

**Manchester City Council
Report for Resolution**

Report to: Audit Committee – 10 March 2020

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 2019/20 annual accounts. It also contains details of the new International Financial Reporting Standard (IFRS) 16 on leasing that is to be fully introduced by Local Government on 1 April 2020.

Recommendations

Members are requested to approve the accounting concepts and policies that will be used in completing the 2019/20 annual accounts and note the critical accounting judgements made and key sources of estimation uncertainty.

Wards Affected: All

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Background documents (available for public inspection): None

1. Introduction

- 1.1 This report details the accounting policies that will be used in the preparation of the 2019/20 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 preparing and presenting the annual accounts. These accounting policies have to be disclosed as a note to the annual accounts.
- 2.2 The accounting policies to be used in the preparation of the 2019/20 annual accounts are attached at Appendix 1. There are no changes to the accounting policies approved for 2018/19. However IFRS16 (Leasing) is to be introduced for local government from 1 April 2020. More detail on this new standard is provided in section 5 of this report.

3. Critical Accounting Judgements

- 3.1 In accordance with International Accounting Standards the notes to the accounts contain details of critical accounting judgements that have been made in completing the annual accounts. These are shown in Appendix 1. The 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 operational property, an investment property or a heritage asset, classification of financial assets within financial instruments, treatment of transactions within the Better Care Fund 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:
- useful lives and valuations of properties which are estimated by qualified Valuers,
 - provision for business rate appeals based on claims received and previous experience of the outcome of appeals,
 - provisions for known compensation claims which are estimated based on experience of similar claims,
 - the amount of arrears that will not be collected which is estimated based on expectations of the collection of different types of debt and
 - the liability for future pension payments which is estimated by qualified actuaries.

Details of these are shown in Appendix 1.

5. Introduction of International Financial Reporting Standard (IFRS) 16

- 5.1 IFRS16 is being introduced for local authorities from 1 April 2020 which means that the annual accounts for 2020/21 will be the first set of accounts produced in accordance with this standard. 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 by the 2019/20 Code as a note in the 2019/20 accounts.
- 5.2 The main impact of the standard is to remove (for lessees) the traditional distinction between finance leases and operating leases. For finance leases the asset is shown on the balance sheet, together with a liability to pay for the asset. In contrast, operating lease rentals are accounted for in the year they are paid. IFRS 16 requires all lessee leases (with two exemptions explained in the following paragraph) to be accounted for as finance leases, recognising the rights to use an asset. There are no changes for lessor accounting.
- 5.3 There are two exemptions for lessees from applying this standard. These are short term leases and those where the value of the asset that the lease relates to is low. Short term leases are those with a lease term of twelve months or less at the commencement date. The Code and IFR16 allow individual councils to determine a monetary amount that would constitute low value. The Council has elected to use £10,000 for this amount as this is the Council's approved de-minimis level for capital expenditure. Exempt leases will continue to be accounted for as operating leases.
- 5.4 The amount of annual lease payments, will, from 2020/21, be split between an interest element and the write down of the lease liability on the balance sheet which represents the principal element. This write down of the lease liability will be matched to a minimum revenue provision so resulting in no change to the total amount affecting council usable reserves.
- 5.5 At the time of writing this report, work is ongoing to quantify the effect of this change. It is likely that a number of properties will be classified as right of use assets including Etrop Court and offices at Bridgewater House and 1 City Road East. Certain items of equipment such as large printers and photocopiers, including those in schools, may also be included within this classification.

6. Recommendations

- 6.1 The recommendations appear at the front of this report.