BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Interim Chief Finance Officer**
Date of Decision:	**30 March 2021**
Subject:	**Adoption of Accounting Policies for 2020/21**
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 2020/21.

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 2020/21.

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 2020/21 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 20020/21 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 2020/21.

- Discontinued Operations - policy has been removed as there are no discontinued operations in 2020/21.

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.

5 New legislation, requiring an amendment to policies or procedures

5.1 There are two areas of legislation that have changed, which impact on our policies:

a) ***DSG deficit balances -*** For which there are two changes in legislation:

- The school and early years finance (England) regulations 2020 came into force on 21 February 2020 and is applicable to local authority accounting periods beginning 1 April 2020. This requires deficits to be carried forward to be funded by future DSG income, unless permission is provided by the secretary of state to fund them from general income;

- The local authorities regulations 2020 came into force on 29 November 2020, which requires that where a local authority has a deficit in respect of its schools budget for each of FY20, FY21 or FY22, it must not charge this to a revenue account, and instead must charge it to a separate account used solely for recognising deficits in respect of schools budgets.

Note that the financial statements will continue to be produced under IFRS with DSG being accounted for in the normal way, and we have created the new reserves in order to be compliant with this legislation. Note xxxi explains this in our accounting policies.

b) ***Equal pay provision*** - In England and Wales, the ability to defer the reserves impact of new provisions for Equal pay claims ceased to be allowable from 1 April 2020. These regulations previously gave discretion to a local authority not to charge to revenue a provision for back pay arising from unequal pay claims until the cash settlement actually took place. Any new claims, from 1 April 2020 can no longer be deferred to payment, and must be recognised in line with section 8.2 of the code. Note xxi in our accounting policies explains this.

6 New Accounting Standards

6.1 There is one accounting standard, IFRS 16, Leases, which will impact on the 2021/22 financial statements and will be referenced in the 2020/21 financial statements as “An Accounting Standard Issued but not yet Adopted”.

6.2 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 2021/22 financial year.

6.3 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.

6.4 There are minor amendments to IAS19 (employee benefits), which we will be adopting but that do not materially affect the financial statements, or our accounting policies.

7 Accounting Implications

7.1 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.

8 Recommendations

8.1 It is recommended that Members:

a) adopt the accounting policies for 2020/21 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, Interim Chief Finance Officer

Appendices

Appendix 1 – Accounting Policies 2020/21