

Report To:	Audit Committee	Date:	10 January 2017
Report By:	Chief Financial Officer	Report No:	FIN/114/16/AP/CA
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Subject:	Forthcoming changes to the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom		

1.0 PURPOSE

- 1.1 The purpose of this report is to give early advice to Members of the main impending changes to the *CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code)*.

2.0 SUMMARY

- 2.1 The changes to the Code of practice requirements for 2016/17 includes amendments to the Code's provision on the presentation of financial statements to amend the reporting requirements for the Comprehensive Income and Expenditure Statement (CIES), the Movement in Reserves Statement (MiRS), the removal of the Service Expenditure Analysis (Note 7) and the introduction of an Expenditure and Funding Analysis (EFA) under the "*telling the story*" with the intention of improving the presentation of local authority financial statements.
- 2.2 The 2016-17 Code included moving to measuring Highways Network Assets (HNA) in accordance with the methodologies specified in the Code of Practice on Highway network assets i.e. at depreciated replacement cost (DRC) instead of historical cost and the creation of a new Highways Network Asset. Information relating to this had previously been presented to this Committee. In November 2016 CIPFA-LASAAC agreed to defer HNA current value implementation until 2017/18 at the earliest due to lack of centrally updated Gross Replacement Cost (GRC) rates, which were to be provided by the UK Government.
- 2.3 There are other significant upcoming changes to the Code in future years which include the provision for IFRS 9 which replaces IAS 39 Financial Instruments: recognition and measurement and IFRS 15 Revenue from Contracts with Customers. These do not apply until 2018-19 nevertheless the changes will inevitably involve considerable advance planning and preparatory work in the lead up to implementation and the 2017/18 Code will contain additional appendices containing the provisions for the introduction of these accounting standards.

3.0 RECOMMENDATION

- 3.1 It is recommended that the Committee:
- note the progress made in preparations for the changes to the 2016-17 *CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code)* and note the introduction of adoption of new accounting standards in future years; and
 - note the deferral of the requirements in respect of HNA current valuation until 2017/18 at the earliest.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

- 4.1 Local authority financial statements have a key part to play in accountability to taxpayers and other stakeholders as to how public money is used. However the current complexity of the financial statements has not helped this accountability, particularly allowing the amounts in the statements to be easily reconciled to management accounting and in-year monitoring of budgets.
- 4.2 The 2016/17 Code includes amendments to the provision on the presentation of financial statements to amend the reporting requirements for the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS) and the introduction of an Expenditure and Funding Analysis (EFA) under the “telling the story” with the intention of improving the presentation of local authority financial statements.
- 4.3 For 2016/17 the accounts will include service segments based on the way the Council operates and manage services. There is no longer a requirement for the service analysis to be based on the service expenditure analysis in the Service reporting Code of Practice (SerCOP). The new format means the service section of the CIES supports accountability and transparency as it reflects service structures within the Council.
- 4.4 The MiRS prescriptions have been reduced to an absolute minimum in the Code and will become less prominent.
- 4.5 The introduction of the EFA to the 2016/17 Code is intended to allow a clear link to be made between in-year monitoring, General Fund information and final outturn, closing the accountability loop from budgets through to outturn. This will be supported by the requirement to cross reference to the EFA within the management commentary which will help to provide a linkage between management and annual accounts.
- 4.6 The EFA demonstrates to council tax payers how the funding available to the authority for the year has been used in providing services in comparison with those resources consumed and earned by authorities in accordance with generally accepted accounting practices. The EFA also shows how expenditure is allocated for decision making purposes between the Council's Committees.
- 4.7 In addition it is intended that officers will continue to cut the clutter and remove immaterial disclosures.

5.0 PROGRESS

- 5.1 Templates of the updated revised statements and the current CIES, for comparison are presented in **Appendix 1**.
- 5.2 The CIES previously presented the service analysis on the basis of SerCOP whereas the revised CIES presents the service analysis on the basis of the Council's own organisational structure. The template shows the proposed revised structure of the CIES, reporting at a Committee level. Consideration was given to expand this to service level however officers consider Committee level, which can be clearly reconciled back to Committee revenue monitoring reports to be the most appropriate level. The revised statement shows draft 2015-16 balances.
- 5.3 The Funding Analysis takes the net expenditure chargeable to taxation and reconciles it to the CIES.
- 5.4 Overall the changes to the financial statements prescribed in the 2016-17 Code provide better accountability and transparency and a clear link between in-year monitoring and final outturn.
- 5.5 The 2016-17 Code included moving to measuring Highways Network Assets (HNA) in accordance with the methodologies specified in the Code of Practice on Highway network

assets i.e. at depreciated replacement cost (DRC) instead of historical cost and the creation of a new Highways Network Asset. Information relating to this had previously been presented to this Committee. In November 2016 CIPFA-LASAAC agreed to defer HNA current value implementation until 2017/18 at the earliest due to lack of centrally updated Gross Replacement Cost (GRC) rates, which were to be provided by the UK Government.

- 5.6 The Committee will continue to be updated on progress on the introduction of HNA and 2017/18 implementation is to be decided upon in March and is contingent upon clarification of GRC rates and the central assurance process. A project plan has been developed based on LAAP bulletin 100 and Finance and Roads will continue to work together towards the 2017-18 implementation.
- 5.7 There are other significant upcoming changes to the Code in future years which include the provision for IFRS 9 which replaces IAS 39 Financial Instruments: recognition and measurement and IFRS 15 Revenue from Contracts with Customers. These do not apply until 2018-19 nevertheless the changes will inevitably involve considerable advance planning and preparatory work in the lead up to implementation and the 2017/18 Code will contain additional appendices containing the provisions for the introduction of these accounting standards.

6.0 IMPLICATIONS

6.1 Legal

None

6.2 Financial

Cost Centre	Budget Heading	Budget Year	Proposed Spend this Report	Virement from	Other Comments
			None	-	None

There are no direct financial costs to the Council as a result of the change in valuation method; all costs of performing the changes will be contained within existing budgets.

6.3 Human Resources

None.

6.4 Equalities

None.

7.0 LIST OF BACKGROUND PAPERS

7.1 None.

This statement shows the accounting cost in the year of providing services in accordance with International Financial Reporting Standards, rather than the amount to be funded from taxation. Local authorities raise taxation to cover expenditure in accordance with regulations, and this is different from the accounting cost. The position for Council Tax is shown in the *Movement in Reserves Statement*.

2014-2015				2015-2016		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
3,302	(1,282)	2,020	Central Services to the Public	3,243	(1,322)	1,921
13,605	(1,136)	12,469	Cultural & Related Services	13,704	(1,369)	12,335
91,748	(3,189)	88,559	Education Services	92,430	(4,283)	88,147
14,529	(1,902)	12,627	Environmental Services	14,663	(1,943)	12,720
44,248	(40,738)	3,510	Housing Services	43,252	(39,968)	3,284
11,967	(3,648)	8,319	Planning and Development Services	11,574	(3,681)	7,893
10,925	(3,590)	7,335	Roads & Transportation	11,813	(4,372)	7,441
69,899	(15,470)	54,429	Social Work	72,084	(15,787)	56,297
2,173	0	2,173	Corporate and Democratic Core	2,007	0	2,007
854	(3)	851	Non-Distributable Costs	409	(6)	403
263,250	(70,958)	192,292	Cost of Services	265,179	(72,731)	192,448
		6,811	Other Operating Expenditure and (Income) - (Gain)/Loss on disposal of non-current assets			(245)
		20,349	Financing and Investment (Income) and Expenditure (Note 3)			18,718
		(204,441)	Taxation and Non-specific Grant Income (Note 4)			(215,119)
		15,011	(Surplus) or Deficit on the Provision of Services			(4,198)
		(504)	(Surplus) or deficit on the revaluation of non current assets			(43,146)
		1,470	Impairment losses on non-current assets charged to the Revaluation Reserve			0
		17,488	Remeasurement of the net defined benefit pensions liability (Note 17)			(55,967)
		18,454	Other Comprehensive (Income) and Expenditure			(99,113)
		33,465	Total Comprehensive (Income) and Expenditure			(103,311)

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with statutory requirements; this may be different from the accounting costs. The taxation position is shown in the *Expenditure and Funding analysis* and the *Movement in Reserves Statement*.

2014-2015		2015-2016		
Net		Gross	Gross	Net
Expenditure		Expenditure	Income	Expenditure
£000		£000	£000	£000
89,491	Education	92,824	(4,239)	88,585
9,785	Communities	14,889	(3,838)	11,051
29,489	Enironment & Regeneration	35,284	(11,203)	24,081
57,556	Health & Social Care	73,821	(16,149)	57,672
5,971	Policy & Resources	48,361	(37,302)	11,059
192,292	Cost of Services	265,179	(72,731)	192,448
	Other Operating Expenditure and (Income) -			
6,811	(Gain)/Loss on disposal of non-current assets			(245)
	Financing and Investment (Income) and			
20,349	Expenditure (Note 3)			18,718
	Taxation and Non-specific Grant			
(204,441)	Income (Note 4)			(215,119)
15,011	(Surplus) or Deficit on the Provision of Services			(4,198)
	(Surplus) or deficit on the revaluation of non current			
(504)	assets			(43,146)
	Impairment losses on non-current assets charged to the			
1,470	Revaluation Reserve			0
	Remeasurement of the net defined benefit pensions			
17,488	liability (Note 17)			(55,967)
18,454	Other Comprehensive (Income) and Expenditure			(99,113)
33,465	Total Comprehensive (Income) and Expenditure			(103,311)

Expenditure of continuing operations analysed by operating segment, these lines are reconciled to the General Fund in the Expenditure and Funding analysis.

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how expenditure is allocated for decision making purposes between the council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

Expenditure and Funding Analysis 2015-2016

	Expenditure chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000	£000	£000
Education	79,637	8,948	88,585
Communities	9,583	1,468	11,051
Environment & Regeneration	20,579	3,502	24,081
Health & Social Care	50,422	7,250	57,672
Policy & Resources	6,029	5,030	11,059
Net Cost of Services	166,250	26,198	192,448
(Gain)/Loss on disposal of non-current assets		(245)	(245)
Financing and Investment (Income) and Expenditure	28,361	(9,643)	18,718
Taxation and Non-specific Grant Income	(198,980)	(16,139)	(215,119)
(Surplus) or Deficit on the Provision of Services	(4,369)	171	(4,198)
Opening General Fund balance at 31 March 2015	44,991		
Transfer (to)/from other statutory reserves	(305)		
Less Surplus/Deficit on General Fund in the year	4,369		
Closing General Fund balance at 31 March 2016	49,055		

A further technical note will be included in financial statements showing an analysis of the adjustments between the accounting basis and funding basis. The significant adjustments include the capital costs, including depreciation and the net change for the pension adjustments.

Movement in Reserves Statement

Appendix 1

This statement shows the movement in the year on the different reserves held by the Council, analysed into "Usable Reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The Surplus or (Deficit) on the Provision of Services line shows the cost of providing the Council's services in accordance with accounting practice, more details of which are shown in the Comprehensive Income & Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting. The Net Increase or (Decrease) before Transfers (to) and from Other Statutory Reserves shows the statutory General Fund Balance before any discretionary transfers to and from the other statutory reserves of the Council.

Year ended 31 March 2016

	Usable Reserves						Unusable Reserves	Total Reserves of the Council
	General Fund Balance	Capital Grants Unapplied Account	Capital Fund	Repairs & Renewal Fund	Insurance Fund	Total Usable Reserves		
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2015	44,991	0	2,590	2,959	3,860	54,400	(34,292)	20,108
Movement in Reserves during 2015-2016								
Total Comprehensive Expenditure & Income	4,198	0	0	0	0	4,198	99,113	103,311
Adjustments from income & expenditure charged under the accounting basis to the funding basis	171	0	0	0	0	171	(171)	0
Transfers (to) and from Other Statutory Reserves	(305)	396	(272)	226	(45)	0	0	0
Increase or (Decrease) in the Year	4,064	396	(272)	226	(45)	4,369	98,942	103,311
Balance at 31 March 2016 Carried Forward	49,055	396	2,318	3,185	3,815	58,769	64,650	123,419