

# Central Bedfordshire Council

Audit Committee

11 March 2019

## Statement of Accounts 2018/19

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Report of: Director of Resources, Charles Warboys  
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**This report relates to a decision that is Non-Key**

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### Purpose of this report

1. The report outlines key changes required to the Council's statutory Statement of Accounts for 2018/19.

### RECOMMENDATIONS

The Committee is asked to:

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

### Background

2. The Accounts and Audit Regulations 2015 require the responsible financial officer of the Local Authority (the Director of Resources) to prepare and sign a set of unaudited accounts by 31 May each year. Audited accounting statements are required to be re-certified by the responsible financial officer, signed by the Chair of the Audit Committee and published by 31 July each year.
3. In addition to meeting the requirements of the 2015 Regulations, the Council has in recent years arranged a Statement of Accounts presentation, open to all Members, to inform and enable scrutiny of the key figures from the Statements.
4. Under the same 2015 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 of Practice, 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 2018/19 Changes**

6. In respect of English local authorities, the Code for 2018/19 has more changes compared to 2017/18. These are mainly in respect of changes to accounting standards as two new standards will apply. The main changes are outlined below.

#### **Presentation of the financial statements**

7. The Accounts and Audit Regulations 2015 introduced a new requirement for English authorities to produce a Narrative Statement, providing an accessible guide to the most significant matters reported in the accounts. The statement must include comment by the Council on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year. The Narrative Statement should be fair, balanced and understandable for the users of the financial statements.
8. There is further emphasis in the 2018/19 Code on the Telling the Story aspect of the financial statements. The Code no longer requires statements or notes to be prepared in accordance with SeRCOP, instead the service analysis is based on organisational structure. This was first introduced in 2017/18 and will be maintained for the 2018/19 Statement of Accounts.
9. There are a number of minor disclosure amendments to the Cashflow Statement as a result of amendments to IAS 7 *Statement of Cash Flows*.

#### **Amendments arising from changes to accounting standards**

10. There are a few changes to accounting standards that impact on the Statement of Accounts 2018/19. These are intended to improve transparency around the effect of transactions on local authority finances and have arisen largely as a result of responding to the 2008 financial crisis.
11. **IFRS 9 *Financial Instruments*** – is effective for annual periods beginning on or after 1 January 2018. Its objective is to establish principles for the financial reporting of financial instruments that will present useful information for the users of the financial statements to assess the amounts, timing and the uncertainty of future cash flows.
12. IFRS 9 has introduced a new classification model based on the business model for holding the financial assets and on the nature of the cash flows that might flow from them. Local authorities will therefore need to identify their financial assets, consider them against the new tests in IFRS 9, remeasure any that have changed classification and prepare the relevant adjustments to opening balances and consider the possible impact of statutory reversals.

13. IFRS 9 has also introduced a new expected credit loss model for impairment. This model will require local authorities to assess the risk of default on the relevant financial instruments rather than an assessment based on evidence that the default has already taken place. Local authorities will need to calculate their loss allowances based on this new model and adjust the General Fund Balance for these re-measurements. Work with CIPFA/LASAAC and the Treasury and Capital Management Panel has indicated that these loss allowances should not be very significant for the majority of financial assets held by local authorities as normally local authorities invest in financial assets with high credit ratings.
14. There are substantial new disclosures to support the objective of the standard to assist users in assessing the amounts, timing and uncertainty of cash flows.
15. Impact for CBC – It is not anticipated that these changes will have a material impact on the financial statements of the Council. In response to IFRS 9, we have updated the accounting policies and also elected to treat the Council's £5.5M Lime Fund holding in such a way that means no change in its accounting treatment, i.e., any in-year capital gain or loss is taken to a reserve (as is currently the case) and does not impact on Council Tax.
16. **IFRS 15 Revenue from Contracts with Customers** – IFRS 15 introduces a new five stage model for the recognition of revenue from contracts with customers replacing the previous standards IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations.
17. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.
18. The scope of the standard covers all contracts with customers except leases, financial instruments and insurance contracts. It does not include council tax or non-domestic rate income.
19. The standard also includes a comprehensive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers
20. Impact for CBC – there is likely to be minimal change seen to the Statement of Accounts 2018/19 for this standard as the Council has not entered into any complex contract arrangements nor do we currently prepare group accounts.
21. **IFRS 16 Leases** – this has been delayed, initially was for periods commencing 01 January 2019 however for local authorities this will now be 1 April 2020. There are no substantial changes for lessors, however there are significant changes for lessees as all leases will now be recognised on the balance sheet, unless they are short term or of low value. There will be no need to classify into finance / operating leases. This will require a full examination of what leases the Council has entered into, along with their contractual requirements. Work on this has already started and will be further developed in 2019/20.

## **Other key issues**

### **Earlier closedown**

22. The Accounts and Audit Regulations 2015 require local authorities to approve and publish the accounts by 31 May and 31 July respectively effective from the accounts for the year 2017/18. Preparation for these earlier closedown requirements began a few years ago and this was successfully achieved last year.
23. From 2017/18 we agreed with the Council's professional valuer Wilks Head & Eve, a change to the valuation date of the Council's housing stock from 1 April to 31 December each year, and this continues to be the case for 2018/19. Consequently, the year end impairment review will cover a period of three months, rather than the whole year, reducing the impact of any change in market conditions during this time. It is considered that, as these are unlikely to be material in future, an impairment allowance will not be required to be adjusted for at the year end and this should help with the earlier deadline.

### **Statement of Accounts presentation**

24. For the last five 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 2017/18 was made by the Director of Resources (s151 Officer) and other key members of his team and included a question and answer session.
25. 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 May. Making the most of the time available for quality assurance activities helps to minimise the work of the Finance team and the external auditors during the audit period. Positive feedback was received following the latest presentation, which engaged Members and enabled a focus on the key points within the accounts. It is therefore proposed to present the 2018/19 statements in a similar manner at the Audit Committee meeting in May 2019 with an open invitation to all Council Members to attend.

### **Creation of a Council Owned Housing Company**

26. The Executive has recently endorsed the creation of a wholly owned Housing Company. This is part of a proactive approach to increase and influence the supply of new homes in order to help address the shortfall between demand for and supply of new affordable homes. This has been discussed with the Council's external auditors (EY) and no issues are expected for 2018/19.

### **Rights of Access to the Statement of Accounts**

27. The Accounts and Audit Regulations 2015 extended the period for exercise of Public Rights (which include rights of objection, inspection of the local authority accounting documentation and questioning of the external auditor) to 30 working days. During this period the Council must make all relevant documents available for public inspection.

28. The Regulations also require that the period for the exercise of public rights includes the first 10 working days of June of the financial year immediately following the end of the financial year being reported.

## **Council Priorities**

29. 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 a more efficient and responsive Council.

## **Corporate Implications**

### **Legal Implications**

30. The production of an annual Statement of Accounts is a requirement of the Accounts and Audit Regulations 2015. The accounts are to be prepared in line with 'proper accounting practice' which are contained in a code of practice or other document which is identified by regulations made by the Secretary of State (Local Government Act 2003 section 21(2)). Regulation 26 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 specifies proper practices as the accounting practices contained in "A Statement of Recommended Practice: Code of Practice on Local Authority Accounting in the United Kingdom" (CIPFA/LASAAC) and "Best Value Accounting Code of Practice" ("CIPFA").
31. 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.

## **Financial and Risk Implications**

32. 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**

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

## **Conclusion and next Steps**

34. It is requested that the Committee notes the key changes required to the 2018/19 Statement of Accounts and the intention to make a presentation of the accounts as certified by the Director of Resources (s151 Officer) to the Committee and other

Members in May. The impact of the changes for 2018/19 will be highlighted in the Statement of Accounts presentation.

## **Appendices**

None

## **Background Papers**

None

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