

Bath & North East Somerset Council

MEETING:	Audit Committee
MEETING DATE:	30th April 2025
TITLE:	2024/25 Accounting Policies
WARD:	All
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Accounting Policy 1.20 - Leases Appendix 2 – All Accounting Policies	

1 THE ISSUE

- 1.1 The Accounting Policies form part of the Council's annual Statement of Accounts, produced in accordance with the CIPFA Code of Practice on Local Authority Accounting (based on International Financial Reporting Standards). These require approval by those charged with governance.
- 1.2 Starting with the 2024-25 Statement of Accounts, CIPFA has mandated the adoption of IFRS 16 Leases. This standard requires significant changes for the accounting treatment of leases, resulting in changes to Accounting Policy 1.20 – Leases.

2 RECOMMENDATIONS

The Audit Committee is asked to:

- 2.1 Approve Accounting Policy 1.20 - Leases (**Appendix 1**)
- 2.2 Note that other than Accounting Policy 1.20 – Leases, the Accounting Policies included as **Appendix 2** have not changed since they were approved as part of the Council's 2023/24 Statement of Accounts.

3 THE REPORT

Background

- 3.1 Mandatory adoption of the financial reporting standard IFRS 16 Leases is required under the 2024/25 CIPFA Code of Practice on Local Authority Accounting, with an implementation date of 1 April 2024.
- 3.2 IFRS 16 Leases has significant changes for the accounting treatment of leases, and brings into consideration all leases including those with peppercorn or nil considerations.

- 3.3 The implementation of IFRS16 Leases does not have implications on the Council's budget or General Fund reserves, as the changes relate to the reporting and presentation required within the Council's Statement of Accounts.
- 3.4 **Appendix 1** details the proposed updated Accounting Policy 1.20 – Leases, which has been written with reference to the CIPFA Code of Practice. The main changes in accounting treatment of leases as a result of the implementation of IFRS 16 are detailed below, in situations where the Council is either a lessee or a lessor.

The Council as a Lessee

- 3.5 As a lessee, the Council is required to recognise all leased assets in its Balance Sheet as a "Right-Of-Use" asset, with the exception of short term leases or where a lease is for a low value asset. The Council is also required to recognise a corresponding "Lease Liability" in the Balance Sheet, for the future payments due to be paid.
- 3.6 Work to date suggests that the lease liabilities reported on the Council's balance sheet will increase by approximately £7.7m as a result of the mandatory adoption of IFRS 16 Leases, with an equivalent or greater increase to the value of the Right-Of-Use assets relating to these leases.
- 3.7 Some of the contracts containing land and building leases require a valuation for the land and buildings Right-Of-Use assets. This has been done in line with our annual revaluation process for Council assets.

The Council as a Lessor

- 3.8 As a lessor, the Council has reviewed the accounting treatment of all peppercorn and nil consideration leases to third parties, and where the lease is determined to be a finance lease, the associated asset is required to be derecognised (all or part) in the Council's Balance Sheet.
- 3.9 There were a significant amount of Peppercorn and nil consideration leases that required reviewing in order to determine the appropriate accounting treatment. As a result, the Council's assets in the Balance Sheet will decrease by approximately £10m as a result of the derecognition.

Existing Accounting Policies

- 3.10 For completeness, **Appendix 2** includes the full set of Accounting Policies for 2024/25, which remain otherwise unchanged from those already approved by the Audit Committee as part of the 2023/24 Statement of Accounts.

4 STATUTORY CONSIDERATIONS

- 4.1 This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

- 5.1 The review of the Council's Accounting Policies are carried out annually along with the production of the Statement of Accounts.

6 RISK MANAGEMENT

6.1 The Council's on-going financial position is an identified risk that is regularly monitored.

7 CLIMATE CHANGE

7.1 The Council's Statement of Accounts is a statutory requirement. As this is a report about the Accounting Policies used for the production of the Council's Statement of Accounts, it does not include any decisions that have a direct impact on Climate Change.

8 OTHER OPTIONS CONSIDERED

8.1 None. The CIPFA Code of Practice requires Authorities to set Accounting Policies in accordance with IAS 8 Accounting Policies.

9 CONSULTATION

9.1 Consultation has been carried out with the Director of Financial Services, Assurance & Pensions.

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Background papers	<i>CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024-25.</i> <i>CIPFA Bulletin 11 Accounting for Assets Owned by Religious Bodies and Used by Schools: https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-11-accounting-for-assets-owned-by-religious-bodies-and-used-by-schools</i>
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