

## WIRRAL COUNCIL

### AUDIT AND RISK MANAGEMENT COMMITTEE

29 NOVEMBER 2011

<b>SUBJECT</b>	<b>ACCOUNTING FOR, AND RECORDING OF, ASSETS</b>
<b>WARD/S AFFECTED</b>	<b>ALL</b>
<b>REPORT OF</b>	<b>DIRECTOR OF FINANCE</b>
<b>RESPONSIBLE PORTFOLIO HOLDER</b>	<b>COUNCILLOR STEVE FOULKES</b>
<b>KEY DECISION</b>	<b>NO</b>

#### 1.0 EXECUTIVE SUMMARY

- 1.1. On 28 September 2011 this Committee in considering the Statement of Accounts 2010/11 requested that I bring a report to this meeting on the accounting for, and recording of, assets.

#### 2.0 RECOMMENDATION

- 2.1 That the accounting arrangements for the Council assets be noted.

#### 3.0 REASON FOR RECOMMENDATION

- 3.1 As the report is in response to the Committee request for further information on the subject of fixed assets shown in the Statement of Accounts the recommendation reflects the informative nature of this report.

#### 4.0 BACKGROUND AND KEY ISSUES

- 4.1. Fixed assets, also known as non-current assets, is the term used for assets and property that the Council owns and / or uses in the provision of services. They are in contrast to current assets such as cash held in bank accounts. These are items of value that the Council has acquired or constructed and uses over a period of time.
- 4.2 Fixed assets usually include items such as land and buildings, vehicles, plant, machinery and equipment. Further details on the main group of fixed assets, Property, Plant and Equipment (PPE) is detailed below. Other groups of assets such as Investment Property and Property, Plant and Equipment classified as assets held for sale are not used in the provision of services and are not covered in this report.

## **Assets Definition**

- 4.3 The assets on the Balance Sheet are accounted for in accordance with the Code of Practice on Local Authority Accounting and Reporting Standards (the Code) and International Accounting Standards (IAS) 16 (Property, Plant and Equipment), IAS 23 Borrowing Costs and IAS 36 Impairment of Assets.
- 4.4 The Code defines an asset as “a resource controlled by the Authority as a result of past events and from which future economic or service potential are expected to flow to the Authority”. IAS 16 expands upon this with Fixed Assets being assets whose future economic benefit is likely to flow into the entity i.e. the Council, whose cost can be measured reliably.

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

- 4.5 This group of assets has the following key characteristics:
- There must be a physical substance to the item, eg a building, and so it is a tangible asset. If the item is virtual e.g. a computer license it would be treated as an intangible asset.
  - The item must be held by the Council for the provision of goods or services, for rental to others (as part of service provision) or for administrative purposes. However, if a property is held to earn rentals or for capital appreciation it would be deemed an investment property and if it is held to be sold it will be deemed to be an asset held for sale.
  - The item must be of use for at least part of the succeeding financial year.

When these characteristics are met an item of property, plant or equipment is shown on the Balance Sheet if, and only if,

- It is probable that the future economic benefits or service potential associated with the item will flow to the Council. The Council does not have to own the item, but it must be likely to use it in the provision of services or gain the rights to generate cash from the item.
  - The costs of the item can be measured reliably and so costs must be identifiable. This is the definition used to define capital and used to add assets to the asset records.
- 4.6 In preparing the Statement of Accounts an assessment is made as to whether these conditions have been met. Items of PPE that qualify for recognition as assets are first recognised at cost value. The cost may include purchase price and any expenditure needed to make the asset operational and able to provide services. An item of PPE held under a finance lease is recognised for example PFI school assets.

4.7 The composition of PPE as detailed in the Statement of Accounts 2010/11:-

<b>Property Plant and Equipment Sub Category</b>	<b>Explanation and Examples</b>	<b>Balance Sheet 31 March 2011 £000</b>
Land and Buildings	Land and Buildings used in the provision of services. Examples being Schools, Offices, Day Centres.	523,644
Vehicles, Plant, Furniture and Equipment	Vehicles, plant and equipment used in the provision of services. Examples being IT hardware, gym equipment, environmental vehicles.	7,764
Infrastructure Assets	Infrastructure assets are inalienable, so their benefit can only be obtained by continued use in their original form. Examples are roads, footpaths, bridges, tunnels, coastal defenses. This type of asset cannot be applied to alternative uses and there is no obvious prospect of sale.	98,543
Community Assets	Community assets are held in perpetuity, have no determinable useful life and often have restrictions on their disposal which means that they cannot be used for direct service provision. Examples being parks and open spaces, historic buildings, works of art, civic regalia, museum items.	26,140
Surplus Assets	Surplus assets are surplus to service needs but do not meet the criteria that would result in them being classified as either investment property or assets held for sale. Examples include regeneration and strategic sites in Birkenhead.	2,484
Assets Under Construction	These assets are being built at the Balance Sheet date. Examples include capital schemes eg on road and school improvements that have not yet been completed.	26,283

### **Schools**

4.8 The accounting treatment on the Balance Sheet is determined by the school type. Community schools which are managed directly by the Council are recorded on the Balance Sheet. Foundation schools and Academies are not included which reflects the independent status of these schools and fits with the definition of assets set out above. It is for the Council to determine the appropriate treatment with reference to the particular circumstances regarding the governing and operational management of schools with reference to the International Financial Reporting Standards contained in the Code.

- 4.9 The accounting arrangements for Schools funded under the Private Finance Initiative have changed with the implementation of International Financial Reporting Standards. Accordingly the schools were classed as Council assets in the 2008/09 Accounts. However, Committee may recall that in the 2009/10 Accounts there were changes made in respect of those schools funded under the PFI arrangement which became Foundation Schools and resulted in these assets being removed from the Council Balance Sheet.
- 4.10 CIPFA is currently reviewing the accounting treatment for schools assets. This is in response to uncertainty amongst Councils regarding the accounting treatment of foundation, voluntary aided and voluntary controlled schools. Part of the consultation involves an interpretation of the recognition criteria for school land and buildings. This would require the Council to only recognise community school (including community special schools) land and buildings as assets of the Council. It proposes that voluntary aided, voluntary controlled and foundation (including foundation special schools) land and buildings would not be assets of a Local Authority. Any changes will be announced as an update to the current 2011/12 Code.

### **Community Assets**

- 4.11 It was identified during the financial year 2008/09 that the records relating to the assets held by the Art Gallery and Museum Service did not feature in the asset records. Whilst the more obvious items such as paintings were recorded, and insured, the records were not fully complete for 12,000 items including paintings, prints, ceramics and artefacts.
- 4.12 Since 2008 the service has embarked upon a programme to catalogue all such items which is seen as a medium term project. To date the fine art collection has been identified, valued and catalogued in accordance with the Museum Standards. Work is ongoing in cataloguing the collections held and forms part of the accreditation basis for the Museum Service. This is referred to in the Wirral Heritage Strategy 2011-14 and the Wirral Museums Service Forward Plan 2011-16 with a requirement to purchase and license a new specialist software system, and by using short-term contract staff to aim to complete this work by December 2012 with the final stages, including retrospective documentation completed by April 2016.

### **Valuation of Assets**

- 4.13 Once an asset has been recognised the Code requires the Council to measure the asset value with reference to a number of bases. Different types of PPE have a different valuation base i.e. approaches to determining the value of an asset.

## Property Plant and Equipment: Valuation Bases

Property Plant and Equipment Sub Category	Valuation Bases
Land and buildings Specialised Operational Properties	Fair Value based on Existing use Value (EVU) Where market value is not available, especially where the property is unused and rarely sold properties are valued on the basis of depreciated replacement cost.
Other Land and Buildings (Non Specialised)	Fair Value based on Existing use Value (EVU)
Vehicles, Plant, Furniture and Equipment	Fair value based on Existing use Value or Depreciated Replacement Cost. The Council can also value on a depreciated historic cost basis as an approximation for the fair value of assets which have short useful lives or low values or both.
Infrastructure Assets	Depreciated Historic Cost
Community Assets	Depreciated Historic Cost
Non Operational Surplus assets	Fair Value based on Existing use Value (EVU)
Assets Under Construction	Historical cost i.e. expenditure incurred up to the point the asset is brought into use.

- 4.14 For Property, Plant and Equipment valued with reference to fair value, valuations have to be updated at specific intervals. Valuations are carried out every five years and so each year the value of a group of assets is assessed. The programme of valuations is carried out by the Council Valuer in the Department of Law, HR and Asset Management.
- 4.15 The valuations undertaken are governed by professional standards set down by the Royal Institution of Chartered Surveyors (RICS). The valuer produces a valuation certificate which details the value of specific properties, and a valuation report which details a number of items including estimated remaining useful life and residual value of the specific properties.

### The Asset Register

- 4.16 Information on the Council asset base is essential to supporting the Statement of Accounts. Whilst the Accounts are prepared by the Finance Department the contribution of all other departments is critical in identifying any changes to the asset records. In respect of land and buildings many fall within the scope of the Department of Law, HR and Asset Management including property records and lease agreements which is reliant upon close working with departments. Similarly investment via the capital programme will impact upon the identification and valuation of assets. Vehicle fleet records and contracts, now under the Children & Young People Department, and the insurance records offer support to identifying any changes to, and confirmation of, the vehicle holdings.

- 4.17 The Council holds information on all assets, except infrastructure assets in an asset register. There were 1,178 assets recorded at 31 March 2011 with up to 40 pieces of information held on each asset such as asset group, asset use, method of valuation, value for accounting purpose, estimated remaining useful life and residual value.
- 4.18 For each asset, the register and accounting records holds a range of information to substantiate the values shown in the Balance Sheet. This includes information on accumulated depreciation and impairment, charges to the Comprehensive Income and Expenditure Account and the valuation of property certified by the valuer.
- 4.19 The Register was previously maintained as a series of manual records but with the increasing requirements under the introduction of International Financial Reporting Standards a computerised system was acquired during 2009/10. This helped in the preparation of the Statement of Accounts for 2009/10 and was expanded upon during 2010/11 as further information is obtained and required to be held to comply with the Standards.

#### **Future Changes to Asset Information**

- 4.20 One of the requirements of the Code, flowing from International Financial Reporting Standards, is that the Council analyses its land and buildings assets into categories, which is known as componentisation. This involves separately identifying specific elements of properties, an exercise which is undertaken as the buildings are subject to capital improvements and is therefore an evolving and developing area representing an increasing workload particularly for Asset Management but also for Financial Services.
- 4.21 The Code for 2011/12 will require the Council to disclose in the Accounts information on a new category of assets, Heritage Assets. This group of assets held principally for their contribution to knowledge or culture by the Council includes collections of items or artefacts that are exhibited or stored for example in museum or art collections. This will clearly link with the work of the Museum Service in respect of community assets referred to earlier.
- 4.22 The valuation of Infrastructure assets will in future be based on a valuation approach as opposed to the historic cost of works undertaken to construct, for example a road. Whilst systems have existed to meet the requirements for most assets the area of infrastructure asset records was less developed as it was only required by a smaller market. To affect the required changes the Council will increase the amount of information it holds on infrastructure assets and the Director of Technical Services has, in recent years, been looking at the options available for an Integrated Highways Asset Management System.

## **5.0 RELEVANT RISKS**

5.1 There are none directly resulting from the report. There is a risk to the Council if assets are not correctly identified and recorded particularly in respect of the relevant insurance cover.

## **6.0 OTHER OPTIONS CONSIDERED**

6.1 No other options were considered in respect of this report as it was requested by the Committee.

## **7.0 CONSULTATION**

7.1 There has been no specific consultation in respect of this report.

## **8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

8.1 There are no direct implications for these groups arising from this report.

## **9.0 RESOURCE IMPLICATIONS**

9.1. Whilst the report refers to financial and asset implications there are no direct implications in either these areas or under staffing or IT arising from this report.

## **10.0 LEGAL IMPLICATIONS**

10.1 There are no direct implications arising from this report.

## **11.0 EQUALITIES IMPLICATIONS**

11.1 There are no direct implications arising from this report.

## **12.0 CARBON REDUCTION IMPLICATIONS**

12.1 There are no direct implications arising from this report.

## **13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

13.1 There are no direct implications arising from this report

**REPORT AUTHOR:** Jenny Spick  
Chief Accountant – Financial Services  
telephone : 0151 666 3582  
e-mail : [jennyspick@wirral.gov.uk](mailto:jennyspick@wirral.gov.uk)

## REFERENCE MATERIAL

Code of Practice on Local Authority Accounting in United kingdom 2011/12.  
Code of Practice on Local Authority Accounting in United kingdom 2011/12 Code Update and 2012/13 Code – Invitation to Comment .  
Exposure Draft on Accounting for Non-Current Schools Assets.  
All produced by the Chartered Institute of Public Finance and Accounting (CIPFA).

## SUBJECT HISTORY

<b>Council Meeting</b>	<b>Date</b>
Audit & Risk Management Committee – Statement of Accounts 2010/11	28 September 2011