Meeting date:	13 March 2023
Report to:	Audit Committee
Report title:	Review of Accounting Policies – 2022/23
Report from:	Acting Chief Executive
Report author/lead contact officer:	Adam Paterson Finance Manager – Financial Cycle Team

Wards affected:

☒ All Wards | ☐ Bickenhill | ☐ Blythe | ☐ Castle Bromwich | ☐ Chelmsley Wood |
☐ Dorridge/Hockley Heath | ☐ Elmdon | ☐ Kingshurst/Fordbridge | ☐ Knowle |
☐ Lyndon | ☐ Meriden | ☐ Olton | ☐ Shirley East | ☐ Shirley South |
☐ Shirley West | ☐ Silhill | ☐ Smith's Wood | ☐ St Alphege

Public/private report:	Public
Exempt by virtue of paragraph:	

1. Executive Summary

1.1 To review and consider the Council's proposed Accounting Policies that will be applied for the 2022/23 financial year.

1.2 To review the proposed key accounting estimates and significant adjustments applied for the 2022/23 financial year.

2. Decision(s) Recommended

2.1 To consider the proposed Accounting Policies, accounting estimates and significant judgements due to be applied for the 2022/23 financial year.

Report Title: Review of Accounting Policies – 2022/23

3. Matters for Consideration

3.1 The Council's Accounting Policies are brought to Audit Committee annually in order for appropriate oversight and consideration of the application of Accounting Standards. This report outlines the key policies for 2022/23, any accounting standards issued but not yet adopted and the key accounting estimates followed.

3.2 Officers use the previous years' Accounting Policies as the basis but also consider any changes that have been made as part of the external audit. This year, there has also been a change to the Accounting Policy in relation to Infrastructure Assets as a result of the national issue that delayed the sign off of the accounts and the subsequent statutory override that is now in place. There are no other changes as a result of the external audit.

<u>Key Policies</u>

3.3 All Accounting Policies are included in Appendix A in full but the key policies for 2022/23 are explained in more detail below (these remain largely unchanged from previous years:

a. **Employee Benefits (vii)** – This policy predominantly relates to post-employment benefits and pension payments. A key part of the Council's balance sheet and total liabilities relates to Pension Liabilities so estimating and valuing these amounts forms a major part of the accounts.

   The Council uses the West Midlands Pension Fund's actuary Hymans Robertson to record and value the liability for inclusion in our Statement of Accounts.

   Proposed enhancements this year - The accounting policy has been updated to reflect some changes in the assumptions applied by the actuary.

b. **Fair Value Measurement (x)** – "The Council measures some of its non-financial assets, such as investment properties and surplus assets, and some of its financial instruments e.g. some of its equity share holdings, at fair value at each reporting date. IFRS 13 seeks to increase consistency and comparability in fair value measurements and related disclosure notes.

   The definition of fair value is "the price that would be received to sell an asset, or paid to transfer a liability, between market participants in an orderly transaction at the measurement date under current market conditions."

   Proposed enhancements this year – The Council's Accounting Policies state that the Council should complete full revaluations every five years, with desktop valuations in the intervening years for the two shareholdings we have in Birmingham Airport Holdings Ltd and the Coventry and Solihull Waste Disposal Company.

   For the accounts for the years from 2019/20 to 2021/22, officers made the decision that, owing to the unique circumstances caused by the Covid-19 pandemic, the Council was not best placed to conduct a valuation of the Birmingham Airport Holdings Ltd investment. Instead a professional external valuation company was commissioned to complete this valuation in full which officers in Financial Operations then reviewed and agreed. This practice will continue for 2022/23.

The Coventry and Solihull Waste Disposal Company (CSWDC) is also due for a full revaluation and so we will also commission the same valuation company to undertake this role in 2022/23.

c. **Property Plant and Equipment (PPE) (xix)** – "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."

These assets are recognised upon creation or purchase, measured, depreciated, revalued and de-recognised on disposal. The policy sets out how we calculate each of these figures in detail as well as any methodology/approach we take.

3.4 **Proposed enhancement this year** – As outlined in paragraph 3.2, a statutory override has temporarily been put in place and the CIPFA Code of Practice has been updated in respect of the accounting treatment of Infrastructure Assets. In line with the Code, the accounting policy for PPE has been expanded to explicitly include the assumptions around the measurement of infrastructure assets at depreciated historical cost. In addition, throughout the accounting policies, additional reference to the Council's de minimis limits for recognising assets of £20,000 has been made to ensure that this is applied consistently. As a result, in line with the CIPFA Code of Practice, valuations will only be requested for assets with a carrying value of over £20,000 and inventories will only be recognised on the balance sheet if they are over £20,000.

3.5 In summary, there have been no fundamental changes to the accounting policies this year. It would be unusual for an authority to change the basis of any accounting principles outside of any Code requirements and as such the only amendments have been minor clarification points and rolling forward any dates.

<u>Changes to Auditing Standards</u>

3.6 Officers recently attended a Local Government Accountants workshop run by Grant Thornton that updates finance teams on the changes, key challenges and items of interest for the upcoming financial year. As part of this session, Grant Thornton explain any changes to Auditing Standards that will be relevant to us and how those changes may translate into the challenges posed to us through the audit process.

3.7 Over the last few years, there has been an increase in the "professional scepticism" required of auditors in challenging management assumptions and judgements. Management responses to these are brought to Audit Committee as part of the "Informing the Risk Assessment" document which will be presented at a future session.

3.8 These changes include IAS315 which seeks to understand more about IT systems, controls and practices. There will need to be substantial involvement from colleagues in IT in this process owing to the move to Oracle Cloud during 2022/23.

3.9 In addition, there is a change to ISA240 which is as a result of the increased professional scepticism and will present further challenges from Grant Thornton around understanding fraud risk factors, specifically around material assessments or estimations and further scrutiny of those making judgements.

Changes to Accounting Standards

3.10 There are also two changes to the CIPFA Code of Practice that were covered at the aforementioned workshop.

3.11 The first relates to Infrastructure Assets which, the Committee will recall, was a national issue around the accounting treatment for derecognised elements of assets. The Statutory Override function has now been released which allows assets that are de-recognised to be assumed to have a carrying value of nil. This allows the accounting treatment currently undertaken by the Council to continue.

3.12 The second relates to IFRS 16 (Leases), which has again been delayed to 1 April 2024 (2024/25 financial year), although voluntary early adoption of this standard is possible. The Council is choosing not to adopt this standard early but will ensure that appropriate processes are in place to enable us to adopt this standard on time.

2022/23 Significant Accounting Estimates

3.13 As mentioned above, the external audit will involve further professional scepticism, specifically on areas such as those where technical experts or valuers are used. The following paragraphs outline the items that will have the most significant estimates and may face the most scrutiny (these remain unchanged from previous years):

3.14 Financial Assets measured at Fair Value – these are key estimates for the Council's Statement of Accounts as this is the valuation of our shareholding interest in Birmingham Airport Holdings Ltd, the CSWDC and Mell Square Ltd (acquired in April 2021). These estimations are calculated using the earnings based method whereby future earnings potential is measured against other comparable companies to determine what an appropriate future valuation may be for each company and our relative shareholding. As detailed in paragraph 3.3b, the valuation of our shares in Birmingham Airport and the CSWDC will be carried out by an external valuer and officers will ensure full scrutiny of this before any values are agreed.

3.15 Land and Buildings – Regular meetings are held between the Council's internal valuers and officers within Financial Operations to assess which asset categories should be valued each year. In the last two financial years, substantially more assets than the usual five year rolling programme have been valued due to the uncertainty in economic conditions. However, this year there is more stability in the markets which has enabled a return to the usual rolling programme, with a much smaller number of additional valuations being required. Valuations are all carried out by internal

RICS/CIB Members within the Strategic Land and Property Team and reviewed by officers within Financial Operations.

3.16 Defined benefit net pension liability – a report is produced by the West Midland Pension Fund actuary Hymans Robertson on the basis of IAS 19 (Employee Benefits). Officers from Financial Operations then review this report and challenge where appropriate. Sensitivities are included in the relevant note in the Statement of Accounts.

3.17 Business rates provision – The most significant provision held by the Council relates to appeals against business rates valuations. Property is valued for business rates purposes by the Valuation Office Agency (VOA) and businesses can seek reductions to their rateable value on both the 2010 and 2017 ratings lists through the VOA. The same approach for estimating the potential expenditure required to settle appeals – using historic data on success rates and rateable value reductions – has been applied to both ratings lists.

3.18 For all major sources of accounting estimates, there is a note in the accounts called "Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty". This note includes sensitivity analyses to illustrate the implications for the Statement of Accounts of any variations to key estimates.

3.19 Audit Committee are asked to review the above accounting estimates and comment on their appropriateness.

4. What options have been considered and what is the evidence telling us about them?

4.1 N/A

5. Reasons for recommending preferred option

5.1 N/A

6. Implications and Considerations

6.1 State how the proposals in this report contribute to the priorities in the Council Plan:

Priority:	Contribution:
People and Communities: 1. Improving outcomes for children and young people in Solihull. 2. Good quality, responsive, and dignified care and support for Adults in Solihull when they need it. 3. Take action to improve life chances and health outcomes in our most disadvantaged communities.	The Accounting Policies cover all of the Council's priorities.

Priority:	Contribution:
4. Enable communities to thrive.	
Economy: 5. Develop and promote the borough’s economy, with a focus on revitalising our town and local centres. 6. Maximising the opportunities of UK Central and HS2. 7. Increase the supply of affordable and social housing that is environmentally sustainable.	The Accounting Policies cover all of the Council’s priorities.
Environment: 8. Enhance our natural environment, improve air quality and reduce net carbon emissions.	The Accounting Policies cover all of the Council’s priorities.
9. Promote employee wellbeing	The Accounting Policies cover all of the Council’s priorities.

6.2 Consultation and Scrutiny:

6.2.1 Audit Committee receive the Accounting Policies annually as part of the full Draft and Final Statement of Accounts.

6.3 Financial implications:

6.3.1 There are no financial implications as a direct consequence of this report, however, the policies applied have an impact on the annual Statement of Accounts.

6.4 Legal implications:

6.4.1 These accounting policies are the Council’s interpretation of Accounting Standards and legislation.

6.5 Risk implications, including Risk Appetite:

6.5.1 The Accounting Policies carry the risk that if applied incorrectly, could materially misstate the accounts. However, the policies largely follow accounting regulations and are reviewed annually by external audit for appropriateness.

6.5.2 The Accounting Policies are reviewed and tested through Grant Thornton’s audit of our Statement of Accounts to ensure they give a true and fair view of the Council’s financial position.

6.6 Equality implications:

6.6.1 There are no direct equality or diversity implications

6.7 Linkages to our work with the West Midlands Combined Authority (WMCA), Local Enterprise Partnership or the Birmingham & Solihull Integrated Care System (ICS):

6.7.1 N/A

7. List of appendices referred to

7.1 Appendix A – Accounting Policies 2022/23

8. Background papers used to compile this report

8.1 None

9. List of Other Relevant Documents

9.1 None