PROPOSED ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY FOR THE 2020/21 STATEMENT OF ACCOUNTS

Lichfield district council
www.lichfielddc.gov.uk

Cabinet Member for Finance, Procurement, Revenues and Benefits and Customer Services

Date:	25 March 2021
Agenda Item:	4
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Key Decision?	**NO**
Local Ward Members	All wards.

AUDIT AND MEMBER STANDARDS COMMITTEE

1. Executive Summary

1.1 Best practice recommends that the proposed Accounting Policies to be used to prepare the Council's Statement of Accounts, should be approved by Audit and Member Standards Committee.

1.2 This report, therefore, sets out the Council's proposed Accounting Policies to be adopted in completing the 2020/21 Statement of Accounts. it also details any changes that have been made to the Council's 2019/20 Accounting Policies to ensure that they are relevant to the preparation of the Council's 2020/21 Statement of Accounts.

1.3 International Standard on Auditing, ISA 540, deals with the Auditor's responsibilities relating to accounting estimates and related disclosures when auditing the Statement of Accounts. With the impact of Covid-19 it is anticipated that there will be more high risk estimates than in prior years and so Auditors will be spending more time assuring themselves that there are no material misstatements in this area.

1.4 This report, therefore, also highlights the Critical Accounting Adjustments and the Key Sources of Estimation Uncertainty that will be used in the production of the 2020/21 Statement of Accounts.

2. Recommendations

2.1 It is recommended that the Audit and Member Standards Committee approves the Council's proposed Accounting Policies that will form part of the 2020/21 Statement of Accounts.

2.2 It is also recommended that the Committee approves the Council's approach to the Critical Accounting Judgements and Key Sources of Estimation Uncertainty that will be considered in completing the 2020/21 Statement of Accounts.

2.3 To delegate to the Head of Finance and Procurement the ability to make further changes to the accounting policies to reflect the subsequent release of new or updated guidance.

3. Background

Accounting Policies

3.1 The preparation of the Statement of Accounts is governed by the Accounts and Audit Regulations 2015. The format of the Accounts reflects the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 published by the Chartered Institute of Public Finance and Accountancy (CIPFA). This is supported by the International Financial Reporting Standards (IFRS), which is a set of evolving accounting rules used internationally to guide the formation of financial statements in the public and private sector. The evolving state means that new accounting standards are formed on a regular basis along with reinterpretations of existing standards. The Accounting Policies are therefore reviewed annually to ensure that they remain current and relevant.

3.2 Under Section 151 of the Local Government Act 1972, the appointed Chief Finance Officer is charged with the proper administration of the Council’s financial affairs and as such must select suitable Accounting Policies and make judgements and estimates that are reasonable and prudent. However, it is considered good practice for the Audit and Member Standards Committee to have a chance to consider these Accounting Policies that are going to be applied to the Accounts in advance of their use.

3.3 The Council’s Accounting Policies are the specific principles, conventions, rules and practices that that are applied in the production and presentation of the annual Statement of Accounts. These policies have to be disclosed by way of a note to the Accounts. Only those policies that are directly relevant and material to the Council have been included.

3.4 The full list of Accounting Policies as produced in the Code of Practice for 2020/21 is shown in a table at **Appendix A**. For those Policies that are not adopted by the Council, a reason is provided within that table.

3.5 The Council’s proposed Accounting Policies list for the 2020/21 Statement of Accounts is shown at **Appendix B**.

3.6 The Council has reviewed these Accounting Policies in line with the 2020/21 Code of Practice and no fundamental changes have been made. Minor amendments are highlighted in blue.

<u>International Financial Reporting Standard (IFRS) 16 - Leases</u>

3.7 The new Standard was originally applicable from 1 April 2020, but due to Covid-19 the implementation has been delayed until 1 April 2022. This Standard will require more arrangements where there is a right to use an asset to be included on the Council’s Balance Sheet. The level of non-current assets is likely to increase and these will be matched by a liability to reflect the lease payments to be made.

3.8 The identification and inclusion of these assets on the Council’s Balance sheet will also mean that there will be an increase in the Capital Financing Requirement (Borrowing Need), and changes to financing and a number of Prudential Indicators related to debt.

3.9 The only area potentially impacting on the Council is lessor leases for nil consideration, which are still under discussion. A review of the finance system and the list of leases used to compile the Statement of Accounts has identified a small number of assets where the arrangements are currently classified as operating leases that are therefore potentially in scope. However a number of these arrangements are for periods of less than 12 months or the asset value is likely to be less than £10,000 and these can be excluded.

3.10 In addition, there is also the arrangement with Staffordshire County Council for Friary Grange leisure Centre for the 5 year extended opening that could be in scope depending on the Head of Terms. However it is likely the value (excluding Friary Grange Leisure Centre) of the assets and matching liabilities will not be significant.

3.11 Given the revised timeframe, the Council will continue to monitor any new leases and changes to current leases in order that we ensure that we are compliant with the new IFRS.

Critical Accounting Judgements

3.12 The Code of Practice requires that the judgements that the Chief Finance Officer has made in applying the Council's Accounting Policies must be disclosed either with the Accounting Policies or in a separate note to the Accounts. The relevant judgements are those that have the most significant effect on the Accounts and hence these are known as Critical Accounting Judgements. Judgements that are made in arriving at estimates are not included here, rather these are included under a separate note, 'Key Sources of Estimation Uncertainty', discussed later in this report.

3.13 Disclosure of such Critical Judgements is made to enable users of the Statement of Accounts to better understand how the Accounting Policies are applied and to make comparisons between authorities regarding the basis on which these judgements are made. It is also important that these disclosures include the judgements made to exclude material items which could impact on providing a 'true and fair' view, for example, not to treat a possible future transaction as a contingent asset/liability. (A contingent asset/liability is a potential economic benefit/loss that is dependent on future events out of the Council's control. Not knowing for certain whether these gains will materialise, or being able to determine their precise economic value, means these assets/liabilities cannot be recorded on the Council's balance sheet. They are instead reported in the notes to the Statement of Accounts provided that certain conditions are met).

3.14 These arrangements have the effect of requiring the Council to justify the view that they have taken regarding significant transactions and balances by providing an appropriate explanation of the factors that were taken into account and any assumptions made when making the judgement, together with the outcome.

3.15 The Council's Critical Accounting Judgements in the 2019/20 Statement of Accounts can be seen at **Appendix C**. These will be updated for 2020/21 as part of the process of completing the Statement of Accounts. It is anticipated that Covid-19 will have had a significant impact on these judgements, in particular in relation to item 2 Freedom Leisure Pensions risk. This is shown in the table below:

Judgement	1% Low Risk from 2019/20 Accounts	5% Estimate based on 2019/20 Figures	Maximum Commitment (Admission Agreement)
Freedom Leisure Pension	£79,212	£396,060	£677,870

3.16 The pension risk for the staff that transferred to the Garrick Trust is considered to be immaterial in financial terms and has therefore not been included in the table above. Item 3, NNDR appeals, is considered as part of the Key Sources of Estimation Uncertainty table later in this report:

Key Sources of Estimation Uncertainty

3.17 The Code of Practice requires the Chief Finance Officer to disclose the assumptions that have been made in the Statement of Accounts about the future and other major sources of Estimation Uncertainty. These should be disclosed in a separate note to the Statement of Accounts. This disclosure is limited to those estimates that have a significant risk of resulting in a material adjustment within the next financial year.

3.18 Disclosures are restricted to assets and liabilities whose carrying amount is dependent on estimates that are in turn dependent on difficult, subjective or complex judgements for which there is a risk that correction or re-estimation with material effect in the next financial year might be required.

3.19 Estimation Uncertainty disclosures deal with situations where the Council has incomplete or imperfect information which will only be enhanced as a result of future events. The minimum disclosure requirements are:

- The nature of the assets and liabilities affected
- Their carrying amount at the end of the financial year.

3.20 However, International Accounting Standard (IAS) 1 'Presentation of Financial Statements' adds further information that might be needed depending on materiality of the assets/liabilities and the degree of uncertainty attaching to them, and this is supported by the Code of Practice:

- The nature of the assumption or other Estimation Uncertainty relating to the assets or liabilities
- The sensitivity of the carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity
- The expected resolution of an uncertainty and the range of possible outcomes for the carrying amounts of the assets/liabilities within the next financial year
- An explanation of changes made to past assumptions concerning the assets/liabilities if the uncertainty existing at the start of the financial year remains unresolved at the end of the year.

3.21 The Council's Key Sources of Estimation Uncertainty in the 2019/20 Statement of Accounts can be seen at **Appendix D** and in summary below:

	2019/20 Accounts				
	Financial Assumptions £	Other Assumptions %	Balance Sheet £	Sensitivity	
				Pensions +/- 0.5%	Other +/- 1.0%
Business Rate Appeals (LDC 40%)					
(all preceptors provision £3.1m)					
2005 and 2010 Lists	£39,150,000	3.84%	(£511,000)		£194,000
2017 List	£87,031,087	2.10%	(£729,000)		£190,000
Pension Liability					
Increase in real discount rate		2.30%		£10,513,000	
Increase in Salary Rate		2.30%	(£108,874,000)	£1,139,000	
Increase in Pension Rate		1.90%		£9,277,000	
Bad Debt Provisions					
Sundry Debt	£1,582,000	(46.52%)	(£736,000)		(£16,000)
NNDR					
(all preceptors arrears £0.555m)	£224,955	(51.57%)	(£116,000)		(£2,000)
Council Tax					
(all preceptors arrears £2.517m)	£524,872	(28.20%)	(£148,000)		(£5,000)

	Annual Depreciation £	Average Useful Lives	Balance Sheet £	Sensitivity	
				Valuation Changes +/- 1.0%	Useful Lives +/- 1 year
Non-Current Assets					
Other Land & Buildings - current value	£793,000	32	£32,671,000	£327,000	£37,000
Vehicles, Plant & Equipment - historic	£1,071,000	4	£2,285,000	£0	£106,000
Infrastructure Assets - historic	£3,000		£291,000	£0	
Community Assets - historic	£0		£4,071,000	£0	
Surplus Assets - fair value	£0		£1,782,000	£18,000	
Assets under Construction - historic	£0		£334,000	£0	
Investment Properties - fair value	£0		£4,075,000	£41,000	

3.22 These will be updated for 2020/21 as part of the process of completing the Statement of Accounts. It is anticipated that Covid-19 will have had a significant impact on all of these estimates, and as such our sensitivity analysis will need to be wider than the **0.5%/1%** used in **Appendix D**.

3.23 The data from **Appendix D** for 2019/20 has been remodelled using a wider range of sensitivity and assuming no other changes for 2020/21:

	2020/21 Accounts				
	Sensitivity		Level of Estimation Uncertainty	Source of Estimates	Assurance
	Pensions +/- 1.0%	Other +/- 10.0%			
Business Rate Appeals					
2005 and 2010 Lists		£1,656,000	Material	VOA information	Benchmarking
2017 List		£3,483,000			
Pension Liability					Pensions Committee and Senior Pensions Officers
Increase in real discount rate	£21,026,000				
Increase in Salary Rate	£2,278,000		Material	Expert - Actuary	
Increase in Pension Rate	£18,554,000				
Bad Debt Provisions					
Sundry Debt		(£158,000)		Corporate Debt Team	Finance Team
NNDR		(£22,000)			
Council Tax		(£52,000)			

	Sensitivity		Level of Estimation Uncertainty	Source of Estimates	Assurance
	Valuation Changes +/- 10.0%	Useful Lives +/- 1 year			
Non-Current Assets					
Other Land & Buildings	£3,267,000	£37,000	Material	Expert - Valuer	Estates Team
Vehicles, Plant & Equipment	£0	£106,000			
Infrastructure Assets	£0				
Community Assets	£0				
Surplus Assets	£178,000			Expert - Valuer	Estates Team
Assets under Construction	£0				
Investment Properties	£408,000			Expert - Valuer	Estates Team

Alternative Options	The alternative options that the Audit and Member Standards Committee may consider are either not to approve any of the proposed Accounting Policies or not to approve some of the proposed Accounting Policies. The Committee may also consider either not to approve the Council's approach to both Critical Accounting Judgements and the Key Areas of Estimation Uncertainty.
Consultation	Consultation has taken place with the Council's external auditors, Grant Thornton.
Financial Implications	The adoption of relevant Accounting Policies, Critical Accounting Judgements and Key Area of Estimation Uncertainty ensures that the Statement of Accounts is fit for purpose and is underpinned by sound financial management that helps us to spend wisely, attract financial funding and become more efficient. This in turn contributes to the Fit for the Future transformation programme designed to help us achieve our financial challenges.
Contribution to the Delivery of the Strategic Plan	By achieving our financial challenges we are able to target our resources to the priorities set out in the Strategic Plan 2020-24.
Equality, Diversity and Human Rights Implications	There are no equality, diversity and human rights implications.
Crime & Safety Issues	There are no crime and safety issues.
Environmental Impact	There is no environmental impact.
GDPR/Privacy Impact Assessment	It has not been necessary to undertake a Privacy Impact Assessment.

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	The Accounting Policies, Critical Accounting Judgments and Key Area of Estimation Uncertainty are not produced in line with best practice, the CIPFA Code and IFRS.	The Accounting Policies form part of the Statement of Accounts that is audited by our external auditors.	Likelihood : Green Impact : Green Severity of Risk : Green
B	The judgments in the Key Area of Estimation Uncertainty are not seen as sufficient or may need to change as a result of more up to date information post Committee.	We will review our judgements as the Statement of Accounts is produced and up until the external auditors sign off the Accounts. These will be updated as appropriate.	Likelihood : Green Impact : Green Severity of Risk : Green

Background documents

Code of Practice on Local Authority Accounting 2020/21.

Relevant web links

APPENDIX A

Accounting Policies in the Code of Practice for Local Authorities 2020/21

Accounting Policy	Adopted by the Council	Explanation if not Adopted
General Principles	Yes	
Accruals of Income and Expenditure	Yes	
Acquisitions and Discontinued Operations	No	No such transactions have taken place
Cash and Cash Equivalents	Yes	
Prior Period Adjustments, Changes in Accounting Policies, and Estimates and Errors	No	No such transactions have taken place
Charges to Revenue for Non-current Assets	Yes	
Council Tax and Non-Domestic Rates	Yes	
Employee Benefits	Yes	
Events After the Reporting Period	Yes	
Financial Instruments	Yes	
Foreign Currency Translation	No	No foreign currency transactions
Government Grants and Contributions	Yes	
Heritage Assets	Yes	
Intangible Assets	No	Intangible assets are immaterial
Interests in Companies and Other Entities	No	No such interests
Inventories and Long-term Contracts	Yes	Inventories only
Investment Property	Yes	
Joint Operations	Yes	
Leases	Yes	
Overheads and Support Services	Yes	
Property, Plant and Equipment	Yes	
Highways Network Asset	No	Not relevant for district councils
Private Finance Initiatives (PFI) and Similar Contracts	No	No such contracts
Provisions, Contingent Liabilities and Contingent Assets	Yes	Provisions and contingent liabilities only
Reserves	Yes	
Revenue Expenditure Funded from Capital Under Statute	Yes	
Vat	Yes	
Fair Value Measurement	Yes	

APPENDIX B

Accounting Policies

General Principles

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the year end of 31 March 2021. The Council is required to prepare an Annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and the Service Reporting Code of Practice, supported by International Financial Reporting Standards (IFRS) and Statutory guidance issued under Section 12 of the 2003 Local Government Act.

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 Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as Expenditure when the services are received rather than when payments are made.
- Interest receivable on Investments and payable on Borrowings is accounted for respectively as Income and Expenditure 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 Revenue 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 debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that are readily convertible to known amounts of cash with insignificant risk of change in value. Therefore, our policy is to treat all instant access bank accounts and money market funds as cash equivalents and all other investments for less than one year (including any investments with notice periods) are treated as short term investments.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

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 property, plant and equipment 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 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 known as the Minimum Revenue Provision (MRP). Our MRP policy is:

- For finance leases, the MRP will match the annual principal repayment for the lease, and;
- For all other assets, the MRP is based on the initial estimated life of the asset.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by MRP in the General Fund by way of an adjusting transaction between the General Fund and the Capital Adjustment Account. This transfer is shown in the Movement in Reserves Statement.

Council Tax and Non-Domestic Rates

Accounting for Council Tax

While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and paid out to major preceptors. The amount credited to the General Fund under statute is a Council's precept or demand for the year, plus or minus the Council's share of the surplus/deficit on the Collection Fund for the previous year.

The Council Tax income included in the Comprehensive Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement.

The cash collected by the Council from Council Tax payers belongs proportionately to all the major preceptors. The difference between the amounts collected on behalf of the other major preceptors and the payments made to them is reflected as a debtor or creditor balance as appropriate.

Accounting for Non-Domestic Rates (NDR)

The NDR income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and paid out to major preceptors and the Government. The amount credited to the General Fund under statute is the Council's estimated share of NDR for the year from the National Non Domestic Rates (NNDR) 1 return.

The NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year from the NNDR 3 return. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement.

The cash collected by the Council from NDR payers belongs proportionately to all the major preceptors and Government. The difference between the amounts collected on behalf of the other major preceptors, Government and the payments made to them is reflected as a debtor or creditor balance as appropriate.

Since the introduction of the Business Rates Retention Scheme effective from 1 April 2013, local authorities are liable for successful appeals against business rates charged to businesses in 2020/21 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2021. The estimate for the 2005 and 2010 valuation lists have been calculated using the Valuation Office (VO) ratings list of appeals and the analysis of successful appeals to date. The appeals for the 2017 valuation list under the new Check, Challenge and Appeal process are based on the Government's allowance for appeals included in the multiplier of 2.1p.

Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (eg cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the cost of holiday entitlements (or any form of leave, eg. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises the costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner 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 pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

Employees of the Council are members of the Local Government Pension Scheme (LGPS) administered by Staffordshire County Council.

The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Staffordshire 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 **3.2%** (based on the indicative rate of return on high quality corporate bonds).
- The assets of Staffordshire Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
    - Quoted securities professional estimate.
    - Unquoted securities current bid price.
    - Unitised securities current bid price.
    - Property market value.
- The change in the net pensions liability is analysed into the following components:

  Service cost comprising:

    - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
    - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
    - Net interest on the net defined benefit liability (asset), ie the net interest cost – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. This is calculated by apply the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

  Re-measurements comprising:

    - The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

- Actuarial gains or 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 – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the Staffordshire Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

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 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

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue.

Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Fair Value Measurement

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

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

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

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

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

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority can access at the measurement date.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 - unobservable inputs for the asset or liability

When a quoted price for the transfer of an identical or a similar liability is not available and the identical item is held by another party as an asset, for example, the Authority's loans borrowed, the Authority measures the fair value of the liability from that party's perspective.

Financial Instruments

Financial Liabilities

Financial liabilities are recognised when the Council becomes party to the contractual provisions of the financial instrument or, in the case of trade payables, when the goods or services have been received. Financial liabilities are derecognised when the liability has been extinguished – that is, the obligation has been discharged or cancelled or has expired.

Financial liabilities are initially measured at fair value and carried at their amortised cost, using the effective interest rate method. The effective interest rate that exactly discounts estimated future cash payments through the life of the asset, to the amortised cost of the financial liability. Annual charges to the Financing and Investment Income and Expenditure line in 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. This means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Financial Assets

Financial assets are recognised when the Council becomes party to the contractual provision of the financial instrument or, in the case of trade receivables, when the goods or services have been delivered. Financial assets are derecognised when the contractual rights have expired or when the asset has been transferred and the Council has transferred substantially all of the risks and rewards of ownership or has not retained control of the asset.

The Code allows for three classes of financial assets:

- Amortised cost
- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI).

The classification is determined by the cash flow and business model characteristics of the financial assets, as set out in the Code, and is determined at the time of initial recognition. In addition, the Council has elected to classify as FVOCI certain equity investments held for strategic purposes.

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are those held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and where cash flows are solely payments of principal and interest. This includes most trade receivables, loans receivable, and other simple debt instruments (bank deposits and Certificates of Deposit).

After initial recognition, these financial assets ae measured at amortised cost using the effective interest method, less an impairment loss allowance. Annual credits to the Financing Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the life of the financial asset to the gross carrying amount of the financial asset.

The Council has made loans, as part of its policy of homelessness prevention, at less than market rates (soft loans). When such loans are made, a loss is recorded in the CIES for the present value of the interest that will be foregone over the life of the instrument, resulting in al lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the MIRS.

Financial Assets at Fair Value through Other Comprehensive Income

Financial assets measured at FVOCI are those held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and where the cash flows are solely payments of principal and interest. Annual credits to the Financing Income and Expenditure line in the CIES for interest receivable are the same as if the asset was classified at amortised cost, but the asset is held on the balance sheet at fair value; the resulting difference is taken to the Financial Instruments Revaluation Reserve.

On derecognition, the associated balance in the Financial Instruments Revaluation Reserve FIRR representing the accumulated fair values gain or loss is recycled to Finance Income and Expenditure.

Financial Assets at Fair Value through Profit and Loss

All other financial assets are measured at FVPL. They are held on the balance sheet and their fair value and all gains and losses, whether realised or unrealised at taken to the Financing Income and Expenditure line in the CIES.

On derecognition, the financial asset is derecognised with any surplus or deficit recognised financing and investment income in the CIES. A statutory mitigation is in place until 2023/24 so that unrealised gains and losses on pooled investment funds are taken to the Pooled Investment Fund Adjustment Account instead of the General Fund and so have no impact on revenue resources available to fund service expenditure.

Impairment

For all financial assets measured at amortised cost or at FVOCI, other than those elected as FVOCI, the Council recognises a loss allowance representing expected credit losses on the financial instrument. The Code requires that local authorities shall not recognise a loss allowance for expected credit losses on a financial asset where the other party is central government or a local authority for which relevant statutory provisions prevent default.

The Council adopts the simplified approach to impairment, in accordance with the Code, and measures the loss allowance for trade receivables, contract assets and lease receivables at an amount equal to lifetime expected credit losses. For other financial assets, the loss allowance is measured at an amount equal to lifetime expected credit losses if the credit risk on the financial instrument has increased significantly since initial recognition, and otherwise at an amount equal to 12 month expected credit losses.

For financial assets that have become credit impaired since initial recognition, expected credit losses at the reporting date are measured as the difference between the net present value of all the contractual cash flows that are due to the Council in accordance with the contract for the instrument and the net present value of all the cash flows that the Council expects to receive, discounted at the original effective interest rate. Any adjustment is recognised in the Surplus or Deficit on the Provision of Service as an impairment gain or loss.

Government Grants and Contributions

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

- The Council will comply with the conditions attached to the payments; and
- The Grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement. 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.

Heritage Assets

The Council's Heritage Assets are located at various Council properties. 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's Heritage Assets are accounted for as follows:

Statues:

- These statues are located in various parks and open spaces and a library within the District. These items are reported in the Balance Sheet at insurance valuation and estimated market value. Insurance valuations are updated on an annual basis.
- The collection is relatively static and acquisitions and donations are rare. Where they do occur acquisitions are initially recognised at cost.

Art Collection:

- The art collection includes paintings and is reported in the Balance Sheet at estimated market value. The art collection is deemed to have indeterminate lives and hence the Council does not consider it appropriate to charge depreciation.
- Acquisitions are made by purchase or donation. Acquisitions initially are recognised at cost and any donations are recognised at valuation with valuations provided by external Valuer's and with reference to the appropriate commercial markets for the paintings using the most relevant and recent information from sales at auctions.

Other Items:

- The Council has a number of items of civic regalia and trophies and these are reported in the Balance Sheet at insurance valuation. Insurance valuations are updated on an annual basis. The collection is relatively static and acquisitions and donations are rare. Where they do occur acquisitions are initially recognised at cost.
- The Council has a grand piano and this is reported in the Balance Sheet at insurance valuation. Insurance valuations are updated on an annual basis.

Heritage Assets - General

The carrying amount of heritage assets are reviewed where there is evidence of impairment for heritage assets eg where an item has suffered physical deterioration of breakage or where doubts arise over its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment - see page 108 (Impairment) and pages 81 to 84 (Property, Plant and Equipment) in this Summary of Accounting Policies. Any disposals are accounted for in accordance with the 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 (again see pages 81 to 84 (Property, Plant and Equipment) in this Summary of Accounting Policies).

Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than **£10,000**) the Capital Receipts Reserve.

Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operations. In relation to its interest in a joint operation the Council as a joint operator recognises:

- Its assets, including its share of any assets held jointly
- Its liabilities, including its share of any liabilities incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its share of the revenue from the sale of the output by the joint operation
- Its expenses, including its share of any expenses incurred jointly.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor 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).
- Any charge for services (charged to the relevant service line of the Comprehensive Income and Expenditure Statement). Where this charge cannot be separately identified, it is assumed to be the difference between the lease payment and the total of the charges for acquisition of the interest in the property, plant and equipment and the finance charge.

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 (known as Minimum Revenue Provision or MRP). 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 (eg 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 and also as part of the gain or loss on disposal (ie 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 Reserve 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 (eg 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.

Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance. This means effectively that the cost of the overheads are shown in total within ' A Good Council' in the Comprehensive Income and Expenditure Statement. ~~those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2020/21(SeRCOP). 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 multifunctional, democratic organisation.~~
- ~~Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.~~

Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie. repairs and maintenance) is charged as an expense when it is incurred.

De Minimis Level

Expenditure below **£10,000** is not capitalised and therefore is charged to the Comprehensive Income and Expenditure Statement.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price and
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction - depreciated historical cost.

- All other assets - fair value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

Where there is no market based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Component Accounting Policy for Property, Plant and Equipment

International Accounting Standard 16 (IAS 16) – Property, Plant and Equipment (PPE) contains the accounting requirements for the separate recognition, depreciation and de-recognition of parts of assets (referred to as componentisation). ~~Componentisation shall be applied for depreciation purposes on enhancement, acquisition expenditure incurred and revaluations carried out from 1 April 2010.~~

All historical cost based assets with short lives, land and investment properties will be excluded from our Component Accounting Policy.

Components that are required to be depreciated separately are those that have a cost that is significant in relation to the total cost of the asset, a different useful life and method of depreciation.

Policy for Componentisation

- Components of an asset will be separated where their value is significant in relation to the total value of the asset and where those components have different useful lives to the remainder of the asset for depreciation purposes.
- Where there is more than one significant component part of the same asset with the same useful life, such component parts will be grouped together for depreciation purposes.
- A component may be an individual item or similar items with similar useful lives grouped.
- Where a component is replaced or restored, the carrying amount of the old component will be derecognised and the new component added. Where the carrying value of the derecognised/replaced component is not known a best estimate will be determined by reference to the current cost.
- Only assets with a carrying value of **£500,000** and over will be considered for componentisation.
- Of those assets, for the purpose of determining a 'significant' component of an asset, components with a value of **15%** in relation to the overall value of the asset or over **£500,000** will be considered and then only if the component has a different useful life for depreciation purposes so as to result in depreciation charges that differ materially from the depreciation charges had the asset not been componentised.
- On componentisation any Revaluation Reserve balances will remain with the structure of the building. Any future revaluation gains and losses will be applied across components as appropriate.

To enable a structured approach to component accounting the following principles are applied:

To be considered for componentisation an individual asset (or a group of similar assets) must:

(i) Have a carrying value of at least **£500,000**, or

(ii) Have been acquired, or

(iii) Have undergone revaluation, <u>or</u>

(iv) Undergo a change in category classification

A component must:

(v) Have a cost of at least **£100,000**, or

(vi) Cost at least **15%** of the overall asset (whichever is higher), and

(vii) Have a useful life which is at least **plus or minus five years** from other components of the overall asset.

Where components are identified, they will be set up separately in the asset register and have individual values, useful lives and depreciation methods recorded.

<u>Valuation</u>

The five year valuation cycle remains and therefore componentisation needs to be considered for each asset in the portfolio in excess of the **£500,000** threshold.

In addition in each financial year, a list of assets that have had capital expenditure incurred will be considered in terms of this component accounting policy and enhancement spend (at cost) will be added to the relevant assets. These assets will then be subject to revaluation as part of our normal revaluation cycle.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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.

Where a revaluation takes place all accumulated depreciation and impairment is eliminated because these are accounting estimates of changes in value whose value is confirmed by a formal valuation reflecting the actual condition of the property at the valuation date.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement up to the amount of the original loss adjusted for depreciation that would have been charged if the loss had not been recognised. With our valuer we will continue to complete a desktop Impairment review on an annual basis.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (ie. freehold land and certain Community Assets) and assets that are not yet available for use (ie. assets under construction).

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- Vehicles, plant, furniture and equipment – straight-line allocation over the useful life as estimated by Managers.
- Infrastructure – straight-line allocation over the useful life as estimated by Managers.
- A full year's charge is made in the year of acquisition and no charge is made in the year of disposal or decommissioning.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. 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.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, 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. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts received for a disposal in excess of **£10,000** are categorised as capital receipts.

Receipts are credited to the 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 General Fund Balance in the Movement in Reserves Statement.

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 appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Surplus Assets

Surplus Assets are those assets within property, plant and equipment that are not used to supply goods and services and that do not meet the criteria of assets held for sale. These assets are measured at fair value as a current value base and not existing use value.

Provisions and Contingent Liabilities

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

Contingent Liabilities

Contingent liabilities arise when an event has taken place that gives the Authority 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 Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either 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.

Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of 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 appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, and retirement and employee benefits and do not represent usable resources for the Council - these reserves are explained in the relevant policies.

Revenue Expenditure Funded from Capital under Statute (REFCuS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. Lichfield District Council is in a VAT receivable position at year end; the balance outstanding is included in **Note 16** Short Term Debtors.

APPENDIX C

Critical Accounting Judgements

In applying the accounting policies set out in **Note 1**, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts:

1. The Council hosts the Joint Waste Service with Tamworth Borough Council and is responsible for management of the arrangement including the refuse fleet. Each Council is responsible for showing its share of income and expenditure and assets and liabilities within its Financial Statements. In February 2016 the Council procured a new waste fleet using a contract hire arrangement that has been evaluated under IAS 17 as a finance lease. The value of assets procured and the finance lease obligation was **£2,240,000**. A further **£680,000** of assets was added to this during 2016/17. At 31 March 2020 the Net Book Value of the assets was **£587,000** and the value of the finance lease obligation was **£997,000**. The assets of the operation in respect of vehicles, equipment, land and buildings have been assessed as being under the control of Lichfield District Council and are therefore shown on this Authority's Balance Sheet. The Joint Waste Service shares joint income and expenditure based on the ratio of properties in each area and the current ratio is **58.29%** Lichfield and **41.71%** Tamworth.
2. The Council outsourced the management of its leisure centres to Freedom Leisure on 1 February 2018. As part of the contractual arrangements, all leisure centre staff were transferred to Freedom Leisure via TUPE arrangements. Freedom Leisure has been admitted to the Staffordshire County Council pension fund and pension arrangements between Lichfield District Council, Staffordshire County Council and Freedom Leisure are managed using a pass through agreement. This agreement assigns the majority of pension risk to Lichfield District Council. The IAS19 report provided by the actuary excludes the assets and liabilities relating to the transferred staff. As the Council acts as guarantor for the pension commitments of these former employees, an annual assessment is carried out by management of the risk and potential financial consequences should the Council be called to settle these liabilities. For 2019/20, the risk has been assessed at low, no greater than **1%** or **£79,212**. This is despite Covid-19 as the Council has agreed to support Freedom for the first three months of 2020/21.
3. The assumptions around the outcome of appeals against NNDR valuations (either received to date or expected to be received in future years) represent a material and critical judgement applied to the accounts. The appeals provision is empirically derived from past experience of both the 2005 and 2010 Lists as well as appeals determinations so far as made against the 2017 List. A **1%** variance in the determined appeals provision would alter the net locally retained income to the Council by **£194,000**. Due to the technical adjustment relating to the Collection Fund Adjustment Account, this would not result in any change to the level of General Reserves.

APPENDIX D

Key Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance bringing into doubt the useful lives assigned to assets. The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets. Market activity is being impacted in many sectors. As at the valuation date, the Valuer has considered that they can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Valuations are therefore reported as being subject to 'material valuation estimation uncertainty' Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case.	<u>Specialised Assets</u> These valuations were undertaken and submitted shortly before the 31 March 2020 and the Valuer took the decision to leave them unchanged following consideration of the inputs and the information that was available at the date of the valuation. There are three main components to a DRC valuation which are build costs, depreciation adopted and land values. The Valuer reviewed the information published by BCIS in terms of build cost information and noted that there had only been a nominal adjustment, less than 1%, between the information relied upon and that which was available on 31 March 2020 and concluded that this was not sufficient to merit amendment of the valuations provided. In terms of the land values, it is assumed that in each case a suitable site is acquired at least expense for the modern equivalent asset and as a result the land values are kept relatively low and at present there is no evidence to suggest that they should be amended. <u>Investment Properties</u> On income producing assets there is information to suggest downwards pressure on values as there is a risk that some tenants will not be able to meet rent liabilities within the lockdown period or possibly for lengthier periods. This primarily applies to the retail assets which are subject to a number of tenancies. In the valuation of these assets the Valuer has reflected this risk by assuming voids of up to 6 months and moving yields out by 50 basis points. <u>Useful Lives</u> If the useful life of assets is reduced depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by **£37,000** and for vehicles, plant and equipment would increase by **£106,000** for every year that useful lives had to be reduced. (Note that depreciation charges are indicative figures to show the value of the resources consumed by the Council in the year in using assets. The charges do not impact on the council tax that the Council raises to cover its expenditure.)
Business Rate Appeals	Local Authorities from 1 April 2013 are liable for successful appeals against business rates charged to businesses in 2019/20 and earlier years in proportion to their share (40% for this Council). A provision has been recognised as the best estimate of the amount that businesses have been overcharged up to 31 March 2020. The estimate has been calculated using the Valuation Office Agency (VOA) ratings	The key assumptions we have made in the calculation of the provision for Business Rate Appeals using Rateable Values (RV) are summarised below for both the 2005 and 2010 lists: <u>2005 List</u> Average success rate **45.23%** Average reduction in RV **10.36%**

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	list of appeals and the analysis of successful appeals to date when providing the estimate of total provision up to and including 31 March 2020. **<u>2005 and 2010 Lists</u>** Total Rateable Value of Appeals Outstanding at 31 March 2020 (2005 and 2010 lists) = **£39.15m** Total provision = **£3.10m** (£1.278m for 2005 and 2010 lists and £1.822m for 2017 list.) Provision as a % of Appeals Outstanding (2005 and 2010 lists) = **3.26%** **<u>2017 List</u>** The Check, Challenge and Appeal process has resulted in much lower appeals being submitted related to the 2017 list. Therefore a hybrid approach has been adopted for this list. This calculation uses historical appeals information. The 2005 and 2010 lists showed that by the end of the third year 98% of the opening Rateable Value had received an appeal. At 31/03/2020 this would be £87.031m (98% of £88.816m). This value is multiplied by the allowance in the Business Rates Multiplier of 2.1p to calculate the appeals provision of **£1.822m.**	Combined **4.70%** <u>2010 List</u> Average success rate **29.15%** Average reduction in RV **10.45%** Combined **3.03%** **<u>Overall (2005 and 2010 lists)</u>** Average success rate **36.98%** Average reduction in RV **10.39%** Combined **3.84%** Each **1%** increase in the overall Combined figure would increase the provision by **£485,000**. The Council's share of this increase at **40%** would be **£194,000**. **<u>2017 List</u>** Each **1%** increase in the overall Combined figure would increase the provision by **£475,000**. The Council's share of this increase at **40%** would be **£190,000**. As a result of the impact of Covid-19 on the global financial markets, the valuation of the Pension Fund's directly held property is reported on the basis of material valuation uncertainty. The Council's share of these assets is £564,000.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension's liability of changes in individual assumptions can be measured. For instance, a **0.5%** decrease in the real discount rate assumption would result in an increase in the pension liability of **£10,513,000**; a **0.5%** increase in the salary rate would amount to **£1,139,000**; and a **0.5%** increase in the pension rate would amount to **£9,277,000.**
Sundry Income and Housing Benefit Overpayment Debtors	At 31 March 2020, the Council had a balance of sundry income debtors of **£1,582,000**. A review of arrears suggested that an impairment of doubtful debts of **47% (£736,000)** was appropriate and an additional allowance of **13%** (based on the impact on GDP of previous similar pandemics) was added to reflect the added risk presented by the pandemic. However, in the current economic climate it is not certain that such an allowance would be sufficient.	The element of debtors not covered by the Bad Debt Provision is **£846,000 (53%)**. Each **1%** increase in the percentages used to calculate the Bad Debt provision would increase the provision by **£16,000.**

This list does not include assets and liabilities that have been carried at fair value based on a recently observed market price.