TEWKESBURY BOROUGH COUNCIL

Report to:	Audit Committee
Date of Meeting:	~~24th June 2015~~23 rd March 2016
Subject:	~~Critical judgements and assumptions made during the preparation of the Statement of Accounts~~Statement of Accounting Policies
Report of:	Simon Dix , ~~- Group Manager~~ Finance and~~&~~ Asset Management Group Manager
Corporate Lead:	Rachel North, ~~—~~Deputy Chief Executive
Lead Member:	~~Lead Member for Finance and Asset Management~~Councillor D J Waters, Lead Member for Finance and Asset Management
Number of Appendices:	1~~One~~~~Two~~

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 2015/16 supported by International Financial Reporting Standards (IFRS). These policies outline the specific principles, bases, conventions, rules and practices applied when preparing and presenting the financial statements.~~The purpose of this report is to explain to the Audit Committee the critical accounting judgements and key sources of estimation uncertainty that will be used in preparing the 2014/15 accounts.~~

Recommendation:

The Committee is asked to APPROVE the accounting policies to be used during the 2015/16 closedown.~~Members are requested to approve the critical accounting judgements that will be used in completing the 2014-15 annual accounts and note the key sources of estimation uncertainty.~~

Reasons for Recommendation:

The accounting policies govern the accounting treatment used to close the final accounts which this Committee are asked to approve in September after the audit has been completed.~~The Code of Practice on Local Authority Accounting in the United Kingdom requires disclosure of the judgements that management have made in the process of applying the authority's accounting policies that have the most significant effect on the amounts recognised in the financial statements. Also it requires disclosure about major sources of estimation uncertainty at the end of the reporting period.~~

~~**Resource Implications:**~~

~~There are no direct financial implications arising from the approval of accounting policies.There are no direct financial implications arising from the approval of the critical judgements although should members 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, 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). There are no direct legal implications arising from the approval of the critical judgements. However Section 21 of the Local Government Act 2003 enables the Secretary of State to make regulations concerning the accounting practices to be followed by local authorities. The relevant regulations in this case are the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003 which provides that the accounting practices contained in the Code of Practice of Local Authority Accounting in the United Kingdom are proper practices. Any requirements of the Code should therefore be followed.~~

~~**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 September 20165.~~

~~**Environmental Implications:**~~

~~None.~~

Resource Implications:

There are no direct financial implications arising from the approval of accounting policies.

Legal Implications:

There are no direct legal implications arising from the approval of accounting policies, 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 September 2016.

Environmental Implications:

None.

~~**1.0 INTRODUCTION/BACKGROUND**~~

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 2015~~4~~/16~~5~~. In order to do this the Council has to review all its accounting policies to ensure it complies with the Code as the policies outline the principles applied when preparing the accounts.~~In order to do this the Council has to apply its accounting policies (which Audit Committee approved in March 2015) to produce them.~~

2.0 MAIN CHANGES IN ACCOUNTING POLICIES

2.1 The main changes are outlined below but the full list of accounting policies can be found as Appendix A.

2.2 The accounting standard 'IFRS13 Fair Value Measurement' has been introduced for 15/16 and has consequentially changed a number of accounting policies. Whereas fair value has always been mentioned in various accounting standards, IFRS 13 has sought to standardise the definition.

2.3 Fair value is now defined 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. It applies to a wide range of assets and liabilities within the balance sheet.

2.4 N.B. References in brackets relate to the paragraph in the Appendix.

2.5 Available for sale assets (1.6)

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~~References relate to the paragraph in the appendix.~~~~**Critical Accounting Judgements**~~

~~In applying the Authority's accounting policies the Council has to make certain judgements about complex transaction or those involving uncertainty about future events.~~

~~The relevant judgements are those that have the most significant effect on amounts recognised in the financial statements. Judgements made in arriving at estimates are~~

~~excluded.~~

~~2.1~~

~~Available for sale assets (1.6)~~

The standard IFRS13 has added more detail regarding fair value measurement within this standard and introduces a hierarchy for the inputs into a fair value calculation:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date, e.g. bond prices
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly, e.g. interest rates or yields for similar instruments.
- Level 3 inputs – unobservable inputs for the asset, e.g. non-market data such as cash flow forecasts.

The hierarchy informs readers of any estimation techniques used during the measurement of the assets and therefore the reliability of the calculation.

~~**The disclosure of critical judgements should enable users of the financial statements to better understand how the accounting policies are applied and to use these in making comparisons between authorities regarding the basis on which management make these judgements.**~~

2.6 Property Plant and Equipment (1.16)

~~**2.2 Property Plant and Equipment (1.16)**~~

Although there is no change in measurement for operational property, plant and equipment the definition of the measurement base has been changed from fair to current value in line with the new fair value requirements.

2.7 Investment Properties (1.11)

~~**2.3 Investment Properties (1.11)**~~

The policy for investment properties has been amended to reflect the new fair value requirements. The valuation method is no longer looking at the current use of the asset and instead focuses on the possible wider use of the asset. This means that the final value reflects the highest and best use of the asset.

2.8 Financial Liabilities (1.6)

~~**2.4 Financial Liabilities (1.6)**~~

As we have undertaken borrowing for cash flow purposes this year we have clarified how we will present these in the balance sheet.~~The judgements can be seen in Appendix A and the main one this year is to do with the provision for business rates and how we have calculated the figure by using historical data on success rates and outcomes (more information can be found in the Appendix).~~

2.9 Interests in Companies and Other Entities (1.9)

~~**3.0 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**~~

~~In preparing the annual accounts there are areas where estimates are made. These include useful lives and valuations of properties which are estimated by qualified valuers, the amount of arrears that will not be collected (which is estimated based on past experience of collection of different types of debt) and the liability for future pension payments, which is estimated by qualified actuaries. Details of these are shown in Appendix B.~~

~~**2.5 Interests in Companies and Other Entities (1.9)**~~

Last year we were specific about the relationship with the Swimming Bath Trust but we have now got an interest in Ubico which needs to be accounted for. The standard has been rewritten to be less specific as full details of any interest will be disclosed in the notes to the accounts.

2.10 Depreciation (1.16)

~~**2.6 Depreciation (1.16)**~~

The depreciation policies have been amended slightly to allow for our new solar panels which needed to be treated as a more specialist asset and depreciated over a longer term than current plant and equipment.

3~~4~~.0 OTHER OPTIONS CONSIDERED

3~~4~~.1 None.

4~~5~~.0 CONSULTATION

4~~5~~.1 None.

5~~6~~.0 RELEVANT COUNCIL POLICIES/STRATEGIES

5~~6~~.1 None.

6~~7~~.0 RELEVANT GOVERNMENT POLICIES

6~~7~~.1 Local Government Act 2003 and Accounts and Audit Regulations 2015.

7~~8~~.0 RESOURCE IMPLICATIONS (Human/Property)

7~~8~~.1 None.

8~~9~~.0 SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)

8~~9~~.1 None.

**9~~10~~.0 IMPACT UPON (Value For Money/Equalities/E-Government/Human Rights/Health

And Safety)

9~~10~~.1 None.

10~~11~~.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS

10~~1~~.1 None.

Background Papers: None

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Appendices: A – Statement of Accounting Policies