Public
Key Decision – No

HUNTINGDONSHIRE DISTRICT COUNCIL

Title:	**Accounting Policies** **for the Annual Financial Report 2013/14**
Meeting/Date:	Corporate Governance Panel 26 March 2014
Executive Portfolio:	Resources: Councillor J A Gray
Report by:	Accountancy Manager
Ward(s) affected:	All Wards

Executive Summary:

Accounting Policies are the principles, bases, conventions, rules and practices applied by an authority that specify how the effects of transactions and other events are to be reflected in its financial statements.

Best practice requires the council to regularly review the adopted accounting policies to ensure that they remain appropriate and give due weight to the impact of a change in accounting policy to ensure comparability between accounting periods. Such review and approval should occur prior to the financial year-end, thus allowing officers to produce the statement of accounts based on the approved accounting policies.

As noted in paragraph 3.1, there are only two minor and two significant changes in accounting policies; none of which will have an impact on the Councils general fund balance.

Recommendation(s):
It is recommended that the Panel approves the amendments to the accounting policies noted within Annex A.

1. PURPOSE

1.1 Each year the council is required to produce a statement of account, the Annual Financial Report, which has to be approved by the Council's Chief Financial Officer by the 30th June and then approved by members and published by the 30th September. The accounts are required to be produced based on regulations prescribed by statute and relevant accounting standards.

2. BACKGROUND

2.1 Accounting policies are the principles, bases, conventions, rules and practices applied by an authority that specify how the effects of transactions and other events are to be reflected in its financial statements.

2.2 Except where specified in the "Code of Practice on Local Authority Accounting in the United Kingdom 2013/14" or in specific legislative requirements, it is for an authority to select the accounting policies that are most appropriate to its particular circumstances.

2.3 Best practice requires the council to regularly review the adopted accounting policies to ensure that they remain appropriate and give due weight to the impact of a change in accounting policy to ensure comparability between accounting periods. Such review and approval should occur prior to the financial year-end, thus allowing officers to produce the Annual Financial Report based on the approved accounting policies.

2.4 Consequently, the Panel are asked to approve the accounting policies for 2013/14; taking the 2012/13 accounting policies as the base.

3. ACCOUNTING POLICIES FOR 2013/14

3.1 Of the 27 accounting policies that were approved for 2012/13 (please refer to the final copy of the Annual Financial Report approved by the Panel last September), Table 1 below shows that for 2013/14 four policies require amendment with two of these being considered significant.

Table 1: Changes in Accounting Policy			
Reason for change in the accounting policy	Number of Accounting Policies categorised under the reason for change	Accounting Policy Affected	Cross Reference to Annex A
No change	23	n/a	n/a
Minor update for formatting or a change that does not have a significant impact e.g. change in references to financial year	2	• General Principles • Changes in Accounting Policies, Prior Period Adjustments, Estimates and Errors	• CP1 • CP5
Significant change in accounting policy e.g. change in amounts (£)	2	• Depreciation and other Charges to Revenue for Non-Current Assets • Post Employment Benefits	• NCA 1 • EB 1

		(Pensions)	
New accounting policy	0	n/a	n/a

3.2 With regard to:

- Depreciation and other Charges to Revenue for Non-Current Assets, although the Council has to account for depreciation, revaluation costs and impairment losses, under local government financial regulations, these are non-cash items so there is no direct impact on the general fund. However, the Council is required to make an annual provision from revenue, known as the minimum revenue provision (MRP) which is a direct contribution towards the reduction in its overall borrowing requirement. The Council has to have in place an approved MRP policy and currently the policy provided for MRP is on an annuity basis.

  However, members will recall that in February 2013 the Council approved the 2013/14 Treasury Management Strategy and this included the giving of loans to local organisations and/or businesses. Those organisations who receive such loans are required to repay the loan on an annual basis and each repayment will include an element of Principal. The Council is permitted to approve an MRP policy that uses the Principal element of the repayment as a proxy for MRP and it is approval for this amendment to the Accounting Policies that is being sought.

- Post Employment Benefits (Pensions), this is a sub-section of International Accounting Standard 19 (IAS 19: Employee Benefits). The change required is a “technical accounting” adjustment in respect of the recategorisation of actuarial adjustments on the Councils pension fund liabilities and it is approval for this amendment to the Accounting Policies that is being sought.

  It anticipated, at this time, that the implementation of the IAS 19 changes will require a restatement of the 2012/13 balance sheet (comparative figures). However, this will be subject to confirmation following:

  - The receipt of the report from the Councils actuary (Hymans Robertson LLP).
  - Closure training that key accounts closure staff will be undertaking during February and March 2014 (provided by the CIPFA “Financial Advisory Network)

3.3 It is envisaged that the changes to the accounting policies that are proposed will not have any direct financial implications; the changes are for clarification, transparency and to ensure compliance with IFRS accounting arrangements. If during the closure process it transpires that further changes to the accounting policies are required; where the change:

- Does result in a movement in the council’s “cash reserves” or balances, then this will be brought to the attention of the Chief Financial Officer and the Chair of this Panel at the earliest opportunity and then presented to members when the accounts are presented for approval in September 2013.
- Does not result in a movement in the council’s “cash” reserves or balances, this will be reported to the Chief Financial Officer and then to members when the accounts are presented for approval in September 2013.

4. LEGAL IMPLICATIONS

4.1 There are no direct legal implications arising from this report.

5. RESOURCE IMPLICATIONS

5.1 There are no direct financial implications arising from this report.

LIST OF APPENDICES INCLUDED

Annex A – Changes to accounting policies

BACKGROUND PAPERS

Working papers in Financial Services.

CONTACT OFFICER

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	Accounting Policies Used within 2012/13 Annual Financial Report *Based on the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13*	.Proposed Accounting Policies for 2013/14 Annual Financial Report *Code of Practice on Local Authority Accounting in the United Kingdom 2013/14*	Reasons for change in accounting policy (see key at the end of annex)
CONCEPTS AND PRINCIPLES			
CP 1	**General Principles** The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011 in accordance with proper accounting practices. These practices comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the Service Reporting Code of Practice 2012/13, supported by International Financial Reporting Standards (IFRS). The underlying concepts of the accounts include the: • Council being a 'going concern' – all operations continuing • Accrual of income and expenditure – placing items in the year they relate to rather than the year they take place • Primacy of legislative requirements – legislation overrides standard accounting practice	**General Principles** The Statement of Accounts summarises the Council's transactions for the **2013/14** financial year and its position at the year-end of 31 March **2014**. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011 in accordance with proper accounting practices. These practices comprise the Code of Practice on Local Authority Accounting in the United Kingdom **2013/14** and the Service Reporting Code of Practice **2013/14**, supported by International Financial Reporting Standards (IFRS). The underlying concepts of the accounts include the: • Council being a 'going concern' – all operations continuing • Accrual of income and expenditure – placing items in the year they relate to rather than the year they take place • Primacy of legislative requirements – legislation overrides standard accounting practice	B

	The accounting statements are prepared with the objective of presenting a true and fair view of the financial position and transactions of the Council. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The accounting policies are reviewed on an annual basis to ensure that they are appropriate, compliant with accepted accounting practice and relevant to the Council's ongoing business activity.	The accounting statements are prepared with the objective of presenting a true and fair view of the financial position and transactions of the Council. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The accounting policies are reviewed on an annual basis to ensure that they are appropriate, compliant with accepted accounting practice and relevant to the Council's ongoing business activity.	
CP 5	**Changes in Accounting Policies, Prior Period Adjustments and Estimates and Errors** Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, or other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively, if material, by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. For 2012/13, there are no new accounting policies in respect of statutory requirements or to ensure local circumstances are better reflected within the Annual Report. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change and do not give rise to a prior period adjustment.	**Changes in Accounting Policies, Prior Period Adjustments and Estimates and Errors** Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, or other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively, if material, by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. For **2013/14**, there are no new accounting policies in respect of statutory requirements or to ensure local circumstances are better reflected within the Annual Report. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change and do not give rise to a prior period adjustment.	**B**

	Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.	Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.	
Non-Current Assets			
NCA 1	**Depreciation and other Charges to Revenue for Non-Current Assets** Services, support services and trading accounts are debited with the following amounts to record the cost of holding property, plant and equipment during the year: • depreciation attributable to the assets used by the relevant service • revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off • amortisation (annual charge) of intangible assets attributable to the service. The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual provision from revenue, known as the minimum revenue provision (MRP), to contribute towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by MRP in the General Fund Balance, by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserves Statement to reflect the difference between the two.	**Depreciation and other Charges to Revenue for Non-Current Assets** Services, support services and trading accounts are debited with the following amounts to record the cost of holding property, plant and equipment during the year: • depreciation attributable to the assets used by the relevant service • revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off • amortisation (annual charge) of intangible assets attributable to the service. The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual provision from revenue, known as the minimum revenue provision (MRP), to contribute towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by MRP in the General Fund Balance, by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserves Statement to reflect the difference between the two.	**C**

	The basis for calculating MRP is restricted by legislation and the policy has to be approved by the Council. The policy for 2012/13 is that MRP is on an annuity basis. This results in the MRP increasing over the life of the asset to match the fall in the interest cost as the debt is “notionally” repaid. The net result is a consistent charge to the Council’s accounts over the assumed life of the asset. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal; receipts from disposals are credited to the same line. Any accumulated revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.	The basis for calculating MRP is restricted by legislation and the policy has to be approved by the Council. **For 2013/14, the Council will have two policies:** **<u>MRP Policy in respect of Loans to Organisations or Loans with Security (as defined within the Treasury Management Strategy)</u>** **Where the Council has provided:** • **loans to local organisations or businesses, and/or** • **loans with security** **and these loans are repaid on, at least an annual basis, that the principal repayments received can replace the need to make a minimum revenue provision.** **<u>MRP Policy in respect of Debt no relating to Loans to Organisations</u>** **MRP for this category will be on an annuity basis**. This results in the MRP increasing over the life of the asset to match the fall in the interest cost as the debt is “notionally” repaid. The net result is a consistent charge to the Council’s accounts over the assumed life of the asset. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal; receipts from disposals are credited to the same line. Any accumulated revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.	

Employee Benefits			
EB 1	**Post Employment Benefits (Pensions)** Employees of the Council are members of the Local Government Pensions Scheme (LGPS), administered by Cambridgeshire County Council. This scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council. • The liabilities of the LGPS attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees. • Liabilities are discounted to their value at current prices, using an appropriate discount rate (based on the indicative rate of return on high quality corporate bonds as identified by the actuary). • The assets of the Cambridgeshire County Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value: ○ quoted securities – current bid price ○ unquoted securities – professional estimate ○ unitised securities – current bid price ○ property – market value	**Post Employment Benefits (Pensions)** Employees of the Council are members of the Local Government Pensions Scheme (LGPS), administered by Cambridgeshire County Council. This scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council. • The liabilities of the LGPS attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees. • Liabilities are discounted to their value at current prices, using an appropriate discount rate (based on the indicative rate of return on high quality corporate bonds as identified by the actuary). • The assets of the Cambridgeshire County Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value: ○ quoted securities – current bid price ○ unquoted securities – professional estimate ○ unitised securities – current bid price ○ property – market value	C

	The change in the net pensions liability is analysed into seven components ○ **current service cost –** the increase in liabilities as a result of years of service earned this year – debited in the Comprehensive Income and Expenditure Statement to the services for which the employees worked. ○ **past service cost –** the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs. ○ **interest cost –** the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. ○ **expected return on assets –** the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return, credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. ○ **gains or losses on settlements and curtailments –** the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual	The change in the net pensions liability is analysed into seven components ○ **current service cost** - the increase in liabilities as a result of years of service earned this year – debited in the Comprehensive Income and Expenditure Statement to the services for which the employees worked. ○ **past service cost** - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs. ○ **net interest on the net defined liability, i.e. net interest expense for the authority – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.** ○ **the return on plan assets – excluding amounts charged in net interest on the**	

	of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs. ○ **actuarial gains and losses –** changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve. ○ **contributions paid to the Cambridgeshire Pension Fund –** cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense. Statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, rather than the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any such amounts payable but unpaid at the year-end. The balance (currently negative) that arises on the Pensions Reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.	**net defined benefit liability. This is charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.** ○ **actuarial gains and losses –** changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve. ○ **contributions paid to the Cambridgeshire Pension Fund** - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense. Statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, rather than the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any such amounts payable but unpaid at the year-end. The balance (currently negative) that arises on the Pensions Reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.	

Clarifications for Reasons for Changes to/New Accounting Policies

Key:
A: No change.
B: Minor update for dates, formatting or changes in accounting policy that do not have a significant impact on financial reporting.
C: Significant change in accounting policy.
D: New accounting policy.