

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter: Accounting Policies for the Annual Financial Report 2015/16
Meeting/Date: Corporate Governance Panel 9 March 2016
Executive Portfolio: Resources: Councillor J A Gray
Report by: Finance 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 statement of accounts.

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 three minor changes to existing accounting policies and two significant changes. Four of these changes will have no direct impact on the Council's general fund balance; however one of these changes aims to reduce the impact of the cost of borrowing for investment in commercial assets.

Recommendation(s):

It is recommended that the Panel approves the amendments to the accounting policies noted within Appendix 1.

1. WHAT IS THIS REPORT ABOUT/PURPOSE?

- 1.1 Each year the Council is required to produce a statement of account which is included in the Annual Financial Report. This has to be approved by the Council's Responsible 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 statement of accounts.
- 2.2 Except where specified in the "Code of Practice on Local Authority Accounting in the United Kingdom 2015/16" 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 statement of accounts based on the approved accounting policies.
- 2.4 Consequently, the Panel are asked to approve the accounting policies for 2015/16 (shown in Appendix 1); taking the 2014/15 accounting policies as the base.

3. OPTIONS CONSIDERED/ANALYSIS

Accounting Policies for 2015/16

- 3.1 Of the 27 accounting policies that were approved for 2014/15 (please refer to the final copy of the Annual Financial Report approved by the Panel last September), **Table 1** below shows that for 2015/16 five policies require amendment with two of these being considered significant.

Reason for change in the accounting policy	Number of Accounting Policies categorised under the reason for change	Accounting Policy Affected
No change	22	n/a
Minor update for formatting or a change that does not have a significant impact e.g. change in references to financial year	3	<ul style="list-style-type: none">• General Principles• Changes in Accounting Policies, Prior Period Adjustments, Estimates and Errors
Significant change in accounting policy e.g. change in amounts (£)	2	<ul style="list-style-type: none">• Defining of Fair Value valuation in that Operational Assets will be valued under the Current Value approach.• Additional MRP Policy in respect of the Commercial Investment Strategy.

3.2 It is envisaged that the proposed:

- minor changes to the accounting policies will not have any direct financial implications.
- introduction of Current Value for Operational Assets may have impact on the valuations of assets (and liabilities) on the balance sheet, but will not have an impact on the General Fund. This change is prospective so will not require a prior year restatement.
- MRP policy in respect of the Commercial Investment Strategy will not have an impact in respect of 2015/16 closure. However, as the Commercial Investment Strategy moves into 2016/17, this policy will allow the Council to apply the regular loan repayment as a proxy for Minimum Revenue Provision. This policy was approved by Cabinet in December 2015 and subsequently by Council.

3.3 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 Responsible Financial Officer, Portfolio Holder for Resources and the Chair of this Panel at the earliest opportunity and then presented to members when the accounts are presented for approval in September 2016.
- Does not result in a movement in the Council's "cash" reserves or balances,

this will be reported to the Responsible Financial Officer and then to members when the accounts are presented for approval in September 2016.

4. KEY IMPACTS/RISKS? HOW WILL THEY BE ADDRESSED?

4.1 During the preparation of the statement of accounts, the working papers, practices and associated documents will be updated to reflect the changed accounting policies to ensure that the statement of accounts are prepared to the correct legislation and regulations.

5. WHAT ACTIONS WILL BE TAKEN/TIMETABLE FOR IMPLEMENTATION

5.1 Upon approval, these accounting policies will be included in the 2015/16 statement of accounts.

6. LINK TO THE CORPORATE PLAN

6.1 The Codes of Procurement and Financial Management come under the "Ensuring we are a customer focused and service led Council delivering value for money services" aspect of the Corporate Plan, and enabling the Council to "*Become more business-like and efficient in the way we deliver services*".

7. LEGAL IMPLICATIONS

7.1 No legal implications are known at this time.

8. RESOURCE IMPLICATIONS

8.1 Resource implication are noted within the report.

9. OTHER IMPLICATIONS

9.1 No other implications are known at this time.

10. REASONS FOR THE RECOMMENDED DECISIONS


10.1 It is recommended that Corporate Governance Panel reviews and approves the changes to the accounting policies for 2015/16 statement of accounts.

BACKGROUND PAPERS


Working papers are held in Resources.

CONTACT OFFICER

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Appendix 1

Accounting Policies Used within 2014/15 Annual Financial Report <i>Based on the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15</i>	Proposed Accounting Policies for 2015/16 Annual Financial Report <i>Code of Practice on Local Authority Accounting in the United Kingdom 2015/16</i>	Reasons for change in accounting policy (see key at the end of annex)
<p>General Principles The Statement of Accounts summarises the Council's transactions for the 2014/15 financial year and its position at the year-end of 31 March 2015. 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 2014/15 and the Service Reporting Code of Practice 2014/15, supported by International Financial Reporting Standards (IFRS).</p> <p>The underlying concepts of the accounts include the:</p> <ul style="list-style-type: none"> • 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 <p>The accounting statements are prepared with the objective of presenting a true and fair view of the financial position and transactions of the Council.</p>	<p>General Principles The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. 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 2015/16 and the Service Reporting Code of Practice 2015/16, supported by International Financial Reporting Standards (IFRS).</p> <p>The underlying concepts of the accounts include the:</p> <ul style="list-style-type: none"> • 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 <p>The accounting statements are prepared with the objective of presenting a true and fair view of the financial position and transactions of the Council.</p>	<p>B</p>

<p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p>	
<p>Changes in Accounting Policies, Prior Period Adjustments and Estimates and Errors</p> <p>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 2014/15, there are no new accounting policies in respect of statutory requirements or to ensure local circumstances are better reflected within the Annual Report.</p> <p>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.</p> <p>Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.</p>	<p>Changes in Accounting Policies, Prior Period Adjustments and Estimates and Errors</p> <p>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 2015/16, there are no new accounting policies in respect of statutory requirements or to ensure local circumstances are better reflected within the Annual Report.</p> <p>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.</p> <p>Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.</p>	<p>B</p>

<p>No IFRS 13 accounting policy used in 2014/15</p>	<p>Current Value Measurement (IFRS 13)</p> <p>Previously, all assets and liabilities were valued under the principle of “fair value” which was defined as “the amount for which an asset could be exchanged or liability settled between knowledgeable, willing parties in an arm’s length transaction”.</p> <p>Although “fair value” remains as the approach to valuation for a number of assets and liabilities, in respect of Operational Assets IFRS 13 introduces “current value”. This means such assets have to be measured in a way that recognises their “service potential”.</p>	<p>C</p>
<p>No Minimum Revenue Policy (MRP) relating to the Commercial Investment Strategy in 2014/15</p>	<p>MRP Policy in respect of the Commercial Investment Strategy</p> <p>For each capital investment undertaken under the requirements of the Council’s Commercial Investment Strategy, MRP will be made that is equal to the principal repayment for any loan finance supporting the investment.</p>	<p>C</p>
<p>Depreciation</p>	<p>Year of depreciation charge</p> <p>The depreciation charge will generally commence in the year after the addition of the asset, unless the in-year depreciation charge would have a material impact.</p>	<p>B</p>
<p><u>Clarifications for Reasons for Changes to/New Accounting Policies</u></p> <p>Key:</p> <p>A: No change.</p> <p>B: Minor update for dates, formatting or changes in accounting policy that do not have a significant impact on financial reporting.</p> <p>C: Significant change in accounting policy.</p> <p>D: New accounting policy.</p>		