ITEM 9

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

3 MARCH 2016

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 2015/16

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 2015/16 was issued in March 2015.

2.4 In addition to considering required changes to the County Council's accounting policies for 2015/16, there are further changes which CIPFA have been consulting with local authorities which are in the pipeline for future years (2016/17 and beyond) to bring to the Committee's attention.

3.0 **CHANGES IN ACCOUNTING POLICY FOR 2015/16**

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 2015/16, therefore arise as a result of the updated IFRS based *Code of Practice on Local Authority Accounting* issued by CIPFA in March 2015.

3.3 A supplementary update to this 2015/16 *Code of Practice* has also been issued to reflect the further developments to statutory accounting and disclosure requirements which have taken place since its publication in March 2015.

3.4 Changes reflected in the 2015/16 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 2015/16 Accounting Policies concerns Fair Value Measurement as set out in **Appendix A**.

3.6 The Accounting Policies ultimately determined for 2015/16 will be reported to Members on 14 July 2016 as part of the report accompanying the draft SOFA for 2015/16. 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 2015/16 *Code of Practice on Local Authority Accounting* which will need to be considered and, where appropriate, reflected in the SOFA for 2015/16 or subsequent years.

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 2016/17 and provisional changes for future years beyond 2015/16, with the key potential changes set out in **Appendix B**. The key change relates to Transport Infrastructure 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 2015/16 change in accounting policy required to comply with the 2015 '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 (2016/17 onwards) (**paragraph 4.1** and **Appendix B**).

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3 March 2016

APPENDIX A

CHANGES TO THE CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING 2015/16

1.0 Introduction

1.1 There have been few significant changes made to the IFRS-based Code of Practice on Local Authority Accounting for 2015/16.

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

3.0 Fair Value Measurement (IFRS13)

3.1 IFRS 13 – Fair Value Measurement has been adopted by the 2015/16 Code of Practice. The introduction of IFRS 13 has changed and made more consistent the definition of Fair Value across various types of financial and non-financial assets.

3.2 IFRS 13 defines Fair Value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”. The definition thus requires that when measuring an asset at fair value consideration is given to the most advantageous market in which the asset could be traded, ignoring the intended use of the asset by its owner.

3.3 There are other Financial Accounting standards that refer to valuing assets at Fair Value, therefore the introduction of IFRS 13 provides consistency in the interpretation of the definition of Fair Value.

3.4 However, the adoption of IFRS 13 has limited applicability to the public sector and North Yorkshire County Council as exceptions have been permitted for all operational Property, Plant and Equipment and Intangible Assets. Therefore, this new accounting standard will only focus on the County Council’s portfolio of Surplus Property and Investment Property (County Farms).

3.5 The changes resulting from the adoption of IFRS 13 are only prospective and apply from 1 April 2015. As a result, no restatement of prior year balances are required.

3.6 Following discussions with the County Council’s property valuation specialists, Bruton Knowles, initial analysis of the introduction of IFRS 13 suggests that the revised valuation of Surplus and Investment Property will be minimal. Finance will review the accounting policy for Property, Plant and Equipment to reflect the changes introduced by the adoption of IFRS13.

4.0 Code of Practice Changes Resulting in Changes to the SOFA which could apply to the County Council in 2015/16 or future years:

4.1 *Narrative Reporting*

4.2 Accounts and Audit Regulations 2015 now require a 'narrative statement' to be produced and to be included in the Statement of Financial Accounts to replace the Explanatory Foreword.

4.2 The Narrative Statement will provide commentary on the County Council's financial performance and value for money in its use of resources.

4.3 The Code has made reference to the Financial Reporting Council's document *Guidance on the Strategic Report*. The narrative reporting will need to refer closely to the performance reporting and performance outcomes of the County Council at the end of the financial year. The County Council will be required to refer to various financial and non-financial performance indicators.

4.4 The Narrative Statement should be fair, balanced and user friendly.

4.5 The County Council will review the existing Explanatory Foreword for 2014/15 for the purposes of producing a new Narrative Statement with reference to the principles and guidance issued by CIPFA.

4.6 CIPFA consider this to be an intermediate step before the findings on its work on integrated reporting is published in late 2016 and incorporated into the 2017/18 Code.

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 consulted and confirmed on some of the proposed changes to the 2016/17 Code of Practice (to be issued in early 2016), and have also provided indications of further potential changes that are likely to be reflected in updates to the 2016/17 Code and beyond. Some of these key changes outlined below however have been reported to the Audit Committee in December 2014 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 and moved away from valuing Transport Infrastructure Assets on the basis of historical cost. This will represent a significant change in accounting policy from 1 April 2016. However CIPFA have indicated that no prior period restatement will be required. Audit Committee have been advised in previous years that this change would require a full retrospective adjustment for the balance sheets as at 1April 2015.

2.2 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. The Code also requires separate sub-divisions of transport infrastructure asset category for disclosure in the statement of financial accounts. Assets will be categorised into the following broad categories:

- Carriageways
- Footways and cycle tracks
- Structures
- Street lighting
- Street furniture
- Traffic Management Systems
- Land

2.3 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.

2.4 The County Council have continually 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.

3.0 **Early Accounts Closure from 2017/18**

3.1 The County Council has been notified that from 2017/18, the 2017/18 accounts must be approved by the S151 Officer by 31 May 2018 (one month early than the current statutory deadline of 30 June), and the 2017/18 audited accounts must be published by 31 July 2018 (two months earlier than the current statutory deadline of 30 September).

3.2 The County Council is already reviewing its processes to meet these significant challenges. There will also be additional pressure on External Auditors to meet much more challenging timescales.

3.3 The County Council has identified a number of actions which must be undertaken to meet these timescales and these will be reported in more detail to Audit Committee in September. These changes will involve a significant level of buy-in and support from staff and Budget Managers.

4.0 **Leases**

4.1 The County Council are aware that CIPFA are considering the implications of adopting IFRS 16 – Lease. It is anticipated that IFRS 16 could potentially be introduced from January 2019.

4.2 The County Council understand that the definition of a finance lease is to be extended, which may create an accounting implication that the associated lease needs to be capitalised as an asset (with a corresponding liability extending over the life of the lease) on the lessee's balance sheet.

4.3 Exceptions may be granted for leases of small value assets and for very short term leases, but an increased number of existing operating leases may need to be reclassified as finance leases, which could have prudential borrowing implications for the County Council.