



Havering
LONDON BOROUGH

AUDIT COMMITTEE

Subject Heading:

Accounting Policies 2021/22 & 2022/23

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Policy context:

This report advises the Audit Committee of amendments required to the accounting policies adopted for preparation of the accounts for the financial year 2021/22 & 2022/23

Financial summary:

There are no direct financial implications to the report.

The subject matter of this report deals with the following Council Objectives

Communities making Havering
Places making Havering
Opportunities making Havering
Connections making Havering

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SUMMARY

This report summarises the main contents of the accounting policies adopted by the Council and the required changes to ensure the accounts for 2021/22 are prepared in accordance with accounting regulations. Any further changes to accounting regulations may require the policies to be changed further, however none are anticipated at this stage. Any significant changes to the 2021/22 policies will be highlighted to the committee in the Statement of Accounts report in January 2022.

- The report presents the accounting policies applicable to the financial year 2021/22 and will be reflected in the published statement of accounts. These policies will also provide the basis for the 2022/23 policies. At this stage there are no changes for 2021/22 identified. The Leasing Standard IFRS 16 which was due to be adopted on 1st April 2020 by Local Government has been delayed till the 2022/23 financial year– this will bring leased assets worth over £10,000 onto the balance sheet where the lease period exceeds one year.
- The CIPFA Better Governance Forum has produced a tool-kit for local authority Audit Committees that recommends Members review accounting policies on an annual basis. Adoption of the 2021/22 policies also means draft policies are in place for the start of the financial year to which they relate.

Appendix A includes the revised accounting policies for 2021/22 and 2022/23 combined into one document – differences are highlighted. The policies for both years are the same except where marked for leased assets and the changes to policy section. Relevant dates will be updated for the 2022/23 policies.

RECOMMENDATIONS

The Committee is asked to note and comment on the accounting policies applicable to financial years 2021/22 & 2022/23.

REPORT DETAIL

1. Introduction

- 1.1 This report sets out the revised accounting policies that will be applied during the financial years 2021/22 and 2022/23 in preparation of the Council's financial statements. The full policies are shown in appendix A to this report and will be included in the Statement of Accounts. The policies are prepared

under the International Financial Reporting Standards (IFRS). Members of the Audit Committee are invited to note these policies and make comment. Reviewing of accounting policies by Members ensures that the Council and Audit Committee follow the CIPFA Better Governance Forum toolkit for local authority Audit Committees.

- 1.2 Unless there are major changes to accounting rules and regulation, accounting policies do not change significantly between years because the accounts would not be comparable from one year to the next.
- 1.3 The audited Statement of Accounts for 2020/21 are expected to be presented to the February 2022 Audit Committee for approval. The accounting policies statement will be included within the accounts and any changes made during the course of the closedown programme and/or audit will be highlighted and explained by officers. There might be a need to make changes to these policies following the completion of the audit.

2. Purpose of Accounting Policies

- 2.1 The Code of Practice for Local Authority Accounting defines accounting policies as "the principles, bases, conventions, rules and practices applied by an authority that specify how the effects of transactions and other events are to be reflected in its financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves".
- 2.2 The application of accounting policies supports the implementation of the main accounting concepts of best practice. These ensure financial reports:
 - Are **relevant** – providing appropriate information on the stewardship of Authority monies.
 - Are **reliable** – financial information can be relied upon and is without bias and free from error, within the bounds of materiality and has been prudently prepared.
 - Allow **comparability** – the interpretation of financial reports is enhanced by being able to compare information across other accounting periods and other organisations.
 - Are **understandable** – though financial reports have to contain certain information, they have to be understandable.
 - Reflect **material** information – significant transactions must be incorporated in the financial reports.
 - Prepared on a **going concern** basis – the assumption that the authority will continue in operational existence for the foreseeable future.
 - Prepared on an **accruals** basis – accounts are prepared to reflect the benefit of goods and services received and provided rather than when cash transactions occur when invoices are paid in a later accounting period.

- 2.3 The accounting policies currently adopted by the Council are in line with the concepts set out in 2.2.

3. Contents of Accounting Policies

- 3.1 The appendix contains all of the Council's accounting policies. The more significant policies cover the treatment of the following:

1. **Property Plant and Equipment** – the basis for valuing major long-term assets, such as council dwellings and offices.
2. **Impairment** – The carrying value of assets is reviewed annually to determine whether there is a material change in value and the basis on which impairment losses are written off.
3. **Depreciation** – Depreciation is charged to spread the value of an asset over its useful life.
4. **Provisions and reserves** – A **provision** is created because the Council will have to make a future payment to settle a financial obligation and a reasonable estimate can be made of the amount payable. Provisions are charged to the relevant service area. A **reserve** is created for a planned future purpose or maintained as a general contingency. These are recorded separately on the Movement in Reserves Statement.
5. **Accruals of Income and Expenditure** – The Council raises accruals to comply with the concept of accounting to measure when payments or receipts are due rather than where cash is transferred to settle the liability
6. **Pensions** – This note describes the three pension schemes Council employees contribute to (teachers, health workers and Local Government Pension Scheme). The policy includes detail on the investment valuation basis used and the calculations made of future liability.
7. **Value Added Tax** - As the vast majority of VAT paid by the Council is recoverable from H.M. Revenue & Customs, recoverable VAT is excluded from the cost of services within the accounts.

4. Changes in Accounting Policies for 2021/22

- 4.1 The application of most accounting policies is applied consistently from year to year. Changes are required when new accounting regulations are introduced or updated or if there is a significant change within the financial activities of the Council.
- 4.2 There are no material changes proposed to Havering's accounting policies for the 2021/22 accounts.

5. Changes in Accounting Policies for 2022/23

- 5.1 No material changes to the 2022/23 policies are expected other than from 1 April 2022 all leased in assets (where the agreement is longer than one year) have to be brought onto the balance sheet from 1 April 2022. Officers are working to identify all leased assets and will agree the proposed accounting treatment with EY prior to the 2022/23 closedown. An item of consideration will be if the de-minimis level. Guidance refers to the value of a small vehicle as being a guideline minimum level for consideration. Therefore, a £10,000 de-minimis has been selected. A number of other Councils are adopting the same lower limit. This change in accounting treatment will not have a material impact upon the Council's usable financial resources as the amounts payable under the leases will remain the same.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications arising from the publication or approval of accounting policies. There are no material changes to policy that impact upon the Council's financial position.

Legal implications and risks:

There are no apparent legal implications in noting the content of the Report.

Human Resources implications and risks:

No implications.

Equalities implications and risks:

No implications

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have 'due regard' to:

- (i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are age, disability, gender reassignment, marriage and civil partnerships, pregnancy and maternity, race, religion or belief, sex/gender, and sexual orientation.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.