ITEM 11

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

2 March 2017

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 2016/17

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). An updated Code of Practice, applicable for 2016/17, was issued in April 2016.

2.3 In addition to considering required changes to the County Council's accounting policies for 2016/17, there are further changes which CIPFA have been consulting with local authorities, which are in the pipeline for future years (2017/18 and beyond), to bring to the Committee's attention.

3.0 **CHANGES IN ACCOUNTING POLICY FOR 2016/17**

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 2016/17, therefore arise as a result of the updated IFRS based *Code of Practice on Local Authority Accounting* issued by CIPFA in April 2016.

3.3 Further updates to the 2016/17 *Code of Practice* have also been issued to reflect developments regarding statutory accounting and disclosure requirements which have taken place since its publication in April 2016.

3.4 Changes reflected in the 2016/17 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 There are no changes to the *Code of Practice* that impact on the County Council's 2016/17 Accounting Policies. However, the Accounting Policies ultimately determined for 2016/17 will be reported to Members on 13 July 2017 as part of the report accompanying the draft SOFA for 2016/17. At this stage, therefore, Members are asked to note the current position.

3.6 **Appendix A** lists other key (but limited) changes to the latest 2016/17 *Code of Practice on Local Authority Accounting* which will need to be considered and, where appropriate, reflected in the SOFA for 2016/17 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 2017/18 and provisional changes for future years beyond 2016/17, 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.

5.1 RECOMMENDATION

5.2 That Members:

(i) review the update on accounting policy (**paragraph 4.5** and **Appendix A**).

(ii) note potential changes to the SOFA and accounting policies which are in the pipeline for future years (2017/18 onwards) (**paragraph 5.1** and **Appendix B**).

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15 February 2017

APPENDIX A

CHANGES TO THE CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING 2016/17

1.0 Introduction

1.1 There have been few significant changes made to the IFRS-based Code of Practice on Local Authority Accounting for 2016/17.

1.2 There are no changes to the Code of Practice that impact on the County Council's 2016/17 Accounting Policies.

2.0 Code of Practice Changes Resulting in Changes to the SOFA in 2016/17

CIPFA's 'Telling the Story' Review

2.1 The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) has been updated in 2016/17 to reflect the new formats and reporting requirements for the Comprehensive Income and Expenditure Statement . the Movement in Reserves Statement, and the introduction of the new Expenditure and Funding Analysis (EFA) as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

2.2 The changes allow local authorities to report within the Statement of Accounts on the same basis as the business is operated and managed by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES). In practice this means that the CIES will report income and expenditure by Directorate.

2.3 Furthermore, changes in the 2016/17 Code have introduced an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MIRS) and replaces the current segmental reporting note. Two further EFA notes will provide greater detail on the statutory adjustments and specific Income & Expenditure items (e.g. revenue from external customers, depreciation).

CIPFA Code of Practice on the Highways Network Asset

3.1 It was expected that CIPFA would instruct Local authorities to adopt the requirements of the Code of Practice on the Highways Network Asset in the 2016/17 Accounts.

3.2 However, CIPFA announced in November 2016 that it would postpone the full implementation of the move to measuring the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements, with a view to implementation in 2017/18.

3.3 While has CIPFA recognised the commitment and work of local authorities in preparing for implementation as well as the engagement of local auditors, it has identified some detailed key issues as implementation has progressed.

3.4 CIPFA in particular have highlighted that a key, final, part of implementation was the provision of central Gross Replacement Cost rates (to be used as part of the valuation process). However, the rates to be used on implementation were originally developed at the start of the project and are now over five years old. While CIPFA have been working with the relevant stakeholders for the last eighteen months, it became clear that the rates would not be ready in time for the 2016/17 financial statements. As a result the implementation has been postponed.

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 2017/18 Code of Practice (to be issued in April 2017), and have also provided indications of further potential changes that are likely to be reflected in updates to the 2017/18 Code and beyond. Some of these key changes outlined below however have been reported to the Audit Committee in March 2016 as being in the pipeline.

2.0 Highways Network Assets

2.1 It is now anticipated that the 2017/18 Code will adopt the measurement requirements of the Code of Practice on the Highways Network Asset i.e. measurement on a Depreciated Replacement Cost basis and move away from valuing Transport Infrastructure Assets on the basis of historical cost. This will represent a significant change in accounting policy from 1 April 2017. However CIPFA have indicated that no prior period restatement will be required.

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

2.4 The County Council have continually complied with the additional reporting requirements of valuing highways network 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 As a result of the implementation of the new 2015 Accounts and Audit Regulations from 2017/18, the 2017/18 Statement of Accounts process must be completed in an earlier timeframe. The changes reflected in the new 2015 Accounts and Audit Regulations which will be in effect in 2017/18 are as follows.

(a) Certification of the Accounts by the S151 Officer (currently 30 June) and publication on the authority’s website by 31 May from 2017/18 to comply with the new public rights of inspection provisions;

(b) The full SOFA, including Annual Governance Statement has to be re-certified by the S151 Officer, approved by Members (this Committee), the external audit opinion to be issued and both published (currently 30 September) by 31 July 2017/18;

(c) Where the Audit of Accounts has not been concluded by 31 July a notice must be put on the authority's website stating that it has not been able to publish the statement of accounts and the reasons for this and then subsequently publish the accounts as soon as reasonably practical after the receipt of any report from the auditor;

(d) The public's right of objection and inspection of the accounts and questioning of the auditor will be through a single 30 working day period which must include the first 10 working days of June;

(e) A narrative statement must be included in the SOFA which must include comments by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources;

(f) The SOFA must be available for public access for a period of not less than 5 years.

4.0 Leases

4.1 CIPFA are considering the implications of adopting IFRS 16 – Leases. However, it is anticipated that IFRS 16 would not be introduced until 2019/20.

4.2 It is anticipated that as a result of any changes relating to IFRS 16 the definition of a finance lease would 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 potentially have prudential borrowing implications for the County Council.