

## **Audit Committee - 13 April 2012**

### **Accounting Policies 2011/12**

#### **Summary of report**

This report sets out the accounting policies for 2011/12 for approval by Audit Committee. Signing off the accounting policies prior to completion of the annual accounts is seen as strong practice and this also provides guidance for reviewing the statement of accounts. For 2011/12 the introduction of FRS30 Heritage Assets has required the council to implement a new accounting policy and changes to the councils funding structure has resulted in the removal of a policy for Area Based Grant (ABG).

#### **Recommendations:**

1. To approve the use of the attached accounting policies for financial year 2011/12
2. To note the change in accounting standards



James Walsh  
Chief Finance Officer

01 March 2012

#### **Governance**

The accounting policies for 2011/12 (**Appendix 1**) have been updated for the introduction of FRS30 Heritage Assets.

#### **Changes in accounting policies**

Other than the two policy changes for heritage assets and ABG there are no other changes to the accounting policies. The changes are detailed below.

##### **1 Heritage Assets**

The introduction of FRS30 Heritage Assets has resulted in the requirements under this standard to be included within the council's accounting policies for 2011/12.

The Code of Practice on local authority accounting in the United Kingdom 2011/12 defines heritage assets as those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Heritage assets include historical buildings, archaeological sites, military and scientific equipment of

historical importance, historic motor vehicles, civic regalia, order and decorations (medals), museum and gallery collections and works of art. Such assets may be tangible or intangible 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.

The council holds a range of heritage assets. These include 4 art collections and the Epstein Archive within the New Art Gallery, collections within Walsall Museum and Leather Museum, local history archive and a number of public art works, statues, war memorials and other items. The Walsall Museum collection, the Leather Museum collection, statues and war memorials around the borough are held to increase the knowledge, understanding and appreciation of local and national history. The art collections and Epstein Archive are held to increase the knowledge, understanding and appreciation of local, national and international art history.

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 relaxed 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 collections of heritage assets are accounted for as follows.

#### Art collections

The art collections include paintings (both oil and watercolour), sculptures, drawings/sketches, ancient/classical pottery and figures, and ethnographic works. These 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 available at [www.thenewartgallerywalsall.org.uk/collections-and-library](http://www.thenewartgallerywalsall.org.uk/collections-and-library). Acquisitions are initially recognised at cost and donations are recognised at insurance valuation.

#### Epstein Archive

The Epstein Archive includes documents, photographs and audio-visual material relating to Sir Jacob Epstein. The council maintains an inventory of this archive however there is no readily available valuation held by the council. There is no definitive market value for these type of assets as they are normally obtained through an auction. The council believes that the benefits of obtaining the 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.

### Museum collections

The museum collections include clothing, locks, loinery and other leather working exhibits, historic civic regalia, medals and items connected to the canals. These 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 includes church records, census records, council archives, photographs, film and other items relating to the history of Walsall. The council maintains an inventory of this archive however there is 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.

### Statues

The council has four statues around the borough. There is no readily available valuation held by the council for these assets and no definitive market value for these type of assets 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.

### War memorials

The council has a number of war memorials around the borough, however does not hold a readily available valuation. The council believes that it is not appropriate to obtain a valuation due to the very specialised nature of the asset and the lack of comparable market values. The council believes that the benefits of obtaining a valuation for these items to the user of the accounts would not justify the cost. As such the council has not recognised these assets on the balance sheet.

### Memorial clocks

The council has a number of memorial clocks around the borough, however does not hold a readily available valuation. The council believes that it is not appropriate to obtain a valuation due to the specialised nature of the assets and the lack of comparable market

values. The council believes that the benefits of obtaining the valuation for these items to the user of the accounts would not justify the cost. As such the council has not recognised these assets on the balance sheet.

### Public art

The council has a number of public art works around the borough, however does not hold a readily available valuation. The council believes that it is not appropriate to obtain a valuation due to the specialised nature of the assets and the lack of comparable market values. The council believes that the benefits of obtaining the valuation for these items to the user of the accounts would not justify the cost. 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.

Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (see accounting policy for property, plant and equipment).

## **2 Area Based Grant (ABG)**

Following changes to the way local government is financed Area Based Grant (ABG) is no longer received by the council. As such the following accounting policy has been removed:

Area based grant (ABG) was provided by Communities and Local Government (CLG) as a means of general funding. It was not ring-fenced for a specific purpose and was shown in the comprehensive income and expenditure statement as taxation and non-specific grant income.

## **Resource and Legal Considerations**

The council must produce annual accounts in line with the Accounts and Audit Regulations 2011, in a timely fashion on an annual basis. The Code of Practice is updated on an annual basis.

## **Risk Management**

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

## **Equality implications**

The accounting policies are part of the publication of the Statement of Accounts for the relevant year. The Statement of Accounts is available on the council's website.

## **Consultation**

The Chief Finance 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.

## **Background Papers**

Code of Practice on local authority accounting in the United Kingdom 2011/12

FRS30 Heritage Assets

Audit and Accounts Regulations 2011

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# Statement of accounting policies

## 1. Accounting policies

### General Principles

The statement of accounts summarises the council's transactions for the 2011/12 financial year and its position at the year end of 31 March 2011. The council is required to prepare an annual statement of accounts by the Accounts and Audit regulations 2011 in accordance with proper accounting practices. These practices comprise the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and the Service Reporting Code of Practice (SERCOP) 2011/12, 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:

- Fees, charges and rents are accounted for as income at the date the council provides the relevant goods or service.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the supply date and when the supplies are used, they are carried as stock on the balance sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.
- 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.
- Income and expenditure are credited and debited to the surplus or deficit on provision of services, unless they properly represent capital receipts or capital expenditure.

### Cash and cash equivalents

The council identifies cash as being both cash in hand and demand deposits (i.e. bank current accounts). These also include any bank overdrafts that the council may have. Cash equivalents are identified as short term liquid deposits held by the council. These are any deposits made by the council with financial institutions that have an initial maturity period of less than three months and are not subject to penalties for early redemption. This will include at call and money market fund investments.

## **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.

## **Charges to revenue for non-current assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the revaluation reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance, the minimum revenue provision.

Depreciation, revaluation and impairment losses and amortisations are replaced by the minimum revenue provision, by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between the two.

## **Employee benefits**

### **Benefits payable during employment**

Short term employee benefits (i.e. wages and salaries, annual leave, flexi-time and time off in lieu) are accounted for in the period in which the employee render services. An accrual is made for the cost of holiday entitlements (or any other form of leave) earned by employees but not taken before the year end that can be carried forward into the following financial year. The accrual is charged to the surplus or deficit on the provision of services. It is then reversed out through the movement in reserves statement so that holiday benefits are charged to revenue in the financial year that the holiday absence occurs.

### **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 non distributed costs line in the comprehensive income and expenditure statement when it is demonstrably committed

to either terminate the employment of current employees or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the general fund balance to be charged with the amount payable by the council to the pension fund or individual in the year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, appropriations are required to and from the pensions reserve to remove the notional debits and credits for pension enhancement termination benefits, and replace them with debits for the cash paid to the pension fund and individuals and any such amounts payable but unpaid at the year-end.

## **Post employment benefits**

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

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

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

Arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the balance sheet and the education surplus or deficit on provision of services is charged with the employer's contributions payable to teachers' pensions in the year.

### Local government pension scheme

The local government scheme is accounted for as a defined benefits 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 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 seven components:

- Current service cost – the increase in liabilities as a result of years service earned in year – allocated in the surplus or deficit in provision of services to the service for which the employee worked
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years' service earned in earlier years – debited to the surplus or deficit on provision of services as part of non-distributed costs
- Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the surplus or deficit on provision of services within financing and investment income and expenditure
- Expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long term return – credited to the surplus or deficit on provision of services within financing and investment income and expenditure
- Gains/losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the surplus or deficit on provision of services as part of non distributed costs
- Actuarial 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 – debited to other comprehensive income and expenditure
- Contributions paid to the West Midlands Metropolitan Authorities Pension Fund – cash paid as employers contributions to the pension fund

Statutory provisions limit the council to raising council tax to cover the amounts payable by the council to the pension fund in the year. In the movement in reserves statement there are appropriations to and from the pensions reserve to remove notional debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year end.

### **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.

### **Events after the balance sheet date**

These are events that have occurred between the end of the financial year, 31 March 2011, and the date the financial accounts are authorised for issue. Two types of event can be identified:

- Adjusting events occur where conditions existed at the financial year end
- Non-adjusting events occur where the conditions arose after the financial year end

Adjusting events are recognised by the adjustment of the financial statements and are detailed within a note to the accounts. Non-adjusting events are not recognised by an adjustment within the financial statements but are disclosed within a note to the accounts.

## Financial instruments

### Financial assets

Financial assets are classified into two types:

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

#### Loans and receivables

Loans and receivables are initially measured at fair value and subsequently carried 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 comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the comprehensive income and expenditure statement.

Any gain or loss that arises on de-recognition of an asset is credited or debited to the comprehensive income and expenditure statement.

#### Available-for-sale assets

Available-for-sale assets are initially measured and subsequently carried at fair value. Where the asset has fixed or determinable payments, annual credits to the comprehensive income and expenditure statement for interest receivable are based on the amortised cost of the asset multiplied by the effective interest rate for the instrument. Where there are no fixed or determinable payments, income (i.e. dividends) is credited to the comprehensive income and expenditure statement when it becomes receivable by the council.

Assets are maintained in the balance sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations

Changes in fair value are balanced by an entry in the available-for-sale reserve and the gain/loss recognised in the comprehensive income and expenditure statement. The exception is where impairment losses have been incurred – these are debited to the comprehensive income and expenditure statement along with any net gain/loss for the asset accumulated in the reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a change made to the comprehensive income and expenditure statement.

Any gains or losses that arise on the de-recognition of the asset are credited/debited to the comprehensive income and expenditure statement.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

## **Financial liabilities**

Financial liabilities are initially measured at fair value and subsequently carried at their amortised cost. Annual charges to the comprehensive income and expenditure statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the council has, this means that the amount present in the balance sheet is the outstanding principal repayable and interest charged to the surplus or deficit on provision of services is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited or debited to the comprehensive income and expenditure statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the surplus or deficit on provision of services is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the surplus or deficit on provision of services, 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. The reconciliation of amounts charged to the comprehensive income and expenditure statement to the net charge required against the general fund balance is managed by a transfer to or from the financial instruments adjustment account in the movement in reserves statement.

For stepped rate loans (i.e. LOBO's – Lender Option Borrower Option loans) taken prior to 9 November 2007, Walsall Council has applied regulation 30E of the Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2008 (SI 2008/414). This allows local authorities to continue with their established method of calculating interest on these loans prior to this date rather than that required by the code; either charging just the interest payable or creating a deferred liability to enable the smoothing of interest over a defined period set by the council. Walsall's method, in line with the above regulation, is to charge the interest paid in year with an adjustment to smooth interest up to the first option date where the new interest rate is unknown.

## **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

Monies will not be recognised within the comprehensive income and expenditure account until the conditions attached to the grants/contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential in the asset acquired using the grant/contribution are required to be consumed by the council as specified in the grant conditions or the grant/contribution must be repaid to the awarding body.

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 comprehensive income and expenditure statement 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 comprehensive income and expenditure statement, 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.

## **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.

Any loss created by impairment of an asset is recognised firstly in the revaluation reserve up to the amount held in the reserve for that asset. Any remaining amount is recognised in the comprehensive income and expenditure statement.

If the conditions that gave rise to an earlier impairment no longer exist the impairment is reversed out of the comprehensive income and expenditure statement 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.

## **Intangible assets**

Intangible assets are recognised if it is probable that future benefits created by the asset will flow to the council.

Intangible assets are initially measured at cost. Any internally generated intangible assets (e.g. websites or bespoke computer programs) are recognised by the council if they meet the following criteria:

- Technical feasibility of completing the asset so that it is available for use or sale
- Intention to use the asset
- Ability to use or sell the asset
- The asset will generate future economic benefits or service potential
- Availability of resources to complete the asset
- Ability to measure reliably the expenditure attributable to developing the asset

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.

## **Inventories**

Stock is initially measured at the lower of net realisable value and cost, except where it involves a non-exchange transaction where the cost is measured as the fair value at the date of acquisition. The council values at the end of the year all stock at actual cost price where suitable. Where this is not possible then stock is measured on a first in first out (FIFO) or weighted average basis. The same valuation technique is used for similar items.

Any change in value of stock is recognised in the surplus or deficit on provision of services.

## **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 measured at fair value. The measurement of cost for this purpose consists of, where appropriate:

- Purchase price
- Transaction costs
- Directly attributable expenditure

After recognition investment properties are measured at fair value. Any gain or loss from a change in fair value is recognised in the surplus or deficit on provision of services in which it arises.

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

When investment properties are disposed of or decommissioned the net gain or loss is taken to the surplus or deficit on provision of services.

## **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.

Where a lease covers both land and buildings the land and buildings elements are considered separately for classification.

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**

### Finance leases

Property, plant and equipment held under finance leases is recognised on the balance sheet at the commencement of the lease at 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. Initial direct costs of the council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. 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 financing and investment income and expenditure line in the comprehensive income and expenditure statement).

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 council at the end of the lease period).

The council 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.

### Operating leases

Rentals paid under operating leases are charged to the comprehensive income and expenditure statement 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).

## **The council as lessor**

### Finance leases

Where the council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the balance sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the balance sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the comprehensive income and expenditure statement as part of the gain or loss on disposal. A gain, representing the council's net investment in the lease, is credited to the same line in the comprehensive income and expenditure statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the balance sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement)

The gain credited to the comprehensive income and expenditure statement on disposal is not permitted by statute to increase the general fund balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the general fund balance to the capital receipts reserve in the movement in reserves statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the general fund balance to the deferred capital receipts in the movement in reserves statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point the deferred capital receipts are transferred to the capital receipts reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the capital adjustment account from the general fund balance in the movement in reserves statement.

### 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 comprehensive income and expenditure statement. 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.

## **Non-current assets held for sale**

For a non-current asset to be recognised as held for sale it must meet the following criteria:

- The asset must be available for immediate sale in its current condition
- The sale must be highly probable
- The asset must be actively marketed at a price that is reasonable in relation to its current fair value
- The sale should be expected to be completed within the next 12 months and is unlikely to change

Non-current assets held for sale are measured at the lower of its carrying value or fair value less costs of sale. Immediately prior to classification as held for sale non-current assets are revalued to determine fair value less costs of sale. If this is lower than the carrying amount any impairment loss created will be recognised in line with the council's policy on impairments.

Non-current assets held for sale are not subject to depreciation.

## **Overheads**

The costs of overheads and support services are charged to those that benefit from the supply or service. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Costs relating to the council's status as a multi-functional, democratic organisation – corporate and democratic core
- Cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties – non-distributed costs

## **PFI/PPP schemes**

PFI/PPP contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI/PPP contractor.

Where a PFI/PPP arrangement meets the criteria laid out in section 4.3.2 of the Code and International Financial Reporting Interpretations Committee Note 12 (IFRIC12) – Service Concession Arrangements, the assets used to deliver the service are declared as property, plant and equipment on the council's balance sheet. Recognition of these assets occurs in line with our property, plant and equipment policy. In addition a corresponding liability is also recognised on the balance sheet.

Assets recognised for PFI/PPP schemes will be subject to the council's property, plant and equipment policy for depreciation and impairment policy.

Payments made under these arrangements are accounted for as finance leases being split into service and construction elements where possible, or into repayment of liability, interest and service charge. The construction element/repayment of liability will be paid straight to the liability shown on the balance sheet. Provision for the repayment of debt in the movement in reserves statement matches the repayment of liability.



## **Property, plant and equipment**

Property, plant and equipment are tangible assets that are held for use in the provision of goods/ 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 or fair value of the expenditure can be measured reliably.

Any expenditure that does not meet this criteria i.e. it maintains the assets potential to deliver future economic benefits and service potential (day to day servicing/repairs and maintenance), is charged to revenue as it is incurred.

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**

Property, plant and equipment are initially measured at cost, except donated assets which are measured at fair value. The measurement of cost for this purpose consists of, where appropriate:

- Purchase price
- Directly attributable costs to bringing the asset into working condition for its intended use
- Initial estimate of the cost of dismantling and removing the asset and restoring the site on which it is located

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 carried on the balance sheet using the following measurement bases:

- Infrastructure – historical cost
- Community assets – historical cost
- Assets under construction – historical cost
- All other property, plant and equipment – fair value

Where no market-based evidence for fair value is available due to the specialist nature of the building and are rarely sold (i.e. schools) use has been made of depreciated replacement cost (DRC) to approximate fair value.

Assets carried at fair value are revalued when there have been material changes in the value or every five years whichever is sooner. Where the carrying value is increased, this

increase is matched by credits to the revaluation reserve, unless this is reversing a previous impairment loss charged to the surplus or deficit on provision of services on the same asset. In this case an amount up to the value of the previous impairment loss is charged to the surplus or deficit on provision of service, with any remaining revaluation being matched by credits to the revaluation reserve.

Where the carrying value is decreased by revaluation, the decrease in value is recognised in the revaluation reserve up to the credit balance existing for that asset, with any remaining loss being charged to the surplus or deficit on provision on services.

## **Depreciation**

Depreciation is applied to all property, plant and equipment assets with the exception of land where it is demonstrated that it has an unlimited useful life (excluding land subject to depletion i.e. car parks). Assets are not depreciated until they are available for use. Depreciation is calculated by allocating the value of the asset over its expected useful life.

Depreciation is calculated on the following bases:

- Buildings – straight line allocation over the life of the property as estimated by the valuer (usually 10 to 80 years)
- Car Parks – straight line allocation over the life of the property as estimated by the valuer (usually 40 to 50 years)
- Infrastructure – straight line allocation over 25 to 30 years
- Vehicles, plant and equipment – straight line allocation over the life of the property as estimated by the valuer (usually 5 to 10 years)

As community assets are assets that the council intends to hold in perpetuity, have no determinable useful life and may have restriction on their disposal, no depreciation is charged.

## **Disposals**

When property, plant and equipment assets are disposed of or decommissioned the net gain or loss is taken to the surplus or deficit on provision of services.

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. Receipts are appropriated to the reserve from the general fund balance in the movement in reserves statement.

## **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..

The council holds a range of heritage assets. These include 4 art collections and the Epstein Archive within the New Art Gallery, collections within Walsall Museum and Leather Museum, local history archive and a number of public art works, statues, war memorials and other items. The Walsall Museum collection, the Leather Museum collection, statues and war memorials around the borough are held to increase the knowledge, understanding

and appreciation of local and national history. The art collections and Epstein Archive are held to increase the knowledge, understanding and appreciation of local, national and international art history.

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 relaxed 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 collections of heritage assets are accounted for as follows.

#### Art collections

The art collections include paintings (both oil and watercolour), sculptures, drawings/sketches, ancient/classical pottery and figures, and ethnographic works. These 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 available at [www.thenewartgallerywalsall.org.uk/collections-and-library](http://www.thenewartgallerywalsall.org.uk/collections-and-library). Acquisitions are initially recognised at cost and donations are recognised at insurance valuation.

#### Epstein Archive

The Epstein Archive includes documents, photographs and audio-visual material relating to Sir Jacob Epstein. The council maintains an inventory of this archive however there is no readily available valuation held by the council. There is no definitive market value for these type of assets as they are normally obtained through an auction. The council believes that the benefits of obtaining the 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.

#### Museum collections

The museum collections include clothing, locks, loinery and other leather working exhibits, historic civic regalia, medals and items connected the canals. These 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 value over £1,000.

#### Local history archive

The council's local history archive includes church records, census records, council archives, photographs, film and other items relating to the history of Walsall. The council maintains an inventory of this archive however there is no readily available valuation held by the council. There is no definitive market value for these type 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.

#### Statues

The council has four statues around the borough. There is no readily available valuation held by the council for these assets and no definitive market value for these type of assets 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.

#### War memorials

The council has a number of war memorials around the borough, however does not hold a readily available valuation. The council believes that it is not appropriate to obtain a valuation due to the very specialised nature of the asset and the lack of comparable market values. The council believes that the benefits of obtaining a valuation for these items to the user of the accounts would not justify the cost. As such the council has not recognised these assets on the balance sheet.

#### Memorial clocks

The council has a number of memorial clocks around the borough, however does not hold a readily available valuation. The council believes that it is not appropriate to obtain a valuation due to the specialised nature of the assets and the lack of comparable market values. The council believes that the benefits of obtaining the valuation for these items to the user of the accounts would not justify the cost. As such the council has not recognised these assets on the balance sheet.

#### Public art

The council has a number of public art works around the borough, however does not hold a readily available valuation. The council believes that it is not appropriate to obtain a valuation due to the specialised nature of the assets and the lack of comparable market values. The council believes that the benefits of obtaining the valuation for these items to the user of the accounts would not justify the cost. 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.

Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (see accounting policy for 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. This is charged to the surplus or deficit on provision of services for the relevant service.

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 to the surplus or deficit on provision of services for the relevant service.

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.

### Provision for back pay arising from unequal pay claims

The council has made a provision for settling the costs of equal pay (back pay) arising from claims prior to implementation of its equal pay strategy. Statutory arrangements allow settlements to be financed from the general fund in the year that payments actually take place, not when the provision is established. As a result this provision is balanced by an unequal pay back pay account created from amounts credited to the general fund balance in the year the provision was made or modified. The balance on the unequal pay back pay account will be debited back to the general fund balance in the movement in reserves statement in future financial years as payments are made.

### Landfill allowance schemes

Landfill allowances, as allocated by Department for Environment, Food and Rural Affairs (DEFRA) or purchased from another council, are recognised as current assets and initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant. After initial recognition, allowances are measured at the lower of cost or net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or the payment of a cash penalty to DEFRA (or a combination of both). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

### **Contingent liabilities**

A contingent liability arises where an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but disclosed in a note to the accounts where it is probable that there will be an outflow of economic benefits or service potential.

### **Contingent assets**

A contingent asset arises where an event has taken place that gives the council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council.

Contingent assets are not recognised in the balance sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### **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 surplus or deficit on provision of services in that year. The reserve is then appropriated back into the movement in reserves statement 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. 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 person (such as housing renovation grants and disabled facility grants) and bodies for

capital expenditure purposes; and amounts (including provisions for back-pay under pay-reviews) that the Secretary of State has given direction should be capitalised.

The council writes out the entire expenditure to the comprehensive income and expenditure statement 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 accounting treatment of land and buildings for each type of school is based on the legal framework underlying each type of school. The council controls the management and running of community and voluntary controlled schools and therefore the land and buildings of those schools are separately shown on the council's balance sheet. The land and buildings of voluntary aided and foundation schools are owned and controlled by the trustees of the schools or the foundation body and are therefore not shown on the balance sheet of the council.

Capital expenditure on community and voluntary controlled schools is added to the balances for those schools. Capital expenditure on voluntary aided and foundation schools is treated as revenue from capital under statute expenditure and written off each year to the comprehensive income and expenditure statement within education and children's services.

The Dedicated Schools Grant is allocated between central council budget and budgets allocated to individual schools ("delegated school budgets"). Expenditure from central council budgets and delegated schools budgets is charged to the comprehensive income and expenditure statement under education and children's services.

Individual schools' balances at 31 March 2011 are included in the balance sheet of the council as any unspent delegated schools budgets remain the property of the council.

### **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.