

TEWKESBURY BOROUGH COUNCIL

Report to:	Audit and Governance Committee
Date of Meeting:	29 July 2020
Subject:	Statement of Accounting Policies
Report of:	Head of Finance and Asset Management
Corporate Lead:	Deputy Chief Executive
Lead Member:	Lead Member for Finance and Asset Management
Number of Appendices:	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 2019/20 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 to prepare the 2019/20 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 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). This year accounting practices have been revised due to the COVID- 19 situation.

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 November 2020.

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 2019/20.

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 REVIEW OF THE 2019/20 ACCOUNTING POLICIES

2.1 The full list of accounting policies can be found at Appendix A.

2.2 There have been no substantial changes to the 2019/20 CIPFA Code of Practice on Local Authority Accounting which came into effect for the financial year beginning 1 April 2019. The majority of the changes to the code do not apply to the operation of the Council. Therefore, there has been no new or amended accounting requirements that needed to be reflected in the Council's accounting policies.

2.3 We have reviewed the accounting policies against the IFRS standards to ensure consistency with standard practice. The accounting policies are the same as those used in the 2018/19 financial year.

2.4 The Council has clarified its accounting policies for 2019/20 in respect of financial assets. Where the Council has the intention to hold pooled funds over the long-term then they should be classified as a long-term investment, even though shares in the pool can be put up for sale at any time. We have held pooled funds since May 2017 and in previous years have shown them as short-term assets. Reviewing how the Council intends to use this asset over the medium to long term, it is appropriate that we reclassify these financial assets as long-term investments.

2.5 This will also require restatement of the prior year figures, to move the relevant balances shown at the end of last year to the correct line for comparator purposes. It will not require any changes in calculation, it is a reclassification.

2.6 We have also clarified that we use the statutory override applicable to financial assets which are held at fair value through profit and loss. The requirement is to recognise any gains or losses in fair value in the Comprehensive Income and Expenditure Statement as soon as it is incurred; however, there is a statutory override which allows councils to then move the gain or loss to reserves, through the movement in reserves statement, so that the gain or loss is not recognised in the revenue account until the asset is derecognised. The Council has been accounting for this correctly, it was just not stated in the accounting policies.

3.0 APPLICATION OF ACCOUNTING POLICIES

3.1 The Council has only included policies that are relevant and material to the operation of the Council and accounting in the financial statements. The policies have been adapted to reflect the specific accounting policies applied by the Council, e.g.

- Valuation basis and Estimated useful life of certain classes of asset
- Deminimus for asset classified as capital
- Recognition of government grants
- Recognition of cash equivalents
- Recognition of overheads and support services
- Heritage assets
- Presentation in the CIES of Business Rates impairment losses

4.0 IMPACT OF COVID-19 ON ACCOUNTING POLICIES

4.1 COVID-19 has had a significant impact on the wider economy and on the Council at the end of the financial year, impacting on the accounts production process; however, it has not changed the accounting policies directly and the Council has continued to apply all policies in the same way.

4.2 The impact of COVID-19 has been to provide more uncertainty in market conditions, particularly on the fair value of assets and liabilities. The Council's accounting policy is to record transactions on the balance sheet at their fair value in line with the CIPFA Code of Practice and accounting standards. This involves the use of estimates, particularly around the value of the property portfolio. We use third party, RICS qualified, valuers to estimate the value of the portfolio. This year they have provided their valuation report on the basis of *'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case'*.

4.3 We have applied the accounting policy to recognise the fair value provided by the valuer; however, we have also updated the disclosure on Major Sources of Estimation Uncertainty to reflect the above statement. We provided a sensitivity analysis in this note of the impact of a 1% change in value; however, the accounting policy reflects the statutory override that changes in fair value of properties is only recognised as an impact on the General Fund when the asset is sold. The Council has no plans to sell any of its property portfolio in the medium term.

5.0 FUTURE CHANGES TO ACCOUNTING POLICIES

5.1 Due to the impact of COVID-19 the decision has been taken by CIPFA/LASAAC Local Authority Accounting Code Board to delay the implementation of IFRS16 – Accounting for leases for a year until 1 April 2021. The Council had prepared for the introduction of this new standard and the accounting policy would be to account for all material leases on the balance sheet, although no material leases had been identified.

5.2 Other standards being introduced into the 2020/21 CIPFA code of practice have been reviewed and we are satisfied that our current accounting policies are consistent with the new standards and that there will be no material impact on the accounts from their introduction.

6.0 OTHER OPTIONS CONSIDERED

6.1 None.

7.0 CONSULTATION

7.1 None.

8.0 RELEVANT COUNCIL POLICIES/STRATEGIES

8.1 None.

9.0 RELEVANT GOVERNMENT POLICIES

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

10.0 RESOURCE IMPLICATIONS (Human/Property)

10.1 None.

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

11.1 None.

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

12.1 None.

13.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS

13.1 None.

Background Papers: None

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Appendices: A – Statement of Accounting Policies