

# TEWKESBURY BOROUGH COUNCIL

<b>Report to:</b>	Audit and Governance Committee
<b>Date of Meeting:</b>	28 March 2019
<b>Subject:</b>	Statement of Accounting Policies
<b>Report of:</b>	Head of Finance and Asset Management
<b>Corporate Lead:</b>	Deputy Chief Executive
<b>Lead Member:</b>	Lead Member for Finance and Asset Management
<b>Number of Appendices:</b>	1

## **Executive Summary:**

This report sets out the main changes in accounting policies under the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act. These policies outline the specific principles, bases, conventions, rules and practices applied when preparing and presenting the financial statements.

## **Recommendation:**

**To APPROVE the accounting policies to be used during in the preparation of the 2018/19 financial statements.**

## **Reasons for Recommendation:**

The accounting policies govern the accounting treatment used to close the final accounts which this Committee is asked to approve in July after the audit has been completed. The Council must disclose the accounting policies it has applied to all material balances and transactions.

## **Resource Implications:**

There are no direct financial implications arising from the approval of accounting policies, although if Members should not approve them it may impact on the final outturn.

## **Legal Implications:**

There are no direct legal implications arising from the approval of accounting policies and critical judgements; however, Section 21 of the Local Government Act 2003 enables the Secretary of State to make regulations requiring accounting practices, including the Statement of Accounts, to be undertaken in accordance with proper accounting practices (i.e. the current Code of Practice).

**Risk Management Implications:**

There is a risk of the accounts being qualified if the proper accounting practices are not followed, or if they deviate substantially from the Code of Practice on Local Authority Accounting.

**Performance Management Follow-up:**

Grant Thornton will audit this as part of the year-end audit and will issue an opinion in July 2019.

**Environmental Implications:**

None.

**1.0 INTRODUCTION/BACKGROUND**

- 1.1** The Council is required to produce an annual statement of accounts prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
- 1.2** As part of this statement it has to disclose the accounting policies applied to material transactions and balances (materiality is provisionally set at £750,000). There is little discretion to the Council as the proper accounting practices, that all local authorities follow, are set down in the Code.

**2.0 MAIN CHANGES IN ACCOUNTING POLICY**

- 2.1** The full list of accounting policies can be found as Appendix A with the main changes highlighted in yellow.
- 2.2** There have been substantial changes to the 2018/19 CIPFA Code of Practice on Local Authority Accounting which came into effect for financial years beginning 1 April 2018. These changes are in the areas of Revenue Recognition and Financial Instruments due to the adoption, by the Code, of International Financial Reporting Standard (IFRS) 15 - Revenue from Contracts with Customers and IFRS 9 - Financial Instruments.
- 2.3** The adoption of these new IFRS in the 2018/19 Code does constitute a change in accounting policy which would normally require restatement of the previous year's accounts, but the Code contains provisions for transitional arrangements which only require adjustments to 1 April 2018 opening balances rather than full prior-year restatement.

**2.4 Revenue from Contracts with Customers (1.2)**

The first newly adopted standard is IFRS 15 (Revenue from Contracts with Customers). This standard requires authorities to recognise only the revenue it expects to receive and only when all outstanding performance obligations associated with the income has been satisfied. In reality it is not expected that this will change when and how income is recognised; however, it does come with increased disclosures in the Financial Statements.

## **2.5 Financial Instruments (1.6)**

The change likely to have the most impact on the Council is the introduction of IFRS 9 Financial Instruments. This brings in a new way to classify our financial instruments that looks at the cash flows of an instrument and is more principles based than the previous rules-based classification. The other main change in IFRS 9 is a move to a forward looking expected credit loss model which anticipates any future losses and accounts for them immediately. Both are likely to have a financial impact on our accounts; however, in December 2018 the Ministry of Housing, Communities and Local Government issued a statutory override for pooled funds that lasts five years to avoid the changes impacting on the General Fund.

## **2.6 Community Infrastructure Levy (1.7)**

The Council adopted the Community Infrastructure Levy (CIL) in October 2018 with charging beginning from 1 January 2019 so a policy was needed to outline the proposed accounting treatment. Even though developers can pay in instalments, the full CIL liability is due on the commencement of the development and so, for accounting purposes, the full amount should be shown in the accounts at that date.

## **3.0 OTHER OPTIONS CONSIDERED**

3.1 None.

## **4.0 CONSULTATION**

4.1 None.

## **5.0 RELEVANT COUNCIL POLICIES/STRATEGIES**

5.1 None.

## **6.0 RELEVANT GOVERNMENT POLICIES**

6.1 Local Government Act 2003 and Accounts and Audit Regulations 2015.

## **7.0 RESOURCE IMPLICATIONS (Human/Property)**

7.1 None.

## **8.0 SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)**

8.1 None.

## **9.0 IMPACT UPON (Value For Money/Equalities/E-Government/Human Rights/Health And Safety)**

9.1 None.

## 10.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS

10.1 None.

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**Background Papers:** None

**Contact Officer:** Finance Manager  
01684 272006 [emma.harley@teWKesbury.gov.uk](mailto:emma.harley@teWKesbury.gov.uk)

**Appendices:** Appendix A – Statement of Accounting Policies