

Accounting Policies

1. General principles

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

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

2. Group accounts

The group accounts combine the accounts of the Council, Wolverhampton Homes Limited and WV Living (City of Wolverhampton Housing Company Limited) and shows them as if they were one. Throughout the financial statements (Section 4) the numbers in italics relate to the group. Non-italic numbers relate to the Council only. These figures are usually combined in the same table, but occasionally owing to space, they are shown in separate tables. Where there is only one figure given, this means that the figure is the same for the group and the Council.

3. Recognition 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 the contracts with service recipients whether for the provision of goods or services is recognised when the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is

written down and a charge made to revenue in financing and investment income and expenditure for the income that might not be collected.

- Manual accruals are only processed for amounts of £10,000 or more except where the expenditure is by schools or funded directly from external grants.

The above is in accordance with IFRS 15 'Revenue from Contracts with Customers' which became effective in 2018-2019. IFRS 15 applies to all contracts with customers (apart from some exceptions which fall under the scope of other accounting standards e.g., leases, financial instruments, insurance contracts). The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 focuses on the satisfaction of performance obligations; IFRS 15 provides a standardised five-step model to recognise all types of revenue earned from customer contracts. The Council has considered all of its revenue streams (including any potential staged receipts and receipts spanning financial years) across the group.

4. Accounting for council tax

- While the council tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the authority's General Fund or paid out from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is an authority's precept or demand for the year, plus or minus the authority's share of the surplus/deficit on the Collection Fund for the previous year.
- The council tax income included in the Comprehensive Income and Expenditure Statement is the council's share of the Collection Fund's accrued income for the year. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement. Revenue relating to council tax shall be measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.
- The cash collected by the authority from council taxpayers belongs proportionately to all the major preceptors. The difference between the amounts collected on behalf of the other major preceptors and the payments made to them is reflected as a debtor or creditor balance as appropriate.

5. Accounting for business rates (national non-domestic rates – NNDR)

- The business rates income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and paid out to major preceptors (excluding police bodies) and the Government. The amount credited to the General Fund under statute is the authority's estimated share of business rates for the year from the national non-domestic rates (NNDR) 1 return.

- The business rates income included in the Comprehensive Income and Expenditure Statement is the authority's share of the Collection Fund's accrued income for the year from the NNDR 3 return. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement. Revenue relating to business rates shall be measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.
- The cash collected by the authority from business rates payers belongs proportionately to all the major preceptors (excluding police bodies) and Government. The difference between the amounts collected on behalf of the other major preceptors, government and the payments made to them is reflected as a debtor or creditor balance as appropriate.

6. Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions, repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

7. Exceptional items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

8. 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.

9. Charges to revenue for non-current assets

Services, support services and trading accounts are charged 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.
- 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 (calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund balance, known as Minimum Revenue Provision, by way of an adjusting transaction with the Capital adjustment account in the Movement in Reserves Statement.

10. Employee benefits

Benefits payable during employment - Short-term employee benefits are those due to be settled in their entirety within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (and any other form of leave) earned by employees but not taken before the year end, and which employees can carry forward into the next financial year. The accrual is made at the 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 benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination benefits - Termination benefits are amounts payable as a result of a decision by the 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, and are charged on an accruals basis in the Comprehensive Income and Expenditure Statement at the earlier of the point at which the authority can no longer withdraw the offer of those benefits or when the authority recognises the costs of the restructure.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to 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.
- The NHS Pension Scheme administered by EA Finance NHS Pensions; and
- The Local Government Pensions Scheme administered by West Midlands Pension Fund.

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees working for the Council. The arrangements, however, for the teachers' scheme 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 and no liability for future payments of benefits is recognised in the Balance Sheet. The Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pension Scheme and NHS Pension Scheme in the year respectively.

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 the retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc and projections of earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate based on the redemption yields on AA-rated corporate bonds with a term corresponding to the term of the liabilities. The assets of West Midlands Pension Fund attributable to the Council are included in the Balance Sheet at their fair value, which varies depending on the type of asset:

- Quoted securities – current bid price.
- Unquoted securities – professional estimate.
- Unitised securities – current bid price.
- Property – market 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 Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the

surplus or deficit on the provisions of services in the Comprehensive Income and Expenditure Statement.

- Net interest on the net defined benefit liability/asset, i.e. net interest expense for the council – the change during the period in the net defined benefit liability / asset that arises from the passage of time charged to the financing and investment income and expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/asset at the beginning of the period – taking into account any changes in the net defined benefit liability/asset during the period as a result of contribution and benefit payments.
- Changes in valuations comprising:
 - The return on plan assets – excluding amounts included in net interest on the net defined benefit liability/asset – charged to the pensions reserve as other comprehensive income and expenditure.
 - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the pensions reserve and recognised as other comprehensive income and expenditure in the Comprehensive Income and Expenditure Statement.
- Contributions paid to the West Midlands Pension Fund – cash paid as the employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund 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 transfers to and from the pensions reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners, and any such amounts payable but unpaid at the year end. The negative balance that arises on the pensions reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary benefits - The Council 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.

11. Events after the reporting period

Events after the Balance Sheet reporting period are those events, both favourable and unfavourable, that occur between the Balance Sheet date, 31 March 2021, 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.

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

For most of the borrowing 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 Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement. Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund balance is managed by a transfer to or from the financial instrument's adjustment account in the Movement in Reserves Statement.

Financial assets - Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are two main classes of financial assets measured at:

- Amortised costs.
- Fair value through other comprehensive income (FVOCI).

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

Financial assets measured at amortised cost.

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For loans the Council has made, the amount presented in the Balance Sheet is most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement. Any gains and losses that arise on the derecognition of an asset are credited or debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

Expected credit loss model.

The Council recognises expected credit losses on all of its financial assets (except where the counterparty is Central Government or a local authority) held at amortised cost or FVOCI, either on a 12-month or lifetime basis. A simplified approach has been applied to trade receivables, finance lease receivables and operating lease receivables, whereby impairment losses are automatically based on lifetime expected credit losses. Impairment losses on loans and financial guarantees are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial assets measured at fair value through other comprehensive income.

Financial assets that are measured at FVOCI are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in other comprehensive income and expenditure (and taken to the financial instruments revaluation

reserve), except for impairment gains or losses, until the financial asset is derecognised. The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations.

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

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

When the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified from reserves to surplus or deficit on the provision of services as a reclassification adjustment.

Under accounting standard IFRS 9 'Financial Instruments', all assets previously held within the Available for Sale Financial Instruments reserve have been elected as fair value through other comprehensive income. As a result of this all balances held within the reserve have been transferred into the newly created financial instruments revaluation reserve.

13. Government grants and contributions

Whether paid on account, by instalments or in arrears, government grants and third-party contributions and donations are recognised as due to the 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 Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset received in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the grant issuing body.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line, attributable Revenue Grants and Contributions, or Taxation and non-specific grant income and expenditure (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

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

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired - any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the other operating expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on Intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reverses Statement and posted to the capital adjustment account and, for any sale proceeds greater than £10,000, the capital receipts reserve.

15. Interests in companies and other entities

The Council has three subsidiary entities: Wolverhampton Homes Limited, Yoo Recruit Ltd and WV Living (City of Wolverhampton Housing Company Limited). Due to materiality only, Wolverhampton Homes Limited and WV Living are required to be consolidated in the group accounts statements. The Council has no other material interests in companies or other entities that have the nature of a subsidiary, associate, or jointly controlled entity.

Investments in limited by guarantee companies - The Council has investments in companies limited by guarantee, for example ConnectEd Partnership, Black Country Consortium, Wolverhampton Grand Theatre, Wolverhampton Homes. These investments are valued at cost in the Council's accounts. Income and expenditure transactions are recognised in the Council's financial statements.

Schools - 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 School Standards and Framework Act 1998, as amended) lies with the Council. The Code also stipulates that those schools' assets, liabilities, reserves, and cash flows are recognised in the Council financial statements (and not the group accounts).

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.

16. Inventories

Inventories held by the Council relate to consumables and are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is determined using the weighted average costing formula. Long-term contracts are accounted for on the basis of charging the surplus or deficit on the provision of services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

The inventories held by the group predominantly relate to properties in development stage and are stated at the lower of cost and estimated selling price less costs to complete and sell which is equivalent to the net realisable value. Cost comprises direct materials and, where applicable, directly attributable expenditure in relation to the acquisition and development of the properties. At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.

17. 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 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, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the financing and investment income and expenditure line and result in a gain for the General Fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance. The gains and losses are, therefore, reversed out of the General Fund balance in the Movement in Reserves Statement and transferred to the capital adjustment account and, for any sale proceeds greater than £10,000, the capital receipts reserve.

18. Jointly controlled arrangements

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

- its assets, including its share of any assets held jointly.

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

19. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant, or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

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

Lease payments are apportioned between a charge for the acquisition of the interest in the property, plant, or equipment, applied to write down the lease liability, and a finance charge which is charged to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

Property, plant, and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life where ownership of the asset does not transfer to the council at the end of the lease period.

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

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

The Council as lessor: finance leases - Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment, or assets held for sale) is written off to the other operating expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain representing the Council's net investment in the lease is credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e., netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between a charge for the acquisition of the interest in the property - applied to write down the lease debtor (together with any premiums received) – and finance income (credited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund balance and is required to be treated as a capital receipt. Where a premium has been received, this is transferred out of the General Fund balance to the capital receipts reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is transferred out of the General Fund balance to the deferred capital receipts reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the capital receipts reserve.

The write-off value of disposals is not a charge against council tax, as the cost of non-current asset is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the capital adjustment account from the General Fund balance in the Movement in Reserves Statement.

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 Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g., there is a premium paid at the commencement of the lease).

20. Overheads and support services

The costs of overheads and support services are charged to those that benefit from the supply or service. The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received.

21. 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.

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

Measurement - Assets are initially measured at cost, comprising the purchase price and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, subject to a de-minimis value of £100,000 for land and property and heritage assets and £10,000 for new vehicles, plant, and equipment. The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of an asset acquired other than by purchase is deemed to be its fair value unless the acquisition does not have commercial substance (i.e., it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the taxation and non-specific grant income line of the Comprehensive Income and Expenditure Statement unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the donated assets account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund balance to the capital adjustment account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction - depreciated historical cost.
- Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH).
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), except for a few offices that are situated close to the Council's housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost (instant build) as an estimate of current value.
- School buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value.

- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant’s perspective.
- All other assets - current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. Where non-property assets have short useful lives or low values (or both), the depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end. Assets with a net book value over £1 million are valued annually and other assets at least every five years. Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains. Gains are credited to the surplus or deficit on the provision of services where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

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

The revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the capital adjustment account.

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

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

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

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

Depreciation - Depreciation is provided for, on all property, plant, and equipment assets, by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e., freehold land and certain community assets) and assets that are not yet available for use (i.e., assets under construction). Depreciation is charged on surplus assets.

Depreciation is calculated on the following bases:

- Dwellings and other buildings - straight-line allocation over the useful life of the property or component as estimated by the valuer.
- Vehicles, plant, furniture, and equipment - straight-line allocation over the useful life of the asset.
- Infrastructure - straight-line allocation over 50 years.

Where an item of property, plant and equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. 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.

Disposals and non-current assets held for sale.

When an asset is disposed of or decommissioned the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the Comprehensive Income and Expenditure Statement, as part of the gain or loss on disposal. Receipts from disposals, if any, are credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e., netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. 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 set aside to reduce the Council's underlying need to borrow (the capital financing requirement)). Receipts are appropriated to the capital receipts reserve from the General Fund balance in the Movement in Reserves Statement.

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

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and current value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the

loss is posted to the other operating expenditure line in the Comprehensive Income and Expenditure Statement. Gains in current value are recognised only up to the amount of any previous losses recognised in the surplus or deficit on provision of services. Depreciation is not charged on assets held for sale.

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

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

22. Private finance initiatives (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 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 balanced by the recognition of a liability for amounts due to the scheme operator, from the Council and third parties where relevant, 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** - charged to the relevant service in the Comprehensive Income and Expenditure Statement.
- **Finance cost** - an interest charge on the outstanding Balance Sheet liability, charged to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.
- **Contingent rent** - increases in the amount to be paid for the property arising during the contract, charged to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.
- **Payment towards liability** - applied to write down the Balance Sheet liability to the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- **Lifecycle replacement costs** - a proportion of the amount's payable is posted to the Balance Sheet as a prepayment and then recognised as additions to property, plant, and equipment when the relevant works are eventually carried out.

Third party income is recognised in the Comprehensive Income and Expenditure Statement, reflecting the extent to which the asset and the service are financed by third party income.

23. 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. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. 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.

24. 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 in 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 against the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the 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 – these reserves are explained in the relevant policies.

25. Revenue expenditure funded from capital under statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation or enhancement of a non-current asset is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council determines to meet the cost of this expenditure from capital resources, 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.

26. Value added tax (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.

27. Pension fund accounts

As a result of Local Government Reorganisation on 1 April 1986, the Council assumed responsibility for administering the West Midlands Pension Fund. The fund's accounts are separately prepared and are included within these accounts. The accounting policies for the pension fund can be found at note P3 in the accounts.

Copies of the fund's accounts and annual report are available on request from the Director of Finance, Civic Centre, Wolverhampton, WV1 1RL.

28. 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, with the following exceptions:

- Where there is no market-based evidence of fair value, insurance valuation is used as an estimate of current value.
- There is no cyclical revaluation of heritage assets, which instead are kept under review for impairment on an annual basis.

- The groupings used to classify property, plant and equipment assets are not used for heritage assets.

29. Pension guarantees

The Council has provided guarantees to a number of organisations at the point they were admitted to West Midlands Pension Fund, to fund any potential pension liability. These guarantees are treated as Insurance Contracts in accordance with IFRS 4, rather than financial guarantees under IFRS 9, as the Council considers that the non-financial risks covered by the guarantees (for example regarding mortality rates and demographics) are more significant than the financial risks. Each year, the Council assesses the probability of the guarantees being called using various factors: the pension liability is derived from the triennial valuation or the IAS19 statement (if available) and risk of failure of the business is derived from Creditsafe Business Failure Scores. If, by multiplying the pension liability by the risk of failure, a significant potential liability arises, it is recognised in the Comprehensive Income and Expenditure Statement.

30. Pooled budgets

The Council takes part in two pooled budget schemes with Black Country Integrated Care Board (ICB). The first scheme relates to the integrated service for child placements with external agencies for children with social care, education, and health needs. The Council incurs the expenditure and receives a contribution from ICB towards the costs. The second scheme relates to the commissioning of health and social care services under the Better Care Fund (BCF). Again, the Council incurs the expenditure and receives funding through a contribution from ICB and local government grants. All income and expenditure are recorded in the Comprehensive Income and Expenditure Statement.

31. Trust funds

The Council acts as trustee for a number of historic trust funds. These funds are not recorded on the balance sheet as they are not owned by the Council. At the end of each financial year, the trust funds on the ledger are reviewed and appropriate accounting entries are made. A separate note (Note 12) is included within the financial statements showing the income, expenditure, and balances of the trust funds for this financial year and the prior financial year.

A number of the funds are held in the Council's bank account and each year the interest is calculated and applied to the account. Any external interest received by the Council is added to the individual funds on the ledger.

Note 15A Changes in accounting policies and accounting estimates from previous year.

None