

EAST STAFFORDSHIRE BOROUGH COUNCIL

REPORT COVER SHEET

Title of Report:	Statement of Accounts Update
Meeting of:	Audit Committee
Date:	14 March 2024
Is this an Executive Decision:	NO
Is this a Key Decision:	NO
Is the report Confidential:	NO
If so, please state relevant paragraph from Schedule 12A LGA 1972:	-
Essential Signatories:	
ALL REPORTS MUST BE IN THE NAME OF A HEAD OF SERVICE	
Monitoring Officer – John Teasdale	
Date	Signature
Chief Finance Officer: Lloyd Haynes	
Date	Signature

EAST STAFFORDSHIRE BOROUGH COUNCIL

Report to Audit Committee

Date 14th March 2024

TITLE:	Accounting Policies 2023/24	
PORTFOLIO:	Finance	
HEAD OF SERVICE:	Lloyd Haynes - Chief Finance Officer (S151 Officer)	
CONTACT OFFICER:	James Hopwood – Chief Accountant	ext. No. 1139
WARD(S) AFFECTED:	All	

1. Purpose of the Report

- 1.1 This report sets out the proposed accounting policies for the 2023/24 Statement of Accounts.
- 1.2 The Code of Practice for Local Authorities will also implement a new accounting standard – IFRS16 – from 1 April 2024. IFRS16 is an accounting rule about the treatment of lease agreements in financial statements.
- 1.3 There is not a requirement to incorporate this new standard in to the Council’s proposed 2023/24 accounting policies, however as the 2023/24 accounts will need to include a disclaimer and an estimate of the impact of this change in 2024/25, a draft accounting policy relating to IFRS16 has been included in this report to provide context as to what that estimate will be based on. No other changes are proposed to the Council’s existing accounting policies.

2. Contribution to Corporate Priorities

- 2.1 By implementing governance and management around the Council’s financial resources, the report provides underlying support to all corporate priorities.

3. Accounting Policies

- 3.1 The council will prepare a financial statement which summarise the authority's transactions for the 2023/24 financial year and its position at the year-end of 31 March 2024. The authority is required to prepare these in accordance with the Accounts and Audit (England) Regulations 2015.
- 3.2 These regulations require the statement of accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (hereafter referred to as the 'Code') and are supported by International Financial Reporting Standards (IFRS).
- 3.3 Accounting policies are a way by which the council ensures that it is following proper accounting practices. As part of the financial statements the council is also required to publish those accounting policies it understands to be significant.
- 3.4 If the council fails to apply accounting policies correctly and fully as defined within the Code and IFRS this could result in external audit requesting amendments to the accounts or even qualification of the accounts.
- 3.5 The Code of Practice for Local Authorities has implemented a new accounting standard – IFRS16 – from 1 April 2024. IFRS 16 is an accounting rule regarding the treatment of lease agreement in financial statements.
- 3.6 There is not a requirement to incorporate this new standard in to the Council's proposed 2023/24 accounting policies, however as the 2023/24 accounts will need to include a disclaimer and an estimate of the impact of this change in 2024/25, a draft accounting policy relating to IFRS16 has been included in this report to provide context as to what that estimate will be based on. No other changes are proposed to the Council's existing accounting policies.

4. Financial Considerations

This section has been approved by the following member of the Finance Team: (James Hopwood).

- 4.1 The report is solely related to financial matters.

5. Risk Assessment and Management

- 5.1 The main risks associated with this report and the Council achieving its objectives are the same as those contained within the Treasury Management Strategy Statement.

6. Legal Considerations

This section has been approved by the following member of the Legal Team: [John Teasdale]

7. Equality and Health

7.1 Equality impacts: The subject of this Report is not a policy, strategy, function or service that is new or being revised. An equality and health impact assessment is not required.

8. Human Rights

8.1 There are no Human Rights issues arising from this Report.

9. Sustainability (including climate change & change adaptation measures)

9.1 There are no related issues within this report.

10. Data Protection Implications – Data Protection Impact Assessment (DPIA)

10.1 A DPIA must be completed where there are plans to:

- use systematic and extensive profiling with significant effects;
- process special category or criminal offence data on a large scale; or
- systematically monitor publicly accessible places on a large scale
- use new technologies;
- use profiling or special category data to decide on access to services;
- profile individuals on a large scale;
- process biometric data;
- process genetic data;
- match data or combine datasets from different sources;
- collect personal data from a source other than the individual without providing them with a privacy notice ('invisible processing');
- track individuals' location or behaviour;
- profile children or target marketing or online services at them; or
- process data that might endanger the individual's physical health or safety in the event of a security breach

10.2 Following consideration of the above, there are no Data Protection implications arising from this report which would require a DPIA.

11. Recommendation

11.1 Audit Committee are recommended to note the accounting policies (Appendix A) for use in the completion of the council's financial statements for 2023/24.

12. Background papers

12.1 N/A

13. Appendices

13.1 Appendix A: Accounting Policies 2023/24

1. ACCOUNTING POLICIES

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2023/2024 financial year and its position as at the year-end 31st March 2024. The Authority is required to prepare an annual statement of accounts by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, 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. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations of the contract.
- 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. An exception to this principle housing benefits payments are matched to the subsidy claim which includes 52 weekly payment runs. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest payable and receivable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. Where the exact amount due in respect of accruals has not yet been confirmed, for example grant entitlements from Central Government, the accounts reflect the best estimate and use latest available information. The estimation techniques used have not generally been changed from the previous year.

iii. Tax Income (Council Tax, Non-Domestic Rates (NNDR) /Business Rates)

The Council is a billing authority and therefore acts as an agent, collecting council tax and non-domestic rates (NNDR) on behalf of major preceptors (including government for NNDR) and, as principals, collecting council tax and NNDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the collection fund) for the collection and distribution of amounts due in respect of council tax and NNDR. 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 NNDR collected could be less than predicted.

Accounting for Council Tax and NNDR

The Council Tax and NNDR income and expenditure included in the Comprehensive Income and Expenditure Statement is the Authority's share of accrued income for the year. However regulations determine the amount of council tax and NNDR that must be included in the authority's general fund. Therefore, 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 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 year end balances in respect of council tax and NNDR relating to arrears, impairment allowances for doubtful debts, overpayments, prepayments and appeals.

Where debtor balances for the above are identified as impaired because of the likelihood arising from a past event that payments due under the statutory arrangements will not be made, the asset is written down and a charge made to the Collection Fund. The impairment loss is measured as the difference between the carry amount and the revised future cash flows.

iv. 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 one month 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.

v. 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.

vi. 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, or other events and conditions on the authority's 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.

vii. 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 the fixed assets during the year. This comprises:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the revaluation reserve against which the losses can be written off; and
- 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 amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. Depreciation, revaluation, impairment losses and amortisations are therefore replaced by a contribution in the General Fund Balance (Minimum Revenue Provision - MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

viii. Employee Benefits

Benefits Payable during Employment

Short term employee benefits are those expected to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render the service to the authority. An accrual is made for the cost of the holiday entitlements (or any form of leave, such as time off in lieu) earned by employees but not taken before the year end in which employees can carry forward into the next financial year. The accrual is charged to the surplus or deficit in the provision of services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the 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 Comprehensive Income and Expenditure Statement at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement of 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 year-end.

Post-Employment Benefits

The employees of the Council may participate in the Local Government Pension Scheme administered by Staffordshire County Council (Staffordshire Pension Fund), which provides defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

The Local Government Pension Scheme

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

The liabilities of the Staffordshire Pension Fund attributable to this Council are included in the balance sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to the retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc. and projections earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 4.75%. This rate is equal to the yield available on long-dated, high quality corporate bonds and is commonly referred to as the AA Corporate Bond Rate.

The assets of pension fund attributable to the Council are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price
- Unquoted securities – professional estimate
- Unitised securities – current bid price
- Property – market value

Leisure Transfer – Pension Guarantee

During 2018/19 authority transferred the provision of its leisure services to a third party provider, Sports and Leisure Management Ltd (SLM). As part of the contractual arrangements, all leisure centre staff were transferred to SLM or its subsidiaries via TUPE arrangements. SLM has been admitted to the Staffordshire County Council pension fund and pension arrangements between the three parties are managed using admission

agreements. The IAS19 report provided by the actuary excludes the assets and liabilities relating to the transferred staff. As the contractual arrangements mean that Council acts as guarantor for the vast majority of the pension risks associated with the former employees, an annual assessment is carried out by management of the risk and potential financial consequences should the Council be called to settle these liabilities. For 2023/24, the risk has been assessed as nil as the IAS19 report estimates a net asset associated to the Leisure Providers proportion of the pension assets and liabilities.

The change in the net pension's 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. This is allocated to the revenue accounts of the services for whom the employees worked.
- Past service gains/costs – the increase or decrease in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years. This is debited or credited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement.
- Net interest cost on the defined benefit liability, i.e. Net interest expense for the authority – the change during the period in the net defined benefit liability 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 at the beginning of the period – taking into account any changes in the net defined benefit payments.

Re-measurements comprising:

- The return on plan assets – excluding amounts included in net interest on the defined benefit liability – charged to the Pension Reserve as other Comprehensive Income and Expenditure.
- Actuarial gains and losses – changes in the net pension's liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. This is debited to the Pensions Reserve as other Comprehensive Income and Expenditure.
- Contributions paid to Staffordshire pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities – not accounted for as an expense.

In relation to retirement benefits, statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the pension fund in the year. In the Movement on 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 year end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

ix. Events after the Balance Sheet Date

An event (favourable or unfavourable) occurring after the balance sheet date of 31 March, which provides evidence of conditions which existed at 31 March, is an adjusting event with the amounts shown in the Statement of Accounts updated to take account of the new information.

An event occurring after 31st March which indicates conditions that arose from 1 April onwards is a non-adjusting event with no effect on amounts included in the Statement of Accounts. However if these events are material they are disclosed in the notes to the accounts.

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

x. Financial Instruments

Financial Assets

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

- Amortised cost;
- Fair value through profit and loss (FVPL); and

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.

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the balance sheet when the authority becomes 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 (CIES) for the interest receivable are based on the carry 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 CIES is the amount receivable for the year in the loan agreement.

Any gains for losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line of the CIES.

Expected Credit Loss Model

The authority recognises expected credit losses on all its financial assets held at amortised cost on either 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 and lease receivables held by the authority. The authority adopts the simplified approach to lease and trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that 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 the instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on a 12 month expected losses basis.

Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured as FVPL are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in the Surplus or Deficit on the Provision of Services.

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

- Instruments with quoted market prices - the market price.
- Other instruments with fixed and determinable payments - discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs - quoted prices (unadjusted) in active markets for identical assets that the Council 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 de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. These amounts are trivial in nature.

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the authority becomes 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 instruments to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Income and Expenditure Statement is the amount payable for the year in the loan agreement.

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 Council has a policy of spreading the gain/loss over the term remaining on the loan against which the premium was payable or discount receivable when it was repaid or a nominated shorter period. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movements in Reserves Statement.

xi. Foreign Currency Translation

From time to time the authority occasionally enters into a transaction denominated in a foreign currency. The transaction is converted into sterling at the exchange rate applicable on the date of the transaction.

xii. Government Grants and Contributions

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

- The authority will comply with the conditions attached to the payments, and
- The grants and contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until the 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-ring-fenced revenue grants and 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.

The Council has received a number of grants from Central Government in order to support business and residents during both the pandemic and also the economic conditions. Section xxv of these accounting policies sets out our approach to accounting for these in line with the Code.

xiii. Heritage Assets

The authority's heritage assets include various paintings, sculptures and civic items which are held primarily as a contribution to knowledge and culture. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with our accounting policies for property, plant and equipment. However some of these measurement rules are relaxed in relation to Heritage Assets.

Heritage asset records are maintained within the fixed asset register and insurance records. Access to the vast majority of these items can be gained via the Brewhouse Centre and mayoral and civic rooms within the Town Hall.

Heritage Assets are measured and reported in the balance sheet based on insurance valuation, which are periodically updated. However sculptures are reported within the Balance Sheet at depreciated historic cost.

All assets are depreciated to the Comprehensive Income and Expenditure Statement based on an estimate of their useful lives – generally 50 years with sculptures 25 years. The carrying values are reviewed where there is evidence of impairment this is recognised and measured in accordance with our general policies on impairment, as set out in xix.

Further information in relation to Heritage Assets is set out with note 16 to the accounts.

xiv. Intangible Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council, e.g. computer software and related licences, is capitalised at cost when it will bring benefits to the Council for more than one financial year. The balance is amortised/depreciated to the relevant service lines in the Comprehensive Income and Expenditure Statement over the economic life of the investment to reflect the consumption of benefits.

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses are recognised within the relevant service line within the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains or 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 sale proceeds greater than £10,000) the Capital Receipts Reserve.

xv. Interests in Companies and Other Entities

The Council does not have any significant interest in companies and this interest does not require the preparation of group accounts.

xvi. Inventories and Long Term Contracts

Stocks/Inventories are included in the accounts on the basis of the latest price paid. This is a departure from the requirements of the Code, which require stocks to be shown at the lower of cost or net realisable value. The effect of the different treatment is immaterial.

Work in progress on long term contracts, for which interim valuations are made, is included in the surplus or deficit in the provision of services at historical cost covering labour, materials and direct overheads, net of any progress payments received.

xvii. Investment Property

Investment properties are those that are used solely to earn rentals and/or capital appreciation. The definition is not met if the property is used in a 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. As a non-financial asset, investment properties are valued at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses 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 sale proceeds greater than £10,000 the capital receipts reserve.

xviii. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks 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.

IFRS16 - draft accounting policy that will be applicable for the 2024/25 accounts set out below to provide context as to what that estimate for 2023/24 will be based on

The Council's IFRS16 policy will apply to those leases where the council is the lessee. The accounting where the council is lessor is not affected by IFRS16.

Low-cost exemption

In line with the Code of Practice 2023/24 paragraph 4.2.2.33 and paragraphs B3 to B8 of IFRS16, East Staffordshire Council has assessed what it believes a low value asset should be classed as. A summary of this assessment is as follows.

The original value for low-cost exemption within IFRS16 is £5,000. For use within the UK rather than converting this into pounds sterling every time a lease is reviewed it is easier to assume it was £5,000 at the time the standard was set.

The standard was issued in January 2016 (with initial application from 1 January 2019 dependent on adoption). Given that this was several years ago and the recent rise in inflation it makes sense to initially rebase this £5,000 to take into account the impact of inflation. Over the period since January 2016 (up to May 2023) the CPI index has moved from 99.5 to 131.3. This converts to inflation of 31.96% over that period. If you were to apply this inflation to £5,000 this would now equate to £9,896.99.

It has been confirmed by CIPFA that the level the low-cost exemption is set at is a local decision for each council to make. Based on this rebasing the proposal for this part of the leasing accounting policy is that the low-cost exemption is set initially at £10,000 and then rebased each year using the March CPI rate each year (rounded to the nearest £1,000). This will take into account the time-effect on money especially during periods of high inflation.

Use of portfolio of leases with reasonably similar characteristics

Following a review of existing lease type arrangements within the council it has been determined that it should apply the portfolio expedient (Code of Practice 2023/24 paragraph 4.2.2.31) for photocopiers and similar machines (MFDs, RISO machines etc).

The reasoning for this is that the council does not expect that this will differ materially from applying IFRS16 to individual leases within that portfolio. They all also have similar characteristics in function, cost and leases agreements. On this basis they will all fall within the low cost exemption.

Existing contracts at date of implementation

Based on the Code of Practice 2023/24 paragraph 4.2.1.5 East Staffordshire Council will not reassess any existing contracts as at the date of implementation to determine whether it contains a lease.

Going forward from the initial implementation date (for East Staffordshire Council 1 April 2024) all new contracts will need to be assessed to determine whether they contain a lease type arrangement.

Leases for intangible assets

East Staffordshire Council will not apply IFRS16 to lease type arrangement for intangible assets (software licences etc) as outlined in the Code of Practice 2023/24 paragraph 4.2.1.3.

Leases with less than 1-year remaining life as at implementation date

East Staffordshire Council will apply the short life exemption to all existing leases with a remaining life of less than 1 year at the implementation date. This is in line with the Code of Practice 2023/24 paragraph 4.2.1.5. In this case the existing accounting treatment will continue for the remaining life of the lease, unless there is a modification following the implementation date where upon the requirements in paragraph 4.2.2.35 will apply, where upon the lease will be considered a new lease.

Finance Leases – Authority as Lessee

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of a lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- A finance charge (debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the assets estimated life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising from leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund balance, by way of an adjustment transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases – Authority as Lessee

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

Finance Leases – Authority as Lessor

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 property, plant and equipment is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases – Authority as Lessor

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. Any significant 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 the rental income.

xix. Property, Plant and Equipment

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

Recognition

All expenditure on the acquisition, creation or enhancement of tangible property, plant and equipment is capitalised on an accruals basis, provided that it yields benefit to the Council and the services it provides for more than one financial year. Expenditure that secures but

does not extend the previously assessed standards of performance of the asset, e.g. repairs and maintenance, is charged to revenue as it is incurred.

Measurement

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. The authority does not capitalise borrowing costs. Assets are then carried in the Balance Sheet using the following measurement bases:

- Other land and buildings, vehicles, plant and equipment – current value, determined as the amount that would be paid for the asset in existing use.
- Infrastructure, community assets and assets under construction - depreciated historical cost.
- Surplus assets, the current value measurement base is fair value, estimated at highest and best use from the market participants' perspective.

Where there is not market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or deficit on the Provision of Services 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:

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

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

Impairment

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

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

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

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

Depreciation

Depreciation is provided for all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives at 1st April each year. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are yet available for use (i.e. assets under construction). Depreciation commences on newly acquire assets in the year after acquisition.

Depreciation is calculated on the following bases:

- Buildings – straight line allocation over the useful life of the property as estimated by the valuer.
- Vehicles, plant, furniture and equipment – straight line allocation over the useful life of the asset.
- Infrastructure - straight line allocation over the useful life of the asset.

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

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charge 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.

De Minimis Levels

Charges to Revenue are made subject to a de minimis level regarding the capitalisation of expenditure. This has been set at £15,000 for land and buildings and £10,000 for equipment. If expenditure that would normally be capital is incurred below these levels, it would normally be charged directly to the revenue cost of the service concerned.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through the 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 the provision of services. Depreciation is not charged on assets held for sale.

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

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the other operating expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are 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). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. These receipts are appropriated to the Capital Receipts Reserve from the General Fund balance in the Movement in Reserves Statement. These receipts can only be used for new capital investment or set aside to reduce the authority's underlying need to borrow.

The written off value of disposals is not a charge against council tax, as the cost of property, plant and equipment is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Reserve balance in the Movement in Reserves Statement.

xx. Provisions, Contingent Liabilities and Contingent Assets

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 payment of compensation.

Provisions are charged as an expense to the appropriate line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and can measure 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 each balance Sheet date – where it becomes less probable that a transfer of economic benefits will now be required (or a lower

settlement anticipated), the provision is reversed (or reduced) and credited back to the relevant service line within the Comprehensive Income and Expenditure Statement.

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 included in the accounts as an item of expenditure. They are disclosed in the Notes to the accounts.

Contingent Assets

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

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow or economic benefits or service potential.

xxi. Reserves

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

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and do not represent usable resources for the Council. These reserves are explained in the relevant accounting policies.

xxii. Revenue Expenditure Funded from Capital under Statute (REFCUS)

REFCUS represents expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets. REFCUS incurred during the year have been written off as expenditure to the relevant service revenue account in the year. Where the Council has decided to meet the cost of the REFCUS from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged to the Movement in Reserves Statement so that there is no impact on the level of council tax.

xxiii. Value Added Tax

VAT payable is included as an expense only to the extent that it is not recoverable from HMRC. VAT receivable is excluded from income.

xxiv. Fair Value Measurement

The authority measures some of its non-financial assets such as surplus assets, investment properties 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 assets 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 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 participants ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

xxv. Authority Acting as Agent

Where the authority is acting as an agent in situations or circumstances (i.e. as an intermediary, providing goods or services to a third party on behalf of another body) only the relevant income and expenditure incurred by the authority in providing the service is included within the Comprehensive Income and Expenditure Statement. The cash flows associated with providing the service itself are excluded.

In recent years the Council has administered a large number of grant schemes announced by Central Government as part of the both the Covid-19 response and in relation to the current economic circumstances. In many cases the eligibility for these schemes was set

out within government guidance. For each of these schemes the Council has made an assessment as to whether it was acting as Principal or Agent. The main determining factor being the degree to which control over who receives the funding and associated amounts. For those schemes in which the Council acted as Principal the respective income and expenditure has been included within the Comprehensive Income and Expenditure Statement. For those schemes whereby the Council acted as agent the respective grant income and expenditure amounts are excluded from the Comprehensive Income and expenditure, with the grants awarded and associated Government funding disclosed in a separate note to the accounts.