BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Director of Council Management**
Date of Decision:	**29 March 2022**
Subject:	**Adoption of Accounting Policies for 2021/22**
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 2021/22 and note the potential changes to them in light of the recently concluded consultation.

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 2021/22, and approve the potential changes to PPE valuations if the Code is amended

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 2021/22 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 20021/22 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.

- Acquired Operations - policy has been removed as there are no acquired operations in 2021/21.

- Discontinued Operations - policy has been removed as there are no discontinued operations in 2021/21.

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, except those mentioned in Paragraph 7 below

5 New Accounting Standards

5.1 There is one accounting standard, IFRS 16, Leases, which will impact on the 2022/23 financial statements and will be referenced in the 2021/22 financial statements as “An Accounting Standard Issued but not yet Adopted”.

5.2 The implementation of this standard was deferred for a year as whilst it has no impact on balances for local authorities it was considered to do so for other organisations that form part of the Whole of Government Accounts (WGA). As a result of the impact on the bottom line for certain organisations, it was decided that implementation would be deferred for part of the public sector for another year. This would have meant that local authorities would have had to produce their accounts under the new accounting standard and then provide information for the WGA on the old accounting basis. Therefore, it was agreed that implementation would be deferred for local authorities until the 2022/23 financial year.

5.3 This standard does not impact on an entity that is a lessor but does have an impact where it is a lessee. Once the standard is implemented lessees will have to account for leases greater than 12 months for assets, other than low value assets, by recognising an asset, with an associated liability for the present value of the unavoidable lease payments, on its balance sheet.

Effectively operating leases would be treated in the same way as finance leases are at present. The change in approach is likely to mean that all new substantial leases of a lessee would be treated as capital expenditure and fall within the Prudential Framework.

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 Emergency proposals for the update of the 2021/22 Code

7.1 In February 2022 CIPFA/ LASAAC launched a short consultation on time-limited changes to the Code to help alleviate current delays to the publication of audited financial statements

7.2 **Pausing Valuation of Operational Property Plant and Equipment (PPE):** CIPFA/ LASAAC understands that valuation of Operational PPE is an area where significant effort is being made by both preparers and auditors, and has contributed to delays in the finalisation of audited financial statements. Improvement in this area could have a significant beneficial effect on audit completion if it can be achieved without adverse effects on public accountability.

7.3 The Code sets out requirements for measurement of operational PPE to be at current value. CIPFA/LASAAC proposes that local authorities should have the opportunity to ‘pause’ normal expectations that most operational PPE are measured once every five years for each class of assets.

7.4 CIPFA/LASAAC also proposes that operational PPE is subject to indexation, applied to the carrying value of assets at the start of the financial year, and subject to the normal adjustments for asset disposals, depreciation and impairment.

7.5 The measurement for these assets would be declared to reflect the indexation adjusted calculation, rather than being an estimate of the IAS 16 revaluation basis figure, which would be achieved with full revaluation of all assets.

7.6 The approach chosen from the permitted options would need to be declared in the financial statements as an accounting policy

7.7 The proposals are expected to be a temporary expedient that will be adopted for a short-term period, after which reporting will be carried out under the full requirements of IAS 16 as adopted in the Code.

7.8 Post consultation CIPFA/LASAAC has recently announced it will no longer support this pause.

7.9 **Delay to Implementation of IFRS16:** This has already been deferred three times

7.10 CIPFA/LASAAC recognises local authority finance teams have been facing many pressures in the last two years and also the capacity of auditors to progress the substantial verification requirement

7.11 CIPFA/LASAAC is consulting on deferring implementation of IFRS 16 for at least a year.

8 Recommendations

8.1 It is recommended that Members:

a) adopt the accounting policies for 2021/22 as detailed in Appendix 1. Adopt the potential changes that may be introduced into the Code and the resultant changes to the Accounting policies

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 2021/22