Central Bedfordshire Council

Audit Committee 11 January 2016

STATEMENT OF ACCOUNTS 2015/16

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Purpose of this report

The report outlines any changes required to the Council's statutory Statement of Accounts for 2015/16.

RECOMMENDATION

That the Committee

1. Consider and comment upon the issues raised within the report.

Overview and Scrutiny Comments/Recommendations

1. This report is not scheduled to be considered by any Overview and Scrutiny Committee as the Audit Committee provides scrutiny of the Council's preparation of the annual Statement of Accounts.

Background

2. The Accounts and Audit Regulations 2011 require the Chief Finance Officer of the Local Authority to prepare and sign a set of unaudited accounts by 30 June each year. Audited accounting statements are required to be re-certified by the Chief Finance Officer, signed by the Chair of the Audit Committee and published by 30 September each year.

3. In addition to meeting the requirements of the 2011 Regulations, the Council has in recent years arranged a Statement of Accounts presentation in June, open to all Members, to inform and enable scrutiny of the key figures from the Statements.

4. Under the same 2011 regulations, the accounts are required to present a 'true and fair' view of the financial position of the Council and comply

with ‘proper accounting practices’. The Local Government Act 2003 specifies the CIPFA Code, issued annually, as representing proper accounting practices for this purpose.

5. CIPFA and the Local Authority (Scotland) Accounts and Advisory Committee (LASAAC) issue a Local Authority Accounting Panel (LAAP) bulletin at the end of the financial year to address any specific issues arising from the CIPFA Code of Practice. These bulletins have the same status as the CIPFA Code in forming the statutory basis of the Council’s accounts. LAAP bulletins may also be issued during the year to provide general guidance on topical issues. CIPFA may also issue mid-year updates to the Code of Practice on an exceptional basis.

CIPFA Code of Practice 2015/16 Changes

6. The Code for 2016/17 will have significant changes particularly for Transport Infrastructure Assets but the 2015/16 in respect of English local authorities has only limited changes compared to 2014/15. The main changes are outlined in greater detail below.

Movements in Reserves Statement

7. There is a clarification of the reporting requirements for disclosures to support the Movement in Reserves Statement. The guidance now requires that, for all the reserves required to be disclosed, an analysis of the amounts included in each reserve is disclosed within either the statement itself or the notes to the Statements. The reserve analysis must present amounts held for capital purposes separately from those held for revenue purposes, and shall separately identify the total reserves held by schools.

Materiality

8. Amendments have been made to chapter one of the Code to underline CIPFA/LASAAC’s view of the importance of the consideration of materiality when preparing disclosures for local authority financial statements. CIPFA/LASAAC is of the view that local authorities should only include disclosures that are material to the presentation of a ‘true and fair’ view of the financial position, financial performance and cash flows of the authority and to the understanding of users of the financial statements. The Code’s definition of materiality has not changed, remaining as at 2.1.2.9 in the Code :

Materiality *– information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting authority.In other words, materiality is an authority-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual authority’s financial statements. Consequently, the Code cannot specify a uniform quantitative threshold for materiality* *or predetermine what could be material in a particular situation. An authority need not comply with the Code, as to both disclosure and accounting principles, if the information is not material to the 'true and fair' view of the financial position, financial performance and cash flows of the authority and to the understanding of users.*

Fair Value measurement - Adoption of IFRS 13

9. Fair value as a term in previous Codes has been used to describe a number of ways to value assets and liabilities including the concept of Exiting Use Valuation. Following the adoption of IFRS 13 Fair Value Measurement a universal definition of Fair Value based on the concept of an 'exit price' of an asset or liability at the measurement date which does not reflect the authority's intention for its use has been adopted. The Fair value will be based on a hypothetical transaction that could take place in an orderly market.

10. Local authorities for 2015/16 are required to measure their assets and liabilities and provide disclosures in accordance with IFRS 13 Fair Value Measurement where another section of the Code requires or permits fair value measurement, except where adaptations to fit the public sector are detailed in the Code.

11. There are no adaptations to IFRS 13 for the public sector context. However, section 4.1 of the 2015/16 Code adapts International Accounting Standard (IAS) 16 to require that items of property, plant and equipment that are operational and therefore providing service potential for the authority are measured for their service potential at existing use value, existing use value – social housing or depreciated replacement cost, and not at fair value. The values for Property Plant and Equipment (PPE) assets with service potential are now described as current value. Surplus assets (property, plant and equipment) are now to be measured at fair value rather than on the basis of their existing use before the asset was classified as surplus.

12. There is unlikely to be a material impact on the 2015/16 Statements as the measurement (valuation basis) for the vast majority of the Council's PPE assets remains unchanged as illustrated in table 1. Only two assets were classified as surplus assets at 31 March 2015 with a net book value of £182,000 out of a total PPE figure of £974m. As transitional arrangements apply to the change in accounting policy there is no requirement to apply the change retrospectively in the 2015/16 Statements.

Table 1 : Property, Plant and Equipment Accounting Valuations		
Classification	**Measurement**	**Compared to 14/15 Code**
Assets providing services where an active market exists	Existing Use Valuation (EUV)	UNCHANGED
Specialist assets used for service delivery or where no market exists	Depreciated Replacement Cost	UNCHANGED
Social Housing	Existing Use Valuation – Social Housing	UNCHANGED
Surplus Assets	Fair Value basis of IFRS 13	CHANGED previously EUV

13. The definition of Fair Value that applies to other assets and liabilities is little changed from the previous one although further detailed definition and requirements to measure fair value is provided in the 2015/16 Code as a fair value measurement hierarchy and framework which will be applied where relevant in preparing the Statements.

    2014/15 Code - *Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.*

    2015/16 Code - *Fair value is 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.*

14. The Finance team will review the relevant measurements for other assets and liabilities to ensure that the Council complies with the current requirements of the Code.

Interpretation of 'Short Period'

15. The 2015/16 Code introduces an interpretation to clarify what a short period means for the measurement of a class of assets for local authorities. The current value of land and buildings is usually determined by appraisal of appropriate evidence that is undertaken by a qualified valuer. Where assets are revalued (i.e. the carrying amount is based on current value), revaluations must be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period.

16. The Code now makes clear that a ‘short period’ for the revaluation of a class of assets is interpreted to mean that assets are normally revalued every five years as minimum. The Council’s procedures for revaluation of property assets are already compliant with this requirement.

Reporting requirements for Local Authority Schools

17. Guidance has been clarified in respect of the recognition of non-current assets used by schools. As for 2014/15 the recognition of such non-current assets will be determined in accordance with relevant accounting standards and the arrangements for the assets.

Other issues

Pooled Budgets

18. The Council is the host authority for a pooled budget arrangement with NHS Bedfordshire Clinical Commissioning Group that has commenced in the current financial year under a framework partnership agreement relating to the commissioning of Health and Social Care services under the Better Care Fund (BCF). As host authority the Council is responsible for the budget’s overall accounts and audit.

19. In preparing the 20151/6 Statements the BCF arrangement will be reviewed to confirm the appropriate accounting treatment and the information requirements for the relevant auditors are currently being established.

Accounting for Highways Network Asset (previously Transport Infrastructure Assets) from 2016/17

20. The proposal to move to Depreciated Replacement Cost (DRC), as opposed to the current historic cost basis for transport infrastructure assets from 1 April .2016 has continued to develop. Following consideration of responses to an accounting Code of Practice Invitation to Comment, the November 2015 CIPFA/LASAAC meeting has indicated a number of changes that are subject to approval by the Financial Reporting Advisory Board.

21. There are a number of changes to the technical accounting arrangements but the key proposal in terms of implementation requirements is that whilst the change will still be effective from 1 April 2016 it will not be fully retrospective so that the 2015/16 Statements would not need to be restated and subject to audit opinion.

Local Audit and Accountability Act 2014

22. Section 32 of the Act contains updates to the Accounts and Audit Regulations 2011, and under these updates the Secretary of State consulted on changing the deadlines for publication of the Council’s

Statement of Accounts. From the Statements prepared for 2017/18 the Chief Finance Officer will have to certify the draft accounts by 31st May (currently 30 June) and the Audited accounts will need to be approved by the Audit Committee by 31 July (currently 30 September). The Finance team piloted an accelerated Statement of Accounts process for 2014/15 and a similar approach is proposed for 2015/16 having responded to the learning points from the previous financial year.

Accounts Process

23. Accounts and Audit Regulations 2011 require the Chief Finance Officer to certify the unaudited Statement of Accounts by 30 June each year. For the last three years there has been a presentation of the key figures in the accounting statements to this Committee with all other Council Members invited, the purpose being to enhance the scrutiny and discussion of the statements. The presentation for 2014/15 was made by the Chief Finance Officer and the Head of Financial Control and included a question and answer session.

24. Conducting a presentation instead of submitting the accounts as an Audit Committee report enabled significantly more time for Finance staff to concentrate on quality assurance work in June. Making the most of the time available for quality assurance activities helps to minimise the work of the Finance team and the external auditors in the period July to September. Positive feedback was received following the presentation, which engaged Members and enabled a focus on the key points within the accounts. It is therefore proposed to present the 2015/16 statements in a similar manner at the Audit Committee meeting in June 2016 with an open invitation to all Council members.

Council Priorities

25. Informing Members of forthcoming changes relating to the Statement of Accounts and inviting all Members to consider and comment on the Statement contributes towards the Committee's scrutiny function and meeting the Council's priority of achieving value for money

Corporate Implications

Legal Implications

26. The production of an annual Statement of Accounts is a requirement of the Accounts and Audit Regulations 2011. The accounts are to be prepared in line with 'proper accounting practice' and the Local Government Act 2003 section 21(2) specifies the CIPFA Code of Practice as representing proper accounting practice for this purpose.

27. The accounts are based on International Financial Reporting Standards (IFRS) as defined by the CIPFA Code of Practice and the authority

must incorporate any changes to the CIPFA Code in preparing the financial statements.

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Financial Implications

30. The preparation of the annual financial statements is a core responsibility of the Council’s finance team and involves the support of many other services. The Finance team seek to continuously improve the processes that support the preparation of the statements as well as implement any changes in reporting requirements within the Council’s overall approved revenue budget.

Equalities Implications

31. There are no specific implications for equalities as this report is made for information purposes.

Appendices

None

Background Papers

None