



FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

22 March 2022

Report of the Interim Director of Finance & ICT

Accounting Policies

1. Purpose

- 1.1 To provide Members with amendments to the Accounting Policies for 2021-22 and with the proposed Accounting Policies for 2022-23.

2. Information and Analysis

- 2.1 Accounting policies are the conventions and practices applied by the Council in preparing its financial statements.

2021-22 Accounting Policies

- 2.2 On 23 March 2021, Audit Committee approved the proposed Accounting Policies for the 2021-22 financial year. Since then, the following amendments have been made to the 2021-22 Accounting Policies:
- Section 1.13 Non-Current Asset Classification – minor textual amendments, which do not constitute a change in Accounting Policy:
 - Assets Under Construction are now defined explicitly as a separate category of Property, Plant and Equipment under Non-Operational Assets.
 - Assets Held for Sale are explicitly referenced as ‘Non-Current Assets Held for Sale’
 - Section 1.14 Non-Current Asset Valuation Methodology – addition to text which does not constitute a change in Accounting Policy:

- Non-Current Assets which aren't required to be measured at Current Value are now identified, these being: Infrastructure Assets, Assets Under Construction, Community Assets and Heritage Assets.
 - Fair Value is clarified as a basis of Current Value measurement.
 - Section 1.17 Depreciation/Amortisation Methodology – addition to text which does not constitute a change in Accounting Policy:
 - Explicitly clarifies that Assets Under Construction and Heritage Assets (with indefinite lives) are not depreciated.
- 2.3 There have been no substantive changes from the Accounting Policies in the approved 2020-21 Statement of Accounts.
- 2.4 The updated 2021-22 Accounting Policies are attached at Appendix Two.
- 2.5 Only 9% of local authority accounts in England met the audit publication deadline of 30 September 2021. The Department of Levelling-up Housing and Communities (DLUHC) asked CIPFA LASAAC to consider ways in which the Code may alleviate delays to the publication of audited financial statements. CIPFA LASAAC considered this request and in February 2022 has issued an exceptional consultation on time limited changes to the Code, which is the subject of a separate report to this meeting. One approach being explored is to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021-22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation. Any resulting amendments required to the 2021-22 Accounting Policies will be reported to Audit Committee in due course.

2022-23 Accounting Policies

- 2.6 Appendix Three includes the proposed 2022-23 Accounting Policies. These include amendments for IFRS 16 Leases, based on technical guidance issued to date for 2022-23. Additional technical guidance is likely to be received and it is possible that this will also impact on the 2022-23 accounting policies. Any further proposed amendments will be reported to Audit Committee in due course.
- 2.7 The new accounting standard IFRS 16 Leases originally had a scheduled implementation date of 1 April 2020 for the UK Public Sector.

- 2.8 At its meeting on 27 March 2020, the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Local Authority Accounting Code Board (CIPFA/LASAAC) agreed to defer the implementation of IFRS 16 Leases to the 2021-22 financial year, with an effective date of 1 April 2021. This decision aligned with the proposals across the public sector but needed to be agreed by the Government's Financial Reporting Advisory Board (FRAB).
- 2.9 In December 2020, CIPFA LASAAC announced a further delay to the implementation of IFRS 16 Leases in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), until the 2022-23 financial year. This aligns with the decision at FRAB to establish a new effective date of 1 April 2022 for the implementation of IFRS 16. CIPFA LASAAC has taken this decision in response to pressures on council finance teams as a result of the Covid-19 pandemic.
- 2.10 The exceptional consultation issued by CIPFA LASAAC on time limited changes to the Code (see paragraph 2.5 above), includes the possibility of deferring the implementation of IFRS 16 Leases for a further year and reversing the planned changes to the 2022-23 Code to implement that standard.
- 2.11 In preparation for the previous expected implementation date, in respect of the introduction of IFRS 16 Leases, amendments had been made to the Council's Accounting Policies, replacing existing lease accounting standards and interpretations: IAS 17, IFRIC 4, SIC 12 and SIC 27. These amendments have been reviewed and included in the Accounting Policies for 2022-23 provided to Members for approval. There are significant potential implications for the accounting treatment of leases. All leases will be recognised in lessee accounts, with a lease liability and a corresponding right-of-use asset. The Accounting Policy changes are an addition to paragraphs 1.14 and 1.17 for right-of-use assets and the insertion of replacement lease paragraphs 1.18 to 1.26 and 1.34 to 1.35. Preparations are underway to ensure that the Council is ready for the introduction of IFRS 16.
- 2.12 The transition to accounting for leases as required by IFRS 16 entails a significant amount of work:
- to identify all the arrangements which fall within its scope;
 - to ensure that all right-of-use property assets are valued appropriately;
 - to set up the necessary master data within the financial systems to separately identify right-of-use assets in the Council's accounts;

- to procure and implement specialist software to manage, record, calculate and process the bookkeeping entries needed to correctly reflect the lease liability and right-of-use asset value and to provide the required disclosure information; and
- to develop and maintain a workflow to ensure the record of lease arrangements remains up to date.

- 2.13 Around 150 contracts which contain leases relating to land and buildings have been identified to date, including where the Council is holding over on a lease after the term has expired. It is at present unclear whether an additional 60 Voluntary Controlled/Aided school sites will fall in scope of IFRS 16 and further guidance is awaited from the CIPFA/LASAAC Task and Finish group. Also, it is anticipated that a large number of contracts entered into by the Council's schools, which will be in the scope of IFRS 16, will be discovered. It is estimated that the lease liabilities reported on the balance sheet will increase by between £5m and £9m, with an equivalent or greater increase to the value of the reported assets relating to these leases. The scale of this change means that the risk of the Statement of Accounts for 2022-23 being materially misstated as a result of an incorrect implementation is not insignificant.
- 2.14 Regular meetings between technical and capital accountants and the valuers are taking place, to agree approaches to identifying contracts referencing property assets which are in scope and suitable valuation methodologies for property right-of-use assets. The majority of the surveys required to value the property right-of-use assets which have already been identified have been undertaken.
- 2.15 At present little information is available as to valuation approach and methodology to be used in measuring lease interests, particularly for specialised assets. The Royal Institute of Chartered Surveyor (RICS) Public Sector Valuation Forum are working on an Insight Paper which is due to be published in early 2022. CIPFA is working on agreeing the treatment of licences used by schools for assets owned by religious bodies.
- 2.16 A significant amount of work has been undertaken to identify and record the Council's lease interests in property assets. Further information from departments and schools identifying lease interests in vehicles, plant and equipment has been requested and is expected to be received soon.

- 2.17 Some initial scoping of software solutions which can cope with the volume and complexities of the records, calculations and reporting requirements has been undertaken. Following submission of a business case for the software and Data Protection Impact Assessment (DPIA) screening, an enhancement to the Council's existing SAP financial system is now being considered.
- 2.18 It should also be acknowledged that the requirement in IFRS 16 to revalue the right-of-use assets for all property leases with sufficiently regularity and to adjust lease liabilities for any relevant changes in indices will place an additional and ongoing burden on the Council's valuers and accountants.

3. Alternative Options Considered

- 3.1 Not Applicable – The CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires authorities to select accounting policies in accordance with IAS 8 Accounting Policies.

4. Implications

- 4.1 Appendix One sets out the relevant implications considered in the preparation of the report.

5. Consultation

- 5.1 No consultation is required.

6. Background Papers

- 6.1 Held electronically by Financial Strategy, Finance & ICT.

7. Appendices

- 7.1 Appendix One – Implications.
- 7.2 Appendix Two – Updated 2021-22 Accounting Policies.
- 7.3 Appendix Three – Proposed 2022-23 Accounting Policies.

8. Recommendations

That Audit Committee:

- 8.1 Approves the changes outlined above in relation to the Accounting Policies for 2021-22; and
- 8.2 Approves the changes outlined above in relation to the Accounting Policies for 2022-23.

9. Reasons for Recommendations

- 9.1 These textual changes clarify the Council’s existing Accounting Policies.
- 9.2 The changes reflect the requirements expected upon adopting the new IFRS 16 Leases accounting standard.

Report Author:
Sam Holmes

Contact details:
Samuel.Holmes@derbyshire.gov.uk

This report has been approved by the following officers:

<p>On behalf of:</p> <p>Director of Legal Services and Monitoring Officer Interim Director of Finance and ICT</p>	
--	--

Appendix One

Implications

Financial

1.1 As outlined in the body of the report.

Legal

2.1 The chief financial officer is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

2.2 In preparing this statement of accounts, the chief financial officer must select suitable accounting policies and then apply them consistently.

Human Resources

3.1 None.

Information Technology

4.1 None.

Equalities Impact

5.1 None.

Corporate objectives and priorities for change

6.1 None.

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None.