

TEWKESBURY BOROUGH COUNCIL

Report to:	Audit Committee
Date of Meeting:	28 March 2018
Subject:	Statement of Accounting Policies and Critical Judgements
Report of:	Simon Dix, Head of Finance and Asset Management
Corporate Lead:	Robert Weaver, Deputy Chief Executive
Lead Member:	Councillor R Furolo, Lead Member for Finance and Asset Management
Number of Appendices:	2

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 2017/18 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.

This report also explains to the Audit Committee the critical accounting judgements that will be used in preparing the 2017/18 accounts.

Recommendation:

To APPROVE the accounting policies and critical judgements to be used during the 2017/18 closedown.

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 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.

Resource Implications:

There are no direct financial implications arising from the approval of accounting policies and the critical judgements, although if Members do 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 2018.

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 2017/18. In order to do this the Council has to review all its accounting policies and outline any critical judgements made to ensure it complies with the Code as the policies outline the principles applied when preparing the accounts.

2.0 MAIN CHANGES IN ACCOUNTING POLICY

- 2.1** The full list of accounting policies can be found at Appendix A. There are no significant changes to the Code that require amendment to the proposed accounting policies and so they are largely unchanged from the ones used in the 2016/17 accounts; however, significant changes are expected in 2018/19 around accounting for financial instruments (IFRS 9) and income recognition (IFRS 15). Officers will assess the impact of these changes and develop revised accounting policies for the 2018/19 Statement of Accounts.

2.2 Charges to Revenue for Non-Current Assets (1.17)

- 2.2.1** This is the first year we have to charge a minimum revenue provision (MRP), which is an annual contribution from revenue towards the reduction in its overall borrowing requirement. The MRP is used to reduce the Capital Financing Requirement (CFR) (which is a measure of the capital expenditure incurred historically by the authority that has yet to be financed).
- 2.2.2** Historically we have had a negative CFR of £106,000 and we have added to the accounting policy this year to state that we will use this balance to reduce the MRP charge in 2017/18. This has been discussed with Grant Thornton already and they have no issues with what we are proposing.

- 2.2.3** The key challenge for 2017/18 is preparation of the draft accounts to the new statutory deadline of 31 May 2018, with audited statements to be published by 31 July 2018. Based on our dry run last year, we are confident that this timescale is achievable.

3.0 CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

- 3.1** In applying the authority's accounting policies, the Council has to make certain judgements about complex transactions or those involving uncertainty about future events. In accordance with International Accounting Standards, the notes to the accounts contain details of the critical judgements made. These can be found in Appendix B.
- 3.2** 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.
- 3.3** We have bought three new investment properties this year with leases to in situ tenants. We have had to look at in detail to identify whether they should be classed as an operating or finance lease and details of this can be found in Appendix B.

4.0 OTHER OPTIONS CONSIDERED

- 4.1** None.

5.0 CONSULTATION

- 5.1** None.

6.0 RELEVANT COUNCIL POLICIES/STRATEGIES

- 6.1** None.

7.0 RELEVANT GOVERNMENT POLICIES

- 7.1** Local Government Act 2003 and Accounts and Audit Regulations 2015.

8.0 RESOURCE IMPLICATIONS (Human/Property)

- 8.1** None.

9.0 SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)

- 9.1** None.

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

- 10.1** None.

11.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS

11.1 None.

Background Papers: None

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Appendices: Appendix A – Statement of Accounting Policies
Appendix B – Critical Accounting Judgements