive on the balance sheet.

Civic regalia

The council holds civic regalia for use by the Mayor and Mayoress for official ceremonial purposes. These are reported at insurance valuation. Due to the nature of these assets the council does not deem it appropriate to charge depreciation.

Other heritage assets

The council has five statues, a number of war memorials, memorial clocks and public art works around the Borough. There is no readily available valuation held by the council for these types of assets and no definitive market value as they are not normally traded. The council believes that the benefits of obtaining a valuation for these items to the user of the accounts would not justify the cost given the specialised nature of these assets. As such the council has not recognised these assets on the balance sheet.

Heritage assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the council's general policies on impairment – see accounting policy for property, plant and equipment. The council may occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the council's general provisions relating to the disposal of property, plant and equipment.

Provisions, contingent assets and liabilities

Provisions

Provisions are required for any liabilities of uncertain timing or amount that have been incurred. They are recognised when:

- the council has a present obligation (legal or constructive) as a result of a past event
- it is probable that a transfer of economic benefits or service potential will be required to settle the obligation
- a reliable estimate can be made of the amount of the obligation

If these conditions are not met then no provision is made.

Recognition of the provision is made in the year that the council becomes aware of the obligation and is based on the best estimate of the likely settlement..

Estimated settlements are reviewed at the end of each financial year. Where it becomes apparent that a transfer of economic benefit is not required (or a lower settlement than anticipated is made) the provision is reversed back..

When some or all of the payment required to settle a provision is expected to be met by another party (i.e. from an insurance claim), this is only recognised as income in the surplus or deficit on provision of services if it is virtually certain that reimbursement will be received if the obligation is settled.

Reserves

The council sets aside specific amounts as reserves for future expected commitments or to cover contingencies. Reserves are created by appropriating amounts from 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 CIES. The reserve is then appropriated back to the general fund balance so there is no charge against council tax for the expenditure.

Revenue expenditure funded from capital under statute

Capital expenditure incurred during the year but not resulting in the creation of a non-current asset for the council is classified as revenue expenditure funded from capital under statute (REFFCUS). Expenditure that can be classified as this is defined within the Local Government Act 2003 and associated capital financing regulations. This includes: grants paid to other persons (such as housing renovation grants and disabled facility grants) and bodies for capital expenditure purposes. The council writes out the entire expenditure to the CIES in the year it is incurred. To ensure that no impact is passed on to council taxpayers, this expenditure is then reversed out through the movement in reserves statement by a transfer to the capital adjustment account on the balance sheet.

Value Added Tax (VAT)

Where the council is able to recover VAT it is excluded from both income and expenditure. This is in accordance with proper accounting practices.

Accounting for schools

The Code confirms that the balance of control for local authority maintained schools (i.e. Community, Voluntary aided and Voluntary maintained schools) lies with the Council. Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council, rather than requiring consolidation in the Group Accounts. Academies are outside of the Council's control and their transactions are not reflected in the Council's accounts.

Recognition of School Assets

The significant assumptions applied in estimating the fair values are: School assets are carried on the balance sheet in accordance with the legal status of ownership, or intended legal status and any other arrangements in place regarding the use of these schools. The recognition of land and buildings for each type of school is based on the code requirements and accounting standards to determine the underlying relationship to the council of each type of school. Based on these tests the council has identified the following classification of schools within the accounts:

- Community - on balance sheet
- Foundation - on balance sheet
- Voluntary Controlled - on balance sheet
- Voluntary Aided - off balance sheet
- Academies - Academies are outside of the Council's control and their transactions are not reflected in the Council's accounts.

Capital expenditure on voluntary aided schools is treated as revenue expenditure funded from capital under statute.

PFI Schemes

The council has one school subject to PFI contract, which is not shown on the council's balance sheet. This is because it is a voluntary aided school and the control of the right to use the buildings has passed to the school trustees. The PFI liabilities in respect of the PFI School remain on the council's balance sheet as the council is the party to the contract with the PFI operator.

Glossary

A

Academy School: State-funded schools in England which are directly funded by the Department for Education and independent of local authority control

Accounts and Audit Regulations 2015: The current set of regulations which detail the accounts needed, how they should be published, the right of electors, and the conduct of the annual statutory audit.

Accounting period: The period of time covered by the accounts, normally twelve months commencing on 1 April. The end of the accounting period i.e. 31 March is the balance sheet date.

Accounting policies: Within the range of possible methods of accounting, a statement of the actual methods chosen locally and used to prepare these accounts.

Accruals basis: The method of including amounts in accounts to cover income or expenditure attributable to an accounting period but for which payment has not been received or made by the end of the accounting period. This is based on the concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

AGS: Annual Governance Statement.

Amortisation: Loss in value of an intangible asset due to age or obsolescence.

Appropriations: Transferring of an amount between specific reserves in the income and expenditure account.

Asset: Something of value which is measurable in monetary terms owned by the council and is convertible to cash.

B

Bad (and doubtful) debts: Debts which may be uneconomic to collect or unenforceable.

Balance Sheet: A statement of the recorded assets, liabilities and other balances at the end of an accounting period.

Balances: The reserves of the council, both revenue and capital, which represent the accumulated surplus of income over expenditure on any of its funds.

BCF: Better Care Fund - a programme spanning both the NHS and local government which seeks to join-up health and care services, so that people can manage their own health and wellbeing, and live independently in their communities for as long as possible.

Billing authority: Walsall Council is the billing authority responsible for the collection of council tax and non-domestic rates. The council tax includes amounts for precepting authorities – the West Midlands Fire and Rescue and Police Authorities.

Budget: A statement of the council's expected level of service expressed as an amount of spending over a set period, usually one year.

C

Cabinet: The executive decision making body of the council made up of portfolio holding executive members.

Capital Adjustment Account: Financing of capital expenditure and statutory adjustments passes through this account.

Capital expenditure: Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of existing fixed assets.

Capital receipts: The proceeds from the sale of a fixed asset, or the repayment of an advance made by the council.

Capitalised: Transferred from revenue to capital.

Carrying Amount: The balance held on the balance sheet as at the year end date.

Cash and cash equivalents: This comprises cash in hand, cash overdrawn and short term investments which are readily convertible into known amounts of cash.

Cash flow: Movement in money received and paid by the council in the accounting period.

Cash flow statement: Statement showing the cash inflows and outflows during the year.

Chartered Institute of Public Finance and Accountancy (CIPFA): The professional body that oversees accounting practice within public bodies.

Chief financial officer (Section 151 Officer – Local Government Act 1972): Statutory officer responsible for managing the financial risks and financial planning of the council.

CIPFA Code of Practice on Local Authority Accounting: The Statement of Recommended Practice applicable to preparing the accounts.

Collection Fund: A statutory account which billing authorities have to maintain for the collection and distribution of amounts due in respect of council tax and non-domestic rates (NDR).

Community assets: Assets that the council intends to hold in perpetuity, have no determinable finite useful life and in addition may have restrictions on their disposal. Examples of community assets are playing fields and parks.

Community School: A type of state-funded maintained school in which the local authority employs the school's staff, is responsible for the school's admissions and owns the school's estate

Comprehensive income and expenditure statement (CIES): This shows the council's net expenditure on providing services during the year, based on proper accounting practices, prior to adjustments required for taxation purposes.

Consolidated: Added together with adjustments to avoid double counting of income, expenditure or to avoid exaggeration, e.g. debtors, creditors as a result of trading between services within the council which are reported on as a whole in the section on consolidated financial accounts.

Contingent assets: Potential assets at the balance sheet date which depend on the occurrence or non-occurrence of one or more uncertain future events. The assets should be included in the balance sheet where it is probable that a gain will be realised which can be estimated reasonably accurately at the time the accounts are prepared, otherwise, where the contingencies are likely to be material, the fact that they exist should be disclosed as a note to the accounts.

Contingent liabilities: Potential liabilities at the balance sheet date which depend on the occurrence or non-occurrence of one or more uncertain future events. The liabilities should be included in the balance sheet where it is probable that a loss will be incurred which can be estimated reasonably accurately at the time the accounts are prepared, otherwise, where the contingencies are likely to be material, the fact that they exist should be disclosed as a note to the accounts.

Council tax: A banded property tax which is levied on domestic properties throughout the country. The banding is based on estimated property values as at 1 April 1991. The level of tax is set annually by each local authority for the properties in its area.

Creditors: Amounts owed by the council for work done, goods received or services rendered to the council during the accounting period, but for which payment has not been made by the balance sheet date.

Curtailments: Costs incurred as part of pension costs for redundancy/efficiency retirements.

Current assets: Assets which are easily converted to cash e.g. stock and debtors.

Current liabilities: Liabilities which are easily converted to cash e.g. creditors.

D

Debtors: Amounts due to the council which relate to the accounting period and have not been received by the balance sheet date.

Dedicated Schools Grant (DSG): Funding from central Government whose sole purpose if to fund the provision of an education service.

Deferred capital receipts: Amounts derived from the asset sales which will be received in instalments over a period of a year (e.g. mortgages on the sale of council houses).

Depreciation: The loss in value of a tangible fixed asset due to age, wear and tear, deterioration or obsolescence.

Depreciated Replacement Cost (DRC): A valuation technique that is based on the current cost of reproduction or replacement of an asset less deductions for depreciation based on an assets current remaining life.

De-recognition: The reduction in asset values due to transferring ownership of assets.

DfE: Department for Education – responsible for Government policy and advice in connection with education and the social welfare of children and families.

Discounted Cash Flow (DCF): A method of estimating an investment's current value based on the discounting of projected future revenues and costs.

Diocese: An administrative territorial unit administered by a bishop i.e. Bishop of Lichfield.

E

Earmarked reserves: These reserves represent the monies set aside that can only be used for a specific usage or purpose.

Expenditure: Costs incurred by the council for goods received, services rendered or other value consumed during the accounting period, irrespective of whether or not any movement of cash has taken place.

Equity: Stocks and shares that represent an ownership interest in a company.

F

Fair Value: An estimate of the potential market price of an asset or liability.

Finance lease: A lease that transfers the risk and rewards of ownership of a fixed asset to the lessee. Such a transfer of risk and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amount to substantially all the fair value of the leased asset.

Financial instrument: Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Fixed assets: Tangible assets which have value to the council for more than one year, e.g. land, buildings, equipment.

Foundation School: A state-funded maintained school where the governing body has greater freedom in the running of the school than in community schools. Foundation schools were set up under the School Standards and Framework Act 1998.

G

General Fund: The main revenue account of the council, which brings together all income and expenditure other than recorded in the Collection Fund.

Government support/grants: Assistance by Government and inter-Government agencies and similar bodies, whether local, national or international, in the form of cash or transfer of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the council.

H

Historical cost: The actual cost of assets, goods or services, at the time of their acquisition.

Housing benefits: Financial assistance paid to tenants on a low income to help pay their rent and service charges.

I

International Accounting Standard (IAS): Standards for the preparation and presentation of financial statements created by the International Accounting Standards Committee.

Impairment: Downward revaluation due to the consumption of economic benefits.

Income: Amounts due to the council in respect of services performed, taxes levied or grants receivable during the accounting period, irrespective of whether or not any movement of cash has taken place.

International financial reporting standard (IFRS): Accounting standards that have replaced SSAP and FRS from the 2010/11 financial year. All accounts from this period will be reported under these standards.

Inventories: Raw materials and consumable items which the council has procured to use on a continuing basis and has not been used by the end of the accounting period.

Investment properties: Interests in land and/or buildings in respect of which construction work and development have been completed and which are held for their investment potential rather than for operational purposes, any rental income being negotiated at arm's length.

Investments: Items such as company shares, other securities and money deposited with financial institutions (other than bank current accounts).

L

Leasing: A method of acquiring the use of an asset by paying a rental for a specified period of time, rather than purchasing it outright.

Liabilities: Amounts due to individuals or organisations which will have to be paid at some time in the future.

M

Maintained School: State-funded schools in England which are under local authority control and funded by the local authority using Dedicated School Grant provided by the Department for Education.

Materiality: The concept that any omission from or inaccuracy in the statements of account should not be large enough to affect the understanding of those statements by a reader.

Minimum revenue provision (MRP): The minimum amount which must be charged to a council's revenue accounts and set aside as a provision to repay external debt. It is calculated by applying a prescribed percentage of outstanding debt.

Movement in reserves statement: Statement that shows the movement in all the council's reserves over the year and the movements required for taxation purposes.

N

Non-domestic rates (NDR): A tax levied on business properties, sometimes known as Business Rates.

Net book value: The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided by depreciation.

Net realisable value: The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

Non-operational assets: Fixed assets held by the council but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements pending sale or redevelopment.

O

Operating lease: A lease where the risks and rewards of ownership of a fixed asset remain with the lessor. Such a lease will be for a fixed period which is significantly less than the useful economical life of the asset.

Operational assets: Fixed assets occupied, used or consumed by the council in direct delivery of those services for which it has either statutory or discretionary responsibility.

P

PFI: Private Finance Initiative.

PPP: Public Private Partnership.

Precept: A levy determined by one authority which is collected on its behalf by another e.g. Walsall Council collects Police and Fire Authority precepts.

Precepting authority: An authority which raises finance through another authority.

Prior year adjustments: Material adjustments to the accounts of earlier years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Provisions: Amounts set aside in the accounts for liabilities or losses which are certain or very likely to occur but where there is uncertainty as to the amounts involved or the dates on which they will arise.

R

Replacement cost: Cost of replacement of an asset at the balance sheet date.

Reserves: Amounts set aside in the accounts to meet expenditure which the council may decide to incur in future period, but not allocated to specific liabilities which are certain or very likely to occur. Earmarked reserves are allocated to a specific purpose or area of spending. Unallocated reserves are often described as balances, and usually arise as unplanned surpluses of income over expenditure.

Revaluation: The increase or decrease in an asset's value following valuation by a suitably qualified person.

Revenue contributions: Method of financing capital expenditure directly from revenue.

Revenue expenditure funded from capital under statute (REFFCUS): This is expenditure that would normally be classed as revenue under normal accounting rules, but legislation has defined as being capital expenditure.

Ring-fenced: This refers to the statutory requirement that certain accounts such as the Collection Fund must be maintained separately from the General Fund.

S

Section 106 (s106): Legally binding agreement between the council and developers by which developers provide a contribution to assist in the redevelopment of a specified area and for a specified purpose.

U

Usable and unusable reserves: Usable reserves are those which the council can use to maintain its services whilst those that are unusable are not readily available resources and are held as balances.

V

Voluntary Aided School: A state-funded maintained school in England and Wales in which a foundation or trust contributes to building costs and has a substantial influence in the running of the school.

Voluntary Controlled School: A state-funded maintained school in England and Wales in which a foundation or trust has some formal influence in the running of the school.