ITEM 6

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

4 DECEMBER 2014

ACCOUNTING POLICIES

Report of the Corporate Director – Strategic Resources

1.0 **PURPOSE OF THE REPORT**

1.1 To review the changes to the County Council's Accounting Policies for the current financial year 2014/15

1.2 To note potential changes in the pipeline that are likely to impact on future year's Accounting Policies and the Statement of Final Accounts.

2.0 **BACKGROUND**

2.1 Part of the Audit Committee's Terms of Reference is to review changes in accounting policy.

2.2 The County Council's accounting policies are set out in the annual Statement of Final Accounts (SOFA) and have been developed to comply with the *Code of Practice on Local Authority Accounting in the United Kingdom* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). They have been based on International Financial Reporting Standards (IFRS) since 2010/11. An updated Code of Practice, applicable for 2014/15 was issued in April 2014.

2.4 In addition to considering required changes to the County Council's accounting policies for 2014/15, there are further changes which CIPFA have been consulting with local authorities which are in the pipeline for future years (2015/16 and beyond) to bring to the Committee's attention.

3.0 **CHANGES IN ACCOUNTING POLICY FOR 2014/15**

3.1 The need for changes in accounting policy can arise from:

(i) mandatory changes under the annual *Code of Practice on Local Authority Accounting* which require a new or revised accounting policy to be adopted by all local authorities

(ii) changes within the overall framework of the *Code of Practice* but where the policy to be adopted is discretionary and is dependent upon interpretation of local circumstances

3.2 Changes required to the County Council's accounting policies for 2014/15, therefore arise as a result of the updated IFRS based *Code of Practice on Local Authority Accounting* issued by CIPFA in April 2014.

3.3 Supplementary updates to this 2014/15 *Code of Practice* may be issued to reflect any further developments to statutory accounting or disclosure requirements which have taken place since publication in April 2014.

3.4 Changes reflected in the 2014/15 updated Code and any subsequent supplementary updates do, on the whole, have to be incorporated into the County Council's accounts but do not necessarily impact on the County Council's accounting policies. This is because the changes are principally around additional or changed disclosure notes, points of clarification and additional guidance etc.

3.5 The only change to the *Code of Practice* that impacts on the County Council's 2014/15 Accounting Policies concerns Group Accounts as set out in **Appendix A**.

3.6 The Accounting Policies ultimately determined for 2014/15 will be reported to Members on 16 July 2015 as part of the report accompanying the draft SOFA for 2014/15. At this stage, therefore, Members are asked to note and review this one change in principle.

3.7 **Appendix A** also lists other key (but limited) changes to the latest 2014/15 *Code of Practice on Local Authority Accounting* which will need to be considered and, where appropriate, reflected in the SOFA for 2014/15 or subsequent years. As mentioned in **paragraph 3.3** however any further supplementary updates may result in further changes to the draft SOFA.

4.0 POTENTIAL CHANGES IN THE PIPELINE FOR FUTURE YEARS

4.1 CIPFA have recently consulted on a draft *Code of Practice on Local Authority Accounting* for 2015/16 and provisional changes for future years beyond 2015/16, with the key potential changes set out in **Appendix B**. The two key changes relate to Transport Infrastructure Assets and the Fair Value Measurement of Assets.

4.2 The extent to which future changes will actually be fully implemented by CIPFA remains uncertain however and will be subject to further confirmation and guidance.

5.0 RECOMMENDATION

5.1 That Members:

(i) review the 2014/15 change in accounting policy required to comply with the 2014 'Code of Practice on Local Authority Accounting' (**paragraph 3.5** and **Appendix A**).

(ii) note potential changes to the SOFA and accounting policies which are in the pipeline for future years (2015/16 onwards) (**paragraph 4** and **Appendix B**).

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20 November 2014

APPENDIX A

CHANGES TO THE CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING 2014/15

1.0 **Introduction**

1.1 The have been few significant changes made to the IFRS-based Code of Practice on Local Authority Accounting for 2014/15. There may however be further updates which could impact on the Statement of Final Accounts (SOFA) and also potentially the Accounting Policies of the County Council for this current financial year.

2.0 **IFRS Code Change resulting in changes to an Accounting Policy – which is applicable to the County Council**

3.0 ***Group Accounts***

3.1 The requirements of five new or amended standards, introduced by the International Accounting Standards Board (IASB) in May 2011 have been included in the 2014/15 Code.

3.2 The revised standards include a new single control model under IFRS 10 Consolidated Financial Statements which focuses on the power of a parent to control variable returns (which includes non-financial returns) from its involvement or interest in another entity. CIPFA do not expect these amendments to affect the determination-process of the Group Boundary, but the proxy indicator of simply having voting rights may no longer be the main indicator of a parent/subsidiary relationship.

3.3 IFRS 11 Joint Arrangements: There are new provisions under IFRS 11 Joint Arrangements in relation to the classification of joint arrangements. IFRS 11 now only includes 2 types of joint arrangement; - joint operations and joint ventures. This standard now focuses on how the rights in the arrangement are shared as opposed to previous requirements which focused on structure. This may cause local authorities to review the classification of joint arrangements.

3.4 The group accounting standards also include IFRS 12 Disclosure of Interests in Other Entities. The proposals introduce numerous new and amended disclosure requirements for local authorities which focus on the parent-subsidiary arrangement, how this arrangement has been determined, the practical nature of this arrangement and risks associated with these group arrangements for both the parent and the subsidiary organisations.

3.5 The accounting policy wording in the 2014/15 SOFA will be updated to reflect the new requirements above and we will review our classification of joint ventures using the new guidance to make sure that no changes are required to the group boundary.

4.0 Code of Practice Changes Resulting in Changes to the SOFA which could apply to the County Council in 2014/15 or future years:

4.1 *Accounting for local government reorganisation and other combinations*

4.2 CIPFA have refined their guidance including new definitions and clarification of the for a transfer or merger and relevant disclosure requirements. This guidance would be relevant if in the future there were a significant transfer of functions from one public sector body to another e.g. local government reorganisation, at this point we would review our policy in line with current guidance.

4.3 Amendments to the presentation of financial statements

4.4 Amendments reflect changes to IAS 1 and IAS 32 as required by the Annual Improvements to IFRS 2009-2012 Cycle issued in May 2012, specifically, there is clarification about the comparative information requirements when restating preceding year's financial statements and guidance for offsetting financial assets and liabilities in specific circumstances. While these will not have an impact generally, if there were restatements or particular types of transaction where we wished to consider offsetting financial assets and liabilities then we would review our policies in line with these amendments.

APPENDIX B

POTENTIAL CHANGES TO THE CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING POLICIES IN THE PIPELINE FOLLOWING RECENT CIPFA CONSULTATION:

1.0 **Introduction**

1.1 CIPFA have recently consulted on some proposed changes to the 2015/16 Code of Practice (to be issued in early 2015), and have also provided indications of further potential changes that are likely to be reflected in updates to the 2016/17 Code and beyond. The key changes outlined below however were reported to the Audit Committee in December 2013 as being in the pipeline.

2.0 **Code of Practice on Transport Infrastructure Assets:**

2.1 The 2016/17 Code will adopt the measurement requirements of the CIPFA Code of Transport Infrastructure Assets i.e. measurement on a Depreciated Replacement Cost basis. This will represent a change in accounting policy from 1 April 2016 and will require full retrospective restatement. This change will require the establishment of a separate class of assets for transport infrastructure assets in accordance with the types of assets classified in the Code of Practice on Transport Infrastructure assets.

2.2 The Accounting Code currently measures infrastructure assets at depreciated historical cost, which is compliant with the requirements of IFRS, but it is not, in CIPFA's view, the most appropriate measurement base for the valuation of transport infrastructure Assets of local authorities. CIPFA has long held the view that current (depreciated replacement cost) value accounting is the more appropriate measurement base of local authority assets. This would have the impact of significantly increasing the value of non-current assets held on the balance sheet with an associated significant increase in value of depreciation charges on the Comprehensive Income and Expenditure Statement.

2.3 CIPFA recommend that local authorities use the years prior to 2016/17 to establish information collection arrangements to apply full retrospective restatement resulting from the measurement of transport infrastructure assets as authorities are likely to need to provide:

- Opening balances of the assets for 1 April 2015 (i.e. the opening balances for the relevant transactions for the comparative year) and
- Comparative information on transaction in the preceding year i.e. 2015/16

2.4 The County Council have up to now complied with the additional reporting requirements of valuing highways infrastructure assets at depreciated related cost for the purposes of providing additional information for Whole of Government Accounts and maintained a state of readiness to address future developments in this area.

2.5 The 2015/16 Code will specify the accounting requirements for the change in accounting policy using the same approach as it does for the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issue but not yet adopted. It is anticipated to include the following disclosure requirements:

An authority shall where material, disclose the following items in the 2015/16 financial statements (to the extent that the information is known or reasonably estimable)

- related to the authority's specific circumstances, explaining that transport infrastructure assets are to be recognised as a separate class of property, plant and equipment and measured at depreciated replacement cost for Narrative the first time in the 2016/17 financial statements
- The carrying amount of assets expected to be reclassified as transport infrastructure assets i.e. the original 1 April 2015 measurements at depreciated historical cost
- The expected amount of any revaluation gains and losses to be recognised on reclassification and re-measurements and
- The expected change in depreciation, impairment, revaluation gains and losses, gains and losses for disposals or decommissioned assets to be recognised (or derecognised) in 2015/16 comparatives in the 2016/17 financial statements

3.0 **Fair Value Measurement (IFRS13)**

3.1 The Code's adoption of IFRS 13 *Fair Value Measurement* remains under review and therefore the 2014/15 Code does not include provisions in relation to this standard. CIPFA will keep authorities advised on the latest position on the developments of the standard.

3.2 The consultation document for the 2015/16 Code contains information about the revised proposals. This resolves some of the issues with previous drafts which potentially required items of operational property, plant and equipment to re-valued at its highest and best use value. This was seen as problematic for some public sector assets where there may be a need to have a specific building in a specific location or where assets may have specific and limited other uses (e.g. crematoria buildings).The current draft of the Code adapts IAS 16 to require that items of property, plant and equipment that are operational and therefore providing service potential for the authority are measured at for their service potential either at existing use value, or depreciated replacement cost and not at fair value. Surplus assets (property, plant and equipment) are measured at fair value.