1. Statement of Accounting Policies

These are the specific principles, bases, conventions, rules and practices adopted by the Council in preparing and presenting the financial statements.

i. General Principles

The Statement of Accounts summarises the Council's transactions for the financial year 2022/23 and its position at the year end of 31 March 2023. The Council is required under the Accounts and Audit Regulations 2015 to prepare an annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and the Service Reporting Code of Practice 2022/23, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 21(2) of the Local Government Act 2003.

The Statement of Accounts has been prepared on a 'going concern' basis. The accounting convention adopted in the Statement of Accounts is principally historic cost, modified by the revaluation of certain categories of non-current assets and financial instruments. International Reporting Standard IAS 8 requires entities to disclose the expected impact of new standards that have been issued but not yet adopted and these have been included within the Disclosure Notes to the Accounts.

ii. Accruals of Expenditure and Income

Activity is accounted for in the financial year that it takes place, not when money is paid or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract;
- Revenue from council tax and business rates is recognised when the amount of revenue can be measured reliably, and it is probable the revenue will be received by the Council;
- 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;
- Dividends are deemed to be receivable when the Council's right to receive payment has been established;
- 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.

There is a de minimis level of £10,000 in place, reviewed annually, for all accruals of income and expenditure. Accruals are not required to be made for individual transactions under this value, with the exception of the following:

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

iii. Business Improvement District (BID)

BID projects are projects for the benefit of a particular area that are financed (in whole or in part) by a BID levy paid by the non-domestic ratepayers in the BID area. There are two key participants in the Solihull BID – the Council as the billing authority for the area and Solihull BID as the BID Body. The Council acts as the agent and so neither the proceeds of the levy nor the payment to the BID Company are shown in the Council's accounts.

iv. Cash and Cash Equivalents

Cash and cash equivalents are represented by cash in hand and deposits with any financial institution repayable without penalty on notice of not more than 24 hours.

v. Charges to Revenue for Non-Current Assets

Services and support services are debited with the following amounts to record the cost of holding non-current 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;
- revaluation gains on assets used by the service where there has previously been a revaluation loss;
- amortisation of intangible non-current assets attributable to the service.

The Council is not required to raise council tax to fund these charges, but 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 (Minimum Revenue Provision (MRP)).

The Council's MRP policy ensures a prudent charge is made to the General Fund in the MIRS for the Council's Capital Financing Requirement (CFR). For pre-2008 CFR the MRP charge will be on a 2% straight line basis, with post-2008 CFR being charged using an asset life method, ensuring that charges made are in line with the life of the asset supported by the capital expenditure.

Charges for depreciation, revaluation and impairment gains/losses and amortisations are therefore reversed in the MIRS (within adjustments between accounting basis and funding basis under regulations). These are effectively replaced by the Minimum Revenue Provision charged to the General Fund Balance.

vi. Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL) on new builds (chargeable developments for the Council) with appropriate planning consent. The income from the levy, with the exception of amounts (up to a maximum of 5%) applied to meet administrative expenses in accordance with the CIL Regulations, is used to fund projects to support the area's infrastructure (i.e. transport, schools and digital). A proportion of the income received (25% for parishes with an agreed neighbourhood plan and 15% for parishes without one) is ring-fenced to fund neighbourhood projects. For areas where there is a parish/town council this income is paid over to them to administer directly; for areas without a parish/town council the funding is held within a ward allocation by SMBC, and local interests are invited to bid for funding for neighbourhood projects.

CIL is received without outstanding conditions. It is therefore recognised at the commencement date of the chargeable development in the CI&ES in accordance with the accounting policy for Government Grants and Contributions.

vii. Employee Benefits

<u>Benefits Payable during Employment:</u>

Short-term employee benefits such as wages and salaries, paid annual and sick leave and expenses are paid monthly on an accruals basis and charged to the relevant service line of the CI&ES. An accrual is made for the cost of holiday and flexi leave entitlements earned by employees but not taken before the year-end that employees can carry forward into the next financial year. The accrual is charged to the relevant service line in the CI&ES but then reversed out through the MIRS to the Accumulated Absences Account.

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 relevant service line in the CI&ES. 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. Therefore, in the MIRS allocations are required to and from the Pensions Reserve to remove the accounting entries for pension enhancement termination benefits and replace them with accounting entries for the cash payable to the pension fund and pensioner in the year.

Post-Employment Benefits:
Employees of the Council are members of one of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE);
- The Local Government Pension Scheme, administered by the City of Wolverhampton Council;
- The National Health Service (NHS) Pension Scheme administered by NHS Pensions Business Services Authority.

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council. However, the arrangements for the Teachers' and the NHS pension schemes mean that liabilities for these benefits cannot be identified specifically to the Council. These schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. The costs of these schemes are charged to the relevant lines in the Cost of Services section in the CI&ES.

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

- The liabilities of the West Midlands Metropolitan Authorities Pension Fund (WMMAPF) attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees;
- Liabilities are discounted to their value at current prices, using a discount rate derived from the "Hymans Robertson" corporate bond yield curve;
- The assets of WMMAPF attributable to the Council are included in the Balance Sheet at their fair value.

The change in the net pension 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 CI&ES 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 Resources in the Cost of Services in the CI&ES;
- net interest on the net defined benefit liability – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the CI&ES;
- gains or 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 or credited to the Resources line in the Cost of Services in the CI&ES.

Remeasurements comprising:

- 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 charged to the Pensions reserve as Other Comprehensive Income and Expenditure in the CI&ES;

- 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 actuary has updated their assumptions - charged to the Pensions reserve as Other Comprehensive Income and Expenditure in the CI&ES.

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. Therefore, accounting entries to and from the Pensions Reserve are reflected in the MIRS to remove the accounting entries for retirement benefits and replace them with the cash payable to the pension fund and pensioners. 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.

<u>Discretionary Benefits:</u>
Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

viii. Events after the Balance Sheet Date
These are events that have happened after the Balance Sheet date and before the date that the Statement of Accounts was authorised for issue. An adjusting event is one that existed at the Balance Sheet date and has a material impact on the accounts. The accounts are adjusted where this type of event has taken place. A non-adjusting event is one that is indicative of conditions that arose after the Balance Sheet date. For these events only a note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect.

ix. Material Items and Prior Period Adjustments
Prior period adjustments are material adjustments applicable to prior years arising from changes in accounting policies or from the correction of material errors. A material error is one that could influence the decisions or assessments of users made on the basis of the financial statements. Prior period adjustments are accounted for by restating the comparative figures for the preceding period in the Statement of Accounts and notes and adjusting the opening balance of reserves for the cumulative effect. When items of income and expenditure are material, their nature and amount is disclosed separately, either on the face of the CI&ES or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

x. Fair Value Measurement
The Council measures some of its non-financial assets, such as investment properties and surplus assets, and some of its financial instruments i.e. some of its equity share holdings, at fair value at each reporting date. IFRS 13 seeks to increase consistency and comparability in fair value measurements and related disclosure notes.

A definition of fair value is the price that would be received to sell an asset, or paid to transfer a liability, between market participants in an orderly transaction at the measurement date under current market conditions. A fair value measurement 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 concept of highest and best use applies only when determining the fair value of non-financial assets, i.e. surplus assets or investment property. They do not apply to financial assets or to financial liabilities on the basis that financial assets or financial liabilities do not have alternative uses.

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments.

IFRS 13 includes a "Fair Value Hierarchy" that classifies valuations according to the nature of available inputs. In summary, the three levels of hierarchy are as follows:

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

Criteria for the various levels are listed in the following table.

Criteria	Level
• Comparable evidence that is identical to the asset that is being measured in terms of physical location, condition, orientation, levels of natural light, view, access and visibility, tenure and covenant, construction type and cost, size and layout, facilities, lease options, obsolescence	1
• Comparable evidence available within an active market of similar assets • Comparable evidence for similar assets or liabilities in markets that are not active • Non-value comparable evidence (i.e. yields) for similar asset types available • Comparable evidence corroborated by observable market evidence • Implied and non-implied covenants within the lease negating the need for comparable evidence • Transparency of market data • Minimal principal adjustment of comparable evidence, non-significant adjustment • Comparable analysis	2
• No comparable evidence available • Unobservable inputs • Comparable evidence requires significant adjustment from the principal market	3

For investment properties where Level 1 inputs are not available, the Council's qualified internal valuation team uses appropriate valuation techniques for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All valuations are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS).

Three widely used valuation techniques are:

(i) market approach – uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or a group of assets and liabilities (i.e. a business);

(ii) cost approach – reflects the amount that would be required currently to replace the service capacity of an asset (current replacement cost);

(iii) income approach – converts future amounts (cash flows or income and expenses) to a single current (discounted) amount, reflecting current market expectations about those future amounts.

There has been no change in the valuation techniques used during the year for investment properties.

For all investment properties where a fair value review is conducted, fair values are based on multiplying an estimated net income by an appropriate investment yield or having regard to the capital value of similar assets. The net income figure is based on market rent. All comparable evidence used for valuing this class of property has been ranked into three groups based upon the criteria above. All investment property fair value measurements have been assessed at level two and financial instruments have been assessed at level two or level three.

It is considered rare for local authority valuations to transfer between the three levels of the hierarchy. No such transfers have taken place in the year.

xi. Financial Instruments

Financial Assets:
Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost;
- fair value through profit or loss (FVPL); and
- fair value through other comprehensive income (FVOCI).

The Council's business model is to hold investments to collect contractual cash flows i.e. payments of interest and principal. Most of the Council's financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost
Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the CI&ES 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 financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CI&ES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CI&ES.

Financial Assets Measured at Fair Value through Profit of Loss
Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus/ Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price;
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the accounting policy for Fair Value Measurement. Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CI&ES.

IFRS 9 Financial Instruments sets out that investments in equity should be classified as fair value through profit and loss unless there is an irrevocable election to recognise changes in fair value through other comprehensive income. The Council will assess each investment on an individual basis and assign an IFRS 9 category. The assessment will be based on the underlying purpose for holding the financial instrument.

Any changes in the fair value of instruments held at fair value through profit or loss will be recognised in the net cost of service in the CI&ES and will have a General Fund impact.

Financial Assets measured at Fair Value through other Comprehensive Income (FVOCI)
The Council has equity instruments designated at fair value through other Comprehensive Income (FVOCI).

The Council has made an irrevocable election to designate equity instruments as FVOCI on the basis that they are held for non-contractual benefits, and not held for trading but for strategic purposes. These assets are initially measured and carried at fair value. The value is based on the principle that the equity shares have no quoted market prices and is based on an independent appraisal of the company valuation. Dividend income is credited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council. Changes in fair value are posted to Other Comprehensive Income and Expenditure and are balanced by an entry in the Financial Instruments Revaluation Reserve.

When the asset is de-recognised, the cumulative gain or loss previously recognised in Other Comprehensive Income and Expenditure is transferred from the Financial Instruments Revaluation Reserve and recognised in the Surplus/ Deficit on the Provision of Services.

<u>Expected Credit Loss Model</u>
The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

<u>Financial Liabilities:</u>
Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CI&ES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. This means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CI&ES is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the CI&ES, regulations allow the impact on the General Fund Balance to be spread over future years. The authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the CI&ES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

xii. Grants, Contributions and Donations

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;
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the CI&ES until conditions attached to the grant or contribution 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 yet been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied or there are no conditions, the grant or contribution is credited to the relevant service line (for revenue grants and contributions) or to Taxation and Non-Specific Grant Income (for non-ring-fenced revenue grants and all capital grants) in the CI&ES.

Where capital grants are credited to the CI&ES, they are reversed out of the General Fund Balance in the MIRS. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Where revenue grants or contributions without conditions are credited to the CI&ES but have not yet been spent, if they have been earmarked for a specific purpose, they are appropriated out of the General Fund Balance to earmarked reserves in the MIRS.

The Council has pooled budget arrangements in place with the Birmingham and Solihull Integrated Care Board (ICB), primarily in respect of the Better Care Fund. The Council has agreed the following funding and management arrangements in respect of these pooled budgets:

- for services commissioned by the Council or jointly with the ICB, the Council is acting as principal as it retains significant control over the funding and its distribution. The funding is received by the Council and the relevant income and expenditure is shown in the Council's accounts;
- for services commissioned by the ICB, the ICB receives the funding, and no income or expenditure is included in the Council's accounts.

xiii. Heritage Assets

Heritage assets are assets which have historical, artistic, scientific, technological, geographical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. They are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations and can include historical buildings, historic motor vehicles, civic regalia, museum and gallery collections, statues and works of art.

Heritage assets (other than operational heritage assets) shall normally be included in the Balance Sheet at their current value, where this is above the £20,000 de minimis level for assets. Where it is not practical to obtain a valuation at a reasonable cost, heritage assets are valued at cost. Where applicable the insurance valuation will be used for heritage asset valuation. Where the Council has no information on the value of a heritage asset and historical cost information cannot be obtained, the asset will not be included in the balance sheet.

Heritage assets are deemed to have indefinite lives and are not subject to depreciation, but the carrying amounts are reviewed where there is evidence of impairment such as physical damage. Any impairment is recognised and measured in accordance with the Council's general accounting policy on impairment.

The Council does not have or require an active policy for the acquisition, preservation, management and disposal of heritage assets due to the insignificant number of material heritage assets. The material heritage assets are contained within public buildings and parks and therefore public access is permitted.

xiv. Intangible Assets

Expenditure on assets that do not have physical substance (i.e. software licenses) but are identifiable and controlled by the Council, is capitalised when it brings benefits to the Council for a period of more than one financial year. The balance is amortised to revenue on a systematic basis over the economic life of the assets.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset.

Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the CI&ES.

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the CI&ES. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure section in the CI&ES.

xv. Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries and joint ventures and is required to prepare group accounts. Subsidiaries are fully consolidated and joint ventures are consolidated on an equity basis within the Council's Group Accounts.

In the Council's own single-entity accounts, interests in companies and other entities are recorded as investments at fair value. These are subject to a full revaluation every 5 years; annual desktop valuation exercises are undertaken in the interim periods.

xvi. Inventories and Long-term Contracts

Inventories over the capital de minimis limit of £20,000 are included in the Balance Sheet at the lower of cost and net realisable value. Long-Term contracts are defined as "contracts entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or of a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods." The Council makes a disclosure in the notes to the core financial statements in respect of any capital contracts meeting this definition. Long-term contracts are accounted for on the basis of charging the Surplus/ Deficit on the Provision of Services with the consideration allocated to the performance obligations that have been satisfied, based on the goods or services transferred to the service recipient during the financial year.

xvii. Investment Property

Investment property is that which is used solely to earn rental income 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. Investment property is 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. As a non-financial asset, an investment property shall be measured at highest and best use. The fair value of investment property held under a lease is the lease interest.

Properties are not depreciated but are revalued annually according to market conditions at the valuation date. These are classified as recurring fair value measurements. There are three categories of investment property that individually as sites are de minimis in value (Garden Extension Licences, Gas Governor Stations and Electricity Sub stations) and are considered annually but are only valued on a non-recurring basis if the value is considered to have materially changed year on year.

Gains and losses on revaluation and disposal are posted to the Financing and Investment section in the CI&ES. However, regulations do not allow revaluation and disposal gains and losses to have an impact on the General Fund balance. The gains and losses are therefore reversed via the MIRS and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

Rental income received in relation to investment properties is credited to the Financing and Investment Income line in the CI&ES and result in a gain for the General Fund Balance.

xviii. 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.

(a) The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases with an original fair value over the capital de minimis level of £20,000 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. Any 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. Subsequent rent increases (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;
- a finance charge (debited to the Financing and Investment Income and Expenditure section in the CI&ES).

Property, Plant and Equipment recognised under finance leases are 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.

Operating Leases

Rentals paid under operating leases are charged to the CI&ES as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease.

(b) 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, in line with the Council's policy on disposals.

The written-off value of disposals is not a charge against council tax, as the cost of non-current 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 MIRS.

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 CI&ES on a straight-line basis over the life of the lease.

xix. Property Plant & 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 (i.e. repairs and maintenance) is charged as an expense when it is incurred.

School assets are carried on the balance sheet in accordance with the legal status of ownership or intended legal status and any other arrangements in place regarding the use of these schools. In line with the guidance provided in LAAP bulletin 101 'Accounting for Non-Current Assets Used by LA Maintained Schools', school assets that are controlled by the Governing Body will be recognised on the Council's Balance Sheet. Academies are outside of the Council's control and their transactions are not reflected in the Council's accounts.

Measurement
Assets are initially measured at cost, comprising:
- the purchase price
- 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 initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

The cost of assets acquired other than by purchase is deemed to be fair value unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Highways infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost – opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994, which was deemed at that time to be historical cost.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the CI&ES, unless the donation has been made conditionally, in which case, until conditions are satisfied, the gain is held in the Donated Assets Account.

Where gains are credited to the CI&ES, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the MIRS. The Council has set a de minimis level of £20,000. This means that any expenditure below this level that otherwise meets the definition of capital expenditure as outlined above can be charged to a revenue budget.

Valuation
Assets included in the Balance Sheet at current value that are above the de minimis level of £20,000 are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end and. At a minimum, a valuation is carried out every five years. All valuations are undertaken by the Council's in-house valuation team and are carried out in line with current RICS guidance.

The effective date for valuations carried out in the year is 31 December, except for HRA assets which are valued at 31 March.

The valuation basis used for the various property types is shown in the following table:

Service Area	Operational / Non-Operational	Basis of Valuation
HRA		
Housing Stock, Hostels, Service Tenancies	Operational	Existing Use Value - Social Housing
Offices, Community Centres, additional properties not allocated to a beacon	Operational	Existing Use Value (EUV)
Leased Properties	Non-Operational	Fair Value
Non-HRA		
Council offices	Operational	EUV
Day Centres and Residential Care Homes	Operational	Combination of DRC and EUV
Investment properties	Non-Operational	Fair Value
Leisure Centres, Cemeteries/crematoria, Libraries	Operational	DRC
Multi-storey Car Parks	Operational	DRC
Parks Buildings	Operational	Combination of DRC and EUV
Pupil Referral Units, Youth Centres, Nurseries	Operational	Combination of DRC and EUV
School Buildings	Operational	Depreciated Replacement Cost (DRC)
Surface Car Parks	Operational	EUV
Leased Properties	Non-Operational	Fair Value

Other assets are carried in the Balance Sheet using the following measurement bases:
- Assets under construction and community assets are valued at historic cost.
- Infrastructure and Vehicles, Plant and Equipment are valued at depreciated historic cost.

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

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

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the CI&ES where they arise from the reversal of a loss previously charged to a service.

Revaluation gains are 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.

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

Where decreases in value are identified, they are accounted for in the following ways:
- 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 CI&ES.

Depreciation
Depreciation is provided for on all non-current assets with a finite useful life. The length of this life is determined at the point of acquisition or revaluation according to the following policy:

- Assets acquired in the first nine months of the financial year are depreciated on the basis of a full year's charge; assets acquired in the final three months are not depreciated until the following financial year.
- Assets that are not fully constructed are not depreciated until the year after they are brought into use.

Depreciation is calculated using the straight-line method, which charges an equal annual amount to the CI&ES, so that the asset's value is fully written down over its estimated remaining useful life. The Council applies the following useful lives:

- Council Dwellings: 25 - 70 years
- Other Land and Buildings: 25 - 99 years
- Vehicles, Plant, Furniture & Equipment: 3 - 20 years
- Infrastructure Assets: 40 years

As the Council's policy is to use building and equipment to the end of their useful life, it is the policy not to adopt residual values. Any IT equipment is recycled to schools or the voluntary sector at the end of its useful life. Any other equipment with a residual value would be insignificant. For these reasons residual values will not be adopted for the calculation of depreciation. The residual values of assets carried at historical cost (i.e. community and infrastructure assets) will not be material.

Component Accounting
Where the non-land element of an asset is deemed material (valued at over £2 million) and has major components whose cost is significant to the total cost of the asset and which have markedly different useful lives, components are separately identified and depreciated. The objective is to ensure that the financial value of the assets is fairly reflected in the Balance Sheet and that the CI&ES appropriately reflects the consumption of economic benefits inherent in those assets

A significant component is defined as one that has a significant value/cost when compared to the total cost of the asset as a whole but has a significantly shorter useful life and will require replacement at least on one occasion during the life of the asset.

Any assets identified as requiring depreciation under component accounting policies are not depreciated under this methodology until the following financial year.

Impairments
Assets are assessed at each year-end for any indication of impairment. 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 in the following ways:

- 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 or an insufficient balance in the Revaluation Reserve, the carrying amount of the asset is written down against the relevant service line(s) in the CI&ES.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the CI&ES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Disposals
When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the CI&ES as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CI&ES as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment

Account. For Infrastructure Assets, it is assumed that the carrying value of the asset that is being replaced is nil and has already been fully depreciated.

Amounts received for a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals is payable to the government. The balance of receipts is 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 Capital Receipts Reserve from the General Fund Balance in the MIRS.

xx. Provisions, Contingent Liabilities and Contingent Assets

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. For instance, the Council makes provisions for insurance risks not covered by the Council's policies where the potential costs have been estimated.

Provisions are charged as an expense to the appropriate service line in the CI&ES 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. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council.

Contingent Liabilities and Contingent Assets

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

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

Contingent liabilities and contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts. Where practicable an estimate of the financial effect and an indication of the uncertainties relating to the timing will be disclosed. However, if disclosure of some or all of the information required could be expected to seriously prejudice the position of the Council in a dispute with other parties, then the general nature of the dispute and recognition of the fact that information has been withheld, together with the reason, will instead be disclosed.

xxi. Reserves

The Council sets aside specific amounts as reserves for future policy purposes. Reserves are created by appropriating amounts out of the General Fund Balance in the MIRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in the CI&ES. The reserve is then appropriated back into the General Fund Balance in the MIRS 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, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

xxii. Revenue Expenditure Funded from Capital under Statute

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 for the Council has been charged as expenditure to the relevant service in the CI&ES in the year. Where the Council has met the cost of this expenditure from existing capital resources or by borrowing, so that there is no impact on the level of council tax, the cost is subsequently reversed out from the CI&ES to the Capital Adjustment Account, in the MIRS.

xxiii. Schools

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

xxiv. Service Concession Arrangements - Private Finance Initiatives (PFI) and similar contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. In accordance with the latest recommended practice in the Code, based on IFRIC 12 the Council is deemed to control the services that are provided under its PFI schemes for three schools. However as these schools have transferred to academy status the building assets are not included in the Council's Balance Sheet and the land has been subject to revaluation. The unitary charge payment liability for the schools remains with the Council.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

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

- fair value of the services received during the year – debited to the relevant service in the CI&ES;
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the CI&ES;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the CI&ES;
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);
- lifecycle replacement costs – a proportion of the amount payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

xxv. Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from His Majesty's Revenue and Customs. VAT receivable is excluded from income.