AUDIT & GOVERNANCE COMMITTEE

22nd March 2022

Report of the Executive Director Finance

FINAL ACCOUNTS 2021/22 – ACCOUNTING POLICIES AND ACTION PLAN

Purpose

To advise Members of the proposed Accounting Policies for 2021/22.

To provide an outline of the corporate requirements that will need to be achieved in order to produce the Council's Annual Statement of Accounts for 2021/22 (including deadlines but not including detailed responsibilities) and to obtain corporate commitment to the action plan.

Recommendations

That:

1. **the proposed Accounting Policies for 2021/22, attached as Appendix A are approved;**

2. **the target of 30th June 2022 for closure of the final accounts and production of the statement for 2021/22 be approved;**

3. **staffing resources be committed to the provision of appropriate information and support in order to meet the published timescales and the Committee receive progress updates (if required);**

4. **CMT receive a fortnightly update until completion of the audit; and**

5. **the Statement be presented to the Audit & Governance Committee before the end of September 2022.**

Executive Summary

Local authority financial statements have a key part to play in accountability to taxpayers and other stakeholders as to how public money is used.

As part of its statement of accounts, the Council needs to disclose the accounting policies it has applied to all material balances and transactions. There is little discretion to the Council as the proper accounting practices, that all local authorities follow, are set down in the Code.

The proposed accounting policies are presented at **Appendix A**. The policies are reviewed annually to identify any which should be removed as they are no longer relevant or have no material effect for the Statement of Accounts.

Apart from the dates, these have not significantly changed from the 2020/21 policies. These do not depart from the provisions of the 2021/22 Code.

However, it should be noted that Cipfa have recently consulted on emergency proposals for an update of the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022/23 Code – the results of which may significantly affect the accounting policies for 2021/22, if approved, which is doubtful given the late consultation and the fact that most Councils will already have put measures in place to carry out revaluations of operational property, plant and equipment as at 31st March 2022 (in order to prepare the accounts in a timely manner).

CIPFA LASAAC issued an exceptional consultation on time limited changes to the code to help alleviate delays to the publication of audited financial statements. Only 9% of local authority accounts in England met the audit publication deadline of 30 September 2021.

This arose as, in December 2021, the Department of Levelling-up Housing and Communities asked CIPFA LASAAC to consider ways in which the code may ameliorate this crisis position. CIPFA LASAAC considered this request and issued an exceptional consultation, which explores two possible changes that might be made as an update to the 2021/22 code and to the agreed position in the 2022/23 code.

After considering a wide range of options CIPFA LASAAC decided to explore two approaches:

- an adaptation to the code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation

- deferring the implementation of IFRS 16 Leases for a further year and reversing the planned changes to the 2022/23 code to implement that standard.

The consultation also shows the wide range of options that CIPFA LASAAC considered, which includes some which the board considered were outside of its terms of reference.

The council's 2021/22 valuation programme is already underway (& due to complete by late March); therefore the changes being explored as part of the CIPFA/LASAAC consultation are unlikely to have a significant effect on the workload for the 2021/22 Statement of Accounts and may be of more benefit on the 2022/23 workload. Work on IFRS 16 (leases) is also fairly advanced, and all work undertaken to date would have been necessary even if implementation of this standard is delayed. Until the outcome of the consultation is known, we will continue to prepare for the accounts on the basis of the 2021/22 Code as it currently stands.

Legislation detailed in Accounts and Audit (England) Regulations 2015, requires the Council to prepare a Draft Statement of Accounts by 31st May (approved by the Council's Chief Finance Officer - the Executive Director Finance), a Committee of the Council to approve the Statement by 31st July and for the Council to publish the Statement together with the Auditors' opinion by 31st July.

However, because of the impact of the covid-19 virus on local authorities' ability to have prepared their draft statement of accounts by the end of May, the requirement has been amended again for 2022, with the deadline to publish its unaudited accounts moved from 31st May to 31st July and the deadline for publishing audited statements being pushed back from 31st July 2022 to 30th September.

Following discussions with Grant Thornton in February it has been agreed that the Council will aim to comply with the original deadlines and work to produce a draft Statement of Accounts for 30th June 2022 with a completed audit by 30th September 2022 (subject to any outstanding issues on the audit of the County's Pension Fund) . The delays in producing and auditing the accounts experienced in 2021 have negatively impacted on various other projects including the main period of budget preparation in September and October and should be avoided if possible this financial year.

The annual plans for the production of the statutory accounts for recent years has been reviewed so that the draft accounts for 2021/22 can been produced before the deadline of 30th June 2022.

The key issues affecting the achievement of these deadlines are detailed in **Appendix B**. The action plan identifies key processes and milestones in achieving the statutory requirement.

The way the Council prepares and reports its accounts (including professional reporting standards and statutory timetables) is a key element within the Council's External Auditors', (Grant Thornton - GT) assessment of the Council's performance within the Annual Audit Letter.

The action plan is a key element in the process to deliver the Council's final accounts in compliance with legislation and maintain a high quality standard.

Key milestone dates will be regularly reviewed / monitored to achieve deadlines with material variances reported to CMT and Members (with proposed remedial actions). It is proposed that CMT receive an update, by exception, every 2 weeks until completion of the audit.

The information provided (detailed in **Appendix C**), although not comprehensive, highlights information that will need to be supplied in order to meet the deadline.

Key milestones – Provisional Dates:

- Completion of the draft accounts by 21st June 2022;
- Detailed management quality assurance review by 30th June 2022;
- Submission to Grant Thornton (and to Members) on or before 1st July 2022;
- Report to Audit & Governance Committee by the end of September 2022;
- Latest publish date 30th September 2022;

Consideration and approval of this report is a key control and evidence of the Council's plans for the closedown and production of its accounts in compliance with statutory requirements.

Legal and Risk Implications

There is a risk that if the Council is not sufficiently pro-active, the Council's Statement of Accounts may not remain compliant with both the Code of Practice on Local Authority Accounts and International Financial Reporting Standards (IFRS) which would result in a potential delay or criticism over the production of the Accounts and potentially a qualified audit opinion.

The following top level risks have been identified. The full details are contained within the Pentana risk register.

Risk No	Description of Risk	Likelihood Impact	Action Required to Manage Risk
1	Further research reveals the new requirements of either the Code of Practice or IFRS to be more complex and time consuming than initially thought.	**M H**	An early start, adequate research, adequate initial resources, sufficient resource/budget provision for contingencies
2	Incorrect interpretation of changes in either the Code of Practice or IFRS	**M H**	Adequate training, sufficient resources. Ensure all reasons for actions, inclusions and exclusions, are fully documented and agreed with External Audit.
3	Guidance by CIPFA changing possibly causing delays	**M H**	Regular review and rescheduling of project timetable
4	Delay in receiving information from external parties / contractors	**M H**	Ensure regular contact with all concerned and continually monitor completeness of the information provided
5	Inadequate training	**L M**	Research available training, ensure all relevant staff attend, training budget to be adequate
6	Failure to identify all leases	**L M**	Ensure staff understand exactly what is involved / process to outline the requirements
7	Key staff leaving	**H H**	Ensure there are sufficient skills within the team to cover / handover arrangements in place
8	Insufficient Resources from External Auditors Grant Thornton	**M H**	Continued liaisons with Grant Thornton to ensure they adequately allocate resources to the audit to meet timescales outlined above
9	Incorrect/inaccurate assumptions made re Pensions	**M H**	Figures are produced by SCC based on a set of assumptions and estimates for inclusion in the draft statement. SCC were then able to

Risk No	Description of Risk	Likelihood Impact	Action Required to Manage Risk
			provide actual figures in June 2021 and these were then updated in the Final Audited Statement.
10	Continuing Impact of the response to the pandemic on staffing resources	**M H**	Prioritisation of the accounts production over all other work where possible; Re-assessment of deadlines where needed.

Resource and Value for Money Implications

There are no financial implications arising from this report.

A significant amount of work will need to be undertaken during the period February through to 21st June 2022 to ensure completion of the Financial Statements by 30th June. There is a high risk of this deadline not being achieved should insufficient resources be directed towards the achievement of this goal – deadline / key milestones will be closely monitored.

Report Author

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Background papers	Accounts and Audit Regulations 2015
	Code of Practice on Local Authority Accounting in the United Kingdom (2021/22) based on IFRS

NOTES TO THE ACCOUNTS

Accounting Policies

BASIS FOR PREPARATION

The notes relating to specific financial statement lines include the corresponding accounting policy. As a result, there is not an overall principal accounting policies note. However, the general accounting policies where there are not any accompanying notes are detailed within this note.

i. GENERAL PRINCIPLES

The Statement of Accounts summarises the Authority's transactions for the 2021/22 financial year and its position at the year end of 31st March 2021. The Accounts and Audit Regulations (England) 2015 require the Authority to prepare an Annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, 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.

ii. 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 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;

b) 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;

c) 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;

d) 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;

e) 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 in financing and investment income and expenditure 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.

iii. 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 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.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

iv. 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 in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

v. COUNCIL TAX AND NON-DOMESTIC RATES (ENGLAND)

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (ie the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of Council Tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement (CIES) is the Authority's share of accrued income for the year. However, regulations determine the amount of Council Tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Authority's share of the end of year balances in respect of Council Tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Taxation and Non-Specific Grant Income and Expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

vi. 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.

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 authority 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).

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the authority can be determined by reference to an active market. In practice, no intangible asset held by the authority 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 in the Comprehensive Income and Expenditure Statement. 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 in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted 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.

vii. JOINT OPERATIONS

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

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

The Authority has a Joint Waste Management arrangement with Lichfield District Council which does not fulfil the definition of a joint operation – detailed at Note **Error! Reference source not found.**f.

viii. 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.

ix. FAIR VALUE MEASUREMENT

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

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 measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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.

x. INTERESTS IN COMPANIES AND OTHER ENTITIES

The authority has no material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

xi. INVENTORIES AND LONG-TERM CONTRACTS

Inventories are included in the balance sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the [FIFO/weighted average] costing formula.

Long-term contracts are accounted for on the basis of charging the surplus or deficit on the provision of services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

Within notes to the Accounts:

Events after the Reporting Period

Events after the Balance Sheet reporting period are those events, both favourable and unfavourable, that occur between the Balance Sheet date (31st March 2022) and the date when the Statement of Accounts is authorised for issue (30th June 2022). 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 such 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.

Transfers to / (from) Earmarked Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund or Housing Revenue Account balance.

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 transferred back into the General Fund or Housing Revenue Account balance 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.

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.

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; and
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.

The cost of assets acquired other than by purchase is deemed to be its current 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 – depreciated historical cost;
ii. Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH); and
iii. all other assets – current 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 current value because of the specialised nature of an asset, Depreciated Replacement Cost (DRC) is used as an estimate of current 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 current 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 current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, but as a minimum every five years – including an annual desktop review of all Council Dwellings. 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);

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 annually.

The Authority has an ongoing programme of regeneration including disposal and redevelopment of garage sites and previously 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 were 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);
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).

Deprecation 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.

Historical properties: on a straight line basis to a nil residual value over 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** – minor purchases by the Authority are charged to revenue in the year of acquisition and are 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.

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 current value less costs to sell. Where there is a subsequent decrease to current value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in current 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.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10k are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the government. The balance of receipts remains within the Capital Receipts Reserve, and can then only be used for new capital investment [or set aside to reduce the authority's underlying need to borrow (the capital financing requirement) (England and Wales)]. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of noncurrent assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

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.

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 2021/22 financial statements (including the 2020/21 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.

Investment Properties

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.

Investment Properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. 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.

Financial Instruments

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. 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.

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 cashflow 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).

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The authority’s business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (ie 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 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 financial assets held by the Authority, 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.

Any gains and losses that arise on the derecognition of a financial asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The Authority recognises expected credit losses on all of its financial assets held at amortised cost, 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 authority.

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.

Financial Assets Measured at Fair Value through Profit of Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority 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 or Deficit on the Provision of Services.

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. 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 following three levels:

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

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 Comprehensive Income and Expenditure Statement.

Cash & 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 highly liquid 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.

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 current 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.

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 when the Authority has an 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.

Acquisitions & 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.

Officers' Remuneration

Benefits Payable During Employment

Short term employee benefits are those due to be settled wholly 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 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.

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:

- the Authority will comply with the conditions attached to the payments, and
- 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 in the form of 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.

During 2021/22 the Council received a number of grants in relation to the COVID Pandemic where it acted as an agent for Central Government. Paragraph 2.6.2.4 of the Code requires that where an authority acts as an agent, transactions will not be reflected in an authority's financial statements, with the exception in respect of cash collected or expenditure incurred by the agent on behalf of the principal. In these cases a debtor or creditor will be recognised and the net cash position included in financing activities in the cash flow statement.

Community Infrastructure Levy

The Authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the authority) with appropriate planning consent. The council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a proportion of the charges for this Authority may be used to fund revenue expenditure.

Capital Expenditure & Financing

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.

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) 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) 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.

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 in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring.

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.

Defined Benefit Pension Schemes

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.

The Local Government Pension Scheme (LGPS) is accounted for as 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%.

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:

Service Cost Comprising:

- **Current Service Cost:** The increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;

- **Past Service Cost:** The increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;

- **Net Interest Cost:**
net interest on the net defined benefit liability (asset), ie net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Remeasurements comprising:

- **Expected Return on Plan Assets:** excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;

Actuarial Gains and Losses: changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;

- **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 the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund 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.

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.

a) Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The authority participates in two post employment schemes:

- The Local Government Pension Scheme, administered locally by Staffordshire County Council – this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

- Arrangements for the award of discretionary post retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

b) Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council Tax is based on the cash payable in the year, so the real cost of post employment / retirement benefits is reversed out of the General Fund (and HRA) via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund

Balance via the Movement in Reserves Statement during the year:

Contingent Liabilities

A Contingent Liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent Liabilities also arise in circumstances where a provision would otherwise be made but either 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.

Appendix B

Key Issues in the Production of the Statement of Accounts

One of the main ways a Local Authority communicates its financial performance to local stakeholders and the wider community is through its published financial statements.

Between completion of the statement in June and the conclusion of the on-site audit in September, a substantial amount of work will be required liaising with the external auditors to ensure an unqualified audit report.

Following the completion of the 2020/21 audit a number of amendments to the Draft Statement (as published on the website, 2nd June 2021 and circulated to the Audit & Governance Committee on 28th July 2021) were discussed & agreed with Grant Thornton.

This included an adjustment relating to the Pensions figures included in the statement. There was a material (c.£2m) change between the draft figures provided by the Actuary in April 2021 and the final report received in June 2021 – relating mainly to the estimated return on the pension fund investments. This has reduced the net pension fund liability on the balance sheet from £52m to £50m.

It is important to note that, other than the adjustments to the pension fund figures, there were only minor changes relating to presentational or disclosure notes within the main financial statements and the associated notes and did not have any impact on the reported outturn position and net balances of the General Fund, Housing Revenue Account or Collection Fund and does not impact on the taxpayer.

Although the External Auditors had concluded the vast majority of their work on the accounts before the end of September, we were advised that assurance from Staffordshire County Council's external auditors in relation to the Staffordshire Pension Fund would not be available till November. For this reason it was agreed to delegate authority to the Chair to approve any changes and re-sign the accounts, and if necessary, report any significant changes to the members of Audit and Governance Committee at the earliest available opportunity.

To meet the necessary deadlines, the closure process for 2020/21 has been reviewed to identify any lessons to be learned for future years.

The main issues affecting the closure of accounts for 2020/21 included:

- the need for corporate ownership of the process;
- reliance on staff in Services and third parties who have other priorities;
- the need for key officers (lead by Corporate Finance) to focus on the achievement of critical deadlines, in the face of and in preference to other competing priorities;
- the need to check/validate creditor accruals (and avoid large numbers of reversals where evidence cannot be provided) – it would aid timely completion of the process if accruals were processed by Managers in compliance with

laid down parameters (i.e. receipt of goods/services ***before*** 31st March);

- Pensions - actual rate of return on the pension fund's assets for the year differed from that assumed by the actuary due to the effect of the pandemic on financial markets at 31st March 2021. This required a change to the accounts as it was above the materiality threshold for changes following the audit;
- Delays in completion of the audit by Grant Thornton following the on-site audit. There have been changes to the planned audit process for 2021/22 which should focus audit resources at the timely completion of the audit but we will need to ensure adequate resources are allocated to the audit for 2021/22 to meet timescales outlined above.

Commitment will be required to ensure that appropriate time and staffing resources will be focussed on the achievement of the key tasks within all Services.

A brief planning meeting has already been held with the Audit Lead from Grant Thornton to discuss any emerging issues. The next meeting has been arranged for 14th April to discuss progress from Interim Audit visits and agree the draft timetable of the year end process (**Appendix D**) .Further meetings will be agreed, if necessary, prior to the commencement of the onsite audit of the accounts to discuss progress to date.

A detailed year end timetable has been prepared **(attached at Appendix C)** and communicated; ensuring tasks are allocated, in the right sequence, to named individuals. The timetable will include a firm cut-off date for accruals and practical details, such as publication and committee deadlines.

It is essential that there is a review at the end of closedown to highlight any lessons to be learned for next year. Equally vital is clear supporting documentation and an audit trail. These will not only help in the current year audit process but will be a sound base for future years.

A risk management approach is essential when resources are limited. The focus will be on known areas of risk based on past experience. A summary of issues from the 2020/21 closedown with material delays are detailed below.

An escalation process will be in place if it is evident that critical tasks are slipping – together with fortnightly updates to CMT. There is still some room for development to ensure an efficient closedown for 2021/22.

2020/21 – Significant Issues

Item	Issue	Proposed Solution / Action Already taken	Action
Manual Accruals	A reduced number from previous years but still several manual accruals were received after the deadline and/or following identification by Accountant (i.e. not identified proactively by budget managers) – improvement needed as any late or missed accruals could delay the process and create additional work	By 31/03/22, Managers will be asked to ensure that where goods/services have been received the majority of orders are 'goods receipted' within e-financials, thereby generating 'auto-accruals' on 01/04/22 The minimum level for manual accruals will be £5k (as set by Executive Director Finance). However, should material accruals have been missed (i.e. over £5k) then the Service Accountants must be advised and appropriate action taken	ALL
Related Party Transactions	Again – Delayed return of some signed statements.	Requirements for any remaining Members to be contacted in person at Council/Committee meetings – for sign off by 30/04/22 at the latest.	Head of Paid Service
External Valuations	Delays / incomplete information from external valuers	Terms of engagement have been re defined with regular meetings arranged so that any issues can be quickly identified and solutions found at an earlier stage. Agreed that for 2021/22 only necessary to undertake desktop valuation of HRA assets – this will mitigate delays from not being able to gain access to properties in previous years	Finance and Assets
Pension Assumptions	• actual rate of return on the pension fund's assets for the year differed from that assumed by the actuary	To request initial data from the Actuary as at 31/03/22, supplemented by an updated report in June 2022.	Finance
Final Sign Off	• Delays in completion of the audit following completion of on-site audit	Continued liaisons with Grant Thornton to ensure they adequately allocate resources to the audit to meet timescales outlined above and dates included in agreed Audit Plan (due A&G Cttee 22/03/22)	Finance

A flexible `teamwork' approach to make the most of scarce staff resources will be implemented, if necessary. Agreed variations to the flexible working policy or overtime pay (under the discretion of the Executive Director Finance) to speed up the closure of accounts would be considered as well as the need to bring in contract staff.

System weaknesses can cause delays and frustrations and appropriate contingency support will be essential, should problems arise.

Procedures have been in place for a number of years to ensure that key reconciliations are performed on a monthly basis during the year and centrally managed suspense or bank control accounts are cleared regularly. A full review of all working papers has been carried out with key staff during the year in preparation for the 2021/22 closedown.

The continued requirement to prepare accounts under IFRS will require a well thought-out approach to the use of estimates and de minimus levels for year-end accruals.

The aim should be to provide appropriate information to enable the efficient closedown without the need to re-open the accounts for late / omitted items i.e. a '**get it right first time'** approach. Managers should make every endeavour to include appropriate accruals, temporary reserves and retained funds and provide the required information in a timely manner.

Knowing the previous year's outturn position earlier will help inform not only the current year's financial performance monitoring but the forthcoming year's budget strategy.

It could also further boost confidence in the Council's financial management - the timeliness and accuracy of the financial statements and the supporting records form part of the auditor's assessment within the Annual Audit Letter.

Appendix C

REF	CORPORATE REQUIREMENTS FINAL ACCOUNTS 2021/22	LEAD OFFICER	DEADLINE
1	Temporary Reserve / Retained Fund information	ALL	08/04/2022
2	Review all outstanding orders and delete where necessary	ALL	01/03/2022
3	All "goods receipts" should be on e-financials by 31/03/22, with evidence held by the Service Departments, in order to ensure 'auto-accruals' are generated. (It is recommended as many as possible done by 19/03/22)	ALL	31/03/2022
4	Deadline for approved manual accruals. (ie goods need to be received by 31/03/22.) Refer to year end guidance	ALL	08/04/2022
5	Staff Holiday and Flexi Leave entitlement as at 31/03/22	ALL	08/04/2022
6	Manual accruals to be kept to a minimum, with ED Finance approval/authorisation only. The minimum level for manual accruals will be £5,000. (However, should material accruals have been missed (i.e. over £5,000) then the Directorate Accountant must be advised and appropriate action taken)	ALL	08/04/2022
7	Notify all stock holders of the need for stocktakes to be carried out at 31/03/22 and information returned to accountancy	ALL	08/04/2022
8	Petty Cash imprest reconciliation. A reminder of the need to complete returns at 31/03/22 will be issued	ALL	08/04/2022
9	IT stock purchases and disposals (hardware and software) information	AD PEOPLE	08/04/2022
10	Bad debt information: E-financials Sundry Debtors and overpayments Homelessness and Housing Rents	AD FINANCE / AD NEIGH	08/04/2022
11	Completion of asset acquisitions / disposals / revaluations / impairment and production of the asset register certified by qualified valuer	AD ASSETS	Draft by: 10/03/22 Final by : 01/04/2022
12	All reconciliations to be complete and returned to accountancy; debtors, benefit, HAA/mortgages, rent, car loans, rent allowance etc. (monthly reconciliations should be completed during the year)	ALL	08/04/2022
13	Related Party Transaction information. Letters to be sent by 19/03/22 - Approach at Committee if delayed	S151 / MO	08/04/2022
14	Managers confirmation of continued existence and responsibility for assets	ALL	08/04/2022
15	Information for completion of DWP and Subsidy estimated claims from benefits	AD FINANCE	08/04/2022
16	Improvement grant reconciliation	AD ASSETS	08/04/2022
17	Collection fund information (NNDR3)	AD FINANCE	15/04/2022
18	FRS17 Pension information from SCC Pension Fund	SCC	15/04/2022
19	Review Code of Corporate Governance and prepare Annual Governance Statement	Head of Audit	15/04/2022
20	Review grant estimates (Benefits) / comparison to actual submissions	AD FINANCE	15/04/2022
21	Review potential post balance sheet events / impact on accounts	ALL	Up to 30/09/22

Audit Planning Timetable 2021/22

Date / Deadline	Completion of:	
Feb-22	Audit Planning Meeting / requirements (following changes to code, financial analysis, working papers & format, use of estimates etc)	
Feb-22	GT Workshop	
Feb-22	1st Interim Visit (5 days) – walkthrough and early testing	
Feb-22	2nd Interim Visit (5 days) – walkthrough and early testing	
Mar-22	Audit Planning Meeting / requirements	
Mar-22	Opinion / Informing the Audit Risk Assessment and Audit Plan to Audit & Governance Cttee	
21/06/2022	Draft Statement preparation	
1 week	Quality assurance	
30/06/2022	***Submission of Accounts (to GT / Members)***	
July / Aug	High Level Audit Plan for 2021/22 Audit confirmed (for planning / management purposes)	
July / Aug	Engagement Lead review	
July / Aug	Off Site Audit Commences (prepare working papers / reconciliations / quality assurance process)	Accountants / Key Officers to be available for Auditor questions by appointment
July / Aug	Weekly Meetings with Audit Manager (including emerging Governance report issues) - issues to date documented in **one logical list i.e. no repeated issues**	
July / Aug	On Site Audit Concludes (the statement will be changed, as necessary, as the audit proceeds) - Weekly Meeting with Audit Manager	
Weekly	**Draft list of audit amendments / issues received (subject to Engagement Lead review)**	
Early Sept	**Final list of audit amendments / issues received (after Engagement Lead review)**	
By 05/09/2022	**Close out meeting (with Engagement Lead review)**	
12/09/2022	Amended Statement of Accounts prepared	
15/09/2022	Audit Findings Report received	
22/09/2022	Audit Report to be circulated via Modgov	
28/09//2022	Audit Findings Report to Audit & Governance Committee / Sign Off	
30/09/2022	Publish at latest	