**APPENDIX 1**

## ACCOUNTING POLICIES, ACCOUNTING STANDARDS AND CRITICAL JUDGEMENTS

### 1. Accounting Policies

**General**

The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 and the Service Reporting Code of Practice 2023/24, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which are recognised by statute as representing proper accounting practices. The code has adopted International Financial Reporting Standards (IFRS).

The accounts are prepared on an historic cost basis except where specifically stated.

**Accruals of Income and Expenditure**

Activity is accounted for in the year in which it takes place, irrespective of when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or service:
- Supplies are recorded as expenditure when they are consumed:
- Interest receivable on investments is accounted for 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 have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down (impaired) and a charge made to revenue accounts for the income that might not be collected.
- On the basis of materiality and consistency with previous financial years, accrued overtime will be recorded in the month payment is received.

Should any unanticipated invoices be received post 19th April which would normally be recognised in 2023/24 accounts a de minimis level of materiality of £10,000 shall be applied for inclusion in the 2023/24 financial statements.

**Material Income and Expenditure**

Should there be any items of income or expense that are determined to be material, their nature and amount is disclosed separately.

Examples may include:

a) disposal of items of property, plant and equipment

b) disposal of investments, and

c) other reversals of provisions

d) Material items of government grant support

e) Any other windfall items.

**Tax Income (Council Tax, Non-Domestic Rates and Tariff payment)**

- Council Tax income included in the Comprehensive Income and Expenditure Statement (CIES) for the year will be treated as accrued income.
- Retained Business Rate income included in the CIES for the year will be treated as accrued income. Income from business rate payers includes adjustments for previous years including those arising from appeals against the rating list.
- Payment of the Tariff included in the CIES for the year will be treated as accrued expenditure.

**Cash and Cash Equivalents**

Cash is represented by cash in hand and on demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The category includes all balances held in call accounts and money market funds but excludes all fixed term deposits, even when these are for less than three months at the date of investment. Fixed term deposits are excluded on the basis that they are not deemed to be readily convertible to cash.

**Charges to Revenue for Long-Term Assets**

Services are debited with the following amounts to record the cost of holding long-term assets during the year:

- Depreciation attributable to the assets used by the relevant service:
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off:
- Amortisation of intangible long-term assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. The Council is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by this contribution (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

**Contingent Assets and Liabilities**

Contingent assets are sums due from individuals or organisations that may arise in the future but for which the amount due cannot be determined in advance (contingent liabilities are similarly those sums due to individuals or organisations for which the amount due cannot be determined). These are not recognised in the accounts. They are disclosed as a note to the accounts as there is a possible receipt (or payment in the case of a contingent liability), which may result in a transfer of economic benefits.

**Depreciation**

Depreciation is provided for on all Property, Plant and Equipment and Intangible Assets using a straight-line method over their estimated useful lives. The useful life of properties is determined by a qualified valuer. The useful life of vehicles, equipment and intangible assets is determined by a suitably qualified officer. Land and assets under construction are not depreciated.

Where an item of Property, Plant or Equipment 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 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.

**Employee Benefits**

Benefits payable during employment - Employee benefits, such as salaries and wages and paid annual leave, are recognised in the year in which they are earned (excepting overtime as per previous note). The Council has adopted a policy to pay holiday pay on non-guaranteed overtime following the Employment Appeal Tribunal decision in November 2014. The policy was implemented in March 2015 and included a back pay element to the date of the judgement. An accrual is made for the cost of holiday entitlement earned but not taken before the year end which employees can carry forward into the following year. The balance is recognised within the CIES and under statutory guidance an offsetting balance is included within the reserves section of the Balance Sheet.

Termination benefits – Termination benefits are amounts payable as a result of the Council's decision to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. Such costs are charged to the CIES in the period when the Council is demonstrably committed to the termination of the employment of an officer or a group of officers or when the Council makes an explicit offer to employees to take up voluntary redundancy.

Post-Employment Benefits – Employees of the Council are members of the Local Government Pension Scheme, administered by Staffordshire County Council. The Local Government scheme is accounted for as a defined benefits scheme.

Pension Fund liabilities are measured on an actuarial basis using the projected unit method. This requires the use of various assumptions about future events.

Liabilities are discounted to their current value using a discount rate (based on the indicative rate of return on a basket of high quality corporate bonds, Government gilts and other factors).

The assets of the Staffordshire 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

The change in the net pension liability is analysed into the following components:

- **Service cost comprising:**

- Current service cost – the increase in the liabilities as a result of years of service earned this year – allocated in the CIES to the service for which the employees worked.

- Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years will be debited to the Surplus or Deficit on the Provision of Services in the CIES as part of Non-Distributed Costs.

- Net interest on the net defined benefit liability i.e. net interest expense for the Council – 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 CIES. 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 liability during the period as a result of contribution and benefit payments.

• **Re-measurement comprising:**

- The return on plan assets – excluding amounts included in net interest on the net defined benefit liability – charged to the Pensions Reserve as Other CIES

- Actuarial gains and losses – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the pensions Reserve as Other CIES.

- Contributions paid to the Staffordshire pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

- Prepayment of LGPS deficit costs - The option to pay contributions expressed as a monetary amount by way of a prepayment continues to be exercised. Any prepayment outstanding in any three-year cycle is used to offset the pensions liability held on the balance sheet.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but un-paid at the year-end. The negative balance that arises on the pensions reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits 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.

Within the CIES account service revenue accounts have been charged with their current service cost which represents the extent to which pension liabilities have increased as a result of employee service during the year. Any past service costs, settlements and curtailments have been charged to Other CIES. The interest cost and expected return on assets have been included in net operating expenditure.

Legislation requires that an appropriation to the pensions reserve be made to reverse out the IAS19 based pension costs in the CIES Account and replace them with the actual pensions related payments made in the year. This ensures that the Council Tax requirement is based on the employer's contributions payable to the pension fund.

**Events after the Balance Sheet date**

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the statement of accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date when the Statement of Accounts is authorised for issue are not reflected in the Statement of Accounts. For South Staffordshire Council this date has been determined as no later than 30th September 2023which is the statutory date by which the s151 Officer is due to certify the accounts.

**Financial Instruments**

**Financial Assets**

Financial Assets (e.g. investments and debtors) are classified into two types:

- Loans and receivables - assets that have fixed or determinable payments but are not quoted in an active market:
- Available for sale assets - assets that have a quoted market price and/or do not have fixed or determined payments.

Loans and receivables are initially measured at fair value and carried at their amortised cost (the interest received is spread evenly over the life of the loan). Credits to the Financing and Investment Income and Expenditure line within the CIES for interest received are based on the Balance Sheet amount of the asset multiplied by the effective interest rate for the financial instrument. For most of the loans that the Council has made, that means the amount shown in the Balance Sheet is the outstanding principal receivable plus accrued interest. The amount of interest credited to the CIES is the amount receivable for the year per the loan agreement.

The Council has, on occasion made loans to Parish Councils at less than market rates of interest (these are known as soft loans). In such circumstances, subject to materiality, the amount of interest forgone is charged to the CIES (debited to the appropriate service line) and the outstanding principal is reduced on the Balance Sheet. This represents the present value of the interest that will be forgone over the life of the loan agreement. Statutory provisions require that the impact of the soft loans on the General Fund balance is the interest receivable in the year, so the amount of foregone interest charged is managed by a transfer from the Financial Instruments Adjustment Account to the Movement in Reserves Statement.

However, where the interest foregone is so immaterial as to be deemed inconsequential no charge to the CIES account is to be made. This has been the case to date in respect of the soft loans issued to Parish Councils.

Available for sale assets 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. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the CIES when it becomes receivable by the Council.

Available for Sale assets are maintained in the Balance Sheet at fair value. Values are based on the following hierarchy:

- Instruments with quoted market prices in active markets for identical assets – market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the CIES, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the CIES. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

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 CIES, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

**Financial Liabilities**

Financial liabilities (e.g. borrowings and creditors) are initially measured at fair value and carried at their amortised cost. Charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability multiplied by the effective rate of interest for the instrument. For any borrowing that the Council undertakes this means that the amount shown in the Balance Sheet is the outstanding principal repayable plus accrued interest and the amount charged to the CIES is the amount payable per the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited or debited to the Financing and Investment Income and Expenditure line in the CIES in the year of repurchase or settlement. However, if the repurchase takes place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is 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.

Where premiums and discounts (amounts paid or received on the rescheduling of a loan) have been charged to theCIES, regulations allow the impact of premiums on the General Fund balance to be spread over the longer of the outstanding period of the replaced loan or the period of the replacement loan or any other shorter period that the Council wishes to choose. Discounts are required to be credited to revenue over a maximum period equal to the outstanding term of the replaced loan or ten years (if shorter). The reconciliation of amounts charged to the CIES to the net charge against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement of Reserves Statement.

**Government Grants and Contributions**

Grants and contributions relating to capital and revenue expenditure shall be accounted for on an accruals basis, and recognised immediately (providing there is reasonable assurance the authority will comply with conditions attached and that the grant will be received) in the CIES as income, except to the extent that the grant or contribution has a condition(s) (as opposed to restrictions) relating to initial recognition that the authority has not satisfied.

Grants and contributions that satisfy the recognition criteria, but which have a condition attached that remains to be satisfied are recognised initially in the relevant Grants Receipts in Advance Account.

General grants and contributions (comprising Revenue Support Grant, NNDR redistribution and un-ring-fenced government grants) are required to be disclosed as one or more items on the face of the CIES.

Where conditions have been met specific revenue grants and contributions are matched in service revenue accounts with the service expenditure to which they relate. When the expenditure relating to specific grants has not been incurred, the Council contributes equivalent to the unspent amount of grant to an earmarked reserve. This reserve will be released in future financial years when the expenditure to which the grant relates is incurred.

Donated assets transferred to an authority for nil consideration shall be recognised immediately at fair value as an asset on the Balance Sheet. The asset shall be recognised in the CIES as income, except to the extent that the transfer has a condition(s) (as opposed to restrictions) that the authority has not satisfied. In this case the asset is credited to the Donated Assets Account and recognised in the CIES once the condition(s) has been satisfied.

**Capital Grants and Contributions**

Where no grant conditions exist, or conditions have been met, capital grants and contributions are credited to Taxation and Non Specific Grant Income in the CIES. The balance of the grant or contribution that has not been used to finance expenditure is transferred to the Capital Grants Unapplied Account via the Movement in Reserves Statement. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account when they have been applied to fund capital expenditure.

Where grant conditions exist and have not initially been met, the grant is recognised in the Capital Grants Receipts in Advance Account. When grant conditions have been met the grant is then recognised in the CIES and transferred via the Movement in Reserves Statement to the Capital Adjustment Account. If the grant conditions are not and/or are unlikely to be met, then the grant will be repaid.

**Grants and Contributions attributable to Revenue Expenditure Funded from Capital under Statute (REFCUS)**

Where conditions have been met, these grants and contributions are credited to the relevant service line in the CIES. The balance of the grant or contribution that has not been used to finance expenditure is transferred to the REFCUS Grants Unapplied Account via the Movement in Reserves Statement. Amounts in the REFCUS Grants Unapplied Account are transferred to the Capital Adjustment Account when they have been applied to fund expenditure.

**Heritage Assets**

Heritage assets are defined as assets which have historical, artistic, scientific, technological, geographical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. They are initially recognised at cost if this is available. If cost is not available, values are only included in the Balance Sheet where the cost of obtaining a valuation is not disproportionate to the benefit derived. For the Council's heritage assets, insurance valuations are used. The Council has adopted a £10,000 de-minimis threshold. Where no market exists or the asset is deemed to be unique, and it is not practicable to obtain a valuation, the asset is not recognised in the Balance Sheet but disclosed in the notes to the accounts.

Heritage assets are depreciated over their useful life if this can be established. If an asset is considered to have an indefinite life, no depreciation is charged. Disposals, revaluation gains and losses and impairments of heritage assets are dealt with in accordance with the Council's policies relating to PPE. The cost of maintenance and repair of heritage assets is written off in the year incurred.

**Impairment**

Assets are reviewed for impairment at the end of each reporting period. Examples of impairment include: a significant reduction in a specific asset's value and evidence of physical damage.

The amount of impairment is charged to the Revaluation Reserve to the extent that the impairment does not exceed the amount in the Revaluation Reserve for the same asset. Thereafter the impairment is charged to the Surplus/Deficit on the Provision of Services.

This charge is reversed out through the Movement in Reserves Statement to the Capital Adjustment Account.

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

**Intangible assets**

An intangible asset is an identifiable non-monetary asset without physical substance. It is controlled by the Council as a result of past events and future economic or service benefits flow to the Council from the intangible asset. The most common type of intangible asset is computer software licences.

Intangible assets are carried at cost less accumulated depreciation and any impairment. The intangible asset is amortised over its estimated useful life to the relevant service line in the CIES. This amortisation is reversed in the Movement in Reserves Statement and a transfer made to the Capital Adjustment Account.

An intangible asset is derecognised on disposal. Gains or losses arising from the disposal are recognised in the Surplus / Deficit on the Provision of Services.

**Long-Term Contracts**

Long-term contracts are accounted for by charging the relevant service line with an amount equal to the value of the works or services provided under the contract during the applicable financial year.

**Investment Property**

Investment Properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to provide services by the Council.

The Council does not currently hold any Investment Properties.

**Leases**

Leases are presently classified as either finance or operating leases based on the extent to which risks and rewards incidental to ownership of the asset lie with the lessor or lessee ahead of adoption of IFRS 16 (from 1 April 2024).

Classification of the lease is dependent on the substance of the transaction rather than the contract. Land and building elements of a lease are considered separately for the purpose of lease classification.

Arrangements that do not have the legal status of a lease but convey the 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 a specific asset. This is referred to as an embedded lease.

**Leases (operating)**

Rentals paid under operating leases are charged to the CIES as an expense of the service benefiting from use of the leased property, plant or equipment.

Rental income from operating leases for Council owned assets is recognised on a straight-line basis over the period of the lease and is shown in the Other Operating Expenditure line in the CIES. Assets held for use as operating leases are recorded as assets in the Council's Balance Sheet.

**Leases (finance)**

A lease arrangement where it is judged that substantially all of the risks and rewards incidental to ownership of the asset have been transferred to the lessee is classified as a finance lease. A finance lease gives rise to the recognition of the long-term asset on the balance sheet at its fair value at the commencement of the lease together with a corresponding liability for future payments.

Lease payments are apportioned between a charge for the acquisition of the interest in the property, plant or equipment which is applied to write down the deferred liability and a finance charge which is recognised in the Financing and Investment Income and Expenditure line within the CIES. The items are subject to depreciation.

The criteria for determining a finance lease under IFRS has become broader and more subjective. This has given rise to certain leases being reclassified as finance leases that were previously determined as operating leases under SORP/UKGAAP.

**Non-Current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than its continued use it is reclassified as an asset held for sale.

Assets held for sale are:

- Available for immediate sale in its present condition,
- Those where the sale is highly probable,
- Actively marketed,
- Expected to be sold within one year of the date of classification.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and the fair value less costs to sell. Where this results in a loss in value this loss is posted to Other Operating Expenditure in the CIES. Once an asset is classed as held for sale it is no longer depreciated.

If assets no longer meet the classification 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 classed as held for sale) and their recoverable amount at the date of the decision not to sell.

**Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policy giving rise to a material change or to correct a material error. Changes in estimation techniques 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 if the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior period.

**Property Plant and Equipment (PPE)**

Property, Plant and Equipment assets have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis (e.g. land and buildings).

Expenditure on the acquisition, creation and enhancement of PPE has been 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 on maintenance is charged to revenue as it is incurred.

PPE are initially shown on the Balance Sheet at cost, comprising the purchase price, all expenditure that is directly attributable to bringing the asset into working condition for its intended use and the initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located.

The assets are then revalued using methods of valuation on the basis recommended by CIPFA and in accordance with the guidance notes issued by the Royal Institution of Chartered Surveyors (RICS).

- Land and buildings and other operational assets are valued at current value. Where sufficient market evidence is not available current value is estimated at depreciated replacement cost, using the modern equivalent asset method.
- Short life assets, such as vehicles, are held at depreciated historical cost as a proxy for current value on the grounds of materiality.
- Community assets and infrastructure are valued at historical cost net of depreciation.
- Assets under construction are held at historical cost until brought into use.
- Investment properties and surplus assets – current value, determined by the measurement of the highest and best use of the asset.

Revaluations of property are planned at five yearly intervals unless there has been a material change in the value (ascertained by an annual impairment review). Valuations are undertaken with a valuation date of 31 March.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. In exceptional circumstances, where the increase is reversing a previous impairment loss charged to the Surplus/Deficit on the Provision of Services on the same asset or where the increase is reversing a previous revaluation decrease charged to the Surplus/Deficit on the Provision of Services on the same asset, the increase in valuation is credited to the CIES.

Where decreases in value are identified and there is a balance of revaluation gains in the Revaluation Reserve relating to the asset, the value of the asset is written down against that balance (up to the amount of the accumulated gains). Where there is no or insufficient balance in the Revaluation Reserve, the value of the asset is written down against the relevant service line in theCIES. Where revaluation gains or losses are credited or charged to the CIES, they are reversed in the Movement of Reserves Statement to the Capital Adjustment Account. The Revaluation Reserve contains gains recognised since 1 April 2007 only, the date of its formal implementation. Revaluation gains arising before that date are included in the Capital Adjustment Account.

**De-recognition of Property, Plant and Equipment**

An item of Property, Plant or Equipment is derecognised at disposal or when no future economic benefit or service potential is expected from its use. The carrying amount of the asset in the Balance Sheet is written off to Other Operating Expenditure within the CIES as part of the gain or loss on disposal. Sale proceeds from disposals are credited to the same line in the CIES also as part of the gain or loss on disposal. Any revaluation gains on the Revaluation Reserve, for assets disposed of or decommissioned, are transferred to the Capital Adjustment Account.

Income from asset disposals in excess of £10,000 is classed as capital receipts. The balance of capital receipts is credited to the Capital Receipts Reserve and used to either fund new capital expenditure or repay debt. The written off value of disposals is reversed through the Movement in Reserves Statement to the Capital Adjustment Account.

**Provisions**

Provisions are charged to the CIES for liabilities that have been incurred by the Council, but where the amounts or dates on which they will arise are uncertain.

Provisions are required to be recognised when the Council has a present obligation as a result of a past event, where it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation (IAS 37).

When expenditure is incurred to which the provision relates, it is charged directly against the provision in the Balance Sheet and not against the CIES Account.

The estimated value and the timing of settlements are reviewed at the end of each financial year. Where it becomes more likely than not that a transfer of economic benefits will not now be required the provision is reversed and credited back to the relevant service line in the CIES.

Where some or all of the payment required to settle a provision is expected to be met by another third party (e.g. from an insurance claim), this is only recognised as income in the relevant service line if it is virtually certain that reimbursement will be received if the obligation is settled.

**Reserves**

The Council maintains a General Fund working balance and also holds reserves earmarked for specific purposes which are detailed in the Notes to the Core Financial Statements. 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 line in the CIES in the year and represents a charge against the Net Cost of Services. The reserve is then appropriated back to the General Fund balance statement so that there is no net charge against Council Tax for the expenditure.

Unusable (non-distributable) reserves include the Revaluation Reserve and the Capital Adjustment Account and represent “technical non-cash” reserves which are maintained to manage the accounting processes for non-current assets. The Pension Reserve is a reserve which has been set up to manage the accounting process for retirement benefits and does not represent usable resources for the Council. These reserves do not impact upon the level of local taxation and cannot be utilised to support service delivery.

**Revenue Expenditure Funded from Capital under Statute (REFCUS)**

Revenue Expenditure Funded from Capital under Statute (REFCUS) is expenditure of a capital nature that does not result in the creation of a long-term asset on the Balance Sheet. These are generally grants and expenditure on property not owned by the Council. Expenditure is charged to the Surplus / Deficit on the Provision of Services as the expenditure is incurred. This is reversed out through the Movement in Reserves Statement and a transfer made to the Capital Adjustment Account.

Details of the accounting policy relating to grants and external contribution funding of REFCUS expenditure is shown above on page xx.

**VAT**

Value Added Tax (VAT) is included within the accounts only to the extent that it is irrecoverable and therefore charged to service expenditure or capital expenditure as appropriate.

## 2. Accounting Standards that have been issued but have not yet been adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

The Council will be applying IFRS16 (Leases) at the mandatory inception date of 1 April 2024 for inclusion in the Statement of Accounts for 2024/25.

In accordance with IFS8, disclosures for standards issued and not yet adopted therefore, the Council shall separately disclose the impact of IFRS16 had it been adopted on the Core Statements of the Council.

## 3. Critical judgements in applying accounting policies

In applying the Council's accounting policies, the Council has to make certain judgements about complex transactions or those involving uncertainty about future events. The most significant critical judgements made in the Statement of Accounts are:

### Classification of Leases

The Council has undertaken an analysis to classify the leases it holds, both as a lessee and lessor, as either operating or finance leases. The accounting policy for leases has been applied to these arrangements and additional assets are recognised as PPE in the Council's Balance Sheet.

With effect from 1 April 2024, this application of this judgement will be superseded by application of IFRS16.

### Arrangements Containing a Lease

The Council is deemed not to control assets that fall within contractual and other arrangements which involve the provision of a service using specific underlying assets and as a result there are no additional assets to be recognised as PPE in the Council's Balance Sheet.

IFRS16 from 1 April 2024 will require Council's to account for embedded leases separately and disclose accordingly.

### Assets Held for Sale

The Council has reviewed all property assets in accordance with the accounting policy and has determined that no properties need to be reclassified.

### Investment Properties

Properties have been assessed using the identifiable criteria under the international accounting standards of whether they are being held purely for rental income or capital appreciation or whether there is an operational reason for holding the property such as regeneration or economic development.

The Council does not hold any properties which are held purely for rental income or capital appreciation.

**4. Assumptions Made about the future and other major sources of Estimation Uncertainty**

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 taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty actual results could be different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2023 for which there is a risk of adjustment in the following financial year are:

**Revaluation of Property, Plant and Equipment (PPE)**

The valuations of Property, Plant and Equipment (PPE) reported in the balance sheet and the related depreciation charges made to the CIES is based on an estimate of their value and asset life.

A firm of qualified valuers are engaged by the Council to carry out, for the major assets, a programme of physical valuations to ensure that their carrying values are subject to professional and independent assessment to guard against material misstatement. PPE (with the exception of infrastructure, community assets, assets under construction and small value items of vehicle, plant and equipment) are revalued on a periodic basis and tested annually for indicators of impairment.

The appointed valuers were fully aware of the risks associated with PPE valuations and the ongoing impact of the Covid-19 pandemic in determining their valuations in accordance with Royal Institute of Chartered Surveyors (RICS) guidance.

**Depreciation of Property, Plant and Equipment**

Assets are depreciated based on useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. If the useful life of assets is reduced, depreciation increases and the carrying amount of assets is overstated in the current year.

**Arrears**

At 31 March 2023, the Council had outstanding sundry debtors, housing rent debtors, housing benefit overpayments and council tax debtors.

A review of these outstanding balances is routinely undertaken and a provision for bad and doubtful debts is made taking into account prevailing economic conditions (an increased provision was made for example during the height of the Covid-19 pandemic.

If collection rates were to differ from that estimated, doubtful debt provisions would need to be revisited.

**Pensions Liability**

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the expected rate of price inflation, the rate at which salaries and pensions are expected to increase, mortality rates and rate of commutation of pensions.

A firm of actuaries are engaged to provide the Staffordshire Pension Fund (of which South Staffordshire is a member) with expert advice about the assumptions to be applied.

In calculating the asset share as at the Accounting Date, the Actuary rolls forward the Employer's share of the assets calculated at the latest formal valuation date (or date the Employer joined the Fund if later), allowing for investment returns (estimated where necessary), the effect of contributions paid into (estimated where necessary), and estimated benefits paid from, the Fund by the Employer and its employees.

The main impacts of the COVID-19 pandemic, and subsequent lockdowns, on these accounting figures can be summarised as follows:

- Asset returns and values have followed the market movements prompted by the pandemic and lockdowns, among other factors, which will therefore affect the asset share value.
- Bond yields and inflation expectations have also followed market movements, which will therefore affect the obligations value.
- Life expectancy assumptions have not been updated:

(a) The actuary has not updated its baseline longevity tables due to the lack of relevant mortality data and analysis from the period of the pandemic for the Fund or Employer.
(b) The actuary has not amended our future longevity trends assumption for COVID-19 specifically (as per paragraph 4.9, we have applied a 0% weighting to 2020 data within the CMI model) as the data is not yet available to make an evidence-based assessment on the pandemic's impact on longer term expectations.

Formal actuarial valuations are carried out every three years, where each employer's assets and liabilities are calculated on a detailed basis, using individual member data, for cash contribution setting purposes.

The most recent, triennial, formal valuation of the LGPS was concluded in March 2023.

If the assumptions upon which the valuation is based prove inaccurate over time, the pension's liability could be over or understated.

The effects on the net pension's liability of changes in individual assumptions is measurable. The sensitivities regarding the potential assumptions used to measure the scheme liabilities are set out as follows:

<table>
<tr><th>Change in Assumptions at y/e 31st March 2023</th><th>Approximate %ge increase to Employer</th><th>Approximate Monetary Amount</th><th>Approximate Monetary Amount Last year for Comparison</th></tr>
<tr><td></td><td>%</td><td>£'000</td><td>£'000</td></tr>
<tr><td>0.5% decrease in real discount rate</td><td colspan="3" rowspan="3">Table to be completed as integral part of closedown process once sensitivity figures calculated and disclosed by the actuary</td></tr>
<tr><td>0.5% discount in the salary increase rate</td></tr>
<tr><td>0.5% increase in the pension increase rate</td></tr>
</table>

The principal demographic assumption is the longevity assumption (i.e. member life expectancy). For sensitivity purposes, the actuary estimates that a one-year increase in life expectancy would approximately increase South Staffordshire's Defined Benefit Obligation by around 3-5%. In practice the actual cost of a one-year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages).

There may also be an impact on employer pension liabilities as a result of the Court of Appeal judgements in cases affecting judges' pensions (McCloud, 2019). The ruling has implications for the LGPS (of which South Staffordshire is a member).

The final situation in terms of employer pension liabilities and financial impact remains unclear, since the government may appeal and any remediation process, including cost cap considerations, may affect the resolution and financial impact for entities. Timescales for the resolution of this matter may be lengthy and outcomes may be challenging for entities to assess and quantify, especially at Fund or Authority level.

To date, South Staffordshire has sought advice from our Pensions authority and actuary and has received assurance that potential implications of the pending judgement were factored into the required payments from employers to eventually make good liabilities by 2040. South Staffordshire remains fully compliant with minimum levels of repayment in accordance with actuary advice.

**Business Rate Appeals**

Since the introduction of the Business Rate Retention Scheme, effective from 1 April 2013, local authorities are liable for successful appeal against business rates charged to businesses in 2018/19 and earlier financial years in their proportionate share.

A provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2021. The estimate has been calculated using the latest Valuation Office (VOA) rating list of appeals and an analysis of successful appeals to date.

Whilst it is considered that this gives a reasonably reliable figure, it is not certain that actual experience will match our assumptions.