Audit and Standards Committee – 24th April 2024

Report of the Director of Finance and Legal

Accounting Policies, Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Purpose

1. This report explains the accounting policies, critical accounting judgements and key sources of estimation uncertainty that will be used in preparing the 2023/24 Statement of Accounts. It also provides the Committee with an overview of the processes for making significant accounting estimates for the Council's Statement of Accounts.

Recommendations

2. It is recommended:

- The Committee approves the Accounting Policies that will be used to complete the 2023/24 Statement of Accounts.
- The Committee notes the Critical Accounting Judgements made and Key Sources of Estimation Uncertainty which will be disclosed in the Statement of Accounts.
- The Committee notes the processes for making significant accounting estimates for the Statement of Accounts.

Background

3. This report presents the significant accounting policies that will be used in the preparation of the 2023/24 Statement of Accounts; explains the requirement to disclose the critical judgements and made by management when producing the Statement of Accounts; and the key sources of estimation uncertainty within the accounts. It also details the processes for the production of significant accounting estimates.

Accounting Policies

4. The Council's accounting policies are the specific principles, conventions, rules, and practices that are applied in the production and presentation of the annual Statement of Accounts. These policies have to be disclosed as a note to the annual accounts, and a copy of the policies can be found at Appendix 1.

Critical Accounting Judgements

5. In line with International Financial Reporting Standards (IFRS) and the Code, the Council is required to disclose those judgements that management have made in the process of applying the Council's accounting policies that have the most significant effect on the amounts recognised in the financial statements. These are detailed in Appendix 2.

6. The Critical Judgements include:

    - The criteria used to determine which school assets should be recorded in the Statement of Accounts.
    - The treatment of transactions within the Better Care Fund.
    - The accounting policy for PFI and similar contracts and been applied to the Paragon PFI Scheme.

Assumptions Made About the Future, and Other Major Sources of Estimation Uncertainty

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

8. The items in the Council's Balance Sheet for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Pensions Liability

9. Estimation of the net pension liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in

retirement ages, mortality rates and expected returns on pension fund assets. New information can lead to changes to these judgments, which could lead to material adjustments. The Council utilises professional actuaries to makes these judgements. Further guidance has been issued by CIPFA concerning the application of IFRIC 14, as a significant number of authorities moved from a net defined benefit liability to a net defined benefit asset position in 2022/23. Local Authorities now need to consider whether there is an asset ceiling that would limit the authority's ability to recognise the asset.

Valuation of Council Dwellings and Other Land & Buildings

10. Valuations of land and property are heavily sensitive to assumptions and influenced by economic circumstances which can change significantly from year to year. Buildings are depreciated over useful lives that are dependent on various factors, including assumptions about the level of repairs and maintenance that will be carried out in relation to individual assets. If the useful lives of assets were to be reduced, depreciation would increase and the carrying amount of the assets would fall. The Council utilises professional valuers to makes these judgements.

Significant Accounting Estimates

11. In producing the Statement of Accounts, officers are required to calculate a number of estimates for key assets and liabilities on the balance sheet. These require the use of application of various accounting models, technical guidance and in some cases the support of experts such as actuaries and surveyors. Appendix 3 details the processes to produce the key accounting estimates.

Finance

12. This report is entirely financial in content but does not give rise to any direct costs. Many of the policies, judgements and estimates set out in this report are technical items that do not affect the measurement of the Council's usable resources.

Law

13. Legislation appertaining to Local Authority Audit and Accounts is contained in the Local Government Act 1972, part 2 of the Audit Commission Act, 1998, and regulations made there under.

Risk Management

14. The proposals contained in this report do not create any material risks.

Equality Impact

15. The matters considered in this report have no impact on issues of equality

Human Resources/Organisational Development

16. There are no Human Resources or Organisational Development implications associated with this report.

Commercial/Procurement

17. There are no Commercial/Procurement implications associated with this report.

Environment/Climate Change

18. There are no environmental/climate change issues associated with this report.

Council Projects and Priorities

19. An effective framework of governance, risk management and internal control will assist the Council in achieving its priorities.

Iain Newman
Director of Finance and Legal

Contact Officer: Laura Jones-Moore
Finance Manager – Central Finance
Telephone: 01384 815680
Email: laura.jones-moore@dudley.gov.uk

List of Background Documents

CIPFA Code of Practice Guidance Notes 2023/24

Appendix 1

Accounting Policies

1. General Principles

1.1. The Statement of Accounts summarises the Council's transactions for the 2023/24 financial year and its position at the year-end of 31 March 2024. The Council is required to prepare an annual statement of accounts, in accordance with proper accounting practices, by the Accounts and Audit Regulations 2015. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the Code), supported by International Financial Reporting Standards (IFRS).

1.2. The accounting convention adopted is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.3. Dudley MBC as a local authority carries out functions essential to the local community and is itself a revenue-raising body (with limits on revenue-raising powers arising only at the discretion of central government). If the Council was in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. Therefore, it is reasonable to assume that the Council's services will continue to operate for the foreseeable future and that the accounts are prepared on the basis that it is a going concern.

2. Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed; where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest payable on borrowings and receivable on investments is accounted for respectively as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.
- 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 debts may not be settled, the balance of debtors is written down, and a charge made to revenue for the income that might not be collected.
- Revenue relating to council tax and business rates are measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions, and are recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the authority and the amount of the revenue can be measured reliably.

2.2. The Council has set a general de minimis level for accruals of creditors and debtors that are calculated manually in order to avoid additional time and cost in estimating and recording accruals.

2.3. This level is reviewed annually and has been set at £10,000 for 2023/24. If a payment or receipt is split across different cost centres, the limit is for the whole payment or receipt. Exceptions to this de minimis rule where accruals are made in full are:

- Qualifying expenditure upon which income from government grant or other third parties is dependent and associated grant income, where the grant funding would be lost if the accrual is not made
- Invoices for substantially the same supply or service that are chargeable to the same service area are aggregated where their total is over £10,000.
- Automated accruals which are calculated using the Corporate Financial systems (UNIT 4 Business World and the Central Utilities database) or other systems within directorates.

3. Provisions and Contingent Liabilities

3.1. Provisions are made for liabilities that have been incurred but are of uncertain timing or amount. There are three criteria:

- the council has a present obligation (legal or constructive) as a result of a past event;
- it is probable (i.e. more likely than not) that money will be needed to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

3.2. If any of these criteria are not met, no provision will be made in the accounts, but a contingent liability may be disclosed in a note. Where the liability is due to be settled within the next financial year, the provision is shown as a current liability in the balance sheet. Otherwise, provisions are shown as long-term liabilities.

3.3. The obligation can be "constructive" e.g. the council has publicly expressed an intention to do something, and other parties have acted in expectation of this.

3.4. Provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. Details of provisions held at 31 March 2024 are shown in Note 25 to the statements.

3.5. When payments are eventually made, they are charged to the provision carried in the balance sheet. Estimated obligations are reviewed at the end of each financial year; where it becomes less than probable that money will be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

3.6. A contingent liability arises where an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the balance sheet but disclosed in Note 29 to the statements.

4. Reserves

4.1. The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance (GFB) in the Movement in Reserves Statement (MiRS). When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the GFB through the MiRS so that there is no net charge against council tax for the expenditure.

4.2. Reserves designated as Local Management of Schools relate to preserved funds of schools for use in future years, under the terms of Dudley's *Scheme for Financing Schools*. These reserves are committed to be spent in the education service and are not available to the council for general use.

4.3. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the council – these reserves are explained in the relevant policies below and are summarised on the balance sheet as unusable reserves.

5. Government and other Grants and Contributions

5.1. Government grants and third party contributions and donations are recognised as due to Dudley at the date that there is reasonable assurance that the monies will be received and that any conditions will be satisfied, but will not be credited to the Comprehensive Income and Expenditure Statement (CIES) until any conditions are satisfied. Conditions are stipulations that allow the grant-giver to recover the grant if it is not used as specified.

5.2. Monies advanced to the Council as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors; where there is reasonable assurance that the conditions will be complied with, in the grouping Grants Receipts in Advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or to Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the CIES.

5.3. Capital grants and contributions are treated in a similar way, i.e. they are credited to CIES as Taxation and Non-specific Grant Income as soon as any conditions are complied with and there is reasonable assurance that the money will be received.

5.4. Any capital grants or contributions received with conditions where the council does not have reasonable assurance that those conditions will be complied with are carried in the balance sheet as creditors: where there is reasonable assurance that the conditions will be complied with, in the Capital Grants Receipts in Advance account.

5.5. Where capital grants and contributions are credited to the CIES, they are reversed out of the General Fund balance through the Movement in Reserves Statement (MiRS) to the Capital Adjustment Account (CAA).

6. Employee Benefits

6.1. Short term employee benefits, i.e. those due to be settled within 12 months of the year end, include wages and salaries, paid annual leave and paid sick leave, and bonuses. They are recognised as an expense for services in the year in which employees render service to the council. An accrual is made for the cost of entitlements (e.g. for holidays or flexi leave) earned but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the rates applicable in the year in which the entitlement is earned, being a reasonable approximation to the rates in the following year in which the employee will take the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services (SDPS) in the Comprehensive Income and Expenditure Statement (CIES), but then reversed out through the Movement in Reserves Statement (MiRS), so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

6.2. Termination benefits are amounts payable as a result of a decision by the council to terminate an officer’s employment before the normal retirement date, or an officer’s decision to accept voluntary redundancy. They are charged on an accruals basis to the appropriate service line, or to the Non Distributed Costs line in the CIES, at the point when the council has communicated a detailed plan for the termination of the employment of an officer or group of officers, or for offers to encourage voluntary redundancy.

6.3. Where termination benefits involve the enhancement of pensions, e.g. through early access to earned pension, statutory provisions require the General Fund Balance to be charged with the amount payable by the council to the pension fund or pensioner in the year, not the amount calculated according to accounting standards. To achieve this, appropriations in the MiRS 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 or payable to the pension fund and pensioners.

6.4. Employees of the council are entitled to be members of one of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Teachers' Pensions on behalf of the Department for Education (DfE).
- The NHS Pension Scheme, administered by NHS Business Services Authority (for staff who transferred with the Public Health function).
- The Local Government Pension Scheme, administered by Wolverhampton City Council as the West Midlands Pension Fund.

6.5. All three schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council. However, the arrangements for the Teachers' and NHS schemes mean that liabilities for these benefits cannot be identified to the council. These schemes are therefore accounted for as if they were defined contributions schemes – no liability for future payments of benefits is recognised in the balance sheet. The Children's and Education Services and Public Health revenue accounts are charged with the employer's contributions payable to Teachers' and NHS Pension Schemes in the year. Details are given in Note 11 to the statements.

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

- The liabilities of the West Midlands Pension Fund attributable to the council are included in the balance sheet on an actuarial basis, 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, and projections of future increases in pensions and salaries.

6.7. Liabilities are discounted to their value at current prices, using a discount rate based on the rate of return on high quality corporate bonds of appropriate period.

6.8. The assets of the West Midlands Pension Fund attributable to the Council are included in the balance sheet at their fair value. Details are given in Note 28 to the statements. Quoted securities held as assets in the scheme are valued at bid price.

6.9. The annual change in the net pensions liability is analysed as follows:

Service costs:

- current service cost – the increase in liabilities as a result of years of service earned this year - allocated in the CIES to the revenue accounts of the services for which the employees worked
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, and curtailments or events that reduce the expected future service or accrual of benefits of employees – debited to the SDPS in the CIES
- any gain or loss on settlement (the result of actions to relieve the council of liabilities) – credited or debited to the SDPS in the CIES.

Interest Income or Expense:

- Net interest on net defined liability – the change during the period in the net defined benefit liability or asset that arises from the passage of time. It comprises interest income on the plan assets, net of interest cost on the defined benefit obligation – debited or credited to Financing and Investment Income and Expenditure in the CIES.

Remeasurements:

- return on plan assets, less items included in the net interest above – credited to Other Comprehensive Income and Expenditure (OCIE) in the CIES;
- remeasurement of the net defined liability – 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 – recognised in OCIE in the CIES.

Contributions paid by the employer:

- employer's contributions paid to the West Midlands Pension Fund – not accounted for as an expense.

6.10. Statutory provisions in relation to retirement benefits require the council to charge General Fund with the amounts payable by the council to the pension fund in the year. This means that in the MiRS there are appropriations to and from the Pensions Reserve to remove the relevant notional debits and credits for retirement benefits and replace them with debits for the amounts payable to the pension fund. The negative balance on the Pension Reserve measures the beneficial effect on the General Fund and HRA of accounting for pensions on the basis of amounts payable, rather than a calculation of benefits earned.

6.11. The council 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 (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

7. VAT

7.1. Only irrecoverable VAT is charged in the accounts.

8. Overheads and Support Services

8.1. The costs of overheads and support services are charged to those that benefit from the supply or service.

9. Property, Plant and Equipment (PPE)

9.1. Assets that have physical substance and are held for use in or supply of services or the production of goods, 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.

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

9.3. Assets are initially measured at cost, comprising:
- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

9.5. The cost of an asset 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 Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

9.6. Assets are then carried in the Balance Sheet using the following measurement bases:
- community assets (except land) – depreciated historical cost
- assets under construction and community assets land – historical cost
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- Surplus and Investment assets - fair value by using the asset in its highest and best use
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

9.9. Assets included in the Balance Sheet at current value are revalued on a rolling programme, 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. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Gains are credited to the CIES where they reverse a loss previously charged to the SDPS. Property assets that fall below the de-minimis level of £40,000 are not subject to valuation, they are however reviewed annually as part of the impairment review carried out by the valuer. However, there is not a formal de-minimis for initial recognition of assets.

9.10. Where decreases in value are identified, they are accounted for as follows:

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

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

9.12. Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where such 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.

9.13. Where impairment losses are identified, they are accounted for as follows:

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

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

9.15. 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 Community Asset land) and assets that are not yet available for use (i.e. assets under construction). Assets are depreciated using the following methods and over the following periods:

Asset Type	Depreciation Method	Period of Years
Buildings	Straight line	Useful Economic Life, up to 70 years
Mobile Plant & Vehicles	Straight line	Useful Economic Life, usually between 5 and 20 years*
Council Dwellings	Based upon major components' replacement cost allocated on a straight line basis over the useful life of each component. The difference between the sum of the total value of the component elements and the EUV-SH valuation is the residual value which is depreciated on a straight line basis over 100 years	Useful Economic Life of components and residual value which are between 15 and 100 years

* The main exception to this useful life is when vehicles have been purchased at the end of a lease and their remaining life is deemed to be less than 5 years.

9.16. 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.

9.17. 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, unless the difference to the depreciation charge would not be significant.

9.18. For major newly built assets, and identifiable new blocks, over £1m in cost, and as assets are revalued through the five year rolling programme, an assessment for significant components is made by the property professionals.

9.19. At post-completion review of major enhancement or refurbishment schemes, an assessment will be made of the carrying value of any identifiable parts removed. If these have a value over £40k, they will be formally derecognised from the balance sheet. If the host asset has a life longer than 30 years, and a value above £2.5m, then the new spend will be set up as a component.

9.20. 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, and it is probable that the sale will be completed within 12 months, 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 CIES. Gains in current value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

9.21. 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.

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

9.23. 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 CIES as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CIES 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.

9.24. Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing dwellings disposals is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment, or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund and Balances in the Movement in Reserves Statement (MiRS).

9.25. The written-off value of disposals is not a charge against council tax, as the cost of Plant, Property, and Equipment 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 MiRS.

9.26. Highways network infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges), street lighting, street furniture (e.g. illuminated traffic signals, bollards), traffic management systems and land which together forma single integrated network.

9.27. Expenditure on the acquisition or replacement of components of the network is capitalised on an accruals basis, provided that it is probable that the future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably.

9.28. Highways network infrastructure assets are generally measured at depreciated historical costs. However, this is a modified form of historical costs – opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994 which was deemed at that time to be historical cost. Where impairment losses are identified they are accounted for by the carrying amount of the asset being written down to the recoverable amount.

9.29. Depreciation is provided on the parts of the highways network infrastructure assets that are subject to deterioration or depletion and by the systemic allocation of their depreciable amounts over their useful lives. Annual depreciation is the depreciation amount allocated each year. Depreciation is first charged the year after capitalisation. Useful lives of the highways network are assessed by the Head of Traffic, Transportation and Engineering using industry standards where applicable as follows and the useful lives typically used are:

Part of the Highways Network	**Useful Life**
Carriageways	20 years
Footways and Cycle Tracks	30 years
Structures (bridges, tunnels)	80 years
Street Lighting	30 years
Street Furniture	40 years
Traffic Management Systems	20 years

9.30. When a significant component of the Network is disposed of or decommissioned, the carrying amount of the component in the balance sheet 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 (i.e. netted off against the carrying value of the asset at the time of disposal). Where a part of the network is replaced, an adaptation provided in a separate update to the Code assumes that from the introduction or the IFRS based Code when parts of the asset are replaced or restored the carrying amount of the derecognised part will be zero because parts of infrastructure assets are rarely replaced before the part has been fully consumed.

9.31. In accordance with the Temporary Relief offered by the update to the Code on infrastructure assets this note does not include a disclosure of gross costs and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position (as rather than manually derecognising infrastructure components as they are replaced we assume (as per adoption of the Statutory Instrument issued by DLUHC in December 2022) that the assets being replaced have a gross book value of nil). We are assured that this is the case because we have reviewed the useful lives used and believe that overall assets are being replaced in line with the useful lives proposed in the accounting policy.

10. Intangible Assets

10.1. Expenditure on assets that do not have physical substance but are identifiable and controlled by the council (e.g. software licences) is capitalised when it will bring benefits to the council for more than one financial year. Such assets are usually short-lived, and as such are not revalued. The intangible asset balances are amortised to the relevant service revenue account over the economic life of the assets, using the straight-line method over 5 years, to reflect the pattern of consumption of benefits.

11. Charges to Revenue for Non-current Assets (Property, Plant, and Equipment, and Intangible Assets)

11.1. Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding plant, property and equipment during the year:

- depreciation attributable to the assets used by the relevant service;
- impairment and revaluation losses which exceed any balance of accumulated gains in the Revaluation Reserve against which they can be written off;
- amortisation of intangible assets attributable to the service.

11.2. The council is not required to cover depreciation, impairment and revaluation losses, or amortisation from amounts raised from council tax. However, it is required to make an annual "Minimum Revenue Provision" (MRP) from revenue towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the MRP charge to the General Fund Balance, by way of adjusting transactions with the Capital Adjustment Account in the Movement in Reserves Statement.

11.3. For the Housing Revenue Account there is no MRP requirement, but an amount equal to depreciation is required by regulations to be transferred to the Major Repairs Reserve; thus, depreciation is effectively a charge to the HRA to be met from rent income.

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

12.1. Legislation in England and Wales allows some expenditure to be classified as capital for funding purposes although it does not result in the creation of a non-current asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's council tax. These items are generally grants and expenditure on property not owned by the council, and amounts directed under section 16(2) of Part 1 of the Local Government Act 2003. Such expenditure is charged to the CIES in accordance with the general provisions of the Code. Any statutory provision that allows capital resources to meet the expenditure is accounted for by debiting the Capital Adjustment Account and crediting the General Fund Balance through the Movement in Reserves Statement (MiRS).

13. Leases

13.1. 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. (For vehicles, this applies when vehicles are leased for the greater part of their working lives.) All other leases are classified as operating leases.

13.2. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

13.3. 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.

<u>The Council as Lessee, i.e. paying for the use of assets</u>

Finance Leases

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

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

13.5. Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the council at the end of the lease period). The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore replaced by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

13.6. 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 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 commencement of the lease).

<u>The Council as Lessor i.e. receiving rents for property</u>

Finance Leases

13.7. Where the Council grants a finance lease over a property or an item of equipment, the asset is disposed of from the balance sheet and a long-term debtor is created. Lease payments received are apportioned between:

- principal repayment used to write down the debtor
- financing income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

Operating Leases

13.8. Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (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.

14. Financial liabilities

14.1. Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. 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 payable). Interest charged to the CIES is the amount payable for the year in the loan agreement.

14.2. Discounts and premiums on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the CIES in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the CIES is spread over the life of the loan by an adjustment to the effective interest rate.

14.3. Regulations allow the impact of premiums and discounts on the General Fund Balance to be spread over future years. This is managed by a transfer to or from the Financial Instruments Adjustment Account, through the Movement in Reserves Statement.

15. Financial Assets

15.1. 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)

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

15.3. Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. 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.

15.4. The Council has one soft loan made to Dudley Zoo at zero interest but the present value of the interest that will be foregone is not material enough to record an annual loss in the CIES over the life of the soft loan.

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

15.6. The Council evaluates 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. Only lifetime losses are recognised for trade receivables (debtors) held by the Council, which are subject to a collective assessment.

15.7. 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.

15.8. All the Council's financial assets, excluding trade receivables, were deemed to be low risk at the Balance Sheet date so only 12-month expected credit losses were evaluated and these were not material enough to justify charging loss allowances to the CIES.

15.9. The Council has no financial assets measured at Fair Value through Profit of Loss

15.10. The Council has an equity investment in Birmingham Airport shares. These shares are a long term strategic investment held to support the wider provision of local and regional public services and to receive regular dividend income rather than for capital growth or to sell. Therefore, the Council has elected to take up the option to designate the shareholding as an equity instrument at fair value through other comprehensive income as this is more likely to present a true and fair view of its financial performance, than presenting changes in fair value in the surplus or deficit on provision of services.

15.11. Dividends in respect of the shares are credited to Financing and Investment and Expenditure line in the CIES. Changes in fair value are balanced by an entry in the Financial Instruments Revaluation Reserve.

16. Inventories (Stocks and Stores)

16.1. Inventories are included in the balance sheet at the lower of cost and net realisable value, except that inventories of items to be distributed without charge are valued at the lower of cost and current replacement value.

16.2. In 2021/22 the Council introduced a de-minimis for recording stock of £50,000. Prior to 2021/22 there was no de-minimis.

17. Interests in Companies and Other Entities

17.1. The council has no material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities that require it to prepare group accounts. Information relating to individual companies is shown in Note 39 to the statements.

18. Private Finance Initiative (PFI) and similar schemes

18.1. PFI contracts are agreements to receive services, where the responsibility for making available the plant, property and equipment needed to provide the services passes to the PFI contractor. In cases where the Council is deemed to control the services that are provided, and where ownership of the fixed asset will pass to the Council at the end of the contract without further payment, the Council has included these assets in the balance sheet. Details are shown in Note 38 to the statements.

18.2. The entries are calculated as if the original recognition of the plant, property and equipment was balanced by a liability for amounts due to the scheme operator to pay for the assets.

18.3. Plant, property and equipment recognised on the balance sheet is revalued and depreciated in the same way as any other Council-owned property.

18.4. Payments made by the Council under PFI contracts are analysed as follows:

- fair value of services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement (CIES).
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to Interest Payable in the CIES.
- payment towards liability – applied to write down the Balance Sheet liability to the PFI or other contractor.

- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the CIES.

18.5. Where an asset financed by a PFI scheme is transferred to an academy, responsibility for the payment of the unitary charge remains with the Council. The asset is removed from the Council's balance sheet, but the PFI liability will remain with Council and continue to be written down over the length of the PFI contract, funded by PFI credits and contributions from the academy.

PFI Credits

18.6. Government Grants received for PFI schemes, in excess of current levels of expenditure, are carried forward as an earmarked reserve to fund future contract expenditure. The grant is treated as a general grant in the CIES.

19. Accounting for Council Tax

19.1. The Council Tax income included in the CIES is the accrued income for the year, and not the amount required under regulation to be transferred from the Collection Fund to the General Fund (the Collection Fund Demand). The difference is taken to the Collection Fund Adjustment Account through the MiRS.

19.2. As the collection of Council Tax for preceptors (the West Midlands Police & Crime Commissioner, and West Midlands Fire & Rescue Authority) is an agency arrangement, the cash collected belongs proportionately to Dudley as the billing authority and to the preceptors. This gives rise to a debtor or creditor position for the difference between cash collected from taxpayers and cash paid to preceptors under regulation.

20. Accounting for Collection of Business Rates

20.1. Dudley collects Business Rates partly as an agent for the Fire & Rescue Authority (1%), and partly on its own account (99%). The cash collected belongs proportionately to Dudley as the billing authority, and the Fire & Rescue Authority as preceptors. This gives rise to a debtor or creditor position for the difference between cash collected from ratepayers and cash paid to preceptors under regulation.

21. Cash and Cash Equivalents

21.1. Cash in hand, cash in bank, and cash in call accounts, are counted as cash equivalents, as readily converted to a fixed amount of cash.

22. Heritage Assets

22.1. The Council's Heritage Assets are held in support of the objectives of increasing knowledge, understanding and appreciation of the Borough's history and the local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment, with some relaxations shown below.

Asset type	Accounting Treatment
Collections of art, glass, geological items and related archive materials held in the museums	Insured value which is based on market values.
Local archive collections held in the new Archive Centre in Tipton Road.	Not included in the accounts, as there is neither acquisition cost nor value associated with most of these items.
Historic Landscapes, particularly The Leasowes, and Wrens Nest National Nature Reserve.	Held at cost, which largely consists of recent works of restoration and development.
Statues and other art works in parks and public spaces, art works associated with road schemes, war memorials	Held at an internal valuation, where the value can be reasonably estimated, or at cost if that is known.
Local nature reserves which are also public parks, such as Saltwells and Fens Pools.	Treated as operational assets, not as heritage assets.

23. Accounting for Schools

23.1. In line with accounting standards and the Code on group accounts and consolidation, all maintained schools in the borough are now considered to be entities controlled by the council. Rather than produce group accounts the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the council's single entity accounts.

23.2. Academies are not maintained schools in the council's control. The land and building assets are not owned by the council and not included on the council's balance sheet.

24. Prior Period Adjustments

24.1. 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, that is, in the current and future years affected by the change and do not give rise to a prior period adjustment.

24.2. Material errors in prior periods are corrected retrospectively by amending opening balances and comparative amounts for the prior period. A full disclosure as to the nature, circumstance and value of the adjustment will be disclosed in the notes to the accounts.

Appendix 2

Critical Accounting Judgements

1. In applying the accounting policies set out in Appendix 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

   i. The Council has assessed the legal framework underlying each type of school and determined the treatment of non-current assets within the financial statements on the basis of whether it legally owns or has some responsibility for, control over or benefit from the service potential of the premises and land occupied.

   The council has assessed the legal framework for each school to determine the accounting treatment of school land and buildings. The council has considered its accounting arrangements for each school, on a case by case basis, under the terms of:

   - IAS16 – Property, plant and equipment
   - IAS17, Leases
   - IFRIC 4, Determining whether an arrangement contains a lease
   - LAAP Bulletin 101, Accounting for Non-Current Assets used by the local authority

   Schools are only included in the balance sheet in so far as the Council has legal ownership, or if ownership is with a trust which must allow the premises to be used by the school. Thus, voluntary aided schools and some of the voluntary controlled schools are excluded, although they are used in providing education within the Borough.

All maintained schools in the borough are now considered to be entities controlled by the council. Rather than produce group accounts the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the council's single entity accounts.

ii. The Better Care Fund was introduced to drive the transformation of local services and to be operated through pooled budget arrangements between the council and the Clinical Commissioning Groups (CCG). The Council has applied the principle of substance over form so that the level of expenditure allocated to each partner reflects the degree of control and influence over that spend during the year (the 'substance') rather than allocating on the basis of control and influence outlined in the BCF agreement (the 'form') In accounting for the pooled resources, activity where funding was received and expended under the control of the Council has been accounted for in its accounts.

iii. Private Finance Initiative (and Similar Contracts). The Council has assessed that the Paragon PFI scheme and have concluded that as the Council is deemed to control the services provided and also to control the residual value of the assets at the end of the contract. The accounting policy for PFI's and similar contracts has been applied to these arrangements and the assets are recognised as Property, Plant and Equipment in the Council's Balance Sheet.

Appendix 3

Key Accounting Estimates in Financial Statements

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty	Change in accounting method in year (Y/N)?
Land and buildings valuations	Fair value for land/buildings defined as 'existing use' by Dudley MBC	Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from it's carrying amount. For land and buildings all material assets will be considered in 2023/24	Yes – Internal and external valuers	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion and adherence to the latest RICS guidance	No
Council dwelling valuations	Existing Use Value – Social Housing	Valuations are performed annually to ensure that the	External valuers	Estimation method is prescribed by DLUHC	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty	Change in accounting method in year (Y/N)?
		fair value of a revalued asset does not differ materially from its carrying amount. For Council Dwellings a full review of all Beacons will be carried out in 2023/24			
Depreciation	Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful	See left box	Valuers to assess useful lives	Depreciation is calculated on a straight-line basis as this reflects consumption of assets and is a reasonable assumption	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty	Change in accounting method in year (Y/N)?
	lives and residual values are reviewed each financial year and adjusted if appropriate.				
Level 2 investments	Discounted contractual cashflows at the market rate for a similar investment of the same remaining term with a similar counterparty. Estimates are a disclosure only	Link's valuations are checked for reasonableness by Central Finance staff	Yes – Link Asset Services	Detailed in the Link Report	No
Level 3 investments	Earnings based approach for the airport shares	Valuations checked by Central Finance staff	Yes – BDO	Detailed in the BDO report	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty	Change in accounting method in year (Y/N)?
Provisions	Provisions are identified through detailed monthly management accounts which flags any potential issues to management	Each provision is separately reviewed by financial accountants and a working is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item	No
Accruals	We use standard accruals accounting – accruals are based on expenses	Monthly management accounts provide rigorous analysis so that any accruals are	N/A.	N/A.	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty	Change in accounting method in year (Y/N)?
	incurred that have not yet been paid	highlighted and actioned throughout the year.			
Credit loss and impairment allowances	The simplified approach is used to estimate the impairment loss allowance for trade receivables. 100% allowance for debt over 12 months old. Historical collection rates used for other aged debt	Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts. S151 Officer signs off the write offs.	N/A	N/A	No
Finance lease liabilities	Spreadsheet model developed in-house	Review of property and vehicle databases	No	Standard lease valuation methodology used	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty	Change in accounting method in year (Y/N)?
PFI Liabilities	PFI conversion model created by an expert	Reviews by finance staff	Yes	Detailed in expert's reports	No