

**Manchester City Council  
Report for Resolution**

**Report to:** Audit Committee – 16 March 2021

**Subject:** Accounting Concepts and Policies, Critical Accounting Judgements and Key Sources of Estimation Uncertainty

**Report of:** The Deputy Chief Executive and City Treasurer

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**Summary**

This report explains the accounting concepts and policies, critical accounting judgements and key sources of estimation uncertainty that will be used in preparing the 2020/21 annual accounts. It also contains details of the new International Financial Reporting Standard (IFRS) 16 on leasing that following deferral is now to be fully introduced by Local Government on 1 April 2022.

**Recommendations**

Members are requested to approve the accounting concepts and policies that will be used in completing the 2020/21 annual accounts and note the critical accounting judgements made and key sources of estimation uncertainty.

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**Wards Affected:** All

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## **1. Introduction**

- 1.1. In line with best practice principles, this report presents the accounting policies that will be used in the preparation of the 2020/21 accounts. It also explains the requirement to include notes on critical accounting judgements and key sources of estimation uncertainty

## **2. Accounting Policies**

- 2.1. The Council's accounting policies are the specific principles, conventions, rules and practices that are applied in the production and presentation of the annual Statement of Accounts. These accounting policies have to be disclosed as a note to the annual accounts.
- 2.2. The accounting policies to be used in the preparation of the 2020/21 annual accounts are attached at Appendix 1. There are two changes to the accounting policies from those used in 2019/20.
- 2.3. As a result of a government consultation on the treatment of Dedicated School Grant deficit balances, additional information has been included in accounting policy 1.2.7 – Schools. The Schools and Early Years Finance Regulations 2020 came into force on 21 February 2020 and is applicable from 1 April 2020. The deficit must be carried forward to be funded from future DSG income, unless permission is sought from the Secretary of State for Education to fund the deficit from general resources.
- 2.4. The Local Authorities (Capital Finance and Accounting) Regulations 2020 came into force on 29 November 2020. Where a local authority has a deficit in respect of its schools budget for a financial year beginning on 1<sup>st</sup> April 2020, 2021 or 2022, the authority –
- must not charge to revenue account an amount in respect of the deficit; and
  - must charge the amount of the deficit to an account established, charged and used solely for the purpose of recognising deficits in respect of its school budget.
- 2.5. An accounting adjustment is then made to move any DSG balances on a time limited basis to an unusable reserve established for that purpose. This changes from the previous accounting treatment as a usable reserve.
- 2.6. Further detail has been added to accounting policy 1.2.22c – Local Government Pension Scheme relating to the advance payment made to the Greater Manchester Pension Fund. An amount of £129.6m, an estimate of three years employer pension contributions, was paid in April 2020 and resulted in a saving of 1% in the employer contribution rate. At 31 March 2021 the balance of the advance payment will reduce the pension liability on the balance sheet resulting in an imbalance between the pensions reserve and pensions liability that is unwound in the final year of the advance payment.

- 2.7. IFRS16 (Leasing) is to be introduced for local government from 1 April 2022. This has been deferred for a further year due to the pressures on local authority finance staff as a result of the COVID pandemic. More detail on this new standard is provided in section 5 of this report.

### **3. Critical Accounting Judgements**

- 3.1. In accordance with International Accounting Standards and the Code, the Council is required to disclose those judgements that management have made in the processing of applying the Council's accounting policies that have the most significant effect on the amounts recognised in the financial statements. The notes to the accounts contain details of the critical accounting judgements that have been made in completing the annual accounts. These are shown in Appendix 1.
- 3.2. The critical judgements taken include which schools property, plant and equipment and Private Finance Initiative (PFI) related assets should be included on the Council's balance sheet, whether a property should be classed as an operational property, an investment property or a heritage asset, classification of financial assets within financial instruments, treatment of transactions within the Better Care Fund and whether an organisation should be included within the Council's group accounts and the election of the Council's airport investment.
- 3.3. The critical judgement relating to the Council's upfront payment of its Greater Manchester Pension Fund pension contributions has been added to reflect the first year of the upfront payment and the intention to prepay the contribution for the three year period.

### **4. Key Sources of Estimation Uncertainty**

- 4.1. In preparing the annual accounts there are areas where estimates are made. These include
- useful lives and valuations of properties which are estimated by qualified Valuers,
  - provision for business rate appeals based on claims received and previous experience of the outcome of appeals,
  - provisions for known compensation claims which are estimated based on experience of similar claims,
  - the amount of arrears that will not be collected which is estimated based on expectations of the collection of different types of debt and
  - the liability for future pension payments which is estimated by qualified actuaries.

Details of these are shown in Appendix 1.

### **5. Introduction of International Financial Reporting Standard (IFRS) 16**

- 5.1. IFRS16 is being introduced for local authorities from 1 April 2022 which means that the annual accounts for 2022/23 will be the first set of accounts produced in accordance with this standard. The Code of Practice on Local Authority Accounting requires the Council to disclose information relating to the impact of an accounting change required by a new standard that has been issued but not yet adopted by the 2021/22 Code as a note in the 2021/22 accounts.
- 5.2. The main impact of the standard is to remove (for lessees) the traditional distinction between finance leases and operating leases. For finance leases the asset is shown on the balance sheet, together with a liability to pay for the asset. In contrast, operating lease rentals are accounted for in the year they are paid. IFRS 16 requires all lessee leases (with two exemptions explained in the following paragraph) to be accounted for as finance leases, recognising the rights to use an asset. There are no changes for lessor accounting.
- 5.3. There are two exemptions for lessees from applying this standard. These are short term leases and those where the value of the asset that the lease relates to is low. Short term leases are those with a lease term of twelve months or less at the commencement date. The Code and IFR16 allow individual councils to determine a monetary amount that would constitute low value. The Council has elected to use £10,000 for this amount as this is the Council's approved de-minimis level for capital expenditure. Exempt leases will continue to be accounted for as operating leases.
- 5.4. The amount of annual lease payments, will, from 2022/23, be split between an interest element and the write down of the lease liability on the balance sheet which represents the principal element. This write down of the lease liability will be matched to a minimum revenue provision so resulting in no change to the total amount affecting council usable reserves.
- 5.5. At the time of writing this report, work is ongoing to quantify the effect of this change. It is likely that a number of properties will be classified as right of use assets. Certain items of equipment such as large printers and photocopiers, including those in schools, may also be included within this classification.

## **6. Recommendations**

- 6.1. The recommendations appear at the front of this report.

### 1. Accounting Concepts and Policies

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the year-end 31 March 2021. The Council is required to prepare an Annual Statement of Accounts by the Accounts and Audit Regulations 2015 which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (The Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 21(2) of the Local Government Act 2003.

As local authorities need to reflect statutory conditions, specific statutory adjustments are complied with so that the Council's accounts present a true and fair view of the financial position and transactions of the Council. All accounting policies are disclosed where they are material.

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.

#### 1.1. Underlying Assumptions

##### 1.1.1 Going Concern

The Accounting Code, (standard IAS 1) requires management to make an assessment of an entity's ability to continue as a going concern and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The authority discloses that the accounts have been prepared on a going concern basis and that the Council will continue in existence for the foreseeable future.

This assumption is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising at the discretion of central government). If an authority were in financial difficulty, the prospects are that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. The Code is clear that transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern. However, if there are material concerns about the financial health of the authority this would be raised as part of the statutory responsibilities of the Section 151 Officer.

The accounts have been prepared on the assumption that the Council will continue and there are no material concerns over its financial position which would impact on this conclusion.

## **1.2. Accounting Policies**

### **1.2.1 Property, Plant and Equipment (PPE)**

Property, Plant and Equipment assets have physical substance and are held for use in the provision of services, for rental to others or for administrative purposes and are expected to be used for more than one year (e.g. land and buildings).

Expenditure on the acquisition, creation and enhancement of property, plant and equipment has been capitalised on an accruals basis provided that it yields benefit to the Council, and the services it provides, for more than one financial year. Expenditure on repairs and maintenance is charged to revenue as it is incurred.

Capital expenditure is initially added to the value of an asset but if expenditure is not considered to increase the value of the asset the value is reduced by this expenditure.

In addition, all property, plant and equipment, where expenditure in excess of £500,000 has been incurred during 2020/21, have been considered by the Council's Valuers who have quantified the amount of impairment.

#### **Measurement**

Property, plant and equipment are initially shown on the Balance Sheet at cost, comprising the purchase price and all expenditure that is directly attributable to bringing the asset into working condition for its intended use. The Council does not capitalise borrowing costs incurred whilst the assets are under construction. The assets are then revalued using methods of valuation on the basis recommended by CIPFA and in accordance with the guidance notes issued by the Royal Institution of Chartered Surveyors (RICS).

Land and buildings and other operational assets are valued at current value, determined as the value that would be paid for the asset in its existing use. Where enough market evidence is not available, for example schools and leisure centres, current value is estimated at depreciated replacement cost, using the modern equivalent asset method.

Short life assets, such as vehicles, are held at depreciated historical cost as a proxy for current value on the grounds of materiality.

Council dwellings are valued at existing use value – social housing.

Community assets and infrastructure are measured at depreciated historical cost.

Assets under construction are held at historical cost and are not depreciated until brought into use.

Surplus assets are valued at fair value based on the highest or best use of the asset from a market participant's perspective. These are assets that are not in use by the Council but do not meet the definition of investment property or assets held for sale.

Surplus assets mainly relate to land that is being held for regeneration purposes and future sale.

Council dwellings are revalued annually. Other assets included in the Balance Sheet at current or fair value are valued sufficiently regularly to ensure that their carrying amount is not materially different from their value at year end, but as a minimum every five years.

Valuations have a valuation date of 1 April 2020. Any material change that occurs after the valuation date is taken account of in the balance sheet value.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Where the increase is reversing a previous loss charged to the Deficit / Surplus on the Provision of Services on the same asset, the increase in valuation is credited to the Comprehensive Income and Expenditure Statement.

Where decreases in value are identified and there is a balance of revaluation gains in the Revaluation Reserve relating to the asset, the value of the asset is written down against that balance (up to the amount of the accumulated gains). Where there is a nil or insufficient balance in the Revaluation Reserve the value of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

Where revaluation gains or losses are credited or charged to the Comprehensive Income and Expenditure Statement, they are reversed in the Movement in Reserves Statement to the Capital Adjustment Account.

The Revaluation Reserve contains gains recognised since 1 April 2007 only, the date of its formal implementation. Revaluation gains arising before that date are included in the Capital Adjustment Account.

The land and building elements of all properties are valued separately and treated as separate assets for accounting purposes. In addition to this and subject to an appropriate materiality level, any individual component within buildings which has a cost that is significant in relation to the total cost of the building is accounted for separately unless the components have a similar useful life to the main building.

In considering assets for potential componentisation (i.e. the significant elements of the asset are valued separately) the Council has included all general fund buildings with a carrying value of more than £2m. Within each building the Council has set the threshold for recognition of components as 20% of the cost of the building. The following components have been valued separately in council dwellings – main building, roof, windows, external doors, kitchens, bathrooms, heating and electrical systems.

### **1.2.2 Depreciation on Property, Plant and Equipment**

Depreciation has been calculated using a straight-line method (i.e. apportioned equally over each year of the life of the asset) for all assets. The estimated useful life of each property is determined by a qualified valuer. Land and assets not yet

available for use (assets under construction) are not depreciated. Each component of property, plant and equipment that is significant in relation to the total cost of the asset is depreciated separately based on its estimated useful life.

Depreciation is charged to the service with a corresponding reduction in the value of the asset. The depreciation charge is reversed in the Movement in Reserves Statement and a transfer made to the Capital Adjustment Account. Residual values, useful lives and depreciation methods are reviewed at each financial year end.

Depreciation has been charged to the Housing Revenue Account (HRA) in accordance with proper practices and credited to the Major Repairs Reserve (MRR).

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 charged on their historical cost being transferred from the Revaluation Reserve to the Capital Adjustment Account.

### **1.2.3 Derecognition of Property, Plant and Equipment**

An item of property, plant or equipment is derecognised by disposal or when no future economic benefit or service potential is expected from its use.

The carrying amount of a replaced or restored part of an asset is derecognised with the carrying amount of the new component being recognised.

When an asset is disposed of the carrying amount of the asset in the Balance Sheet is written off to Other Operating Expenditure within the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Sale proceeds from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal.

Any revaluation gains on the Revaluation Reserve, for assets disposed of or decommissioned, are transferred to the Capital Adjustment Account.

Income from an asset disposal in excess of £10,000 is classed as a capital receipt. Capital receipts from Right to Buy (RTB) sales of council dwellings are pooled between the Council and central government. The net RTB receipts received (after reduction of regional transaction costs and allowable debt) are split based on a share ratio provided by central government. If the government share of capital receipts, as calculated by the Office of Budget Responsibility, is exceeded the Council retains the remainder of the receipts to be used for the provision of new homes. If these receipts are not used within three years, they must be returned to the government (with interest at 4% above base rate). Non-RTB receipts are exempt from the capital pooling rules.

The balance of capital receipts is credited to the Capital Receipts Reserve and used to fund new capital expenditure or repay debt.

The written off value of disposals is reversed through the Movement in Reserves Statement to the Capital Adjustment Account.



## **1.2.4 Private Finance Initiatives (PFIs) and Similar Contracts**

PFI and similar contracts (service concessions) are agreements to receive services where the responsibility for making available the property, plant and equipment needed to provide the services passes to the contractor. As the Council is deemed to control the services that are provided under the contract and as ownership of the property, plant and equipment will pass to the Council at the end of the contract for no additional charge, the Council holds the Property, Plant and Equipment used under the contracts on its Balance Sheet.

The original introduction of these assets onto the balance sheet is matched by the recognition of a deferred liability for amounts due to the operator to pay for the assets. Where the assets come into use at different stages the asset and matching liability are introduced in stages. For some PFI schemes the liability is written down by an initial capital contribution. This capital contribution was either in the form of a cash contribution or assets transferred to the contractor.

Property, Plant and Equipment relating to PFIs and similar contracts, recognised on the Balance Sheet, is revalued, depreciated and impaired in the same way as other property, plant and equipment owned by the Council.

The amounts payable to the operator each year are analysed as follows:

- Value of the service received (including facilities management) during the year - debited to the relevant service line in the Deficit / Surplus on the Provision of Services in the Comprehensive Income and Expenditure Statement.
- Interest cost based on the outstanding deferred liability - debited to the Financing and Investment Income and Expenditure line in the Deficit / Surplus on the Provision of Services.
- Payment towards liability - debited to the deferred liability on the Balance Sheet thus reducing the liability. For non-HRA contracts this reduction in the charge in the Deficit / Surplus on the Provision of Services is replaced by an equivalent amount of Minimum Revenue Provision (MRP) in the Movement in Reserves Statement. For HRA contracts this reduction in unitary charge is reversed in the Movement in Reserves Statement to the Capital Adjustment Account.
- Lifecycle replacement costs - these are posted to the Balance Sheet as a prepayment and then included as additions to Property, Plant and Equipment when the works are carried out. Where lifecycle costs can be identified as capital in nature they have been recognised as capital expenditure. This expenditure relates to enhancements or replacement of assets.

Government grants received towards the funding of general fund PFI related payments are shown within the Taxation and Non-specific Grant Income line in the Comprehensive Income and Expenditure Statement. HRA PFI related grants are shown within the HRA income line in the Comprehensive Income and Expenditure Statement.

## **1.2.5 Heritage Assets**

Heritage assets are those assets that are intended to be preserved for future generations because of their cultural, environmental or historical associations. They are held by the Council in pursuit of its overall objectives in relation to the maintenance of heritage. Heritage assets include civic regalia, museum and gallery collections and works of art. Community assets (including parks and cemeteries) are not heritage assets, but are accounted for as property, plant and equipment.

Operational heritage assets (i.e. those that, in addition to being held for their heritage characteristics, are also used by the Council for other activities or to provide other services) are accounted for as operational assets rather than heritage assets and valued in the same way as other assets of that general type (e.g. buildings such as the Central Library).

Heritage assets are shown in the Balance Sheet at market value where this is available. For those assets where no market value is available the insurance valuation is used. Where a valuation is not available and cannot be obtained at a cost which is commensurate with the benefits to the users of the financial statements the assets are held at cost. Where the cost information is not available, they are not recognised in the balance sheet.

Depreciation is not provided for as these assets are considered to have infinite lives. Any impairment is recognised and measured in accordance with the Council's general policies on impairment (policy 1.2.8). The proceeds of any disposals are accounted for in accordance with the Council's general provisions relating to the de-recognition of property, plant and equipment (policy 1.2.3).

### **1.2.6 Investment Properties**

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

Investment Properties are initially measured at cost. After initial recognition they are measured at fair value - highest and best use. The fair value reflects market conditions at the balance sheet date. A gain or loss arising from a change in the fair value of investment property is recognised in the Financing and Investment Income and Expenditure line within the Comprehensive Income and Expenditure Statement.

Investment Properties are not depreciated but are revalued annually according to market conditions at year end.

An investment property is derecognised on disposal. Gains or losses arising from the disposal are recognised in the Financing and Investment Income and Expenditure line within the Comprehensive Income and Expenditure Statement.

Revaluation and disposal gains and losses are reversed in the Movement in Reserves Statement and posted to the Capital Adjustment Account and sale proceeds over £10,000 to the Capital Receipts Reserve.

Rentals received in relation to investment properties are credited to the Financing and Investment income line in the Other Comprehensive Income and Expenditure Statement.

### **1.2.7 Schools**

In accordance with the Code of Practice on Local Authority Accounting the Council has assessed the legal framework underlying each school. The Council controls the non-current assets of community schools and foundation schools, vested with the governing body as a Trustee, as future economic benefits associated with the assets will flow to the Council and therefore the land and buildings of those schools are shown on the Council's balance sheet. The land and buildings of voluntary aided, voluntary controlled and foundation schools, where the trust is not the governing body are owned and controlled by the trustees of the schools or the foundation body and are therefore not shown on the balance sheet of the Council.

Any schools held on the balance sheet, which are transferred to academy status form part of the loss on disposal of non-current assets. This includes schools managed under a PFI contract.

Capital expenditure on schools shown on the Council's balance sheet is added to the value of those schools. Capital expenditure on schools not on the Council's balance sheet is treated as REFCUS (Revenue Expenditure Funded from Capital under Statute) expenditure and written off each year to the Comprehensive Income and Expenditure Statement as part of the Children's Services line. This is reversed out through the Movement in Reserves Statement and a transfer made to the Capital Adjustment Account.

All revenue income, expenditure, assets and liabilities of maintained schools, after the removal of transactions between schools and the Council, are included in the Council's single entity accounts.

Individual schools' balances are included in the balance sheet of the Council as any unspent delegated schools budget remains the property of the Council although these can only be spent by the school.

The Dedicated Schools Grant (DSG) is allocated between the central council budgets and budgets allocated to individual schools (delegated school budgets). Expenditure from central council budgets and delegated schools' budgets is charged to the Comprehensive Income and Expenditure Statement as part of the Children's Services line.

The new accounting regulations introduced relating to the Dedicated Schools Grant deficit balances are applicable to local authority accounting periods beginning on 1 April 2020. The financial statement will continue to be produced under IFRS with the DSG being accounted for in the normal way (through the CIES). A deficit must be carried forward to funded from future DSG income. An accounting adjustment is then made via the MIRS to move any DSG deficit balances on a time limited basis to an unusable reserve established for that purpose.

### **1.2.8 Impairment**

Assets are reviewed for impairment at the end of each reporting period. Examples of impairment include a significant reduction in a specific assets value and evidence of physical damage (e.g. fire damage).

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

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

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

### **1.2.9 Provision for Redemption of Debt**

The Council is required to make provision for the repayment of an element of the accumulated General Fund capital expenditure, financed by borrowing, through a revenue charge, in accordance with the Minimum Revenue Provision (MRP) requirements. Regulations replaced the detailed formula for calculating MRP with a requirement to be prudent. The MRP policy (which details the basis of the provision) is agreed annually by the Council within the Treasury Management Strategy.

For all non-HRA capital expenditure funded by supported borrowing, otherwise known as supported capital expenditure, the Council's policy is to charge 2% of the capital financing requirement

For all non-HRA unsupported borrowing MRP is calculated using the estimated life of the asset. Dependent upon the nature of the capital expenditure, a straight line (equal amount of MRP over the life of the asset) or annuity method (equal amount of MRP plus interest over the life of the asset) is used to link MRP to the future flow of benefits from the asset.

Where capital expenditure is incurred through providing loans to organisations, and those loans are indemnified or have financial guarantees protecting against loss, no MRP is charged in relation to the capital expenditure.

MRP starts in the year after the capital expenditure is incurred or in the case of new assets, in the year following the asset coming into use.

MRP is provided for non-HRA PFI related assets on the Council's Balance Sheet. This equates to the amount of unitary charge charged against the deferred liability on the Balance Sheet.

MRP is provided for assets held under finance leases (including embedded leases) where the Council is the lessee. This equates to the amount of the lease payment charged against the deferred liability on the Balance Sheet.

There is no MRP charge to the Housing Revenue Account.

### **1.2.10 Revenue Expenditure Funded from Capital under Statute**

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

Details of the accounting policy relating to grants and external contribution funding of REFCUS expenditure is shown in policy 1.2.15c.

### **1.2.11 Non-Current Assets held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than its continued use it is reclassified as an asset held for sale. Before an asset can be classed as held for sale it must be available for immediate sale in its present condition, the sale must be highly probable, the asset must be actively marketed and the sale should be expected to be completed within one year of the date of classification. In situations where it is not necessary to carry out active marketing, for example because the Council is able to identify prospective purchasers willing to pay a reasonable price without marketing (such as transfers to a joint venture) or because a buyer initiates the transaction (such as right to buy sales), this test is not applicable. Where events or circumstances extend the period beyond one year and there is sufficient evidence that the Council remains committed to the plan to sell the assets they are classed as long-term assets held for sale.

The held for sale asset is carried at the lower of the carrying amount or the fair value less costs to sell. Where this results in a loss in value this loss is posted to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement. Once an asset is classed as held for sale it is no longer depreciated.

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

### **1.2.12 Accruals of Income and Expenditure**

Activity is accounted for in the year that it takes place, not when cash payments are made or received. In particular, revenue from the sale of goods is recognised when

the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

Supplies are recorded as expenditure when they are consumed.

Provision is made for debts that are not considered to be collectable – referred to as impairment of financial assets. This provision is calculated based on the expected amount that will not be collected for differing types of debt applied to the amount of outstanding debt. The balance of debtors on the Balance Sheet is reduced by the amount of provision made.

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 income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet.

### **1.2.13 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 twenty four 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.

Cash and cash equivalents are shown net of bank overdrafts that form an integral part of cash management.

### **1.2.14 Provisions**

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits and a reliable estimate can be made of the amount of the obligation, but the timing of the transfer is uncertain. Examples include a legal case that will probably result in a payment of compensation.

Contributions to provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year the Council becomes aware of the obligation based on the best estimate of the likely settlement. When payments are made, they are charged to the provision. Estimated settlements are reviewed at the end of each financial year and where it becomes likely that a transfer of economic benefits will not be required the contribution to the provision is reversed and credited back to the service line.

Provisions are classified as either short or long term depending on the likely date of settlement.

### **1.2.15 Government Grants and Contributions**

Government grants and contributions are not recognised until there is reasonable assurance that the Council will comply with the conditions attached to them and the grant or contribution will be received. Grants and contributions are credited to the Comprehensive Income and Expenditure Statement except where the grant or contribution has a condition that has not been met. Conditions are stipulations that must be satisfied, or the grant or contribution must be returned. Monies advanced as grants and contributions for which conditions are not yet met are carried in the Balance Sheet as receipts in advance.

#### **a. Revenue Grants and Contributions**

Revenue grants and contributions are credited to the relevant service line for specific grants and the Taxation and Non-Specific Grant Income line for grants that cover general expenditure (e.g. New Homes Bonus Grant) except where the grant or contribution has a condition that has not been met. When the specific grant has been recognised but the expenditure relating to it has not been incurred the Council has elected to make a contribution equivalent to the unspent amount of grant to an earmarked reserve. This reserve will be released in future financial years when the expenditure to which the grant relates is incurred.

#### **b. Capital Grants and Contributions**

Capital grants and contributions are credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement except where the grant or contribution has a condition that has not been met. The amount of the grant or contribution that has been used to finance expenditure is transferred to the Capital Adjustment Account via the Movement in Reserves Statement. The balance of the grant or contribution that has not been used to finance expenditure is transferred to the Capital Grants Unapplied Reserve via the Movement in Reserves Statement. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account when they are used to fund capital expenditure.

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

These grants and contributions are credited to the relevant service line in the Comprehensive Income and Expenditure Statement except where the grant or

contribution has a condition that has not been met. The amount of the grant or contribution that has been used to finance expenditure is transferred to the Capital Adjustment Account via the Movement in Reserves Statement. The balance of the grant or contribution that has not been used to finance expenditure is transferred to the Capital Grants Unapplied Reserve via the Movement in Reserves Statement. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account when they are used to fund expenditure.

### **1.2.16 Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred it is charged to the appropriate service in that year. The reserve is then appropriated back into the Movement in Reserves Statement so that there is no net charge for the expenditure on the General Fund balance.

Certain reserves are kept to manage the specific accounting treatment for Property, Plant and Equipment and retirement benefits and do not represent usable resources for the Council. These are shown as unusable reserves in the Movement in Reserves Statement and Balance Sheet.

### **1.2.17 Revenue Recognition**

Revenue is a subset of income and is defined as the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth.

Revenue is measured at the fair value of the consideration received or receivable. In most cases, the consideration receivable is in the form of cash and cash equivalents and the amount of revenue is the amount of cash and cash equivalents receivable.

Where the Council is acting as an agent of another organisation the amounts collected for that organisation are excluded from revenue.

Revenue is recognised when the performance obligations in a contract have been satisfied. This recognition can be over time when the service recipient simultaneously receives and consumes the benefits (e.g. home care services) or at a point in time.

Revenue for Council Tax and Business Rates is recognised when the amount of revenue can be measured reliably, and it is probable the revenue will be received by the Council.

### **1.2.18 Value Added Tax (VAT)**

VAT is only included in expenditure, either revenue or capital, to the extent that it is not recoverable from HM Revenues and Customs. VAT receivable is excluded from income.



### **1.2.19 Leases**

Leases are classified as either finance or operating leases based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or lessee. Whether the lease is a finance lease or an operating lease depends on the substance of the transaction rather than the contract. Leases are classed as finance leases where the terms of the lease transfer the majority of 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. Land and building elements of a lease are considered separately for the purpose of lease classification.

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

#### **Finance Leases**

##### **Lessee**

Property, Plant and Equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its current value at the time of inception (or the present value of the minimum lease payments if lower). The asset recognised is matched by a deferred liability for the obligation to pay the lessor.

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

These property, plant and equipment recognised are subject to depreciation. The MRP on these assets equates to the amount of the lease payment that is applied to write down the deferred liability.

The deferred liabilities are classified as either short or long term in line with the lease repayments.

#### **Operating Leases**

##### **Lessee**

Leasing payments for operating leases are charged to revenue on a straight-line basis over the term 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) and are shown within service expenditure in the Comprehensive Income and Expenditure Statement.

##### **Lessor**

Rental income from operating leases is recognised on a straight-line basis over the period 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) and is shown in the Other

Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Assets held for use as operating leases are recorded as assets in the Council's Balance Sheet.

### **1.2.20 Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within twelve months of the year end. They include such benefits as wages and salaries, paid annual leave, flexi time leave and paid sick leave for current employees. They are recognised as an expense for services in the year in which employees undertake the service for the Council. An accrual is made for the cost of holiday entitlement (including flexi time leave), earned by employees but not taken before the year end, which employees can carry forward into the next financial year. The accrual is made at the wages and salary rates applicable in the following financial year, being the period in which the employee takes the benefit and includes employer national insurance and pension contributions.

The accrual is charged to the Deficit / Surplus on the Provision of Services but then reversed through the Movement in Reserves Statement to the Short Term Accumulated Absences Account so that holiday absences are charged against Council Tax or Housing Rents in the financial year in which the absence occurs.

### **1.2.21 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 severance and are shown on an accruals basis in the Deficit / Surplus on the Provision of Services in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer or when it recognises the costs for a restructuring that involves termination benefits.

Where the employee makes the decision, the liability is recognised at the earlier of when the employee accepts the offer or when a restriction on the Council's ability to withdraw the offer takes effect.

### **1.2.22 Post-Employment Benefits**

#### **a. Teachers' Pension Scheme**

The payment of statutory pensions to former teachers is administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE). Contributions from teachers together with the employer's contribution are paid by the Council. The arrangements for this scheme mean that liabilities for benefits cannot be identified to the Council. The scheme is therefore accounted for as a defined contribution scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the Children's Services line within the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable in the year.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the Teachers' scheme. These benefits are fully accrued in the pension liability.

### **b. National Health Service (NHS) Pension Scheme**

Under the arrangements for Public Health, staff performing public health functions who were compulsorily transferred from the Primary Care Trusts to local authorities and had access to the NHS Pension Scheme on 31 March 2013 retained access to that Scheme on transfer at 1 April 2013.

The NHS pension scheme is an unfunded, defined benefit scheme that covers NHS employers and is a multi-employer defined benefit scheme. This means that liabilities for benefits cannot be identified to the Council. The scheme is therefore accounted for as a defined contribution scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the Adult Social Care line within the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable in the year.

### **c. Local Government Pension Scheme**

The Council pays an employer's contribution into the Greater Manchester Pension Fund, which is a fully funded defined benefits scheme administered by Tameside Metropolitan Borough Council from whom an Annual Report is available.

The liabilities of the Greater Manchester 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 and projections of projected earnings for current employees.

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

The assets of the Greater Manchester Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value.

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

- The current service cost (the increase in the liability as a result of pension earned by Council employees in the year) is charged to the net cost of services.
- Past services costs (the increase in the liability arising from current year decisions whose effect relate to years of service earned in earlier years) are

shown within council wide items as they are costs that are not attributable to a particular service. An example of when past service costs would occur is where there was a change in the basis of up-rating annual pensions.

- Gains and losses on settlements and curtailments (the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees) are also shown as council wide items.
- The net interest on the net defined benefit liability, i.e. net interest expenses for the period that arises from the passage of time, is shown within the Financing and Investment Income and Expenditure line.

Re-measurements comprising:

- The return on plan assets excluding amounts included in net interest on the defined benefit liability;
- change in demographic assumptions re-measurements; and
- actuarial gains and losses on changes in financial assumptions – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because actuaries have updated their financial assumptions (such as percentage increase in salaries) are shown within Other Comprehensive Income and Expenditure.

In relation to retirement benefits, statutory provisions require the General Fund and HRA balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but 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 the cash flows rather than as benefits are earned by employees. The balance will be presented differently as a result of the upfront payment as set out below:

### **Upfront pension payment**

The Council has agreed with the Greater Manchester Pension Fund that the employer's contribution to the Local Government Pension Scheme will be paid as a single up-front payment for the 3 year period 2020-21 to 2022-23. The amounts paid each year will be offset against the pension liability on the balance sheet. These amounts will then be reflected in the pensions reserve in the years to which they relate. In the final year all amounts will have been reflected in the pension reserve to align to the pension liability.

### **Financial Instruments**

### **1.2.23 Financial Assets**

Financial Assets e.g. investments and debtors are classified into three types – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL).

The categorisation of financial assets into these types is dependent on the reason for holding these assets (to collect cash flows, to sell assets or achieve objectives by other means).

Financial assets are brought onto the balance sheet at fair value when the Council becomes a party to contractual provisions.

#### **Amortised Cost**

These assets relate to financial instruments where the amounts received relating to them are solely principal and interest and they are held to generate cash flows (e.g. investments of surplus cash with the government's debt management office or loans to third parties).

The interest received on these assets is spread evenly over the life of these instruments.

Any gain or loss in the value of these assets is recognised in the net surplus / deficit on the net provision of services at the point of de-recognition (disposal) or reclassification.

#### **Fair Value through Other Comprehensive Income (FVOCI)**

These assets relate to financial instruments where the amounts received relating to them are solely principal and interest, but they are held to collect cash and sell the assets (e.g. money market funds).

The interest received on these assets is spread evenly over the life of these instruments.

Changes in the fair value of these assets are charged to Other Comprehensive Income and Expenditure. Cumulative gains and losses are charged to the surplus / deficit on provision of services when they are disposed of.

Under capital accounting regulations where these assets were treated as capital expenditure the gain or loss is reversed to an unusable reserve - the Financial Instruments Revaluation Reserve.

#### **Fair Value through Profit and Loss (FVPL)**

These assets relate to financial instruments where the amounts received relating to them are not principal and interest (e.g. equity investments).

Dividends received are accounted for at the point they are declared.

Charges in fair value are charged to the surplus / deficit on the net provision of services as they occur.

Under capital accounting regulations where these assets were treated as capital expenditure the gain or loss is reversed through the Movement in Reserves Statement and charged to an unusable reserve - the Capital Adjustment Account.

An equity instrument that has been classed as FVPL can be designated as FVOCI if it is not held for trading (e.g. a strategic investment). Once this designation has been made it cannot be reversed. This designation would mean that any gains and losses would be held in the Financial Instruments Revaluation Reserve.

### **Credit loss**

The Council will recognise a loss allowance for expected credit losses, if applicable, on assets where cash flows are solely principal and interest (i.e. financial instruments measured at amortised cost or FVOCI unless they have been designated as such). This does not apply where the counterparty is central government or another local authority.

At each year end the loss allowance for a financial instrument is calculated as equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

If at year end the credit risk has not increased significantly since initial recognition the loss allowance is measured at an amount equal to twelve month expected credit losses.

Where the financial asset was treated as capital expenditure any losses will be reversed via the Movement in Reserves Statement to the Capital Adjustment Account.

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

### **1.2.24 Embedded Derivatives**

The Council has given equity mortgages and loans to individuals to assist with the purchase and improvement of properties. The repayments of these are based on a proportion of the value of the property in a number of years. This type of loan is classed as an embedded derivative as the amount of repayment is linked to future property values. When these mortgages and loans are granted, long-term debtors and deferred capital receipts are written onto the balance sheet. At the end of each financial year the long-term debtors and deferred capital receipt are adjusted in line with the change in property values.

### **1.2.25 Financial Liabilities**

Financial liabilities (e.g. borrowings and creditors) are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Council. For instance, when the Council takes out a loan, the advance of cash from the lender initiates the obligation to repay at some future date, and the loan would be recognised as a liability on the Balance Sheet when the advance is received.

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 many of the borrowings that the Council has, this means that the amount shown in the Balance Sheet is the outstanding principal repayable plus accrued interest, and the amount charged to the Comprehensive Income and Expenditure Statement is the amount payable per the loan agreement.

For Lender Option Borrower Option (LOBO) loans the effective interest rate has been calculated over the life of the loan. This is an average and differs from the amounts actually paid in the year. The difference between the calculated interest charge and interest paid has been adjusted in the carrying amount of the loan on the balance sheet. The amount charged in the Comprehensive Income and Expenditure Statement is the effective interest rate for the life of the loan rather than the amount payable per the loan agreement.

Where the Council is in receipt of loans that are interest free or at less than prevailing market interest rates if material, the effective interest rate is calculated so that the value of the financial assistance to the Council by the lender is separated from the financial cost of the transaction. This gain is calculated by working out the net present value of all future cash payments using the interest rate for a similar loan taken by the Council. This results in a lower figure for the fair value of the loan with the difference from the loan received treated as a government grant. This gain is reversed out in the Movement in Reserves Statement to the Financial Instruments Adjustment Account.

Gains and losses on the repurchase or early settlement of borrowing are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase or settlement. However, if the repurchase takes place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is deducted from or added to the amortised cost of the new or modified loan. In this scenario the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

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

Following the HRA debt settlement there are no outstanding HRA premiums and discounts.

### **1.2.26 Contingent Assets and Liabilities**

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.

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.

### **1.2.27 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 estimation techniques are accounted for prospectively (i.e. in the current and future years affected by the change) and do not give rise to a prior period adjustment.

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

### **1.2.28 Material Items of Income and Expenditure**



Where items of income and expenditure 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.

### **1.2.29 Events after the Balance Sheet Date**

Events after the balance sheet date are those events that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue.

Where these provide evidence of conditions in existence at the balance sheet date, the amounts recognised in the accounts are adjusted (e.g. settlement of a court case that confirms the amount of obligation at the balance sheet date). Where these are indicative of conditions that arose after the balance sheet date the amounts in the accounts are not adjusted (e.g. significant decline in market investments after 31 March). This is known as a non-adjusting event and is disclosed as a note to the accounts.

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

### **1.2.30 Interests in Companies and Other Entities**

The Council has material interests in companies and other entities and therefore group accounts have been prepared for the Council and its material interest in subsidiaries, associates and joint ventures. Inclusion in the Council group is dependent upon the extent of the Council's interest and power to influence an entity. The determining factor for assessing the extent of interest, power or power to influence is either through ownership of an entity, a shareholding in an entity or representation on an entity's board of directors. An assessment of all the Council's interests has been carried out during the year, in accordance with the Code of Practice, to determine the relationships that exist and whether they should be included in the Council's group accounts. In the Council's single-entity accounts the Council's interest in those companies included in its group accounts are recorded as long term investments at cost.

### **1.2.31 Joint Operations**

Joint Operations are arrangements where the parties are bound by a contractual arrangement, have joint control of the arrangement and have rights to the assets and obligations for the liabilities relating to the arrangement. The Council recognises its share of the assets, liabilities, income and expenditure of the joint operation in its single entity accounts.

### **1.2.32 Local Taxation**

The Council, as a billing authority act as an agent, collecting Council Tax and national non-domestic rates (NNDR) on behalf of the major preceptors and, as principals, collecting Council Tax and NNDR for themselves. Billing authorities are

required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and NNDR. Under the legislative framework for the Collection Fund, billing authorities and major preceptors share proportionately the risks and rewards that the amount of Council Tax and NNDR collected could be less or more than predicted.

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

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

### **1.2.33 Fair Value Measurement**

The Council measures some of its assets and liabilities at fair value at the balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

The Council uses Valuers to provide a valuation of its assets and liabilities in line with the highest and best use definition within the accounting standard. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant.

Inputs to the valuation techniques in respect of the Council's fair value of its assets and liabilities are categorised within the fair value hierarchy as follows:

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

## **2. Critical Accounting Judgements**

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

### **2.1 Schools Non-Current Assets**

The Council has assessed the legal framework underlying each type of school.

Community schools property, plant and equipment are owned by the Council and remain on the balance sheet as future economic benefits associated with the assets will flow to the Council.

The plant, property and equipment of voluntary aided, voluntary controlled and foundation schools are owned and controlled by the religious body or the trustees of the schools and are therefore not shown on the balance sheet of the Council unless the trustees are the governing body.

The Council does not control the schools' property, plant and equipment owned by the religious bodies or the trustees, there has been no past events which have transferred the ownership or control of the property, plant and equipment to the Council and any future benefits from the property, plant and equipment would be for the benefit of the religious body or trustee and not the Council.

An asset must be controlled by the Council for that asset to be recognised in the single entity accounts. Usage of the asset does not demonstrate control in form or substance without rights that are either legal or substantive.

The religious bodies or trustees own the assets, there has not been a reassignment of those assets to the Council and the rights to the asset are still maintained by the religious body or the trust. The religious bodies or trustees have a legal right to take back these assets.

The religious bodies or trustees have provided a licence for the Council to use the asset however these licenses are not provided in a written form. These licences do not create control of the asset by the Council. The religious bodies or trustees assert their continued control over the asset by permitting the asset to be used for precisely the purpose that the school wishes by the objectives of the religious bodies or trustees being the same as the governing bodies.

The religious bodies or trustees have decided that their asset is to be used as a school and therefore continue to have the rights to the resources in the asset. The continued agreement to permit the schools to use the asset means that the religious bodies or trustees are perpetually reasserting their control, and this has not been passed to the school.

The right of termination of the arrangement at any time by the religious body or trust provides evidence that the risks and rewards of ownership of the asset have not transferred to the Council.

Details of the value of schools land and building assets are shown in the notes to the accounts.

## **2.2 PFI and Similar Arrangements**

The Council is deemed to control the services provided via its PFI arrangements and to control the residual value of the assets at the end of the contract. The accounting

policy for PFIs and similar contracts has been applied to these arrangements and the assets are recognised as Property, Plant and Equipment in the Council's Balance Sheet.

The operators' models were examined to identify the service element of the unitary charge. Where that charge could not be clearly separated the relevant costs were obtained from the models and a margin was applied to the costs to provide an amount for the service costs. The margin used was based on advice received from expert external advisors. The service element of the unitary charge is inflated annually by an agreed indicator (e.g. RPI) as per the contract.

The implicit interest rate (IIR) was calculated by discounting the non-service element of the unitary charge at a rate that brings it back to the fair value of the asset. The fair value of the asset is taken as the construction or refurbishment costs of the scheme. The IIR calculated is compared to the closing swap rate in the financial model to check the reasonableness of the assumptions made.

### **2.3 Investment Properties**

The Council has reviewed all assets to ensure they meet the accounting policy for investment properties (i.e. they are solely used to earn rentals and / or for capital appreciation) and as a result, assets are recognised as Investment Properties in the Council's Balance Sheet.

### **2.4 Valuation of Property Plant and Equipment**

The Council's property, plant and equipment assets are valued on the balance sheet in accordance with the statement of asset valuation principles and guidance notes issued by the Royal Institution of Chartered Surveyors (RICS):

- plant and machinery are included in the valuations of buildings when it is an integral part of the building.
- properties classified as operational, excluding council dwellings, were valued on the basis of net realisable value in existing use or, where a market did not exist, on the basis of depreciated replacement cost.
- council dwellings were valued in accordance with Ministry of Housing, Communities and Local Government (MHCLG) guidance at open market value less a specified, notified percentage known as the social housing discount.
- community assets and infrastructure have been valued at depreciated historical cost.
- properties classified as non-operational have been valued on the basis of market value for the highest or best use.

Council dwellings are revalued annually. All other non-current assets, with the exception of those valued at depreciated historical cost are valued sufficiently

regularly to ensure that their carrying amount is not materially different from their value at year end, but as a minimum every five years. Valuations are undertaken during the year by internal council Valuers and Jacobs, external Valuers commissioned by the Council with a valuation date of 1 April 2020. Jacobs provide indexation factors for the percentage increase in value from the date of the last valuation to 31 March 2021 for each category of asset. These are applied to the asset values, where material, to provide a more accurate balance sheet value.

## **2.5 Valuation of Heritage Assets**

The Code permits councils to measure community assets in the same way as heritage assets. However, the Council has decided that these should continue to be measured at depreciated historical cost.

The Code states that valuation of heritage assets may be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external valuers. The Council has therefore chosen to use market valuation, where this is available. Where a market valuation is not available insurance valuation has been used. Where this information is not available and cannot be obtained at a cost which is commensurate with the benefits to users of the financial statements, the assets are not recognised in the Balance Sheet. Items with a value of less than £100,000 are excluded from the balance sheet.

As a result, assets have been classified as Heritage Assets.

## **2.6 Classification of Financial Assets**

Under IFRS9 (Financial Instruments) the default valuation method of the Council's equity holdings would be Fair Value through Profit and Loss. However, it is the Council's view that the majority of its equity instruments are strategic investments (i.e. are not held for trading) and designating these at Fair Value through Other Comprehensive Income results in a reasonable and reliable accounting policy for the investment.

## **2.7 Better Care Fund (BCF)**

The Better Care Fund Pooled Budget arrangements commenced on 1 April 2015. The Council is the host for the Manchester BCF. The accounting arrangements for the BCF are dependent on whether the Council, as host, has control of the fund. The agreement with the Manchester Clinical Commissioning Group (CCG) states that relevant decisions must have unanimous agreement, all members of the fund hold providers to account for delivery of services and risks are borne in line with the agreement. The Council's view is that the BCF should be accounted for as a joint operation and as a result accounts for its share of the fund's assets, liabilities, expenditure and income.

## **2.8 Composition of the Council's Group**

The Council undertakes its activities through a variety of undertakings, either under ultimate control or in partnership with other organisations. Those considered to be

material are included in the group accounts. Profit and loss, net worth and value of non-current assets for each organisation are considered as a percentage of the Council's single entity accounts to determine those that are material. Turnover, assets and liabilities (including the pension liability) are assessed individually. An entity could be material but still not consolidated (if all of its business is with the Council and eliminated on consolidation) – i.e. the consolidation would mean that the group accounts are not materially different to the single entity accounts. The assessment of materiality also considers qualitative factors such as whether the Council depends significantly on these entities for the continued provision of its statutory services or where there is concern about the level to which the Council is exposed to commercial risk

### **3. Key Sources of Estimation Uncertainty**

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

The items in the Council's Balance Sheet at 31 March 2021 for which there is a risk of adjustment in the following financial year are:

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

Property, plant and equipment (with the exception of infrastructure, community assets, assets under construction and small value items of vehicles, plant and equipment) are revalued on a periodic basis and tested annually for indicators of impairment. Judgements are required to make an assessment as to whether there is an indication of impairment. This includes examination of capital expenditure incurred in the financial year to ascertain whether or not it has resulted in an increase in value of an asset. Advice has been provided by valuers employed by the Council. If the actual results differ from the assumptions the value of PPE will be over or understated. This would be adjusted when the assets were next revalued.

#### **3.2 Depreciation of Property, Plant and Equipment.**

Assets are depreciated based on useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to maintain the expenditure on repairs and maintenance resulting in uncertainty in the useful lives assigned to assets by the Valuers. If the useful life of assets is reduced depreciation increases and the carrying amount of assets falls.

However, due to capital regulations, there would be no impact on the general fund balance.

Jacobs have provided percentages, based on their professional judgement, for various components of council houses and flats. These percentages have been applied to the valuations of houses and flats to obtain valuations of the components

to which useful lives are applied to calculate the depreciation on council dwellings. If these percentages were amended, the value of the council dwellings and the related depreciation would be over or under stated.

### **3.3 Compensation Provisions**

The Council has made various provisions in relation to compensation claims submitted to the Council. These provisions are based on the number of claims outstanding at the end of the financial year, the average settlement amount for each type of claim and the likelihood of each type of claim being settled. It is not certain that the precedents set in previous years will be applicable to the current outstanding claims.

### **3.4 Provision for Business Rate Appeals**

The Council has made a provision for a reduction in business rate income due to appeals made against rateable values set by the Valuation Office Agency (VOA). This is based on percentage reductions in rateable values for hereditaments where there was an outstanding appeal on 31 March 2021. This provision includes the estimated impact on 2020/21 income of appeals anticipated to be lodged in future years. The percentages used for appeals against the 2010 valuation list are based on information from the VOA on the percentage reductions, per category of property and type of appeal, to the valuation list following previously settled appeals. Appeals raised against hereditaments with larger RVs have been considered separately. The percentage used for the reduction in the 2017 valuation list is based on the percentage that the 2010 list has fallen by adjusted by the reduction in value that has already occurred as a result of the new check, challenge, and appeal process.

### **3.5 Arrears**

At 31 March 2021 the Council had a balance of short term debtors. This included sundry debtors (including housing benefit overpayments), housing rent debtors, council tax debtors and business rates debtors. A review of these outstanding balances suggests that an impairment of doubtful debts was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.

### **3.6 Pensions Liability**

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the expected rate of price inflation, the rate at which salaries and pensions are expected to increase, mortality rates and rate of commutation of pensions. A firm of actuaries are engaged by the Pension Fund to provide expert advice about the assumptions to be applied. The effects on the net pension liability of changes in individual assumptions can be measured.