

NOTES TO THE ACCOUNTS

1. Accounting Policies

1. GENERAL PRINCIPLES

The Statement of Accounts summarises the Authority's transactions for the ~~2015/16~~2016/17 financial year and its position at the year end of 31st March ~~2016~~2017. The Accounts and Audit Regulations (England) 2015 require the Authority to prepare an Annual Statement of Accounts prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ~~2015/16~~ and the CIPFA Service Reporting Code of Practice 2016/17 ~~2015/16~~ (SeRCOP), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of Non Current Assets and Financial Instruments.

2. 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, other than prepayments which are accounted for on a cash basis. In particular:

- a) Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;
- b) Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;
- c) Supplies are recorded as expenditure when they are consumed – where considered material, where there is a gap between the date supplies are received and their consumption, they are carried as Inventories on the Balance Sheet;
- d) 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;
- e) 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;
- f) 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.

The Authority's policy is to review all accruals over £1k together with payments over £5k made in February, March and April to ensure that they are appropriate. Any accruals below this amount are not considered to be material.

3. ACQUISITIONS AND DISCONTINUED OPERATIONS

Acquired operations

The Authority has not acquired any operations during [2016/17](#)~~2015/16~~.

Discontinued Operations

The results of discontinued operations are shown as a single amount on the face of the Comprehensive Income and Expenditure Statement comprising the profit or loss of discontinued operations and the gain or loss recognised either on measurement to fair value less costs to sell or on the disposal of the discontinued operation. A discontinued operation is a unit that has been disposed of, or is classified as an Asset Held for Sale.

There were no discontinued operations in [2016/17](#)~~2015/16~~.

4. 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 mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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 Authority's cash management.

5. EXCEPTIONAL ITEMS

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance. ~~During the year the former Golf Course at Eagle Drive was sold to Redrow Homes – for further details set Note 5 (page 55) Material Items of Income & Expense, and Note 9 (page 62) Other Operating Expenditure.~~

6. PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of ~~Page 150~~ transactions, other events and conditions on the Authority's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

7. CHARGES TO REVENUE FOR NON CURRENT ASSETS

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

- a) depreciation attributable to the assets used by the relevant service;
- b) 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; and
- c) amortisation of intangible fixed assets attributable to the service.

The Authority 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 Authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

8. EMPLOYEE BENEFITS

a) 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 and non-monetary benefits (e.g. Healthshield cover) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. 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 (based on data as at 31st December) 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.

b) Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority 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 Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund or Housing Revenue Account to be charged with the amount payable by the Authority 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.

c) Post Employment Benefits - The Local Government Pension Scheme

The pension costs included in these accounts have been determined in accordance with government regulations and IAS 19. The standard requires the full recognition of the pensions liability (and the movement of its constituent parts) in the Comprehensive Income and Expenditure Statement. These requirements are included within the accounts in accordance with CIPFA recommended practice. Note **Error! Reference source not found.**³⁷ to the Core Financial Statements on page **99xx** refers.

The Local Government Pension Scheme (LGPS) is a defined benefit statutory scheme, administered in accordance with the Local Government Pension Scheme Regulations 2013:

- i. The liabilities of the Staffordshire Local Government Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit credit 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.
- ii. Liabilities are discounted to their value at current prices, using a discount rate of **2.93.5%**.

This is based on an approach whereby a Corporate Bond yield curve is constructed based on the constituents of the iBoxx AA Corporate Bond Index.

Separate discount rates are then set (and corresponding RPI/CPI inflation assumptions) for individual employers, dependent on their own weighted average duration.

- iii. The assets of Staffordshire Local Government Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:
- quoted securities – current bid price;
 - unquoted securities – professional estimate;
 - unitised securities – current bid price;
 - property – market value.
- iv. The change in the net pensions liability is analysed into the following components:
- **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;
 - **Interest Cost:** The expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
 - **Expected Return on Assets:** The annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
 - **Gains or Losses on Settlements and Curtailments:** The result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
 - **Re-measurement of the Net Defined Benefit Liability / (Asset):** Changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve; and
 - **Contributions paid to the Staffordshire Local Government 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 and the Housing Revenue Account to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to current accounting standards. In the Movement in Reserves Statement, this means that there are appropriations 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 and Housing Revenue Account of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

d) Discretionary Benefits

The Authority 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.

9. 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 (30th June) and the date when the Statement of Accounts is authorised for issue (30th September). Two types of events can be identified:

- a) 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;
- b) 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.

10. FINANCIAL INSTRUMENTS

a) Financial Liabilities

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. Financial liabilities within the accounts consist of long term debt (PWLB) and bank overdraft carried at amortised cost. Other financial liabilities quoted are contractual creditors (less than 1 year) carried at contract amount. 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. 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.

For most of the borrowings that the Authority has, 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.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/ settlement.

However, where any repurchase takes place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, 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 (up to a maximum of 10 years for the Housing Revenue Account).

The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund or Housing Revenue Account is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

b) Financial Assets

Financial assets are classified into two types:

- Loans and Receivables – assets that have fixed or determinable payments but are not quoted in an active market, these are included within the accounts at contractual amounts;
- Available for Sale Assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are 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. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. 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 Comprehensive Income and Expenditure Statement.

The accounting requirements for impairing investments (such as investments placed with Icelandic Banks) have been made in line with CIPFA guidance with the loss included in the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement in line with advice and information from the administrators.

11. FOREIGN CURRENCY TRANSLATION

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year end, they are reconverted at the spot exchange rate at 31st March ~~2016~~2017. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Within the accounts, this relates only to deposits from Glitnir Bank held in escrow in Iceland on our behalf.

12. 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 Authority when there is reasonable assurance that:

- a) the Authority will comply with the conditions attached to the payments, and
- b) the grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement 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 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 ringfenced 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.

13. HERITAGE ASSETS

Heritage Assets are assets that are held by the Authority because of their cultural, environmental or historical value. Tangible Heritage Assets include historical buildings, paintings, sculptures / statues, archives and other works of art.

The Authority's Museum, Art and Civic Heritage Assets are held in various sites. The Museum Collection has four main collections, General Collection, Art, Furniture and Archaeological Collection and Ephemera.

The collections are used for education, learning, research, enjoyment and are preserved for the use of future generations.

- **Valuation of Heritage Assets**

The Code requires that Heritage Assets are measured at valuation in the 2016/17 ~~2015/16~~ financial statements (including the 2014/15~~2015/16~~ comparative information). The Authority will recognise in the Balance Sheet each asset shown in the table which has an identified value.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority'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 accounting policies in relation to Heritage Assets that are deemed to include elements of intangible Heritage Assets are also presented below.

- **General Collection:** Tamworth Castle has held collections and maintained a museum since it was purchased for the Borough in 1897. The collections are crucial for maximising access to and understanding of Tamworth's heritage. These items are reported in the Balance Sheet at insurance valuation which is based on Market values. Acquisitions, although rare, are initially recognised at cost.
- **Art Collection:** The collection consists principally of views of Tamworth by local artists although some are nationally recognised. The mediums covered include oil, watercolour, lithographs, mezzotints and prints. These too are reported in the Balance Sheet at insurance valuation based on Market values.
- **Archaeological Collection and Ephemera:** The archaeological collection consists mainly of finds from various excavations local to Tamworth, usually as a result of building development around Tamworth Castle site but also in the town and further afield. These are not recognised on the Balance Sheet as cost or valuation information is not reliable for items of this type due to the diverse nature, and lack of comparable market values for the assets held.
- **Civic Collection and Statues:** The Authority's Civic Collection and Statues were valued in April 2012 by external valuers. These assets are deemed to have an indeterminate life with high residual values; hence the Authority does not consider it appropriate to charge depreciation.
- **Tamworth Castle:** The castle dates from c1070 but has been updated and modernised during the interim period. The current value is based on historic cost but there are regular works to maintain the property.

14. INTANGIBLE ASSETS

Expenditure on non monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the Intangible Asset to the Authority.

15. 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 £10k) the Capital Receipts Reserve.

16. JOINTLY CONTROLLED OPERATIONS AND ASSETS

A joint arrangement is an arrangement of which two or more parties have joint control where the parties are bound by an arrangement and the arrangement gives two or more of those parties joint control of the arrangement.

A joint arrangement is either:

- A joint venture; or
- A joint operation.

Joint operations are activities undertaken by the Authority in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of Property, Plant and Equipment that are jointly controlled by the Authority and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity.

The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs in its own behalf or jointly with others in

respect of its interest in the joint venture and income that it earns from the venture.

The Authority has a Joint Waste Management arrangement with Lichfield District Council which does not fulfil the definition of a joint venture or a joint operation – detailed at Note [Error! Reference source not found.32f](#)).

17. LEASES (IAS 17)

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 Authority as Lessee

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased Property, Plant and Equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent free period at the commencement of the lease).

b) The Authority as Lessor

i. Finance Leases

Where the Authority 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 Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (Long Term Debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement.

Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts 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.

ii. Operating Leases

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

18. OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice* (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 Authority's status as a multifunctional, democratic organisation;
- Non Distributed Costs – impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Cost of Services.

19. 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.

a) Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, subject to a de minimus level of £10k, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority 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.

b) Measurement

Assets are initially measured at cost, comprising:

- i. the purchase price;
- ii. 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;
- iii. the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction. ~~There were no assets under construction during 2015/16.~~

The cost of assets acquired other than by purchase is deemed to be its 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 Authority). 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 Authority.

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

- i. Infrastructure, Community Assets and Assets Under Construction – historical cost;
- ii. Dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH);
- iii. 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 specialised 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. In the case of the Assembly Rooms and Cemeteries valuations, there is no active market and so DRC is used.

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. The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years – including a desktop review of all Council Dwellings where they have not been subject to a formal revaluation in the year. A review of the valuation of all significant assets is undertaken annually.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- i. where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down firstly against that balance (up to the amount of the accumulated gains); and then
- ii. 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 lines in the Comprehensive Income and Expenditure Statement.

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

c) 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 the Authority has incurred capital expenditure on Council dwellings this is included within the Gross Book Value (GBV) and where it is not considered to add value it is included as impairment. These impairments are subject to write out following a full revaluation exercise (on a 5 yearly basis).

The Authority has an ongoing programme of regeneration including disposal and redevelopment of garage sites and the redevelopment of housing at Tinkers Green and Kerria Centre. Where the decision had been made to dispose of a garage site, the value of the buildings element has been impaired to zero leaving only a residual land value. Similarly, the value of the dwellings in the housing redevelopment areas that are no longer available to let have been impaired to zero leaving only a residual land value.

Where impairment losses are identified, they are accounted for by:

- i. where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down firstly against that balance (up to the amount of the accumulated gains); and then
- ii. 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 lines in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service lines 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.

d) 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 (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. Assets Under Construction).

Depreciation is calculated on the following bases:

- i. **Council Housing Stock:** on a straight line basis to an appropriate residual value over the expected useful life of the asset of 50 years.
- ii. **Other Land and Buildings:** on a straight line basis to a nil residual value over the expected useful life of the asset being a range of 5 years to 70 years.

the expected useful life of the asset being over 100 years

- iii. **Vehicles, Plant and Equipment:** on a straight line basis to a nil residual value over the expected useful life of the asset, being between 1 and 20 years.
- iv. **Infrastructure:** on a straight line basis to a nil residual value over the expected useful life of the asset of 30 years.
- v. **Community Assets:** on a straight line basis to a nil residual value over the expected useful life of the asset of 100 years.
- vi. **Heritage Assets:** the Authority considers that the Heritage Assets held will have indeterminate lives and a high residual value; hence the Authority does not consider it appropriate to charge depreciation for the assets.
- vii. **Computer Hardware:** is depreciated over a period of 3 years on a straight line basis to a nil residual value.
- viii. **Investment Properties and Surplus Assets:** no depreciation has been applied to either the land or building value of Investment Properties or Surplus Assets.
- ix. **Intangible Fixed Assets:** computer software licences are amortised to revenue over a period of 3 years.
- x. **Furniture and equipment** owned by the Authority is charged to revenue in the year of acquisition and is not capitalised in the accounts.
- xi. **De minimus items** of expenditure on computer equipment and software are capitalised under the concept of 'Grouped Assets' where the value of such items is material. A charge is made for these assets (depreciation for equipment and amortisation for software), calculated using the straight line method over a period of three years.

Depreciation, in the form of the capital element of finance leases is charged to the Comprehensive Income and Expenditure Statement in cases where the asset was acquired by way of a finance lease.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately – as detailed within the Component Accounting Policy for Property, Plant and Equipment.

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.

e) 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 previous losses 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.

f) Component Accounting Policy for Property, Plant and Equipment

i. De Minimus Level

The de minimus threshold for the Authority is a current net book value of £250k. Individual assets with a value less than £250k will be disregarded for componentisation. This level will be reviewed annually.

ii. Policy for Componentisation

The code requires that each part of an asset should be separately identified and depreciated where the cost is significant in relation to the overall cost of the asset.

To be separately identified as a component, an element of an asset must meet the following criteria:

- have a cost of at least 20% of the cost of the overall asset and
- have a materially different useful life (at least 20% different) and/or
- have a different depreciation method that materially affects the amount charged

The componentisation policy will be applied to new capital spend and new assets with a total cost of over £250k will be considered under the componentisation policy as follows:

- when an asset is enhanced, the cost of the replacement component is compared with the cost of the total asset and the result is measured against the agreed de minimus threshold;
- When an asset is acquired: the cost of any component parts are compared with the overall cost of the new asset and the results assessed against the agreed de minimus threshold;

iii. Valuation

The 5 year valuation cycle remains and therefore componentisation needs to be considered for each asset in the portfolio.

In addition in each financial year, a list of assets that have had capital expenditure incurred will be passed to the finance team and/or valuers who can consider componentisation for any properties not already reviewed.

iv. Impairment

We will continue to complete a desktop Impairment review on an annual basis.

20. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

a) Provisions

Provisions are made where an event has taken place that gives the Authority 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 Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority 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 if the Authority settles the obligation.

b) Contingent Liabilities

A Contingent Liability arises where an event has taken place that gives the Authority a possible obligation, the existence of which 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 it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent Liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts. The Contingent Liabilities for 2016/17 2015/16 are outlined at Note Error! Reference source not found.38 on page 105xxx.

21. RESERVES

The Authority 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 or Housing Revenue Account 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 or Housing Revenue Account in the Movement in Reserves Statement so that there is no net charge against Council Tax or housing rent 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 Authority – these reserves are explained in the relevant policies. Details can be found in Note Error! Reference source not found.8 to the Core Financial Statements on page 64xx.

22. 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 Authority 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 or Housing Revenue Account to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax or housing rent.

23. VAT

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

24. ACCOUNTING FOR COUNCIL TAX AND NATIONAL NON DOMESTIC RATES

The Authority, as a billing authority, acts as the agent of its major preceptors (Staffordshire County Council, Office of the Police and Crime Commissioner (OPCC) Staffordshire and the Stoke on Trent and Staffordshire Fire and Rescue Authority).

The collection of National Non Domestic Rates (NNDR) is carried out by authorities as an agent activity on behalf of its major preceptors (the Department for Communities and Local Government (DCLG), Staffordshire County Council and Stoke on Trent and Staffordshire Fire and Rescue Authority) and should be accounted for accordingly. It means that the Authority does not recognise NNDR debtors in its' Balance Sheet but instead recognises a creditor or debtor for the net balance due to or from the preceptors.

Under the accounting requirements, for both the billing authority and major preceptors, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The majority of transactions the Authority undertakes it is acting entirely on its own behalf and completely owns any risks and rewards of the transaction. This is known as the Authority acting as a Principal.

However there are some situations whereby the Authority is acting as an Agent, where the Authority is acting as an intermediary for all or part of a transaction or service. The two main instances where this occurs are in relation to Council Tax and Business Rates.

The implication of this is that any Balance Sheet transactions at the year end, in relation to these Agent relationships, are split between the principal parties and, therefore, the balances contained on the Balance Sheet for a particular debt are the Authority's own proportion of the debt and associated balances. The proportions of transactions that relate to the other parties to the relationship are shown as debtors or creditors due from / to these parties.

25. FAIR VALUE MEASUREMENT

The Authority measures some of its assets and liabilities at fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

The Authority uses internal and external Valuers to provide a valuation of its assets and liabilities in line with the highest and best use definition within the accounting standard. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant.

Inputs to the valuation techniques in respect of the Authority's fair value measurement of its assets and liabilities 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.