Public
Key Decision – No

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter:	Accounting Policies for the Annual Financial Report 2016/17
Meeting/Date:	Corporate Governance Committee 22 March 2017
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 two minor changes to existing accounting policies, one significant change and one new accounting policy. Three 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 from 2017/18 onwards.

Recommendation(s):

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

1. WHAT IS THIS REPORT ABOUT?

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 30 June and then approved by members and published by the 30 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 2016/17" 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 Committee are asked to approve the accounting policies for 2016/17 (shown in Appendix 1); taking the 2015/16 accounting policies as the base.

3. ANALYSIS

Accounting Policies for 2016/17

3.1 Of the 27 accounting policies that were approved for 2015/16 (please refer to the final copy of the Annual Financial Report approved by the Panel last September), **Table 1** below shows that for 2016/17 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
No change	24	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
Significant change in accounting policy e.g. change in amounts (£)	1	• General MRP Policy in respect of when MRP is first charged.`
New accounting policy	1	• CIS MRP Policy – Financing Expenditure with Maturity Loans. This is a new policy of 2017/18.

3.2 It is envisaged that the proposed:

- minor changes to the accounting policies will not have any direct financial implications.
- MRP policy in respect of the Commercial Investment Strategy will not have an impact in respect of 2016/17 closure. However, as the Commercial Investment Strategy moves into 2017/18, this policy will allow the Council to not make an MRP where maturity loans meet certain stated requirements. This policy was approved by Cabinet in February 2017 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 Committee at the earliest opportunity and then presented to members when the accounts are presented for approval in September 2017.
- 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 2017.

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 2016/17 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 Committee reviews and approves the changes to the accounting policies for 2016/17 statement of accounts.

BACKGROUND PAPERS

Working papers are held in Resources.

CONTACT OFFICER

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<table>
<tr><th>Accounting Policies Used within 2015/16 Annual Financial Report

Code of Practice on Local Authority Accounting in the United Kingdom 2015/16</th><th>Proposed Accounting Policies for 2016/17 Annual Financial Report

Code of Practice on Local Authority Accounting in the United Kingdom 2016/17</th><th>Reasons for change in accounting policy
(see key at the end of annex)</th></tr>
<tr><td>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).

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

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</td><td>General Principles
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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.	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.	
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 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. 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. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.	**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 **2016/17**, 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. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.	**B**

MRP Policy 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. For each financial year, MRP will be charged in the following the completion of the scheme.	**MRP Policy** 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. In respect of General MRP Policy capital assets, MRP will be chargeable in the year following the agreement of any final account. For each financial year, For other capital investments MRP will be charged in the following the completion of the scheme. CIS MRP Policy – Financing Expenditure with Maturity Loans. This is a new policy of 2017/18. Maturity Loans are similar to interest only mortgages, in that only interest is paid during the life of the loan with the loan principal being repaid at the end of the term (by either the Council taking out a further loan or selling the asset and repaying the loan from the capital receipt; with a possible net capital gain). To undertake such financing, a new MRP Policy would be required that included some specific safeguards to ensure that the use of capital finance remained prudent. However, the advantage of Maturity Loans for the Council is that over the life of the loan, the net benefit from the ongoing income stream would be greater as the Council would only have to repay interest on an annual basis and not meet annual principal repayments. The following example clearly demonstrates the revenue advantage of financing by Maturity Loan compared to an Annuity Loan; in that the additional	 **A** **C** **D**

	revenue stream over the life of the asset is £7.0m. • If a CIS Asset of £10m was acquired with an annual income stream of £625k (pessimistic, giving a yield of 6.2%) and held for 20 years, the net revenue stream for a: ○ Maturity Loan would be £7.2m (£359k per annum). ○ Annuity Loan would be £140k (£7k per annum). There the benefit for a Maturity Loan is £7.0m (£352k per annum). Any new MRP Policy to support this activity must ensure that the principles of prudency are adhered to. The principles, are noted in "i to ii" below: • The CIS asset would be required to be directly linked to the loan finance; this could be agreed retrospectively by Cabinet following acquisition. However, the link could only be broken by a specific decision of Full Council. The Councils Constitution would be required to be changed to reflect this. • The CIS asset is valued on an annual basis, in line with the Councils Accounting Policy for Investment Assets. If it is established that the value of the asset is less than the loan, then an MRP payment will be required, based on an Annuity Loan, and the MRP payment will continue to be charged until the Asset Value is greater than the loan. The actual policy is for each capital investment undertaken under the requirements of the Councils Commercial Investment Strategy, where it has been decided that a	

	Maturity Loan is advantageous, no Minimum Revenue Provision shall be made providing that: • The capital investment is directly linked to the Maturity Loan, with the stated intention that at loan maturity the asset is sold or replacement finance is provided. • Cabinet will record the decision in (i) above (this may be done retrospectively i.e. after an acquisition). The link between Asset and Loan can only be broken by a decision of Full Council. • There is annual revaluation of the CIS investment in line with the Councils Accounting Policy in respect of Investment Assets. If it is established that an asset has a value less than the loan then an annual MRP amount will be calculated, based on Annuity basis and continue to be charged until the value of the asset is greater than the loan.	
Year of depreciation charge 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.	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.	**A**

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.