Public
Key Decision – No

HUNTINGDONSHIRE DISTRICT COUNCIL

Title:	Annual Review of Accounting Policies and Other Changes on the Annual Financial Report 2017/18 as a consequence of the Code of Practice on Local Authority Accounting in the UK 2017/18.
Meeting:	Corporate Governance Committee – 28th March 2018
Executive Portfolio:	Resources: Councillor J A Gray
Report by:	Head of Resources
Ward(s) affected:	All Wards

Executive Summary:

This Code of Practice on Local Authority Accounting in the UK 2017/18 (the Code) is based on International Financial Reporting Standards (IFRSs) and has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board.

As a consequence of the Code, each Council is required to have a set of accounting policies which 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 and other Code changes to ensure that the policies and relevant accounting disclosures 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.

It is noted in paragraph:

- 3.1, there are three accounting policies that only require minor amendment.
- 3.2, the external auditor has suggested that the Council may wish to consider a new accounting policy in respect of the Apprenticeship Levy. However as the Apprenticeship Levy at the Council is not a material amount no accounting policy is considered necessary.
- 3.3, the Code has recommended some changes to accounting practice. These changes are effectively clarifications of previous Code disclosures and practices and will be adopted.

Recommendation(s):

The Corporate Governance Committee is **RECOMMENDED:**
To approve the amendments to the accounting policies and other Code changes noted within **Appendix 1** and **2**

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 31 May and then approved by members and published by the 31 July. 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 2017/18" (the Code) or in specific legislative requirements, it is for a Council to select the accounting policies that are most appropriate to its particular circumstances. In addition, the Council is required to assess what other Code changes are required to be adopted.

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 2017/18 (shown in **Appendix 1**); taking the 2016/17 accounting policies as the base.
- Other changes as a consequence to the new Code of Practice (shown in **Appendix 2**).

3. ANALYSIS

Accounting Policies for 2017/18

3.1 Of the 24 accounting policies that were approved for 2016/17 (please refer to the final copy of the Annual Financial Report approved by the Panel last September), **Table 1** below shows that for 2017/18 three policies require amendment, all of which include only minor updates or clarifications.

3.2 In addition to the aforementioned considerations in respect of Accounting Policies, the council's external auditors have asked the Council to consider whether it should include a new accounting policy or other disclosure in respect of the Apprenticeship Levy. The reason for this is because this is a new 'tax' that has been applied to the organisation in 2017/18. The Councils total applicable 'levy' is £70k and therefore not material, consequently it is considered that a separate disclosure is not required.

Changes in Accounting Policy		Table 1
Reason for change in the accounting policy	**Number of Accounting Policies categorised under the reason for change**	**Accounting Policy Affected**
No change	21	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	• General Principles • Changes in Accounting Policies, Prior Period Adjustments, Estimates and Errors • Depreciation and other Charges to Revenue for Non-Current Assets (MRP element of policy)
Appendix 1 provides the detailed illustration of the changes to the respective accounting policies.		

Other changes as a consequence of the 2017/18 Accounting Code of Practice

3.3 A number of changes have been included in the Code for 2017/18; those that are applicable to the Council are discussed in detail in **Appendix 2** with a summary of the impact on the Council shown in **Table 2** below:

Other Changes as a Consequence of the 2017/18 Accounting Code of Practice	Table 2
Change	**Impact on the Council**
Narrative Reporting Structure	Reorganisation of the Narrative Report to ensure compliance with the new structure and principles.
Presentation of Financial Statements: Going Concern Concept	No change as the Council has previously disclosed its compliance with the concept of 'Going Concern'.
Significant Accounting Policies	This report provides the fundamental review of significant accounting polcies applicable to 2017/18.
Community Infrastructure Levy (CIL) schemes	Assurance that the Councils accounting treatment is compliant with the 2017/18 Code clarification.

3.4 It is envisaged that the proposed minor changes to the accounting policies and other Code changes will not have any direct financial implications.

4. KEY IMPACTS

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

5.1 Upon approval, these accounting policies and other Code changes will be included in the 2017/18 statement of accounts. If during the accounts closure process it becomes apparent that a:

- further accounting policy is required,
- current policy requires further amendment, or
- alternative accounting practice is required

this will be agreed with the Responsible Financial Officer and reported retrospectively to this Committee when the accounts are presented for authorisation in July.

6. LINK TO THE CORPORATE PLAN

6.1 Accounting Policies assist the Council in effective Financial Management which is encapsulated within The Code of Financial Management; this falls within 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 There are no direct legal implications arising from this report.

8. RESOURCE IMPLICATIONS

8. 1 There are no direct resource implications arising from this 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 2017/18 statement of accounts.

BACKGROUND PAPERS

Copies of relevant Codes of Practice and Accounts Closure Training Notes are located within Finance.

CONTACT OFFICER

Clive Mason, Head of Resources
☎ 01480 388715

Accounting Policy Changes as a Consequence of the 2017/18 Accounting Code of Practice.

Appendix 1

Accounting Policies Used within 2016/17 Annual Financial Report *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17*	Proposed Accounting Policies for 2017/18 Annual Financial Report *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18*	Reasons for change in accounting policy (see key at the end of annex)
General Principles The Statement of Accounts summarises the Council's transactions for the **2016/17** financial year and its position at the year-end of 31 March **2017**. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations **2015** in accordance with proper accounting practices. These practices comprise the Code of Practice on Local Authority Accounting in the United Kingdom **2016/17** and the Service Reporting Code of Practice **2016/17,** 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	**General Principles** The Statement of Accounts summarises the Council's transactions for the **2017/18** financial year and its position at the year-end of 31 March **2018**. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations **2015** in accordance with proper accounting practices. These practices comprise the Code of Practice on Local Authority Accounting in the United Kingdom **2017/18** and the Service Reporting Code of Practice **2017/18,** 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	**B**

revaluation of certain categories of non-current assets and financial instruments.	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 **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.	**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 **2017/18**, 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**

➢ **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. 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.	➢ **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. 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.	**B**

The basis for calculating MRP is restricted by legislation and the policy has to be approved by the Council. The Council has adopted the following which clarifies the policy to be applied in differing circumstances: i. <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. ii. <u>MRP Policy in respect of Debt not 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. iii. <u>MRP Policy in respect of the Commercial Investment Strategy</u> 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	The basis for calculating MRP is restricted by legislation and the policy has to be approved by the Council. The Council has adopted the following which clarifies the policy to be applied in differing circumstances: i. <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. ii. <u>MRP Policy in respect of Debt not 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. iii. <u>MRP Policy in respect of the Commercial Investment Strategy</u> 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. However, from 2017/18 the Council	

investment. However, from 2017/18 the Council has approved a further MRP Policy for CIS purchases where the expenditure will be financed by Maturity Loans. 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.	has approved a further MRP Policy for CIS purchases (commercial and housing acquisitions) where the expenditure will be financed by Maturity Loans. 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.	

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.

Other Changes as a Consequence of the 2017/18 Accounting Code of Practice.	**Appendix 2**

Category of Changes	**Detail of Change**	**Impact on HDC**
Narrative Reporting	To reflect the new principles based approach to Narrative Reporting introduced by the 2017/18 Code for authorities in England, Wales and Northern Ireland.	The Narrative Report is the commentary that supports the statements of accounts, its purpose is to provide commentary in respect of the Councils financial performance. The main items to be included in the Narrative Report should include: a) organisational overview and external environment b) governance c) organisational model d) risks and opportunities e) strategy and resource allocation f) performance g) outlook, and h) basis of preparation. The Narrative Report: i. Should provide information on the authority, its main objectives and strategies and the principal risks that it faces. ii. Should provide a commentary on how the authority has used its resources to achieve its desired outcomes in line with its objectives and strategies. iii. Must provide a fair, balanced and understandable analysis of the authority's performance.

		iv. Should highlight and explain the linkages between information presented in the Narrative Report and the information within the financial statements and information presented must be consistent with the information within the financial statements. **The Councils AFR for 2017/18 will follow this aforementioned structure and ensure that the principles are adhered to.**
Presentation of Financial Statements	The Code's provisions in respect of the going concern basis of accounting for local authorities has been updated.	The clarification in respect of 'Going Concern' confirms the following: *"The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting."* The Councils AFR accounting policy in respect of "General Principles" Accounting Policy includes the following: • Council being a 'going concern' – all operations continuing. **It is considered that in the interests of 'decluttering' that no change to this policy is made.**

Significant Accounting Policies	The Code has clarified the reporting requirements for accounting policies.	**This report to CGC details the changes to the significant accounting policies as a consequence of the 2017/18 Code.**
Community Infrastructure Levy (CIL) schemes	Clarification of the treatment of CIL revenue costs.	CIL is required to be accounted dependent on whether it is the Charging or Collecting Authority. The Council will, in the main be the charging authority and will therefore immediately recognise the income received within the Comprehensive Income and Expenditure Account and if unused allocated to the Capital Grants Unapplied Account (CGUA); when CIL receipts are applied there is then a consequential transfer from the General Fund (CGUA) to the Capital Adjustment Account. **The correct accounting practice will be followed in respect of CIL. If it is established that the Council previous accounting treatment in respect of CIL has not been compliant; as the 2016/17 balance is in excess of £8m and therefore material, a restatement will be required.**
Other changes that are included in the 2017/18 Code but not applicable to the Council include items in respect of the Housing Revenue Account and Dedicated Schools Grant.		