

i. General Principles

The Statement of Accounts summarises the council's transactions for the 2024/25 financial year and its position at the year end of 31 March 2025. The Council is required to prepare an annual Statement of Accounts in line with the Accounts and Audit Regulations 2015. These regulations require the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2024/25, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

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

ii. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- **Revenue from contracts** with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations of the contract.
- **Supplies** are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- **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 receivable** on investments and payable on borrowings 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.
- Where **revenue and expenditure** have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected; and
- The council operates a **de-minimus level for the processing of accruals**, £10,000 for capital and £10,000 for revenue. The de-minimus policy for revenue requires that no accruals are actioned for individual amounts below £10,000; unless, for a group of similar transactions, there would be a material impact upon the accounts of not recognising the income and expenditure in the relevant accounting period.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of no more than 24 hours. Cash equivalents are highly liquid funds invested in call accounts and 30 days or less notice accounts from the date of acquisition, which are readily convertible to known amounts of cash with insignificant risk of change in value.

All other investments held by the council do not represent cash equivalents as they are not readily convertible to known amounts of cash with an insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the council's cash management.

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

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

v. **Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current 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; and
- **Amortisation** of intangible assets attributable to the service.

The council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund balances by way of an adjusting transaction with the Capital Adjustment Account via the Movement in Reserves Statement.

vi. **Inventories and Long-term Contracts**

Inventories are shown in the Balance Sheet at the lower of cost and net realisable value.

Long-term contracts are accounted for based on charging the Surplus or Deficit on the Provision of Services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

vii. **Council Tax and Non-Domestic Rates**

Billing authorities act as an agent, collecting Council Tax and Non-Domestic Rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting Council Tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of

amounts due in respect of Council Tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of Council Tax and NDR collected is less or more than predicted.

Accounting for Council Tax and NDR

The Council Tax and NDR income included in the CIES is the council's share of accrued income for the year. However, regulations determine the amount of Council Tax and NDR that must be included in the council's General Fund. Therefore, the difference between the income included in the CIES and the amount required under regulation to be credited to the General Fund is transferred to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

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

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

viii. Employee Benefits

Benefits Payable During Employment

Short term employee benefits such as wages and salaries, paid annual leave, sick leave and expenses are paid monthly and charged on an accruals basis to the relevant service line of the CIES. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end that employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to surplus or deficit on the provision of services but then reversed out through the Movement in Reserves Statement to the accumulated absences account so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable due to 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 in exchange for those benefits. They are charged on an accruals basis to the relevant service area line in the CIES at the earlier of when the council can no longer withdraw the offer of those benefits or when the council recognises costs for a restructure.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund and HRA balances 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 the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Post-Employment Benefits

Employees of the council are members of three separate pension schemes:

- **The Teachers' Pension Scheme**, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE)
- **The Local Government Pension Scheme**, administered by Wolverhampton City Council; and
- **The National Health Service (NHS) Pension Scheme**

These schemes provide defined benefits to members (retirement lump sums and pensions), earned during employees' service with the council.

Teachers' and National Health Service Pension Schemes

Arrangements for both the Teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. The schemes are therefore accounted for as if they were defined contribution schemes with no liability for future payments of benefits being recognised in the Balance Sheet. The schools line in the Comprehensive Income and Expenditure Statement is charged with the employer's contribution payable to teachers' pensions in the year.

The Local Government Pension Scheme

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 using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc and projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate derived from the "Hymans Robertson" corporate bond yield curve.

The assets of the West Midlands Pension Fund attributable to the council are included in the Balance Sheet at fair value.

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

- **Service cost comprising:**
 - **Current service cost** – the increase in liabilities as a result of years of service earned this year; allocated in the CIES to the services for which the employees worked.
 - **Past service cost** – the increase in liabilities arising as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years; debited to the Surplus or Deficit in Net Cost of Services in the CIES; and
 - **Net interest expense** – 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 in the CIES. This is calculated by applying the discount rate used to measure the defined benefit obligation 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.
- **Remeasurements comprising:**

- **Return on plan assets** – excluding amounts included in net interest on the net defined benefit liability, charged to the Pensions Reserve as Other Comprehensive Income and Expenditure; and
- **Actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions; charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- **Contributions paid to the West Midlands Pension Fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.
- **Effect of the asset ceiling** – the limitation on the Council's ability to realise pensions assets through reductions in future employer's contributions as a result of minimum funding requirements.

In relation to retirement benefits, statutory provisions require the General Fund and HRA balances 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 unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund and HRA of being required to account for retirement benefits based on cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (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.

ix. 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 of authorisation for issue are not reflected in the Statement of Accounts.

xi. Financial Instruments

Financial Liabilities

Financial Liabilities 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 and carried at their amortised cost. Annual charges are made to the Financing Investment Income and Expenditure line in the CIES for interest payable, are based on the carrying value of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan. The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Under IFRS 9, financial assets are classified based on the classification and measurement approach that reflects the business model for holding financial assets and their cashflow characteristics.

There are three main classes of financial assets. These are measured at:

- **Amortised Cost** – contractual assets that give rise on specified dates to cash flows that are solely payments of principal and interest.
- **Fair Value through Other Comprehensive Income (FVOCI)** – assets held for both collecting contractual cashflows and selling assets.
- **Fair Value through Profit and Loss (FVPL)** – assets held for any other means than collecting contractual cashflows.

Loans made to the Council at less than market rate are known as 'soft loans'. Soft loans currently held by the council were provided by Salix Finance Ltd and are primarily linked to the capital energy efficiency projects e.g. boiler replacements and street lighting. The financial effect of this concession is charged to the CIES representing the interest saved, over the life of the loan. Since statutory provisions require that the impact of soft loans on the General Fund balance is limited to actual interest receivable for the year, a transfer to or from the Financial Instruments Adjustment Account is made to cover the difference.

Further details relating to the fair value of financial assets and liabilities are provided in the fair value measurement section below of the accounting policies and the Financial Instruments note.

x. **Government Grants and Contributions**

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

- The council will comply with the conditions attached to the payments and

- The grants or contributions will be received.

Amounts recognised as due to the council are not credited to the CIES until conditions attached to the grant or contribution have been satisfied. Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as Receipts in Advance.

When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or taxation and nonspecific grant income (non-ringfenced revenue grants and all capital grants) in the CIES.

Where capital grants are credited to the CIES, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve.

Where grants have been applied, they are posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Principal or Agent

Accounting for the S31 grants being paid to the Council by BEIS and distribution of the grants eligible to businesses will be identified (either principal or agent).

Where the Council is acting as principal, the transactions will be included in the CIES. The Council will determine how the grant operates to acknowledge their position as a principal or agent.

Acting as a distribution point for grant monies to other bodies and has no control over the amount of grant allocated to a recipient then the authority is acting as agent.

Where the authority has control over the distribution or amounts of the grant it would be deemed to be acting as principal. The performance obligations will be considered regarding the grants.

Where the Council acts as an agent, transactions will not be reflected in any authority's financial statements. Exceptions to this are in respect of the cash collected or expenditure incurred by the agent on behalf of the principal, in which case there is a debtor/creditor position and the net cash position included in the finance activities in the Cash Flow statement.

Any materially sums will be stated with a separate disclosure note (income or expenses with given explanations).

Business Improvement District

A Business Improvement District (BID) scheme applies across the whole of the Authority. The Albion Business Improvement District scheme is situated within the Greets Green and Ling Ward of Sandwell and the West Bromwich BID scheme is in the West Bromwich Central Ward. These schemes are funded by a BID levy paid by non-domestic ratepayers. The council acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the CIES.

Community Infrastructure Levy

The council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments to the authority) with appropriate

planning consent. The council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund several infrastructure projects (these include transport, flood defences and schools) to support the development of the area.

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

xi. **Intangible Assets**

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the CIES.

An asset is tested for impairment whenever there is an indication that this may have occurred – any losses recognised are posted to the relevant service line(s) in the CIES.

Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the CIES.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xii. **Interest in Companies and Other Entities**

The Code requires local authorities with material interests in subsidiary and associated companies and joint ventures to prepare group accounts. In the authorities own single entity accounts, the interest in companies and other entities are recorded as financial assets at cost, less any provision for losses.

The council has a financial relationship with the following companies:

- **Sandwell Children's Trust**, which is a wholly owned company of the council.
- **Sandwell Inspired Partnership Services Education Limited**. Group accounts have not been prepared for this company as it holds a minority share of 20% and it has no substantial control of its operations or assets.

The Council as Lessee

The authority classifies contracts as leases based on their substance. Contracts and parts of contracts, including those described as contracts for services, are analysed to determine whether they convey the right to control the use of an identified asset, through rights both to obtain substantially all the economic benefits or service potential from that asset and to direct its use. The Code expands the scope of IFRS 16 Leases to include arrangements with nil consideration, peppercorn or nominal payments

Initial measurement

Leases are recognised as right-of-use assets with a corresponding liability at the date from which the leased asset is available for use (or the IFRS 16 transition date, if later). The leases are typically for fixed periods in excess of one year but may have extension options.

The authority initially recognises lease liabilities measured at the present value of lease payments, discounting by applying the authority's incremental borrowing rate wherever the interest rate implicit in the lease cannot be determined. Lease payments included in the measurement of the lease liability include:

- fixed payments, including in-substance fixed payments
- variable lease payments that depend on an index or rate, initially measured using the prevailing index or rate as at the adoption date
- amounts expected to be payable under a residual value guarantee
- the exercise price under a purchase option that the authority is reasonably certain to exercise
- lease payments in an optional renewal period if the authority is reasonably certain to exercise an extension option
- penalties for early termination of a lease, unless the authority is reasonably certain not to terminate early.

The right-of-use asset is measured at the amount of the lease liability, adjusted for any prepayments made, plus any direct costs incurred to dismantle and remove the underlying asset or restore the underlying asset on the site on which it is located, less any lease incentives received.

However, for peppercorn, nominal payments or nil consideration leases, the asset is measured at fair value.

Subsequent measurement

The right-of-use asset is subsequently measured using the fair value model. The authority considers the cost model to be a reasonable proxy except for:

- assets held under non-commercial leases
- leases where rent reviews do not necessarily reflect market conditions
- leases with terms of more than five years that do not have any provision for rent reviews
- leases where rent reviews will be at periods of more than five years.

For these leases, the asset is carried at a revalued amount. In these financial statements, right-of-use assets held under index-linked leases have been adjusted for changes in the relevant index, while assets held under peppercorn or nil consideration leases have been valued using market prices or rentals for equivalent land and properties.

The right-of-use asset is depreciated straight-line over the shorter period of remaining lease term and useful life of the underlying asset as at the date of adoption.

The lease liability is subsequently measured at amortised cost, using the effective interest method. The liability is remeasured when:

- there is a change in future lease payments arising from a change in index or rate
- there is a change in the group's estimate of the amount expected to be payable under a residual value guarantee
- the authority changes its assessment of whether it will exercise a purchase, extension or termination option, or
- there is a revised in-substance fixed lease payment.

When such a remeasurement occurs, a corresponding adjustment is made to the carrying amount of the right-of-use asset, with any further adjustment required from remeasurement being recorded in the income statement.

Low value and short lease exemption

As permitted by the Code, the authority excludes leases:

- for low-value items that cost less than £10,000 when new, provided they are not highly dependent on or integrated with other items, and
- with a term shorter than 12 months (comprising the non-cancellable period plus any extension options that the authority is reasonably certain to exercise and any termination options that the authority is reasonably certain not to exercise).

The Council as Lessor

Operating Leases

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 CIES. 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., if 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.

On conversion to an academy from a local authority maintained school a lease is granted for 125 years. These leases are operating leases and therefore not recognised on the balance sheet.

xiv. **Overheads and Support Services**

The costs of overheads and support services are charged to service segments in accordance with the council's arrangements for accountability and financial performance.

xv. **Capital Accounting**

Non-Current Asset Valuations

The freehold and leasehold properties in the categories Property, Plant & Equipment, Investment Assets and Assets Held for Sale have been valued by officers within Strategic Asset Management and by the council's external valuers Wilks Head & Eve LLP. The Code requires that, as a minimum, non-current assets are revalued every five years. However, it is recommended that revaluation should take place more regularly where it is determined that a five-yearly valuation is insufficient to keep pace with material changes in fair value. The council operates a five-year rolling programme, although an annual review is also undertaken to assess if there are material changes that require specific assets to be revalued more frequently.

The beacon valuations appertaining to Council Dwellings have been carried out by Savills and are in accordance with the Guidance on Stock Valuation for Resource Accounting (SVRA).

Property Plant and Equipment

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

Expenditure on the acquisition, creation or enhancement of PP&E is capitalised on an accrual basis provided it affords economic benefits or service potential to the council for more than one financial year.

As a rule, the council adopts a zero de-minimis limit in determining capital expenditure. An exception to this rule, is that only expenditure in excess of £10,000 on vehicles and plant are treated as capital expenditure, any expenditure below this limit is charged to revenue.

Assets are initially measured at cost and are then carried on the Balance Sheet using the following measurement bases:

Council Dwellings

Council dwellings are measured at current value, determined using the basis of existing use value for social housing (EUV-SH). This takes account of a social use factor of 40% determined by the Ministry of Housing, Communities and Local Government (MHCLG).

Due to the large number of dwellings held by the council it is not practical to account for each property individually and so all assets that fall into this category are grouped together under the heading of Council Dwellings and are accounted for at this higher level. When additions to the stock are made, these are revalued based on the beacon approach and social use factor of 40% is applied. Where previous revaluation gains exist, any in year revaluation losses are offset against these gains.

Community Assets

Community assets are assets that the council intends to hold in perpetuity. They have no determinable useful life and may, in addition, have restrictions on their disposal (e.g. parks, historic buildings, gallery exhibits). They are valued at historic cost, but where this information is not available the asset is valued at a nominal value of £1.

Infrastructure Assets

Infrastructure assets are inalienable assets, expenditure on which is recoverable only by continued use of the asset created (e.g. highways, footpaths). They are valued at historic cost net of depreciation.

As per CIPFA Code the Council is not required to report the gross book value accumulated depreciation for infrastructure Assets (Highways, Carriages, Bridges and Footpaths – for prior years). This temporary adaption is from 1 April 2021 to 31 March 2025.

Assets Under Construction

These assets are held at historic cost.

Surplus Assets

Surplus assets not held for sale are measured at fair value which is the price at which an orderly transaction to sell an asset would take place between market participants at the measurement date under current market conditions. Further information on the council's fair value policy is given in fair value measurement section below.

Other Assets

All other assets that fall into the category of Property, Plant and Equipment (PP&E) are measured at current value which is the amount that would be exchanged for an asset in its existing use reflecting the service or function of the asset at the valuation date. These valuations are carried out on an existing use (EUV) basis or at depreciated replacement cost (DRC) if the specialised nature of the assets means that there is no market-based evidence to derive an EUV valuation.

Where non property assets have short useful lives and/or low value, depreciated historic cost (DHC) is used as a proxy for fair value.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. However, gains may be credited to the CIES where they arise from a reversal of a loss previously charged to a service.

Decreases in values are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the reduction is offset 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 excess is charged to the relevant service line(s) in the CIES.

Impairment

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

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

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the loss is offset 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 loss is charged to the relevant service line(s) in the CIES.
- Where an impairment loss is subsequently reversed, 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.

Depreciation

Depreciation is provided for on all PP&E assets by the systematic allocation of their depreciable amounts over their determinable finite lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community and Heritage Assets) and assets that are not yet available for use (i.e. assets under construction).

In general, depreciation is calculated on the opening balance of an asset on a straight-line basis over its estimated remaining useful life (RUL).

As a guide, the useful lives of assets falling under PP&E are as follows:

| <u>Asset</u> | <u>Useful Life (Years)</u> |
|---------------------------|---------------------------------------|
| Carriageways and Footways | 28 |
| Structures – Bridges | 80 |
| Highways | 40 |
| Vehicles & Plant | 7 |
| Street Lighting | 30 |
| Land Drainage | 30 |
| Street Furniture | 10 |
| Equipment | 5-10 |

In relation to PP&E Buildings, the council has adopted a weighted average RUL that reflects the prevailing condition of individual assets based upon condition assessments carried out by the Council's Urban Design / Building Services section. The WARUL generally falls with the range of between 35 and 50 years.

Where an asset has major components, whose cost is significant in relation to the total cost of the item and which have differing estimated useful lives, these components may be depreciated separately if deemed to be material. For further details see the council's accounting policy for components.

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 (CAA).

Investment Properties

Investment properties are those that are used solely to generate income and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value (see accounting policy below), based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year end.

Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the CIES. The same treatment is applied to gains and losses on disposal. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. They are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and, for any sale proceeds, the Capital Receipts Reserve.

Non-Current Assets Held for Sale

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

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the

CIES. Gains in fair 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.

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

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

Asset Disposals

When an item of PP&E or an Asset Held for Sale is disposed of, the carrying amount of the asset in the Balance Sheet is written out 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. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing 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 is set aside to reduce the council's underlying need to borrow. Receipts are appropriated to the reserve from the General Fund Balance in the Movement in Reserves Statement.

The write off disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Borrowing Costs

The council does not currently capitalise any of its borrowing costs.

xvi. **Component Accounting**

A component is a part of an item of PP&E that has a cost that is significant in relation to the total cost of the asset. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of acquisition or construction.

Significant components need only be separated out from the total asset if it depreciates at a different rate (i.e. it has a different useful life or is depreciated on a different basis).

The council have used the following significant components when calculating dwelling depreciation:

| <u>Component</u> | <u>Component Breakdown (%)</u> | <u>Component Useful Life (UEL)</u> |
|------------------------------------|---|---|
| <u>Houses and Bungalows</u> | | |
| Building Structure | 51% | 60 years |
| Roof | 8% | 40 years |
| Heating | 10% | 25 years |

| | | |
|---------------------|-----|----------|
| Electrics | 5% | 35 years |
| Other | 26% | 60 years |
| <u>Flats</u> | | |
| Building Structure | 54% | 60 years |
| Roof | 7% | 40 years |
| Heating | 9% | 25 years |
| Electrics | 6% | 35 years |
| Lift | 1% | 25 years |
| Other | 23% | 60 years |

The council is also required to consider the concept of materiality when considering the application of componentisation to its assets and has determined that componentisation will only be applied to items of PP&E where doing so has a material impact upon the amount of depreciation to be charged to the CIES and Balance Sheet.

In order to assess materiality, the council has instructed WH&E to provide individual PP&E valuations on a componentised basis so that the impact upon depreciation can be determined. From the results of this process the council has concluded that componentisation would not materially affect the level of depreciation charged on any of its PP&E assets valued during the year and, as a result, has not applied componentisation to its assets in this financial year. The council will however continue to review this process annually.

In relation to Council dwellings, which are valued annually on a Beacon basis, the Council has chosen to separate out individual components for the purpose of calculating depreciation based on the above headings. The council's view is that this approach is in line with the 'Stock Valuation for Resource Accounting Guidance' and that the components selected are those that are considered to have the greatest material impact upon depreciation and, therefore, need to be separated out from the rest of the building for depreciation purposes.

The council has also reviewed its capital expenditure in year and there are no items of material expenditure on the replacement of components that require the estimated value of the old component to be written out of the accounts.

It should be noted that when determining materiality, the council compares the cost of the new component with the total net book value of the asset. This differs slightly from the guidance which recommends that cost of the component is compared to the overall cost of the asset when determining materiality.

xvii. **Heritage Assets**

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, although some of the measurement rules are relaxed. The council's collections of heritage assets are accounted for as follows:

Historical Buildings

Most of the council's historical buildings are accounted for as operational assets as in addition to being held for their heritage characteristics, they are also used by the council to provide other services.

Museum Exhibits, Fine Art Collections & Civic Regalia

These collections are reported in the Balance Sheet using insurance valuations undertaken every ten years by external valuers or relevant experts referring to appropriate commercial

markets. The assets are deemed to have indeterminable lives and a high residual value therefore the council does not consider it appropriate to charge depreciation. Acquisitions and donations are rare and where they do occur acquisitions are recognised at cost and donations at valuation.

General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment, e.g. where an item has suffered physical damage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the council's general policies on impairment.

The disposal of heritage assets must receive prior approval from Cabinet. The proceeds of such items are accounted for in accordance with the council's general provisions relating to the disposal of Property, Plant and Equipment.

xviii. **Minimum Revenue Provision**

Under the Local Government Act 2003, the council is required to set aside an amount from revenue as a provision for debt repayment. This amount is known as the Minimum Revenue Provision (MRP).

The MRP Policy Statement was revised in 2022/23 from a previous straight-line allocation over asset lives to an annuity basis using the Council's Weighted Average Borrowing Rate for the remaining life of those Council assets.

There is no statutory requirement to make a MRP for the Housing Revenue Account (HRA) although there is the provision for a voluntary amount to be charged. No voluntary provision has been set aside in this financial year and the updated 30 year HRA Business Plan modelling assumes no voluntary repayments going forward.

xix. **Private Finance Initiative (PFI) and Similar Contracts**

PFI and similar contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide the services passes to the PFI contractor.

As the council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the council at the end of the contracts for no additional charge, the council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was offset by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the council.

The amounts payable to the PFI operators each year are analysed into five elements:

- **Fair value of the services** received during the year; debited to the relevant service line(s) in the CIES.
- **Finance cost** – an interest charge on the outstanding Balance Sheet liability; debited to the Financing and Investment Income and Expenditure line in the CIES.

- **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.
- **Payment towards liability**; applied to write down the Balance Sheet liability towards the PFI operator (the profile of write downs is calculated using the same principles as for a finance lease); and
- **Lifecycle replacement costs**: relevant costs capitalised via a revenue contribution to capital and applied as additions to PP&E to recognise spend incurred. Should lifecycle works be carried out in advance or later than scheduled into the annual unitary charge, a lifecycle debtor/creditor will be recognised on the balance sheet accordingly.

xx. **Provisions, Contingent Liabilities and Contingent Assets**

Provisions

Provisions are made where an event has taken place that gives the council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the CIES when the Council has an obligation and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

Contingent Liabilities

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 a note to the accounts.

Contingent Assets

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

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

xxi. **Reserves**

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance through the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to form part of the Net Cost of Services in the CIES. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council. Full explanations are given within the Notes to the Core Financial Statements of the Capital Adjustment Account, the Revaluation Reserve and the Pensions Fund Reserve. Other than these the following unusable reserves apply:

- **Financial Instruments Adjustment Account**

This account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

- **Deferred Capital Receipts Reserve**

This holds the proceeds recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Usable Capital Receipts Reserve.

- **Collection Fund Adjustment Account**

This manages the difference arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from Council Taxpayers compared with statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

xxii. **School Balances**

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority-maintained schools (i.e. those categories of school identified in the Schools Standards Framework Act 1998, community, voluntary aided and voluntary maintained schools) lies with the Council. Therefore, schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council, rather than requiring consolidation in the Group Accounts. Academies are outside of the Council's control and their transactions are not reflected in the Council's accounts.

In accordance with the schemes of delegation to schools set up in the Education Reform Act 1988, surplus/deficits against budgets can be carried forward into the following year. Any balances relating to schools are ringfenced and cannot be appropriated by the Council.

xxiii. **Revenue Expenditure Funded from Capital Under Statute (REFCUS)**

Expenditure incurred during the year that may be capitalised under statutory provisions that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service line in the CIES in the year. Where the council has determined to meet

the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

xxiv. **Insurance Funding Arrangements**

For those assets and liabilities deemed appropriate to insure against, the council operates an internal insurance account to provide insurance cover where either external cover is uneconomical or unavailable.

The internal insurance account provides the following main areas of cover:

Asset Protection - The first £0.100m of loss on non-educational establishments and the first £0.500m in respect of educational establishments, the aggregate excess (cap) being £2.000m in any policy year. The council's asset protection does not cover the council's housing stock except for high-rise.

Liabilities - The first £0.2974m of each claim in respect of public/products and employer's liability and pollution and the first £0.050m in respect of officials' indemnity, professional indemnity and land charges, the aggregate excess (cap) being £4.545m in any policy year across all liability sections of cover.

Motor – The first £0.1698m of each motor claim for damage to a council vehicle and third-party claims. Third party losses are limited to £0.508m in the aggregate after the application of individual claim excess / non-ranking deductibles.

Fidelity Guarantee - The first £0.025m of each claim in respect of fraud committed against the council by its own employees. There is no annual aggregate excess (cap) in respect of fidelity guarantee claims.

The risks not covered by external insurance or other funding arrangements include third party fraud, the management of key partnerships and programmes and risks arising in respect of funding and resource allocation, considering the current economic climate. Where there are uninsured risks which have been identified, these risks are assessed, especially for financial impact and appropriate controls put in place to mitigate those risks.

xxv. **VAT**

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

xxvi. **Fair Value Measurement**

IFRS 13 requires that local authorities measure some of their non-financial assets such as surplus and investment properties and some of their financial instruments such as equity shareholdings at fair value.

The objective of the fair value approach is to estimate the price at which an orderly transaction to sell an asset or transfer a liability would take place between market participants at the measurement date.

The measurement assumes that the transaction takes place either:

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

The authority measures fair value using the same assumptions that market participants would use when pricing an asset or liability if they will act in their own economic best interest.

For non-financial assets, the authority considers the participants ability to generate economic benefits by using the asset in its highest and best use or selling it to another market participant that would use the asset in its highest and best use.

When determining fair value, the authority's valuers use techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

These inputs are categorised within the fair value hierarchy as follows:

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

The transfer date for any movement between these levels is the 31 March in each financial period.

xxvii. **Pooled Budgets**

The Better Care Fund was announced in June 2013 with the intention to drive the transformation of local services and was to be operated through pooled budget arrangements between the Council and local Clinical Commissioning Groups.

The Council is party to a pooled budget arrangement and has considered the S75 agreement. The arrangement with the Sandwell and Black Country Integrated Care Board has been assessed as a joint operation under IFRS11.

The council is host to the arrangement however the two parties account for their own share of the pool's income, expenditure, assets and liabilities in line with the agreement and in line with respective commissioning responsibilities. Furthermore, members of the pooled budget only account for expenditure when it is spent by the pool and any cash held by the pool at year end is shared with a creditor in the host and debtor in the other parties in respect of that cash.

Rounding

Due to rounding some totals may not exactly agree with the sum of their component parts. These accounts are not adjusted for cross-casting immaterial differences between the main statements and disclosure notes.

Change in Accounting Policies

IFRS16 Leasing

In 2024/25, the Council has changed its accounting policies to align with those in IFRS 16 Leases as adopted by the Code of Accounting Practice. In previous years, property, plant and equipment was only brought onto the Balance Sheet as an asset where the Council secured substantially all the risks and rewards incidental to ownership of the leased item (finance leases). For all other leases (operating leases), no assets were recognised, and rents were charged as expenses when they became payable.

From 1 April 2024, an asset representing the right to use the item over the lease term will be recognised for all leases, except Leases for items of low value or whose term is less than one year. These are exempt from IFRS16 disclosure requirements.

The Council has elected to apply recognition exemptions to low value assets (below £10,000 when new) and to short-term leases i.e. existing leases that expire on or before 31 March 2025, and new leases with a duration of less than 12 months. Therefore, the Council will not recognise right of use assets and lease liabilities for these leases. The Council recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Also, with effect from 1 April 2024 IFRS16 also applies to Service Concession Agreements (PFI Contracts) and recognition of the resultant remeasurement of the lease liability. The contractual arrangements continue to be disclosed in Note 37.

Liabilities are also recognised in the Balance Sheet for the obligations that the Council has to pay rents for the rights acquired, discounted to their present value.

The transitional provisions of the Code are for the following amounts to be brought onto the Balance Sheet by adjusting the opening balances at 1 April 2024:

- liabilities for leases previously accounted for as operating leases, calculated as the present value of the remaining lease payments fixed at 1 April 2024, discounted by the Council's incremental borrowing rate in line with PWLB annuity rates. In calculating the liabilities, the incremental borrowing rate used was determined by the lease length and referenced to the PWLB annuity rates published for 1st April 2024.
- right-of-use assets for the leased items, measured at the amount of the lease liability, adjusted for any prepaid or accrued lease payments that were in the Balance Sheet on 31 March 2024.

This has resulted in the following additions to the balance sheet at 31st March 2024:

- £9.213m property, plant and equipment right of use assets (£9.008 land & buildings, £0.205m vehicles and equipment)
- £9.861m non-current creditors (lease liabilities)
- £0.564m current creditors (lease liabilities)

The newly recognised liabilities of £10.254m are less than the operating lease commitments of £11.233m at 31 March 2024 disclosed in the 2023/24 Statement of Accounts because £0.301m of the commitments have been excluded from the calculation of liabilities as relating to short-term leases and £0.254m from the exclusion of leases of low value. The remaining commitments have been reduced by £0.425m as a result of discounting them to present value.

In making the transitional adjustments, the Council has applied the following practical expedients in the Code:

- hindsight has been applied in determining the lease term where the lease contains options to extend or terminate.
- leases due to expire before 1 April 2025 have been treated as short-term leases, irrespective of their overall term.

The mandated implementation of IFRS 16 impacts on the measurement of the liability for PFI/PPP arrangements.

In addition, the change in accounting treatment of Non-Commercial Leases with Peppercorn Rents may have an impact on the value of Right of Use Assets as reported in the Balance Sheet & associated disclosure notes.

At the time of publishing the draft statement of accounts the impact of these changes has not been included. However, this will be added to the Final Statements of Accounts.

**Accounting Standards that have been issued but have not yet been adopted
(Note 3 in the accounts for full detail)**

The Code of Practice on Local Authority Accounting in the UK 2025-26 ("the Code") has introduced the changes in accounting standards, which will need to be adopted fully by the Council in the 2025-26 financial statements from 1 April 2025.

The Council is required to disclose information relating to the impact of the accounting changes on the financial statements of the adoption by the Code of a new standard that has been issued but is not yet required to be adopted by the Council. The Council is required to make disclosure of the estimated effect of the new standard in these financial statements.

These changes are either not relevant to the Council, or the changes are expected to be minor and are not expected to make any change to the reported financial information in the accounts and will therefore not have a material effect: