

BIRMINGHAM CITY COUNCIL**PUBLIC REPORT**

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| Report to: | AUDIT COMMITTEE |
| Report of: | Director of Council Management |
| Date of Decision: | 28 March 2023 |
| Subject: | Adoption of Accounting Policies for 2022/23 |
| Wards affected: All | |
| 1 Purpose | |
| 1.1 | To seek Members' approval to the adoption of accounting policies for the completion of the Council's accounts for 2022/23 and note the changes to infrastructure assets accounting in 2021/22. |
| 1.2 | To notify Members of the changes in accounting standards that will impact on the Council's Accounts in future years. |
| 2 Decisions recommended: | |
| | That Audit Committee |
| 2.1 | Consider and adopt the accounting policies for the determination of the Council's accounts for 2022/23, and note the changes to infrastructure assets accounting in 2021/22 |
| 2.2 | Note the implications for future years' accounts arising from the changes in Accounting Standards. |

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3 Compliance Issues:

3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?:

Yes

3.2 Relevant Ward and other Members/Officers etc. consulted on this matter:

The Chair of the Committee has been consulted.

3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):

Sections 3(3) and 3(4) of the Local Audit and Accountability Act 2014 require the Council to prepare financial accounts for each 12 month period ending 31 March.

3.4 Will decisions be carried out within existing finances and resources?

Yes

3.5 Main Risk Management and Equality Impact Assessment Issues (if any):

The Council is required to produce its annual accounts within statutory deadlines. The adoption of its accounting policies at an early stage will ensure that there are clear guidelines on recording accounting entries.

4 Relevant background/chronology of key events:

4.1 The Council is required to prepare its accounts with regard to: a) Relevant accounting standards; and b) The Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 published by the Chartered Institute of Public Finance Accountancy (the Code) which is updated annually.

4.2 Whilst accounting standards provide the framework for the preparation of accounts, they are subject to interpretation and judgement, for example, the period over which non-current assets are depreciated. The Council's accounting policies set out the Council's interpretation of the application of relevant accounting standards and form a consistent basis for recording activities.

4.3 In developing the accounting policies for the Council, the template provided in the CIPFA Code guidance 2022/23 has been used as a base position except where amendments to reflect local circumstances or to enhance the policies is more appropriate. The policies where there are some changes to the Guidance Model are as follows:

- Note xvii – Accounting for Schools – additional clarification has been added to set out the Council’s approach to accounting for land and building assets associated with Voluntary Aided, Voluntary Controlled and Foundation Schools.
- Note xix – Cash and Cash Equivalents – the Council policy is to recognise cash and cash equivalents as those assets where the asset can be used or recovered immediately for use. All other deposits are accounted for as investments. This varies from the CIPFA guidance which describes cash equivalents as those investments that are highly liquid investments that mature in a period of no more than three months.
- Note xx - Provisions, Contingent Liabilities and Contingent Assets – sections have been added to cover the accounting arrangements for equal pay and onerous contracts given the significance of these disclosures to the Council. The paragraph for equal pay provisions has also been updated to reflect the change in legislation noted below.
- Note xxii. Council Tax and Business Rates – additional clarification has been added.
- Note xxvii – Council Acting as Agent - policy has been added for clarification
- xxx – Dedicated Schools Grant deficit balances – new policy has been added for clarification, see below for explanation regarding new legislation.
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4.4 The proposed accounting policies for consideration by Members are set out in Appendix 1 to this report. When the financial statements are produced, only those accounting policies that have an impact on the financial statements for the years under consideration will be included in the final document.

4.5 The only other alteration that may be made to them will be any possible streamlining, or simplification deemed possible upon review through the accounts production process. No changes will be made that materially affect the Council’s accounting policy without noting to the Audit committee for approval.

5 New Accounting Standards

- 5.1 The following accounting standards will impact on the 2023/24 financial statements and will be referenced in the 2022/23 financial statements as “An Accounting Standard Issued but not yet Adopted”.
- Definition of Accounting Estimates (Amendments to IAS 8) issued in February 2021.
 - d) Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) issued in February 2021.
 - e) Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) issued in May 2021.

Where the above standards apply to the Council in a material way, they will be disclosed by way of a Note in the 2022/23 report

- 5.2 Mandatory implementation of IFRS 16 Leases in the Code and for local authority financial statements has been deferred until 1 April 2024. Local authorities are permitted to voluntarily implement the standard as of 1 April 2022 and 1 April 2023. The Council will not be implementing the IAS16 requirements early and is planning for 1 April 2024.

6 Accounting Implications

- 6.1 The potential implications for future years' accounts as a result of the implementation of the new accounting standards will be reported to Members as the standards are published and additional information becomes available.

7 Infrastructure Assets Issue

- 7.1 In CIPFA/LASAAC issued an Update to the Code and Specifications for Future Codes for Infrastructure Assets which includes from 1 April 2021 to 31 March 2025 a temporary relief not to report gross cost and accumulated depreciation for infrastructure assets.
- 7.2 Local authorities have generally adopted the network model for measuring depreciated historical cost. A typical model will operate by adding new expenditure to the brought forward balance and by deducting depreciation. Replaced parts are generally assumed to have been fully depreciated and their derecognition requires no adjustment to the carrying (or net) amount.
- 7.3 Paragraph 4.1.2.51 of the Code is (and has been) generally applied in such a way that the carrying amount of a replaced or restored part of the asset is derecognised at a zero amount where expenditure has taken place to renew

or replace any part of an infrastructure asset. This fits the economic model because local authorities have not had sufficient resources to do anything other than undertake replacement or renewal expenditure when parts of infrastructure assets are worn out.

- 7.4 Statutory provisions have been issued which will allow local authorities to follow an accounting treatment which supports the assumption that derecognition of the carrying amount is zero though they also allow authorities to follow paragraph 4.1.2.51. The Council has elected to make use of the statutory provisions deeming the carrying amount of derecognised assets to be zero.
- 7.5 Additional Accounting Policies have been included to make clear the Council's accounting for infrastructure assets

8 Recommendations

- 8.1 It is recommended that Members:

- a) adopt the accounting policies for 2021/22 as detailed in Appendix 1.
- b) note the implications for future years of the introduction of new accounting standards

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Rebecca Hellard, Director of Council Management

Appendices

Appendix 1 – Accounting Policies 2022/23