

## AUDIT AND STANDARDS COMMITTEE

19 May 2021

<b>Title:</b> Accounting Policies for the 2020/21 & 2021/22 Statement of Accounts	
<b>Report of the Finance Director (S151 Officer)</b>	
<b>Open Report</b>	<b>For Decision</b>
<b>Wards Affected:</b> All	<b>Key Decision:</b> No
<b>Report Author:</b> Thomas Mulloy, Chief Accountant	<b>Contact Details:</b> E-mail: <a href="mailto:Thomas.Mulloy@lbbd.gov.uk">Thomas.Mulloy@lbbd.gov.uk</a>
<b>Accountable Director:</b> Philip Gregory, Finance Director (S151 Officer)	
<b>Accountable Strategic Leadership Director:</b> Philip Gregory, Finance Director (S151 Officer)	
<b>Summary</b>  The accounting policies to be used in preparing both the Council's 2020/21 and 2021/22 Statement of Accounts are set out in Appendix A.  There is one significant change to the Accounting Policies and that is the adoption of the interest capitalisation.  The draft Statement of Accounts 2019/20 which includes the Group Accounts have been published online at <a href="https://www.lbbd.gov.uk/accounts-and-budget">https://www.lbbd.gov.uk/accounts-and-budget</a>	
<b>Recommendation(s)</b>  The Committee is asked to approve the accounting policies applicable to the two financial years; 2020/21 and 2021/22.	
<b>Reason(s)</b>  In preparing the Statement of Accounts, the Section 151 Officer is responsible for selecting suitable accounting policies and ensuring that they are applied consistently. Accounting policies are the specific principles, conventions, rules and practices applied in preparing and presenting the financial statements and set out how transactions are recognised, presented and measured in the accounts.  Reviewing of accounting policies by Members ensures that the Committee follow the CIPFA Better Governance Forum toolkit for local authority Audit Committees.	

### 1. Introduction and Background

- 1.1 This report sets out the accounting policies that will be applied during the financial years; 2020/21 and 2021/22.

- 1.2 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.

## **2. Accounting Policies**

- 2.1 The Council's Accounting Policies are disclosed as a note to the annual accounts.
- 2.2 The accounting policies to be used in the preparation of the 2020/21 (and 2021/22) Statement of Accounts are attached at Appendix 1. There is only one significant change to the accounting policies and that relates to the capitalisation of interest. Further information is provided below. In general the accounting policies do not change significantly between years because the accounts would not be comparable from one year to the next.

## **3. Capitalisation of Interest – borrowing costs for Investment and Acquisition Strategy Developments**

- 3.1 The Council may borrow to meet capital costs for a qualifying asset as part of its Investment and Acquisition Strategy. It is the Council's policy to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, with capitalisation of interest against the qualifying asset.
- 3.2 The capitalisation rate shall be the weighted average of the borrowing costs that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.
- 3.3 A qualifying asset will be that which takes in excess of two years to get ready for intended use, will be limited to residential developments or commercial developments during the land assembly stage and is where the forecast expenditure is in excess of £10m.
- 3.4 Capitalisation of interest will start from when the asset has been agreed at Gateway 2, which is the point at which the development is initially agreed and will be on all qualifying expenditure. Where land has been purchased as part of land assembly the capitalisation of interest will be from the later date of either the completion date of the purchase or the date of this accounting policy.
- 3.5 Interest will be capitalised on a quarterly basis and will be based on the weighted average of the borrowing costs that are outstanding during the period.
- 3.6 Cessation of capitalisation will occur when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.
- 3.7 The above has been reviewed against the CODE for full compliance and will be included in the Statement of Accounting Policies. Materiality will be key in determining whether or not a separate disclosure is needed.

## **4. Financial Implications**

- 4.1 These have been addressed in the body of this report.

## **5. Legal Implications**

Implications completed by: Dr Paul Feild Senior Governance Lawyer

- 5.1 The method of carrying out the Council Accounting is prescribed by law, being the Local Audit and Accountability Act 2014 (the '2014 Act').
- 5.2 The Act requires that the Council as a relevant body must have its accounts audited. The procedure is set out in the Accounts and Audit Regulations 2015. Furthermore the application of the policies will be in accordance with the professional standards guidance as set by the Chartered Institute of Public Finance & Accountancy.
- 5.3 As explained in the body of this report and the appendix, it is a requirement that there is a consistency in approach in terms of treatment of accounting of the Council's finances to ensure that proper comparison is made of the transactions and that there is sound stewardship and governance of the Council's financial affairs.

**Public Background Papers Used in the Preparation of the Report: None**

### **List of appendices:**

- Appendix 1 – Statement of Accounting Policies 2020/21 and 2021/22