



FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

21 March 2023

Report of the Interim Director of Finance & ICT

Accounting Policies

1. Purpose

- 1.1 To provide Members with amendments to the Accounting Policies for 2022-23 and with the proposed Accounting Policies for 2023-24.

2. Information and Analysis

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

2022-23 Accounting Policies

- 2.2 Infrastructure Assets include all tangible (physical) assets required within the Council's road networks. Accounting for subsequent expenditure on Infrastructure Assets, and specifically whether local authorities should be assessing if there is any undepreciated cost remaining in the balance sheet for the replaced components that need to be derecognised, has recently been subject to heightened audit focus. This may also lead to issues relating to the reporting of gross historical cost and accumulated depreciation (depreciated historical cost). As a result, 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) have 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.

Included in the guidance in the CIPFA Bulletin issued on 11 January 2023 is the recommendation that an authority's accounting policies clearly set out how the authority is accounting for Infrastructure Assets and should include commentary on statutory prescriptions (if applied) and depreciation.

- 2.3 The Government has also issued statutory provisions which will allow local authorities to follow an accounting treatment for Infrastructure Assets which supports the assumption that derecognition of the carrying amount is zero although they do also allow authorities to follow the existing requirements of the Code.
- 2.4 The external audit opinion, in respect of the Council's Statement of Accounts 2021-22, has been deferred whilst awaiting the outcome of these updates to the guidance and provisions. This has resulted in a delay to the Council publishing its audited 2021-22 Statement of Accounts.
- 2.5 Thought is being given as to what amendments may be required to the Council's 2021-22 and 2022-23 Accounting Policies, having considered these changes to the Code, the new statutory instrument, and the updated guidance.
- 2.6 The new accounting standard IFRS 16 Leases had a scheduled implementation date of 1 April 2022 for the UK Public Sector.
- 2.7 In April 2022, CIPFA LASAAC announced its formal decision to defer the implementation of IFRS 16 until 1 April 2024 (and therefore in the 2024-25 Code). However, both the 2022-23 and the 2023-24 Codes will allow for adoption as of 1 April 2022 or 1 April 2023, respectively.
- 2.8 Implementation of IFRS 16 requires 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. The preferred software solution is an additional module to the Council's existing core financial system, SAP, as this aligns with the software non-proliferation (Simplify) aspect of the ICT Strategy. Implementation of this module is dependent on the upgrade to SAP S/4 HANA having taken place. The upgrade to S/4 HANA is currently scheduled to be implemented later this year.
- 2.9 In light of the anticipated date of the SAP upgrade and to allow adequate time for implementation of the new standard, the Council is expected to adopt IFRS 16 with a transition date of 1 April 2024.

- 2.10 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. A significant number of these contracts require a valuation for the property right-of-use assets. Due to current resource constraints in the Estates valuation team, it is now anticipated that this work will need to be outsourced to a suitable chartered surveying practice.
- 2.11 On 22 March 2022, Audit Committee approved the proposed Accounting Policies for the 2022-23 financial year. The updated 2022-23 Accounting Policies reflect the removal of the IFRS 16 Leases updates, which were previously approved by Members, and the reinstatement of the existing lease accounting standards and interpretations: IAS 17, IFRIC 4, SIC 12 and SIC 27.
- 2.12 The updated 2022-23 Accounting Policies are attached at Appendix Two. Any further proposed amendments will be reported to Audit Committee in due course.

2022-23 Accounting Policies

- 2.13 Appendix Three includes the proposed 2023-24 Accounting Policies. No changes have been made to the 2022-23 Accounting Policies. Additional technical guidance is likely to be received and it is possible that this will also impact on the 2023-24 accounting policies. Any further proposed amendments will be reported to Audit Committee in due course.

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 CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022-23
- 6.2 CIPFA Bulletin 12 Accounting for Infrastructure Assets Temporary Solution: <https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-12-accounting-for-infrastructure-assets-temporary-solution>
- 6.3 CIPFA updated statement on the deferral of IFRS 16 Leases: <https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/updated-statement-on-the-deferral-of-ifrs-16-leases>

7. Appendices

- 7.1 Appendix One – Implications.
- 7.2 Appendix Two – Updated 2022-23 Accounting Policies.
- 7.3 Appendix Three – Proposed 2023-24 Accounting Policies.

8. Recommendations

That Audit Committee:

- 8.1 Notes that changes may be required to the Accounting Policies for 2021-22 and subsequent years in respect of Infrastructure Assets;
- 8.2 Approves the changes outlined above in relation to the Accounting Policies for 2022-23; and
- 8.3 Approves the changes outlined above in relation to the Accounting Policies for 2023-24.

9. Reasons for Recommendations

- 9.1 Updated guidance on accounting for Infrastructure Assets in the CIPFA Bulletin issued on 11 January 2023. Changes may be required to support the external auditor's ability to issue an opinion on the accounts.

9.2 The changes reflect the deferral of the implementation of IFRS 16 Leases until 1 April 2024.

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Appendix One

Implications

Financial

- 1.1 The updated 2022-23 Accounting Policies reflect the removal of IFRS 16 Leases updates, which were previously approved by Members, and the reinstatement of the existing lease accounting standards and interpretations. This follows the deferral of the implementation of IFRS 16 until 1 April 2024.
- 1.2 Further amendments to the Council's 2021-22 and 2022-23 Accounting Policies may be required having considered the changes to the Code, the new statutory instrument, and the updated guidance relating to replacement/renewal expenditure on Infrastructure Assets.

Legal

- 2.1 The Chief Financial Officer (S151 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.