REPORT TO	ON
Governance Committee	12th April 2017

Jan 2017

TITLE	AUTHOR	Agenda item No.
2016/17 Closure of Accounts – Approval of Accounting Policies to be included in the Statement of Accounts 2016/17	**Lee Hurst**	**7**

1. PURPOSE OF THE REPORT

To present the Statement of Accounting Policies 2016/17 for consideration and approval and to present the CIPFA document “Understanding Local Authority Financial Statements”. This document explains changes to local authority financial statements required by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

2. RECOMMENDATIONS

2.1 Consider and approve the Statement of Accounting Policies 2016/17 at Appendix A.
2.2 Note the contents of the CIPFA document “Understanding Local Authority Financial Statements” at Appendix B.

3. CORPORATE PRIORITIES

The report relates to the following corporate priorities:

Clean, green and safe		Strong and healthy communities	
Strong South Ribble in the heart of prosperous Lancashire		Efficient, effective and exceptional council	✓

4. BACKGROUND TO THE REPORT – STATEMENT OF ACCOUNTIING POLICIES 2016/17

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom defines Accounting Policies as “the specific principles, bases, conventions, rules and practices applied by the Authority in preparing financial statements”. Accounting policies are the cornerstone of an organisation’s financial control environment, bridging the gap between technical accounting literature and business practices, explaining how we apply accounting standards in practice and what discretion we have applied in adopting accounting standards should there be any discretion available.

The requirement to include Accounting Policies and account for changes in accounting estimates and errors is in accordance with standard International Accounting Standard (IAS) 8 ‘Accounting Policies, Changes in Accounting Estimates and Errors’, with the exception of adaptations to fit the Public Sector such as International Public Sector Accounting Standard (IPSAS) 3 which is based on IAS 8. IPSAS standards are Public sector interpretations of international standards. These provide guidance for public sector bodies.

It is recommended by our External Auditors, considered best practice and in line with proper accounting practices that the proposed accounting policies for the year, which will form part of the published Statement of Accounts, are approved each year by the Governance Committee.

Accordingly, for the first time as a separate document, we present at Appendix A the Statement of Accounting Policies for 2016/17. The accounting policies for a financial year were previously approved as part of the approval of the Statement of Accounts.

Accounting standards allow some flexibility in choice of methods that can be applied to a specific class of transactions. However, in order to prevent manipulation, an organisation changing its accounting policy must have a strong reason for any such change. Further, it is required to present its new financial statements as if it followed the newly adopted policy since the day it started business. In other words, accounting standards require any change in accounting policy to be presented with retrospective application. The effect of such application would be that the change will be reflected in past, present and future periods with disclosures in the accounts to show the impact of those changes.

An example of a change in accounting policy would be any change in method used to value fixed assets: i.e. from cost method to revaluation model. This is different from a change in accounting estimate. Accounting estimates are approximate values assigned by an organisation's management to different accounting variables. Whenever an organisation changes such estimates, it is required to reflect the change only in current and future periods, but not in past periods. An example of a change in accounting estimate would be a change in the useful life of an asset or a change in the value of the allowance for bad or doubtful debts because the overall debtor value had increased or decreased.

However, application of an accounting policy for the first time is not a change in accounting policy.

Shared Financial Services review the accounting policies each year to consider if any changes are necessary in light of any changes in working practice, changes in the requirements of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom and any new accounting standards adopted.

Changes to the 2016/17 Statement of Accounting Policies are identified as tracked changes in Appendix A. Changes are minor and in summary are as follows:

- Date changes to reflect the current financial year.
- Date changes to reflect the current version of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.
- Addition of an accounting policy on Community Infrastructure Levy as the transactions are material to the Authority's financial statements. This is a new accounting policy and does not require retrospective application.
- Removal of reference to and the accounting policy outlining the Authority's adoption of the requirements of the CIPFA's Service Reporting Code of Practice (the Code). This is no longer and a requirement of the Code and is explained in detail in the following section regarding Accounting Changes for 2016/17.

It should be noted that the accounting policies may be subject to minor amendments between the distribution of this report and the final Statement of Accounts 2016/17, for example as a result of recommendations or findings during the external audit.

5. ACCOUNTING CHANGES 2016/17

UK local authorities will prepare their 2016/17 accounts in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. The

2016/17 Code has introduced a number of changes to the presentation of financial information with the aim of making the accounts more understandable.

The Chartered Institute of Public Finance and Accountancy (CIPFA) published a guide to the changes in a document called "Understanding Local Authority Financial Statements" and explained the purpose of the document as follows:

"CIPFA and CIPFA/LASAAC have published Understanding Local Authority Financial Statements (previously How to Tell the Story) as a part of its programme of changes under the Telling the Story Review.

This publication is intended to help chief finance officers and other senior staff to present the financial statements to members and other key stakeholders by explaining how the formats can be used to convey key information in these areas and covers the main financial statements.

It also features the changed formats of the financial statements from the 2016/17 Code and discusses the new Expenditure and Funding Analysis.

CIPFA and CIPFA/LASAAC are clear that the financial statements have a key part to play in accountability to taxpayers and other stakeholders as to how public money is used.

A key to achieving the aims of the changes brought about by the review will be to use the information not just in the narrative section of the financial statements to explain performance during the year, but more widely to all stakeholders, including elected members as citizens' representatives, in a range of formats and media to provide a definitive position on financial performance. Local authorities are also urged to look to their balance sheets as a part of this explanation and the key messages that can be drawn out."

The document is presented as Appendix B to this report.

From 2016/17 onwards, the key emphasis is on presenting figures in the financial statements in the same way as they are presented during the year in budget monitoring reports. The service analysis required by CIPFA's Service Reporting Code of Practice (SeRCoP), which utilised standard headings for services such as Central Services, Corporate and Democratic Core, Environment & Regulatory, Cultural & Related Services, etc. and which required support services and overheads to be apportioned (recharged) to these standard headings, will no longer be used in the financial statements. Instead the financial statements will be prepared on an organisational basis reporting at directorate level.

Should there be directorate restructures during a financial year the previous year's financial statements will be restated according to the current directorate structure in place at the time of publication of the Statement of Accounts rather than the structure in place during that previous financial year in order to aid comparability.

Budget monitoring information will now also be additionally presented by directorate. Figures in the statement of accounts will use the same presentation, thereby improving the link between budget monitoring and outturn figures presented in the Statement of Accounts.

Pages 3 and 4 of Appendix B explain the new Expenditure and Funding Analysis (EFA), which will present net expenditure in the statement of accounts by directorate. The EFA will show the increase or decrease in the General Fund Balance for the financial year, which will match the figure presented to Cabinet, Governance Committee and Council in the revenue budget outturn report for 2016/17.

The revised presentation of the Comprehensive Income and Expenditure Statement (CI&ES) is explained in pages 5 and 6 of Appendix B. The revised CI&ES also presents figures by directorate, and includes figures required by accounting practices to produce the (Surplus) or Deficit on Provision of Services.

As budget monitoring reports do not include support service recharges, capital charges such as depreciation, accrued employee benefits, and IAS 19 pension adjustments, these will not be included within Net Expenditure in the EFA. The costs other than support service recharges do need to be included in a separate column of Adjustments between the Funding and Accounting Basis, in order to identify Net Expenditure to report in the CI&ES.

It is still necessary to recharge support service costs in order to complete statutory returns, in particular the Revenue Outturn (RO) Form and the Whole of Government Accounts (WGA) return.

A full illustrative example of these changes will be provided at the usual Members learning sessions on the Statement of Accounts held during the external audit.

6. FUTURE CHANGES

We have been advised about forthcoming changes in the 2017/18 Accounting Code of Practice and those due in subsequent years.

The 2017/18 Code will indicate that accounting policies should reflect an authority's individual circumstances, and that they need not be presented in the statement of accounts as one note as at present. It may be more appropriate to include the accounting policies with the notes and statements to which they relate, and this will be considered when preparing the 2017/18 statement of accounts.

IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers will be implemented from 2018/19. IFRS 16 Leases will apply from 2019/20. Of these the most significant is likely to be IFRS 16, because all assets acquired under leases will be brought on the council's balance sheet. Currently assets obtained through operating leases are not on the balance sheet and are simply treated as a revenue costs.

More information will be provided about these changes when the Statement of Accounting Polices for the years in question are brought to Governance Committee.

7. WIDER IMPLICATIONS AND BACKGROUND DOCUMENTATION

7.1 Comments of the Statutory Finance Officer

The Statement of Accounting Policies 2016/17 have been reviewed for regulatory compliance. There are no financial implications as the changes to the accounting policies for the year are restricted to changes in how the financial statements are presented rather than any changes to how we account for transactions.

7.2 Comments of the Monitoring Officer

There are no concerns with this report from a legal perspective.

The purpose of the report is to demonstrate compliance with International Accounting Standards and relevant CIPFA guidance.

The intention is that the proposed accounting policies will form part of the council's Statement of Accounts.

Other implications:	
• **Risk**	Risk implications apply in relation to the Accounts and Audit Regulations 2015 to prepare financial statements in accordance with the statutory timetable. The accounts must be compliant with the relevant standards and must be prepared on a true and fair view basis. Failure to comply could result in a failure to meet the statutory duty
• **Equality**	None
• **HR**	None

8. BACKGROUND DOCUMENTS

- Accounts and Audit (England) Regulations 2015
- South Ribble Borough Council Audited Statement of Accounts 2015/16 – Report to Governance Committee, 14th December 2016 http://egenda.southribble.gov.uk/akssribble/users/public/admin/kab12.pl?operation=SUBMIT&meet=50&cmte=GOV&grpid=public&arc=1
- CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17

APPENDICES

Appendix A - The Statement of Accounting Policies 2016/17
Appendix B - CIPFA document "Understanding Local Authority Financial Statements"