NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

1 March 2018

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 2017/18

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 2017/18 was issued in April 2017.

2.3 In addition to considering required changes to the County Council's accounting policies for 2017/18, there are further changes which CIPFA have been consulting with local authorities which are in the pipeline for future years (2018/19 and beyond) to bring to the Committee's attention.

3.0 **CHANGES IN ACCOUNTING POLICY FOR 2017/18**

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 2017/18, therefore arise as a result of the updated IFRS based *Code of Practice on Local Authority Accounting* issued by CIPFA in April 2017.

3.3 Further updates to the 2017/18 *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 2017.

3.4 Changes reflected in the 2017/18 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 2017/18 Accounting Policies. However, the Accounting Policies ultimately determined for 2017/18 will be reported to Members on 26 July 2018 as part of the report accompanying the SOFA for 2017/18. At this stage, therefore, Members are asked to note the current position.

3.6 It was anticipated that CIPFA would instruct local authorities to adopt the requirements of the Highways Network Assets Code of Practice in advance of the 2017/18 accounts. However, after further consultation CIPFA announced in November 2016 that it would indefinitely postpone the implementation of the Code, on the basis that the cost of implementation outweighed the benefits of adoption. CIPFA have not announced any further plans to introduce the code in the near future.

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 2018/19 and provisional changes for future years beyond 2018/19, with the key potential changes set out in **Appendix A**.

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 policies for 2017/18 (**paragraph 3.5**).

(ii) note potential changes to the SOFA and accounting policies which are in the pipeline for future years (2018/19 onwards) (**paragraph 4.1** and **Appendix A**).

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1 March 2018

APPENDIX A

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 has consulted on and confirmed some of the proposed changes to the 2018/19 Code of Practice (to be issued in April 2018), and have also provided indications of further potential changes that are likely to be reflected in updates to the 2018/19 Code and beyond. Some of these key changes outlined below however have been reported to the Audit Committee in March 2017 as being in the pipeline.

2.0 Financial Instruments

2.1 CIPFA has announced that they are adopting IFRS 9 – Financial Instruments. This is a complex standard and will be introduced from 2018/19.

2.2 The introduction of IFRS 9 will have implications for the classification and measurement of financial assets.

2.3 This will result in new classifications of financial assets including Amortised Cost, Fair Value through Profit and Loss (FVPL) and Fair Value through Other Comprehensive Income (FVOCI) and the removal of the current classifications of Assets Held for Trading and Assets Held for Sale.

2.4 As the re-measurement of certain financial assets may result in accounting for losses and gains in a local authority's General Fund, the Ministry for Housing, Communities and Local Government has recently contacted S151 Officers asking for evidence to support a statutory override to the implementation of certain elements of IFRS 9.

2.5 The Corporate Director – Strategic Resources will closely monitor this situation and report to Members of the Audit Committee on any significant developments.

3.0 Revenue from Contracts with Customers

3.1 CIPFA is adopting IFRS 15 - Revenue from Contracts with Customers from 2018/19.

3.2 The CIPFA Code of Practice is clear that tax arising under regulation or legislation (including NNDR and Council Tax) does not fall under the scope of IFRS 15, which will mitigate the impact of the introduction of the standard on local authority's SOFA.

3.3 Local Authorities will need to ensure that they have explained all sources of income sufficiently, giving due consideration to materiality.

3.4 The County Council will need to consider IFRS 15 when preparing group accounts; consolidation adjustments may be required as accounting regulations that subsidiaries adhere to (FRS 102) may be different to that of IFRS 15 in terms of the timing and measurement of income.

4.0 Leases

4.1 CIPFA is adopting IFRS 16 – Leases from 2019/20.

4.2 It is anticipated that as a result of any changes relating to IFRS 16 the current definition of a finance lease would be extended to cover all leases, which will 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 Further changes as a result of adopting IFRS 16 relate to the measurement of liabilities from leases, PFI and service concession arrangements which include an element of annual indexation.

4.4 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 and reported on the County Council's balance sheet, which could potentially have prudential borrowing implications.