Report to Audit Committee

2021/22 Final Accounts - Proposed Accounting Policies and Critical Judgements

Portfolio Holder: Councillor Abdul Jabbar MBE – Deputy Leader and Cabinet Member for Finance and Low Carbon

Officer Contact: Anne Ryans, Director of Finance

Report Author: Lee Walsh, Finance Manager (Capital and Treasury)
Ext. 6608

10 March 2022

Reason for Decision

In line with best practice principles, approval is sought for the significant accounting policies and the critical judgements to be adopted in the preparation of the Council's 2021/22 Statement of Accounts. Members are also asked to note the recent consultation and the Council's response.

Executive Summary

The report sets out the Council's proposed accounting policies and critical judgements to be adopted in completing the 2021/22 Statement of Accounts. The opportunity is also been taken to update the Audit Committee of the recent consultation and potential impact on the Statement of Accounts for 2021/22 and 2022/23.

Recommendations

It is recommended that the Audit Committee:

1) Notes the recent consultation response provided by the Council to the emergency proposals for an update of the 2021/22 Code of Practice on Local Authority Accounting in the UK and the 2022/23 Code
2) approves the Council's proposed accounting policies to be adopted in completing the 2021/22 Statement of Accounts
3) notes the critical judgements made by management when producing the Statement of Accounts.

1. **Introduction**

1.1 This report outlines the latest consultation issued in February 2022 on the emergency proposals for an update of the 2021/22 Code of Practice on Local Authority Accounting in the UK and the 2022/23 Code, that may impact the preparation of the 2021/22 accounts. It also presents the significant accounting policies that will be used in the preparation of the 2021/22 Statement of Accounts and explains the requirement to disclose the critical judgements made by management when producing the Statement of Accounts.

2. **Consultation on emergency proposals for an update of the 2021/22 Code of Practice on Local Authority Accounting in the UK and the 2022/3 Code**

2.1 In December 2021, the Department of Levelling-up Housing and Communities (DLUHC) asked CIPFA / The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) to consider ways in which the Code may ameliorate this crisis position within the sector, regarding the fact that the significant majority (91%) of local bodies missed the statutory deadline of 30 September 2021 for publication of their audited 2020/21 accounts (Oldham was not one of the 91%). CIPFA LASAAC considered this request and has issued this exceptional consultation in February 2022, which explores two possible changes that might be made as an update to the 2021/22 Code and to the agreed position in the 2022/23 Code.

2.2 After considering a wide range of options CIPFA/LASAAC decided to explore two approaches:

- An adaptation to the Code to allow Local Authorities to pause professional valuations for operational property, plant and equipment (PPE) 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
- 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.

2.3 The consultation lasted for a 4-week period to 3 March 2022. The Council has responded to the consultation. The Council's response is at Appendix 3. A summary is highlighted below.

Pausing valuation and applying indexation to operational property, plant and Equipment

2.4 The Council does not agree with the proposal of pausing the professional valuations for PPE and applying indexation for the following reasons:

- The Council would question the pausing of the professional valuation process and in particular the reasoning why the pausing is required. The Council feels that rather than a final accounts preparation issue it is more of an audit issue and the solution maybe to look at the auditing standards or the requirements of the external auditor rather than looking at amending an individual element of the final accounts process. The Council can see the benefits to the auditors of the pause in the valuation process in the reduced time to complete the audit. However, the Council would question what the benefits are of a short-term fix when there are more fundamental issues in the audit of Local Authority accounts that require attention. The pause will only be a short-term solution for larger long-term issues and in another few years will it be required again to allow the External Auditors catch up.

- The Council has already completed a large proportion of its asset valuation work for 2021/22 and any change in the process will incur additional work to unravel the entries already input into the asset register and general ledger. If required, the additional work could impact the Council's ability to meet the statutory deadlines for handover of the accounts to the External Auditors.
- By changing to indexation, the Council would incur an additional cost to have the assets revalued under the new methodology. The Council, due to its early asset valuation deadline, has already incurred the majority of the cost for 2021/22 to complete the valuation work.
- Overall, the timing of the consultation is not ideal. The consultation was issued in early February 2022, only two months from the year end. The proposal could significantly amend the Council's year end timetable and processes in closing the accounts. In the response, the Council has expressed, its disappointment at the late timing of the consultation and highlighted that should the proposals in the consultation be agreed, the potential detrimental impact on the Council's closedown timetable for the 2021/22 accounts.

Further deferral of the implementation of IFRS 16 Leases

2.5 Overall, the Council would support the proposal to postpone the implementation of IFRS 16. Whilst the Council has been working towards the current implementation date, a delay would be helpful in addressing some the issues found as the Council has been working through the process. Having the extra time to resolve such issues would be beneficial to the Council. The proposal would not impact the 2021/22 closure of the accounts, so does not have the significant effect of the first proposal as mentioned above. The work already carried out on IFRS 16 to date, has already improved the Council's leasing reporting requirements and as can be seen with the earlier deferrals of the implementation timeline, the work on implementing the standard can be put on hold and picked up at a later date.

2.6 The Council's final comments on the consultation were that a quick turnaround by CIPFA on the consultation findings is required to ensure that that any changes can be assessed and implemented to minimise the risk that the Council cannot meet the statutory deadline for the handover of its accounts.

3. Accounting Policies

3.1 The Council's accounting policies are the specific principles, conventions, rules and practices that are applied in the production and presentation of the annual Statement of Accounts. These policies have to be disclosed as a note to the annual accounts. A copy of the policies can be found at Appendix 1. There have been no changes from the policies used to prepare the 2021/22 Statement of Accounts.

3.2 The International Financial Reporting Standards (IFRS) 16 Leasing implementation date is currently under review due to the consultation detailed in section 2. The consultation is proposing that the implementation date is deferred a further year. The new proposed revised date is 1 April 2023 for preparation of the financial year 2023/24. More detail on this is provided in section 4 of this report.

4. Critical Judgements

4.1 In line with IFRS and the Code, the Council is required to disclose those judgements that management have made in the process of applying the Council's accounting policies that have the most significant effect on the amounts recognised in the financial statements. These are shown at Appendix 2.

4.2 Critical Judgements include, which schools property, plant and equipment and PFI information should be included on the Council's Balance Sheet, which entities fall within the Council's group boundary, how properties should be classified as investment property and the election of the Council's airport investment.

4.3 The critical judgement relating to the Council upfront payment of its employer pension contributions have been included to reflect the upfront contribution for the 2020/21 – 2022/23 triennial period.

4.4 The Council is currently assessing its group boundary. In particular, the Council is investigating whether Meridian Development Co Ltd should be included in the Council's group accounts for 2021/22. During the financial year 2021/22, the Council became the only Shareholder of Meridian Development Co Ltd, which has a year-end date of 28 February. The Council is awaiting the final year end accounts and once received and analysed, a decision on the consolidation of Meridian Development Co Ltd will be made.

5. International Financial Reporting Standard (IFRS) 16

5.1 The Code of Practice on Local Authority Accounting requires the Council to disclose information relating to the impact of an accounting change required by a new standard that has been issued but not yet adopted. IFRS 16 is currently due to be introduced for Local Authorities from 1 April 2022 which would have required the annual accounts for 2022/23 to be the first set of accounts produced in accordance with this standard. With a 1 April 2022 implementation date, a note advising of this change should be included in the 2021/22 accounts.

5.2 However, as mentioned in section 2 above, CIPFA has issued an exceptional consultation in February 2022 on 'emergency proposals for an update of the 2021/22 Code of Practice on Local Authority Accounting in the UK and the 2022/3 Code'. In the consultation, the proposal is to defer the implementation of IFRS 16 for a further year to 1 April 2023. Therefore, if the deferral is approved the Council's 2021/22 accounts will not disclose the impact of an accounting change required by a new standard that has been issued but not yet adopted. The Council will await the outcome of the consultation and the financial statement for 2021/22 will be amended accordingly.

6. Options/Alternatives

6.1 The options that Audit Committee Members might consider in relation to the contents of this report are:

a) not to approve any of the accounting policies or note the critical judgements.
b) not to approve some of the accounting policies or note the critical judgements.
c) to approve all the accounting policies and note the critical judgements.

7. Preferred Option

7.1 The preferred option is option C.

8. Consultation

8.1 Consultation has taken place with the Councils External Auditors, Mazars LLP.

9. Financial Implications

9.1 Dealt with in the body of the report.

10. **Legal Services Comments**

10.1 There are no Legal implications.

11. **Co-operative Agenda**

11.1 Improving the quality and timeliness of the financial information available to citizens of Oldham supports the cooperative ethos of the Council.

12. **Human Resources Comments**

12.1 There are no Human Resource implications.

13. **Risk Assessments**

13.1 There are no risk implications as a result of this report.

14. **IT Implications**

14.1 There are no IT implications as a result of this report

15. **Property Implications**

15.1 There are no Property implications.

16. **Procurement Implications**

16.1 There are no Procurement implications.

17. **Environmental and Health & Safety Implications**

17.1 There are no Environmental and Health & Safety implications as a result of this report.

18. **Equality, community cohesion and crime implications**

18.1 There are no Equality, community cohesion and crime implications.

19. **Equality Impact Assessment Completed?**

19.1 Not Applicable

20. **Key Decision**

20.1 No

21. **Key Decision Reference**

21.1 Not Applicable.

22. **Background Papers**

22.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref: Background Papers are provided at Appendices 1, 2 and 3.
Officer Name: Lee Walsh
Contact No: 0161 770 6608

23. **Appendices**

23.1 Appendix 1 – 2021/22 Proposed Accounting Policies
Appendix 2 – 2021/22 Proposed Critical Judgements
Appendix 3 - Consultation response to CIPFA/LASSAC Emergency proposals for the update of the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom

APPENDIX 1

Accounting Policies 2021/22

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2021/22 financial year and its position at the year end of 31 March 2022. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The accounts have been prepared on a going concern basis, under the assumption that the Council will continue in existence for the foreseeable future.

Unless otherwise stated the convention used in this document is to round to amounts the nearest thousand pounds. All totals are the rounded totals of unrounded figures and, therefore, may not be the strict sums of the figures presented in the text or tables. Throughout the Statements all credit balances are shown with parentheses e.g. (£1,234).

1.2 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e., repairs and maintenance) is charged as an expense when it is incurred. The Council has a £10,000 de minimis limit for the recognition of Capital Expenditure.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management:
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e., it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- community assets, infrastructure assets and assets under construction – depreciated historical cost.
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH).
- surplus assets – fair value, determined by the measurement of the highest and best use value of the asset.
- all other operational assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. For non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included on the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant Portfolio line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist, and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant Portfolio line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant Portfolio line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Deprecation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer;
- vehicles, plant, furniture and equipment – straight-line allocation over the useful life of the asset as estimated by a suitably qualified officer;
- infrastructure – straight-line allocation up to 40 years.

Revaluation gains are depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Component Accounting

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item and/or whose life is significantly different to the life of the host (main) asset, the components are depreciated separately.

Components are recognised in the financial year where:

there has been a revaluation of assets;
there has been an acquisition of assets within the financial year; and
enhancement expenditure has been incurred within the financial year.

Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The written-off asset value of disposals is not a charge against the General Fund, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. If the disposal relates to housing assets a proportion of the capital receipt is payable to the Government (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances). The balance of receipts is required to be credited to the Useable Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Council’s underlying need to borrow (the capital financing requirement). Receipts are transferred to the Useable Capital Receipts Reserve from the General Fund Balance in the Movement in Reserves Statement.

1.3 Heritage Assets

The Council's Heritage Assets are held by the Council principally for their contribution to knowledge and/or culture. They are recognised and measured, including treatment of revaluation gains and losses, in accordance with the Council's accounting policies on Property Plant and Equipment. However, some of the measurement rules are relaxed allowing the Council's Heritage Assets to be included on the Balance Sheet at their insured value where available. Where insurance valuations are not available there is a narrative disclosure.

Heritage assets are deemed to have an indefinite life, therefore are not depreciated as the charge made would be minimal and immaterial. Nevertheless, where there is evidence of physical deterioration to a Heritage Asset, or doubts arise to its authenticity, the value of the asset has to be reviewed.

1.4 Investment Property

Investment properties are those assets that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the highest and best use value of the asset. Investment properties are not depreciated, and an annual valuation programme ensures that they are held at highest and best use value at the Balance Sheet date. Gains and losses on revaluation are charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and charged to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Useable Capital Receipts Reserve.

1.5 Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the Property, Plant and Equipment assets will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the Property, Plant and Equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- The value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge is raised on the outstanding Balance Sheet liability and debited to the Financing and Investment Income and Expenditure line in the

Comprehensive Income and Expenditure Statement. The interest rate is calculated for each scheme so that the Balance Sheet liability is zero at the end of each contract.

- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability.
- Lifecycle replacement costs – are split between revenue and capital costs. Revenue lifecycle costs are debited to the relevant service in the Comprehensive Income and Expenditure Statement. Capital lifecycle costs are debited to Property Plant and Equipment to reflect the enhancement of the PFI Asset.

1.6 Accounting for Schools

In line with accounting standards and the Code on group accounts and consolidation, all maintained schools are considered to be entities controlled by the Council. Rather than produce group accounts the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Council's single entity accounts. The Council has the following types of maintained schools under its control:

- Community
- Voluntary Aided
- Voluntary Controlled
- Foundation Trust
- Foundation

Schools' non-current assets (school buildings and playing fields) are recognised on the Balance Sheet where the Council directly owns the assets, where the Council holds the balance of control of the assets or where the school or the school governing body own the assets or have had rights to use the assets transferred to them through a licence arrangement.

When a maintained school converts to an Academy, the school's non-current assets held on the Council's Balance Sheet are treated as a disposal. The carrying value of the asset is written off to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The written-off asset value is not a charge against the General Fund, as the cost of non-current asset disposals resulting from schools transferring to an Academy is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

1.7 Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

1.8 Capital Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service.
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- amortisation of intangible non-current assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in the approved Minimum Revenue Provision policy. Depreciation, revaluation and impairment losses, and amortisation are replaced by Minimum Revenue Provision (MRP). This adjusting transaction is included in the Movement in Reserves Statement with the Capital Adjustment Account charged with the difference between the two amounts.

1.9 Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. When a premium or discount has been incurred and paid in full by a grant from an external body it is accounted for in full in the year that the grant is received. The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost;
- fair value through profit or loss (FVPL); and

- fair value through other comprehensive income (FVOCI).

The Council's business model is to hold investments to collect contractual cash flows i.e. payments of interest and principal. Most of the Council's financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price;
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the accounting policy set out in section 1.23 Fair Value Measurement.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

IFRS 9 Financial Instruments sets out that investments in equity should be classified as fair value through profit and loss unless there is an irrevocable election to recognise changes in fair value through other comprehensive income. The Council will assess each investment on an individual basis and assign an IFRS 9 category. The assessment will be based on the underlying purpose for holding the financial instrument.

Any changes in the fair value of instruments held at fair value through profit or loss will be recognised in the net cost of service in the CIES and will have a General Fund impact.

Financial Assets measured at Fair Value through other Comprehensive Income (FVOCI)

The Council has equity instruments designated at fair value through other Comprehensive Income (FVOCI). This was previously classified as an Available for Sale asset at 31 March 2018.

The Council has made an irrevocable election to designate one of its equity instruments as FVOCI on the basis that it is held for non-contractual benefits, it is not held for trading but for strategic purposes. The asset was transferred to the new asset category on 1 April 2018. The asset is initially measured and carried at fair value. The value is based on the principal that the equity shares have no quoted market prices and is based on an independent appraisal of the company valuation.

Dividend income is credited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Changes in fair value are posted to Other Comprehensive Income and Expenditure and are balanced by an entry in the Financial Instruments Revaluation Reserve.

When the asset is de-recognised, the cumulative gain or loss previously recognised in Other Comprehensive Income and Expenditure is transferred from the Financial Instruments Revaluation Reserve and recognised in the Surplus or Deficit on the Provision of Services.

The same accounting treatment was adopted in the prior year when the asset was classified as Available for Sale, except that accumulated gains and losses on the available for sale asset were previously held in an Available-for-Sale Financial Instruments Reserve at 31 March 2018. The balance on this reserve was transferred to the new Financial Instruments Revaluation Reserve as at 1 April 2018.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Instruments Entered into Before 1 April 2006

The Council entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required, or a contingent liability note is needed under the policies set out in the section on Provisions, Contingent Liabilities and Contingent Assets.

1.10 Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave, paid sick leave, flexi and time off in lieu (TOIL) as well as bonuses and non-monetary benefits (e.g. mobile phones) for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

Employee Accumulated Absence Accrual

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the current accounting year. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday entitlement occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant services lines in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

Employees of the Council are members of three separate pension schemes:

- The Greater Manchester Local Government Pension Scheme - administered by Tameside Metropolitan Borough Council.
- The Teachers' Pension Scheme - administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The NHS Pension Scheme - administered by EA Finance NHS Pensions.

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees working for the Council.

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot be identified specifically to the Council. These schemes are therefore accounted for as if they are a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pension Scheme in the year. The Community Health & Adult Social Care Portfolio line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension Scheme in the year.

The Greater Manchester Local Government Pension Scheme

The Greater Manchester Local Government Pension Scheme is accounted for as a defined benefits scheme.

The liabilities of the Greater Manchester Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method; an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of future earnings for current employees. Liabilities are discounted to their value at current prices, using a discount rate (based on the indicative rate of return on a basket of high-quality corporate bonds, Government gilts and other factors).

The assets of the Greater Manchester Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price;
- unquoted securities – professional estimate;
- unitised securities – current bid price;
- property – market value.

The change in the net pension liability is analysed into following components:

- current service cost – the increase in liabilities as a result of years of service earned in the current year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years will be debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs;
- net interest on the net defined benefit liability - the change during the period in the net defined benefit liability that arises from the passage of time is charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

Remeasurement comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- contributions paid to the Greater Manchester Pension Fund - cash paid as employer contributions to the pension scheme in settlement of liabilities; not accounted for as an expense.

Statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve, to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

1.11 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received.

Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that may not be collected.

1.12 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of a change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

1.13 Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made) the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim) it is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.14 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third-party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments; and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement.

Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Where revenue grants are credited to the Comprehensive Income and Expenditure Statement but have yet to be used to fund revenue expenditure, it is posted to the Revenue Grant Reserve. When eligible expenditure is incurred in future years the grant is transferred back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

1.15 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are held to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council. These reserves are further explained in the relevant policies.

1.16 Revenue Recognition

Revenue is defined as income arising as a result of the Council’s normal operating activities and where income arises from contracts with service recipients it is recognised when or as the Council has satisfied a performance obligation by transferring a promised good or service to the service recipient.

Revenue is measured as the amount of the transaction price which is allocated to that **performance obligation. Where the Council is acting as an agent of another organisation the amounts collected for that organisation are excluded from revenue.**

1.17 Tax Income

Council Tax, Retained Business Rates and Business Rates Top-up Grant income included in the Comprehensive Income and Expenditure Statement for the year will be treated as accrued income.

Business Rates, Business Rates Top-up Grant and Council Tax income will be recognised in the Comprehensive Income and Expenditure Statement within the Taxation and Non-Specific Grant Income line. As a billing Authority, the difference between the Business Rates and Council Tax included in the Comprehensive Income and Expenditure Statement and the amount required by regulation credited to the General Fund is taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement. Each major preceptor's share of the accrued Business Rates and Council Tax income is available from the information that is required to be produced in order to prepare the Collection Fund Statement.

Business Rates and Council Tax income is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council, and the amount of revenue can be measured reliably.

Revenue relating to Council Tax and Business Rates is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

1.18 Overheads and Support Services

The costs of overheads and support services are charged to the relevant services in accordance with the Authority's arrangements for accountability and financial performance, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation;
- Non Distributed Costs – changes in past service costs and impairment losses chargeable on Assets Held for Sale.

Corporate and Democratic Core is identified as a separate heading in the Comprehensive Income and Expenditure Statement. Non Distributed Costs form part of the Capital, Treasury and Technical Accounting Portfolio line with the Council's local reporting format.

1.19 Value Added Tax (VAT)

Value Added Tax payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

1.20 Interests in Companies and Other Entities

The Council has material interests in external entities that are classified as subsidiaries and therefore group accounts have been prepared. In the Council's single-entity accounts the Council's interest in companies and other entities are recorded as financial assets at cost less any impairment. Any gains or losses are recognised in the Comprehensive Income and Expenditure Statement.

1.21 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.22 Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Adjusting Events -Those events that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Non-Adjusting Events - Those events that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but, where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and either their estimated financial effect or a statement that such an estimate cannot be made reliably.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.23 Fair Value Measurement

The Council measures some of its assets and liabilities at fair value at the end of the reporting period. Fair value is the amount that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability; or
b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council uses external valuers to provide a valuation of its non-financial assets and liabilities, for recognition or disclosure as appropriate, in line with the highest and best use definition within IFRS 13 Fair Value Measurement. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant. Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – unobservable inputs for the asset or liability.

APPENDIX 2

Critical Judgements in Applying Accounting Policies 2021/22

The following disclosure sets out critical judgements applied to the accounting policies of the Council that have a significant impact on the presentation of the financial statements. Critical estimation uncertainties are described in Note 36.

Upfront pension payment

The Council is liable to make contributions towards the cost of post-employment benefits. For the 3-year period 2020/21 – 2022/23, the Council agreed with the Greater Manchester Pension Fund (GMPF) that the employer contributions payable to the Local Government Pension Scheme (LGPS) could be paid as a single up-front payment. Subsequently, in April 2021 the Council paid £46.726m based on an estimated pensionable payroll of £79.874m per annum in order to make a budget saving. In line with the Council's accounting policies, in 2020/21 the amounts relating to 2021/22 and 2022/23 were offset against the pension liability on the balance sheet. These amounts will be reflected in the pension reserve in the years to which they relate.

At the close of the triennial period the pension reserve and the pension liability will be brought into line with each other. For further details see note 29 Defined Benefit Pension Schemes.

Accounting for Schools – Balance Sheet Recognition of Schools

The Council recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by Local Authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Council recognises school land and buildings on its Balance Sheet where it directly owns the assets or where the school or school Governing Body own the assets or where rights to use the assets have been transferred from another entity.

Where the land and building assets used by the school are owned by an entity other than the Council, school or school Governing Body then it is not included on the Council's Balance Sheet. The exception is where the entity has transferred the rights of use of the asset to the Council, school or school Governing Body.

The Council has completed a school-by-school assessment across the different types of schools it controls within the Borough. Judgements have been made to determine the arrangements in place and the accounting treatment of the land and building assets. The types of schools that have been assessed are shown below:

Type of School	No. of Primary Schools	No. of Secondary Schools	No. of Special Schools	Total
Community	24	1	1	**26**
Voluntary Controlled (VC)	5	-	-	**5**
Voluntary Aided (VA)	28	1	-	**29**
Foundation/Foundation Trust	4	1	-	**5**
Maintained Schools	**61**	**3**	**1**	**65**
Academies	25	10	6	**41**
Total	**86**	**13**	**7**	**106**

All Community schools are owned by the Council and the land and buildings used by the schools are included on the Council's Balance Sheet.

The Council has entered into Private Finance Initiative (PFI) agreements to build and operate three schools in the Borough. One is a VA school; one is a Foundation Trust school and the remaining school is an Academy. Whilst the land which the buildings are sited on has been transferred to the respective Diocese, Trust and Academy, the ownership of the buildings is determined by who holds the balance of control in line with accounting standards. The Council considers the buildings associated with these schools should be included on its Balance Sheet because:

- The reversion clause within the PFI agreement results in the Council having a residual interest in the buildings at the end of the agreement
- The services provided and the use of the building is controlled by the Council through the PFI agreement
- The PFI agreement is between the PFI contractor and the Council

Legal ownership of VC school land and buildings usually rests with a charity, normally a religious body. Four VC schools are owned by the Diocese which have granted a licence to the school to use the land and buildings. Under this licence arrangement, the rights of use of the land and buildings have not transferred to the school and thus are not included on the Council's Balance Sheet. The remaining VC school land and buildings are owned by the Council and included on the Balance Sheet.

Legal ownership of the VA school land and buildings rests with the relevant Diocese. The Diocese has granted a licence to the school to use the land and buildings. Under this licence arrangement, the rights of use of the land and buildings have not transferred to the school and thus are not included on the Council's Balance Sheet.

Foundation and Foundation Trust schools were created to give greater freedom to the Governing Body responsible for school staff appointments and who also set the admission criteria. There are five Foundation schools in the Borough. For one school, the Governing Body has legal ownership of the land and buildings and thus these are included on the Council's Balance Sheet. For the remaining Foundation Trust school, a separate Trust owns the land and buildings so these assets are not included on the Council's Balance Sheet.

Academies are not considered to be maintained schools in the Council's control. The land and building assets are not owned by the Council and are therefore not included on the Council's Balance Sheet.

Group Boundaries

The Council carries out a complex range of activities, often in conjunction with external organisations. Where those organisations are in partnership with or under the ultimate control of the Council a judgement is made by management as to whether they are within the Council's group boundary. This judgement is made in line with the provisions set out in the Code and relevant accounting standards.

Those entities which fall within the boundary and are considered to be material are included in the Council's group accounts. Profit and loss, net worth, and the value of assets and liabilities are considered individually for each organisation against a materiality limit set by the Council. An entity could be material but still not consolidated if all of its business is with the Council and eliminated on consolidation – i.e., the consolidation would mean that the group accounts are not materially different to the single entity accounts. The assessment of materiality also considers qualitative factors such as whether the Council depends significantly on these entities for the continued provision of its statutory services or where there is concern about the level to which the Council is exposed to commercial risk.

The Council has assessed its group boundary for 2021/22. The Council at this moment in time has identified two subsidiaries who are considered to be material and will be consolidated into its group accounts. They are MioCare Group Community Interest Company (CIC) and the Unity Partnership Limited. From the 1 April 2022, all Unity Partnership Limited services will be transferred back to the Council. This transfer on 1 April 2022, will therefore not affect the consolidation of the Council's groups accounts for 2021/22.

The Council is currently investigating whether Meridian Development Co Ltd should be included in the Council's group accounts for 2021/22. During the financial year 2021/22, the Council became the only Shareholder of Meridian Development Co Ltd. Meridian Development Co Ltd have a year-end date of 28 February, and the Council is awaiting the final year end accounts. Once received and analysed a decision on the consolidation of Meridian Development Co Ltd into the Council's group accounts will be made. Further details can be found in the group accounts in section 5.

Investment Properties

Investment properties have been assessed using the identifiable criteria under the international accounting standards and are being held for rental income or for capital appreciation. Properties have been assessed using these criteria, which is subject to interpretation, to determine if there is an operational reason for holding the property, such as regeneration.

Airport Investments

The Council has a 3.22% shareholding in Manchester Airport Holdings Limited (MAHL). Following the adoption of accounting standard IFRS 9 Financial Instruments which came into effect on 1 April 2018, the default valuation method of the Council's equity holdings would be Fair Value through Profit and Loss. However, the shareholding is a strategic investment and not held for trading and therefore the Council has designated the investment as fair value through other comprehensive income. It is the Council's view that this is a reasonable and reliable accounting policy for the investment.

The Council has made an equity investment in Manchester Airport Car Park Limited, (along with the other nine Greater Manchester District Councils). The Council's investment is to provide car parking facilities at Manchester Airport. The Council holds 3 Class C ordinary shares. The shareholding will be classed as a financial instrument and held at fair value on the Council's Balance Sheet. Under IFRS 9 the shareholding (investment) will be designated as a strategic investment and not held for trading therefore the Council has opted to designate it as fair value through Other Comprehensive Income. The decision to designate to fair value through other comprehensive income is irrevocable and it is the Council's view that this is a reasonable and reliable accounting policy for this investment.

APPENDIX 3

Consultation response to CIPFA/LASSAC Emergency proposals for the update of the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom

After considering a wide range of options CIPFA LASAAC decided to explore two approaches:

- An adaptation to the code 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
- 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.

<u>Valuation of operational property, plant and equipment</u>

B1 Pausing valuation and applying indexation to operational property, plant and Equipment Valuation of operational property, plant and equipment

CIPFA/LASAAC reasoning is that they have considered this aspect of financial reporting because it understands that it is an area where significant effort is being made by both preparers and auditors, and that this has contributed to delays in the finalisation of audited financial statements. Improvement in this area could potentially have a significant beneficial effect on audit completion if it can be achieved without adverse effects on public accountability.

Q1a Do you agree with the proposal that preparers should have the option to pause professional revaluation? If not, why not? Please provide reasons for your view.

The Council would question the pausing of the professional valuation process and in particular the reasoning why the pausing is required. The Council feels that rather than a final accounts preparation issue it is more of an audit issue and the solution maybe to look at the auditing standards or requirement of the external auditor rather than look at amending an element of the final accounts process.

The Council has completed the majority of its valuation process for 2021/22 as highlighted in the Council's response in Q1b. The Council's valuers have also expressed a concern about the proposal of pausing the valuation process and would not support the proposal. The Council's valuers have concerns regarding the potential catch up process that would be required once the pause is over i.e., to potential perform 3 years of full RICS Red Book valuations to align to the 5-year rolling programme of valuations.

As mentioned above, the Council believes it is more of an Audit issue rather than a final accounts preparation issue. One area the Council would suggest looking into is the materiality level in relation to the balance sheet. Currently the Council's materiality is calculated on a percentage of revenue spend, for both the revenue and balance sheet items. The Council would therefore suggest that individual materiality should be set for revenue and balance sheet items. As this Balance Sheet materiality level would be higher, it would potentially help reduce the work that the Auditor would have to do and so alleviate the current issues surrounding the auditing of Local Authority accounts.

By not using professional valuations it would ultimately reduce the evidence basis obtained to determine that the correct PPE figures have been used in the financial statements and that they are materially in line with the Council's accounting policy of measurement that is obtained by the rolling programme. It would therefore be very difficult to assert accurately that the Council's

Accounts are IFRS compliant with the application of the valuation approach and that the effect is not material.

Q1b Additionally, do you agree with the proposal that preparers should have the option to pause professional revaluation and adopt an indexation approach to 2021/22? If not, why not? Please provide reasons for your view.

The Council does not support the proposal that preparers should have the option to pause the professional revaluation and adopt an indexation approach for 2021/22. The Council for 2021/22 has 305 PPE Valuations on its rolling programme. Of these, 300 valuations have been completed by property colleagues by either portfolio or report leaving 5 still outstanding which are only subject to small queries. Therefore, out of the full programme of 305 assets, 98% has already provided, updated, calculated, and journaled into general ledger. In addition, the Council has a PFI scheme that has been updated and entered into the asset register and general ledger (although this is Council Dwellings not PPE and would still be required).

The Council has a robust year end timetable and works extreme well with colleagues from other departments to ensure that the statutory deadline is met. It is clear, that over the years the Council has concentrated its efforts on the high value/impact tasks and as always aimed to have its Rolling Valuation programme completed by 30 November each year. A tight but necessary timetable to ensure the Council's asset value is as accurate as possible and to give time to highlight and resolve any issues from the valuation process (with a caveat that the Council considers any material changes at the 31 March date). It is only by this forward planning of an already embedded joint working arrangement with property colleagues that we can meet such a strict timetable.
If the option to use indexation instead of the formal valuation process currently required by the code the impact would be:

- More work for finance to unravel the entries already updated – it is not as simple as reverting to an earlier version of Asset Register as it would include other non-revaluation entries.
- Additional work from property colleagues to update the asset valuations using an indices method which is less accurate than what they have already provided - this would incur additional costs
- Sunk costs for the procurement/SLA of the property fee of those valuations which have already been provided. The Council, due to its early deadline, has already incurred the majority of the cost for 2021/22 at approx. £120k – this is a cash payment to our valuation provider.
- The knock-on effect to the programme is that the outstanding year end tasks i.e., impairment reviews etc (which we are on target to meet) will be pushed back to allow for the reversals required resulting in the whole timetable being at risk with possibility of not meeting the statutory deadline. Given the effort that the Council has put into early delivery of the accounts, this could be a big issue for the performance of the Finance Service including delivery of business plan and corporate targets.

If indexation is used in the valuation process, appropriate indices will need to be applied by valuation experts in accordance with professional judgements. This could apparently be carried out in a way that is fully consistent with the IAS 16 valuation approach. There would be a need to develop a consistent approach, as to how they will be applied, and to determine how this would be integrated with existing valuations of assets based on rolling revaluations. The Council feels that using indexation would be open to interpretation unless the Code specifically states which indices will be used. For example, currently the Council use indices at an Oldham level when calculating its DRC assets as part of the year end process. In recent years the Auditors have challenged the Council on the assumptions and judgements as to why we have used certain indices and not used others therefore increasing the level of testing and sample size which has ultimately increase the supporting documentation and testing required which has in turn increased the cost of the External

Audit. Clarification on what indices must be used would be essential if introduced, as these valuations would still be subject to significant testing by the auditors.

To be clear, the Council does not support the adoption of an indexation approach.

Q1c If you support this proposal but the impacts for 2021/22 are minimal, so that audit timeliness issues remain, would you support either of these changes being explored for the 2022/23 Code?

The Council can see the benefits to the auditors of the pause in the valuation process and reduced time to complete the audit. However, the Council would question what the benefits are of a short-term fix when there are more fundamental issues in the audit of Local Authority accounts. This pause will only be a short-term solution for larger long-term issues and in another few years will it be required again to catch up? The Council has not had many audit issues in this area in recent years and would question why we should temporarily give up a robust and reliable valuation process and approach? The question the Council would ask is that if indexation is good enough for the valuation process for a 2-year period, why should in not become common and best practice going forward?

There should be more fundamental consideration to the wider difficulties causing the delays to the audit of the accounts e.g., a lack of capacity in the external audit market to deliver on time and within fees that are applied.

Q2 Do you have any comments on the impact of the adoption of this approach on preparers or auditors? If so, please provide more information.

As the Council has already stated, a temporary move to using indices will not resolve the issues in the long term. The Council would suggest that a full review of the external audit process and how much value is added to the financial statements from the valuation process would be a better use of time.

Q3 If you support this approach, do you consider that the approach should be available to all local authorities, restricted to England, or determined on a jurisdiction basis reflecting the view of the relevant government?

The Council does not agree with the approach but would comment that without making it open to all Local Authorities, it would create inconsistences in approaches between the English Local Authorities and the rest of the UK.

Q4 If you support this approach in principle, do you consider that it is appropriate for all operational property plant and equipment, including for example, Housing Revenue Account assets?

The Council does not agree with the approach but would suggest that if implemented it would seem reasonable and appropriate to include all PPE held on the Balance Sheet.

Q5 Do you have any other comments on the proposal?

The Council has no additional comments that are not already included in the above responses. It would however like to express its disappointment at the late timing of the consultation and the to highlight that should the proposals in the consultation be agreed, the potential detrimental impact on the Council’s closedown timetable for the 2021/22 accounts.

As already stated, the Council has already completed a large proportion of its asset valuation work and there will be costs associated with any move to indexation if it is a compulsorily introduced. It will entail a substantial amount of additional work for the Finance Team to reverse out the entries and an additional cost to get the new indexed valuations. It will also require the Property Team to undertake additional work in providing these new valuations. Given the timing, it would be a challenge for the Property Team to reprioritise its workload to complete valuations in line with our current closedown timetable. There is a real chance that if the change was implemented, despite best efforts, the Council may not be able to meet the 31 May statutory deadline for the completion of the accounts. Up to now, the Council has an excellent record and reputation for completing the accounts ahead of the timeline (and also to the highest standard). It would be extremely disappointing if deadlines were to be missed due to a late change in process beyond the control of the Council's Finance Team.

Deferred implementation of IFRS 16

B2 Further deferral of the implementation of IFRS 16 Leases

CIPFA/LASAAC considered a wider range of proposals than those suggested by DLUHC. One of these was further deferral of the implementation of IFRS 16 Leases in the Code.

Q6 Do you support the further deferral of IFRS 16 implementation to reduce auditor/preparer workload? If not, why not? Please provide reasons for your view.

The Council would support this proposal to postpone the implementation of IFRS 16. Whilst the Council has been working towards the current implementation date, a delay would be helpful in addressing some the issues found as the Council has been working through the process. Having extra time to resolve such issues would be beneficial.

Q7 Do you have any comments on the practical impact of the adoption of this approach? Please provide details to support your view.

The Council sees no practical impact to this proposal. The only effect for the 2021/22 accounts will be the amendment to the Accounting Standards issued but not adopted note in the account and is a very simple amendment. The work already carried out on IFRS 16 to date, has already improved the Council's leasing reporting requirements. As can be seen with the earlier deferrals of the implementation timeline, the work on implementing the standard can be put on hold and picked up again if required. (In reality, the Council would most likely keep the implementation work ticking over as the deferral is only for 1 year with the new implementation date being 2023/24).

Q8 Do you have any comments on the jurisdictional application of this approach?

The Council's comments are similar to its response in Q3. All Local Authorities within the UK must be treated the same and follow the same approach and timeframes. If this approach is not applied equally it would create inconsistences in approaches between the English Local Authorities and the rest of the UK.

Q9 Do you have any other comments on the proposal?

As previously stated, the Council feels the proposals are aimed as a solution to the current issues relating to the Auditing of the Accounts and not in the preparation of the Accounts by Local Authorities and would question if a 1-year delay would help the audit sector or should this be longer?

As mentioned above in the Council's response to Q5, the timing of the consultation will impact the Council's 2021/22 closedown timetable and also with the IFRS 16 deferral will impact the planned workload of the 2022/23 timetable. The Council would therefore request that a quick turnaround by CIPFA on the consultation findings is required to ensure that that any changes can be assessed and implemented to minimise the risk that the Council cannot meet the statutory deadline.