Agenda Item No .

Audit Committee – 25 June 2009

Accounting Policies 2008/09

Summary of report

As part of 2008/09 final accounts process it is proposed for Audit Committee to formally sign off the Accounting Policies for 2008/09. Until 2007/08 this was always done as part of the overall signing off of the accounts. Signing off the policies separately is seen as strong practice and this also provides guidance for reviewing the statement of accounts. There have been few changes this year compared to 2007/08 but these changes are highlighted in the report.

Recommendations

1. To approve use of the attached accounting policies for financial year 2008/09
2. To note the changes in accounting standards

James Walsh – CFO

17 June 2009

Governance

The statement of Accounting Policies for 2008/09 (**Appendix 1**) has been updated for:

- Changes in Statement of Recommended Practice 2008
- Improvements to provide clarity

Appendix 2 briefly highlights the process of how accounting policies are generated.

<u>Changes in Statement of Recommended Practice (SORP) 2008</u>

Below are listed out the accounting policies which have changed. There is both the old and new wording where appropriate and the new wording only where applicable. Of these changes only FRS 17 has seen a restatement of 2007/08 comparatives.

1. Addition of Area Based Grant into Policy 7 - Government Grants and Contributions (Revenue) into grants covering general expenditure

Old paragraph

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (eg Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

New paragraph

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (eg Revenue Support Grant, Area Based Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

Why? This change is from the updated Statement of Recommended Practice 2008

2. Changes due to amendment of FRS17 into policy 8 – Retirement Benefits

FRS 17 stands for Financial Reporting Standard 17. This standard relates to how companies value pension liabilities and assets and how this information is disclosed in the accounts. This looks at future costs rather than what we have actually paid.

Old paragraph

- The assets of the West Midlands Superannuation pension fund attributable to the council are included in the Balance Sheet at their fair value:
    - quoted securities - Mid-market value
    - unquoted securities - professional estimate
    - unitised securities - average of the bid and offer rates
    - property - market value

New paragraphs

- The assets of the West Midlands Superannuation 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

Following changes made by the Accounting Standards Board to FRS17 incorporated into the SORP 2008, the disclosures within the Statement of Accounts have been amended, and the method of valuation for assets has been altered. The accounting policy takes account of this.

Why? This is a change issued from the Accounting Standards Board altering FRS17. This has then been adopted in Statement of Recommended Practice 2008.

3. Amendments to Policy 11 – Tangible Fixed Assets specifically on depreciation

Additional sections added to clarify depreciation policy on car parks, additions and disposals

New paragraphs

- Car Parks – straight line allocation over the life of the property as estimated by the valuer (usually 40 to 50 years)

Where it has no economic effect assets will be depreciated in the year of acquisition but not in the year of disposal.

Why? This is what Walsall Council has done for a number of years but to aid clarity this has now been included in the accounting policies. This would have no effect on general reserves even if we altered the policy.

4. New policy added for Revenue Expenditure funded from capital under statute

This policy replaces the previous one for deferred charges which were removed by SORP 2008/

New policy

Capital expenditure has been incurred during the year but has not resulted in the creation of a tangible fixed asset is classed as revenue expenditure funded from capital under statute. The purpose of this is to enable it to be funded from capital resources rather than to have an impact on that year's council tax. Expenditure that can be classed as this is defined by the SORP, Local Government Act 2003 and associated capital financing regulations. They include grants to other persons (such as housing renovation grants and disabled facilities grants) and bodies for capital expenditure purposes, and amounts (including provisions for back-pay under the pay-review) that the Secretary of State has given direction should be capitalised.

The SORP requires the authority to write out the entire expenditure to the Income and Expenditure Account in the year it takes place. To ensure that no impact is made on council tax, this expenditure is then reversed out through the Statement of Movement on General Fund Balances by a transfer to the Capital Adjustment Account.

Why? This change has come from Statement of Recommended Practice 2008. There was previously a technique called Deferred Charges. Deferred Charges was a very similar technique with the only changes being the route the expenditure took to eventually end up in the Capital Adjustment Account.

5. Change in policy 22 – Landfill Allowance Trading Scheme to describe requirements for this year

This is an addition to the policy this year to explain that the no allowances are allowed to be carried over.

New paragraph

Any spare allowances at the end of 2008/09 are required to be written out of the accounts in line with guidance from DEFRA. This will apply to all local authorities. The scheme will continue next year from a zero balance. In future years the value of spare allowances will be moved to an earmarked reserve unless it is a designated year by DEFRA for all balances to be cleared.

Why? This change has been made under guidance from DEFRA.

Resource and legal considerations

Council's must produce annual accounts in line with the Accounts and Audit Regulations] 2003, as amended 2006 and in a timely fashion on an annual basis. The SORP is updated on an annual basis.

Performance management and risk management issues

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. This is available to review at First Stop Shop, Walsall Library and available on line.

Consultation

The Chief Financial 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

Statement of Recommended Practice 2008
Statement of Recommended Practice Guidance Notes 2008
Audit and Accounts Regulations 2003, amended 2006.
Various International Financial Reporting Standards publications

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Appendix 1

Statement of accounting policies

1. General Principles

The statement of accounts summarises the council's transactions for the 2008/09 financial year and its position at the year end of 31 March 2009.

It has been prepared in accordance with the Code of on Local Authority Accounting in the United Kingdom 2008 – A Statement of Recommended Practice (the SORP), including applicable Statement of Standard Accounting Practice (SSAP) and Financial Reporting Standards (FRS).

The accounting conventions adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

2. Accruals of Income and Expenditure

The revenue accounts of the council are maintained on an accruals basis in accordance with SORP and FRS18 (Accounting Policies). 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 & expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

3. Provisions

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

Provisions are required to be recognised when:

(i) the local authority has a present obligation (legal or constructive) as a result of a past event
(ii) it is probable that a transfer of economic benefits will be required to settle the obligation, and
(iii) a reliable estimate can be made of the amount of the obligation.

A transfer of economic benefits or other event is regarded as probable if the event is more likely than not to occur. If these conditions are not met, no provision is recognised.

The obligation can be 'constructive' (e.g. the authority has publicly expressed an intention to do something, and other parties have acted in expectation of this).

Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (eg from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

The treatment outlined above is in line with FRS12 (Provisions, contingent liabilities and contingent assets).

4. Bad Debt Provision

The authority maintains bad debt provisions for any potential non payment of debtors. At present the authority has the following bad debt provisions:

- Sundry Debtors
- Non sundry debtors
- Collection Fund

Each of the bad debt provisions is calculated using an estimation of what percentage of debt will be repaid on a year by year basis. The percentages are reviewed each year and based on past collection rates.

5. Contingent assets and liabilities

Contingent assets are not recognised in the Statement of Accounts but are disclosed within the notes if the inflow of a receipt or economic benefit is probable.

Contingent liabilities are not recognised in the Statement of Accounts but are disclosed within the notes if there is a possible obligation that may require a payment or transfer of economic benefits.

Both of these policies are in line with FRS12 (Provisions, contingent liabilities and contingent assets).

6. Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement in the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against council tax for the expenditure. The reserves held by the authority are:

Revenue reserves

- General Fund reserve
- Collection Fund reserve
- Earmarked reserves

Capital reserves

- Capital adjustment account
- Revaluation reserve
- Financial Instruments adjustment account
- Available-for-sale financial instrument reserve
- Deferred capital receipts
- Useable capital receipts reserve
- Pensions reserve

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and that do not represent usable resources for the council – these reserves are explained in the relevant policies below.

7. Government Grants and Contributions (Revenue)

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (eg Revenue Support Grant, Area Based Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

8. Retirement 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 Children, Schools and Families (DCSF)

- The Local Government Pensions Scheme, administered by Wolverhampton City Council.

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

However, the 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 service revenue account is charged with the employer's contributions payable to teachers' pensions in the year.

The Local Government Pension Scheme

The local government scheme is accounted for as a defined benefits scheme as per FRS17 (Retirement benefits) and SORP:

- 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 – ie 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 projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 6.1% (based on the weighted average of spot yields on AA rated corporate bonds).

- The assets of the West Midlands Superannuation 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 result of years service earned this year – allocated in the Income and Expenditure Account to the revenue account of services for which the employees 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 Net Operating Expenditure in the Income and Expenditure Account 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 Net Operating Expenditure in the Income and Expenditure Account.
    - 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 Net Opening Expenditure in the Income and Expenditure Account.

- o 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 Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.
- o 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 the Statement of Total Recognised Gains and Losses.
- o Contributions paid to the West Midlands Metropolitan Authorities Pension Fund – cash paid as employer's 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 Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

Following changes made by the Accounting Standards Board to FRS17 incorporated into the SORP 2008, the disclosures within the Statement of Accounts have been amended, and the method of valuation for assets has been altered. The accounting policy takes account of this.

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 awards and accounted for using the same policies as are applied to the Local Government Pension Scheme.

9. VAT

Income and expenditure excludes any amounts related to VAT as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from it.

VAT however should be included in income and expenditure accounts, whether of a capital or revenue nature, only to the extent that it is irrecoverable.

10. Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the council (eg software licences) is capitalised when it will bring benefits to the council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

11. Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

Recognition

Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of assets (eg repairs and maintenance) is charged to revenue as it is incurred.

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

Measurement

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

- Investment properties and assets surplus to requirements – lower of net current replacement cost or net realisable value
- Land and buildings, vehicles, plant and equipment – lower of net replacement cost or net realisable value in existing use
- Infrastructure assets and community assets – depreciated historic cost

Net current replacement cost is assessed as:

- Non-specialised operational properties – existing use value
- Specialised operational properties – depreciated replacement cost
- Investment properties and surplus assets – market value

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains may be credited to the Income and Expenditure Account where they arise from the reversal of an revaluation loss previously charged to a service revenue account.)

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value.

Where on revaluation there has been a decrease over the previous carrying amount an impairment loss has occurred. It should be considered whether the loss has been caused by clear consumption of economic benefits and any such loss should be recognised in the

Income and Expenditure Account. The amount of the decrease in value not associated with a clear consumption of economic benefit should be recognised in the Statement of Total Recognised Gains and Losses until the asset's carrying amount reaches its depreciated historical cost and taken to the Revaluation Reserve; and thereafter in the Income and Expenditure Account.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Disposals

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (ie netted off against the carrying value of asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to mortgages given to former tenants who purchased their properties under the Right to Buy scheme (75%) is payable to the Government. The balance of the receipts is required to be credited to the Useable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

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 arrangement for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance.

Depreciation

Depreciation is provided for on all assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.

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)
- Vehicles, plant and equipment – straight line allocation over the life of the property as estimated by the valuer (usually 5 to 10 years)
- Infrastructure - straight line allocation over 25 to 35 years

- Community assets – are assets that the authority intends to hold in perpetuity, that have no determinable useful life, and may have restrictions on their disposal. As such these are held at their historic cost and incur no depreciation.

Where an asset has major components with different estimated useful lives, these are depreciated separately.

Where it has no economic effect assets will be depreciated in the year of acquisition but not in the year of disposal.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Grants and contributions

Where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

12. Charges to Revenue for Fixed Assets

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

- Depreciation attributable to the assets used by the relevant service

- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other loses where there are no accumulated gains in the Revaluation Reserve against which they can be written off

- Amortisation of intangible fixed assets attributable to the service

The council is not required to raise council tax to cover depreciation, impairment losses or amortisation. However, it is required to make an annual provision from revenue, known as the minimum revenue provision (MRP), to contribute towards the reduction in its overall borrowing requirement. MRP is calculated on a basis outlined in the Capital Financing Regulations. It is either 4% of the underlying amount measured by an adjusted Capital Financing Requirement or if using prudential borrowing over the expected life of the asset. This life once set can not be altered for this calculation. Depreciation, impairment losses and amortisation are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjustment transaction with the Capital Adjustment Account for the difference between the two.

13. Revenue expenditure funded from capital under statute

Capital expenditure has been incurred during the year but has not resulted in the creation of a tangible fixed asset is classed as revenue expenditure funded from capital under statute. The purpose of this is to enable it to be funded from capital resources rather than to have an impact on that year's council tax. Expenditure that can be classed as this is defined by the SORP, Local Government Act 2003 and associated capital financing regulations. They include grants to other persons (such as housing renovation grants and disabled facilities grants) and bodies for capital expenditure purposes, and amounts (including provisions for back-pay under the pay-review) that the Secretary of State has given direction should be capitalised.

The SORP requires the authority to write out the entire expenditure to the Income and Expenditure Account in the year it takes place. To ensure that no impact is made on council tax, this expenditure is then reversed out through the Statement of Movement on General Fund Balances by a transfer to the Capital Adjustment Account.

14. Leases

Finance Leases

The council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the council in line with SSAP21 (Accounting for leases and hire purchase contracts).

Rentals payable are apportioned between:

- A charge for the acquisition of the interest in the property (recognised as a liability in the Balance Sheet at the start of the lease, matched with a tangible fixed asset – the liability is written down as the rent becomes payable), and
- A finance charge (debited to Net Operating Expenditure in the Income and Expenditure Account as the rent become payable).

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

15. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Code of Practice 2008 (BVACOP). 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:

- Corporate and Democratic Core – costs relating to the council's status as a multi-functional, democratic organisation.

- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Income and Expenditure Account as part of Net Cost of Services.

16. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account 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 presented in the Balance Sheet is the outstanding principle repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the 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 Income and Expenditure Account 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 Income and Expenditure Account, 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 repaid. For discounts receivable, Local Authorities (Capital Financing and Accounting) (Amendment)(England) Regulations 2007 (SI 2007/573) limit this to a maximum of 10 years. The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

The treatment outlined above is in line with the SORP and FRS25 (Financial instruments: disclosure and presentation), FRS26 (Financial instruments: recognition and measurement) and FRS29 (Financial instruments: disclosures).

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 SI2008/414. This allows local authorities to continue with their established method of calculating interest on these loans prior to the introduction of SORP 2007; either charging just the interest or creating a provision to enable the smoothing of interest over a defined period set by the authority.

Walsall's method, in line with the above regulation, is to charge the interest paid in year with an adjustment to smooth the interest up to the first option date where the new interest rate is unknown

17. Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable 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 carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest 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 principle receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because a likelihood arising from a past event that payments due under the contract will not be made, the asset us written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on derecognition of the asset are credited/debited to the Income and Expenditure Account.

Available-for-sale Assets

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

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instrument 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 is recognised in the Statement of Total Recognised Gains and Losses (STRGL). The exception is where impairment losses have been occurred – these are debited to the

Income and Expenditure Account, 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 charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL.

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

The treatment outlined above is in line with the SORP and FRS25 (Financial instruments: disclosure and presentation), FRS26 (Financial instruments: recognition and measurement) and FRS29 (Financial instruments: disclosures).

18. Stocks and Work in Progress

Stocks are included in the Balance Sheet at the lower of cost and net realisable value. Work in progress is subject to an interim valuation at the year end and recorded in the Balance Sheet at cost plus any profit reasonably attributable to the works.

19. Private Finance Initiative (PFI)

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. Payments made by the council under a contract are charged to revenue to reflect the value of services received in each financial year in line with FRS5 (Reporting the substance of transactions). The council receives government grants to finance PFI expenditure. If the government grants are in excess of the expenditure at the end of the year, the balance of the grant is carried forward as an earmarked reserve to finance future contract expenditure.

20. Events after the balance sheet date

These are events that have happened after the balance sheet date, 31 March 2009. There are two types of event and it depends on its nature as to its treatment within the statement of accounts.

If the event is an adjusting event (one that has a material economic effect on the council and was known about at the balance sheet date) then the statement of accounts have been adjusted accordingly. Details about any such event have adjusted any effected notes accordingly.

If the event is indicative of conditions that arose after the balance sheet date then this is an un-adjusting event. For these only a note is included within the statement of accounts identifying the nature of the event and estimates of the financial effect (unless this can not be estimated reliably where upon a statement saying this is included).

21. Group Accounts

SORP 2008 requires local authorities to examine their relationships with other organisations. This is with a view to checking whether the council needs to prepare group accounts because of another organisation being classified as a subsidiary or associate. The method for determining this is laid out in the SORP which the authority follows.

22. Landfill Allowance Trading Scheme (LATS)

The Landfill Allowances Trading Scheme is where local authorities are given an allowance of tonnes of refuse that may be disposed of by landfill. Disposal in excess of this incurs a financial penalty payable to the Department for Rural Affairs (DEFRA). Alternatively allowances may be purchased from other local authorities who do not plan to use all of the allowances made available.

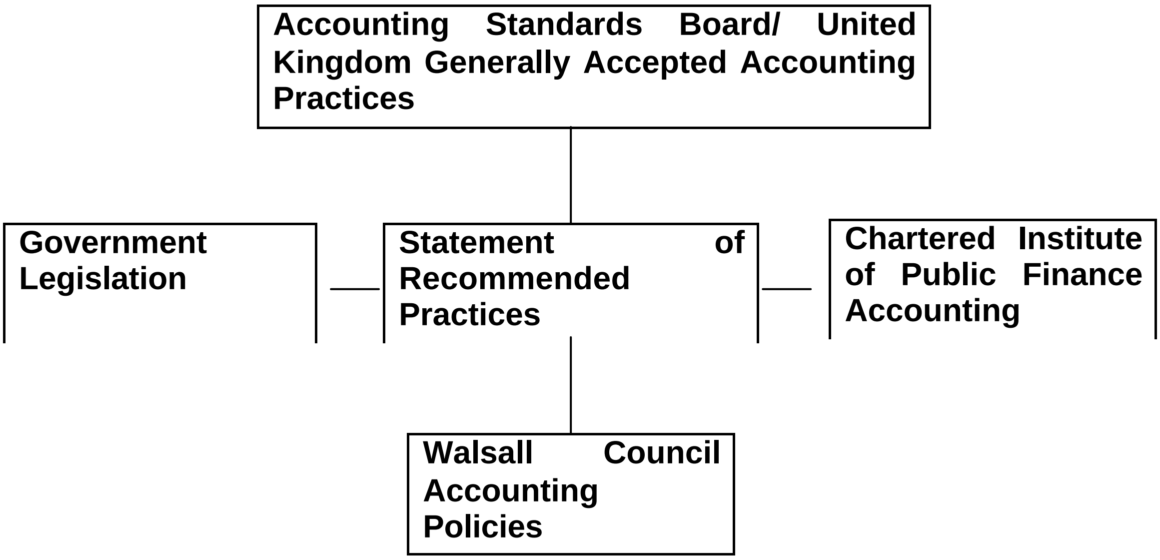
The Council did not trade any allowances in 2008/09 but has recognised the value of the assets and liabilities. Current and prior years allowances have been recognised on the balance sheet as an intangible current asset, offset by the current liability to DEFRA for landfill usage. The current liability has been classified as a provision following SORP 2008, FRS12 and the proposed UITF Abstract Emission Rights.

LATS income has been credited to the Income and Expenditure Account. Any spare allowances at the end of 2008/09 are required to be written out of the accounts in line with guidance from DEFRA. This will apply to all local authorities. The scheme will continue next year from a zero balance. In future years the value of spare allowances will be moved to an earmarked reserve unless it is a designated year by DEFRA for all balances to be cleared.

All allowances and liabilities are re-valued each year at the lower of cost or net realisable value.

Appendix 2

Accounting Hierarchy



Local Government use the Statement of Recommended Practice (SORP) to put together their accounts. If there is ever conflicting guidance from government or accounting standards, it will be government legislation that is followed. In some areas the SORP does not give specific guidance and accounting standards can be used for guidance in that instance.

Walsall Council then has to draft up accounting policies to ensure compliance. In some areas, there is not absolute guidance from SORP, Walsall's accounting policies are where the Council confirms the approach they are taking,

Organisations mentioned

Central Government

Drafts legislation aimed at reducing impact on council tax of changed in accounting standards and special cases within the public sector.

Accounting Standards Board

Guardians of United Kingdom Generally Accepted Accounting Practices (UKGAAP) issues Financial Reporting Standards, and provides negative assurance on Statement of Recommended Practices.

Chartered Institute of Public Finance Accountants

Writes Statement of Recommended Practices with Finance Accounting brings together aspects of accounting standards as modified by legislation.