



FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

19 March 2024

Report of the Director of Finance & ICT

Accounting Policies

1. Purpose

- 1.1 To ask Audit Committee to note changes made to the Accounting Policies for 2021-22 and subsequent years in respect of Infrastructure Assets and to seek approval for amendments to the Accounting Policies for 2023-24 and to the proposed Accounting Policies for 2024-25.

2. Information and Analysis

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

2023-24 Accounting Policies

- 2.2 On 21 March 2023, Audit Committee approved the proposed Accounting Policies for the 2023-24 financial year.
- 2.3 As reported at that meeting, the Government has 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 Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting (the Code).
- 2.4 As a result, the Council's 2021-22 and 2022-23 Accounting Policies have been amended at Section 1.11 to include the following provision:

- The Council has determined in accordance with Regulation 30M of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for Infrastructure Assets when there is replacement expenditure is nil.
- 2.5 The amendment above is included in the proposed 2023-24 Accounting Policies.
- 2.6 In addition, the following amendments have been made to the 2023-24 Accounting Policies:
 - Section 1.24 – textual amendments, which do not constitute a change in Accounting Policy:
 - Improvements have been made to the wording of the definition and accounting treatment of Service Concession Arrangements (e.g. PFI contracts).
- 2.7 The updated 2023-24 Accounting Policies are attached at Appendix Two. Any further proposed amendments will be reported to Audit Committee in due course.

2024-25 Accounting Policies

- 2.8 The new accounting standard IFRS 16 Leases had a scheduled implementation date of 1 April 2022 for the UK Public Sector.
- 2.9 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.
- 2.10 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 in April this year.

- 2.11 In light of the anticipated date of the SAP upgrade and to allow adequate time for implementation of the new standard, the Council will adopt IFRS 16 with a transition date of 1 April 2024.
- 2.12 In preparation for 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 are included in the Accounting Policies for 2024-25 provided to Audit Committee 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 1.13, 1.14 and 1.17 for right-of-use assets and the insertion of replacement lease paragraphs 1.18 to 1.23 and 1.33 to 1.34. Paragraph 1.26 has also been amended for the impact on Service Concession Arrangements, which are now in scope of the new accounting standard. This affects the service concession asset classification and ongoing liability measurement. Preparations are underway to ensure that the Council is ready for the introduction of IFRS 16.
- 2.13 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;
 - to develop and maintain a workflow to ensure the record of lease arrangements remains up to date; and
 - to procure and implement specialist advice on how to practically apply the standard to Service Concession Arrangements (e.g. PFI contracts).

- 2.14 Around 150 contracts which contain leases relating to land and buildings have been identified to date and an additional 60 Voluntary Controlled/Aided school sites need to be reviewed to determine if they will fall in scope of IFRS 16. Also, it is anticipated that a number of contracts entered into by the Council's schools, which will be in the scope of IFRS 16, may 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 2024-25 being materially misstated as a result of an incorrect implementation is not insignificant.
- 2.15 A significant number of the contracts containing land and building leases require a valuation for the property right-of-use assets. The Estates valuation team is planning to undertake these valuations 'in house' over the summer of 2024, subject to receipt of a list of the applicable contracts from the Financial Strategy team sufficiently ahead of time.
- 2.16 Resource constraints across both the Estates valuation and Financial Strategy teams pose a significant risk to an accurate and timely implementation.
- 2.17 Appendix Three includes the proposed 2024-25 Accounting Policies. Additional technical guidance is likely to be received and it is possible that this will also impact on the 2024-25 Accounting Policies. Any further proposed amendments will be reported to Audit Committee in due course.

3. Alternative Options Considered

- 3.1 Not Applicable – 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 2023-24.
- 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 2023-24 Accounting Policies.
- 7.3 Appendix Three – Proposed 2024-25 Accounting Policies.

8. Recommendations

That Audit Committee:

- 8.1 Notes the changes made 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 2023-24.
- 8.3 Approves the changes outlined above in relation to the Accounting Policies for 2024-25.

9. Reasons for Recommendations

- 9.1 Updated guidance on accounting for Infrastructure Assets in the CIPFA Bulletin issued on 11 January 2023. Changes were required to support the external auditor's ability to issue an opinion on the accounts.
- 9.2 The changes reflect the implementation of IFRS 16 Leases on 1 April 2024.

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Appendix One

Implications

Financial

- 1.1 Amendments to the Council's 2021-22 Accounting Policies, and subsequent years, were required having considered the changes to the Code, the new statutory instrument, and the updated guidance relating to replacement/renewal expenditure on Infrastructure Assets.
- 1.2 The updated 2023-24 Accounting Policies include textual amendments, which do not constitute a change in Accounting Policy, to improve the wording of the definition and accounting treatment of Service Concession Arrangements.
- 1.3 The updated 2024-25 Accounting Policies reflect the requirements expected upon adopting the new IFRS 16 Leases accounting standard. 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 2024-25 being materially misstated as a result of an incorrect implementation is not insignificant.

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.
- 2.3 Under the Council's Financial Regulations contained within its Constitution, the Chief Financial Officer has to identify any significant changes to Accounting Policies and ensure that they are reported to and approved by Audit Committee.

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.