

Manchester City Council

Report for Resolution

Report to: Audit Committee – 13 February 2024

Subject: Accounting Concepts and Policies, Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Report of: The Deputy Chief Executive and City Treasurer

Summary

This report explains the accounting concepts and policies, critical accounting judgements and key sources of estimation uncertainty that will be used in preparing the 2023/24 annual accounts.

Recommendations

It is recommended that the Audit Committee:

- 1) approve the accounting concepts and policies that will be used in completing the 2023/24 annual accounts.
 - 2) note the critical accounting judgements made and key sources of estimation uncertainty.
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Wards Affected: All

Environmental Impact Assessment -the impact of the issues addressed in this report on achieving the zero-carbon target for the city	No impact
Equality, Diversity and Inclusion - the impact of the issues addressed in this report in meeting our Public Sector Equality Duty and broader equality commitments	No impact

Manchester Strategy outcomes	Summary of how this report aligns to the Our Manchester Strategy/Contribution to the Strategy
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A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The annual accounts are a key source of assurance to demonstrating the effective use of resources to deliver the councils strategic priorities as set out in the Corporate Plan which is underpinned by the Our Manchester Strategy.
A highly skilled city: world class and home-grown talent sustaining the city's economic success	
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	
A liveable and low carbon city: a destination of choice to live, visit, work	
A connected city: world class infrastructure and connectivity to drive growth	

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue None

Financial Consequences – Capital None

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to four years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

2023/24 Cipfa Code of Practice on Local Authority Accounting in the United Kingdom.

1. **Introduction and Background**

- 1.1. The Deputy Chief Executive and City Treasurer (Section 151 Officer) is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code). In preparing the Statement of Accounts, the Deputy Chief Executive and City Treasurer has to select suitable accounting policies and then apply them consistently and make judgements and estimates that are reasonable and prudent.
- 1.2. In line with best practice, this report presents the accounting policies that will be used in the preparation of the 2023/24 accounts. It also explains the requirement to include notes on critical accounting judgements and key sources of estimation uncertainty.

2. **Accounting Policies**

- 2.1. 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 accounting policies have to be disclosed as a note to the annual accounts.
- 2.2. The key changes to accounting standards are set out in the update of the 2023/24 Code, being amendments to:
IAS 8 (Accounting Policies changes in Accounting Estimates and Errors) – now provides a definition for 'accounting estimates. This clarifies the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.
IAS 1 (Presentation of Financial Statements) provides further updates to the scope of materiality. This will assist when producing the accounts as it provides more focused and proportionate information on accounting policies.
- 2.3. Amendments to Section 4.1 of the Code to allow the continuation of the adoption of the temporary relief, so that authorities are not required to report the gross book value and accumulated depreciation for infrastructure assets, (to be disclosed in the accounts).
- 2.4. The Council's accounting policies have been reviewed to ensure that they are all relevant to be used in the preparation of the 2023/24 annual accounts and are attached at Appendix 1.
- 2.5. The implementation date for International Financial Reporting Standards (IFRS) 16 Leasing was reviewed as part of the emergency consultation on the temporary changes to the accounting code for 2021/22 and 2022/23 accounts. The consultation proposal approved that mandatory implementation has been

deferred until 1 April 2024 for the 2024/25 accounts. The 2023/24 Code does allow for adoption as of 1 April 2023. The Council has decided against early adoption of this standard.

3. Critical Accounting Judgements

3.1. In accordance with International Accounting Standards and the Code, the Council is required to disclose those judgements that management have made in the processing of applying the Council's accounting policies that have the most significant effect on the amounts recognised in the financial statements. The notes to the accounts contain details of the critical accounting judgements that have been made in completing the annual accounts. These are shown in Appendix 1.

3.2. The critical judgements taken include which schools' property, plant and equipment and Private Finance Initiative (PFI) related assets should be included on the Council's balance sheet, whether a property should be classed as an investment property, classification of financial assets within financial instruments, treatment of transactions within the Pooled Budget with the Manchester University NHS Foundation Trust (MFT), Lender Option Borrower Option (LOBO) Loans and whether an organisation should be included within the Council's group accounts.

4. Key Sources of Estimation Uncertainty

4.1. In preparing the annual accounts there are areas where estimates are made. These include:

- Revaluation of property, plant and equipment and investment properties,
- provision for business rate appeals based on claims received and previous experience of the outcome of appeals,
- the liability for future pension payments which is estimated by qualified actuaries.

4.2. The key sources of estimation uncertainty are shown in Appendix 1

5. Recommendations

5.1. The recommendations appear at the front of this report.