

AUDIT COMMITTEE – 25th NOVEMBER 2016

Title of paper:	Review of Accounting Policies 2016-17	
Director(s)/ Corporate Director(s):	Geoff Walker Director of Strategic Finance	Wards affected: All
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Recommendation(s):		
1	Review and agree the Statement of Accounting Policies for inclusion in the 2016/17 annual accounts (within appendix 1).	
2	Review and agree the proposals where International Financial Reporting Standards (IFRS) allow a degree of choice.	

1 REASONS FOR RECOMMENDATIONS

- 1.1 Part 3 of the Annual Accounts and Audit Regulations 2015 (the Regulations) require the City Council to produce an annual Statement of Accounts. In accordance with IFRS, the Statement of Accounts must include a statement of accounting policies.
- 1.2 The Regulations also require a draft of the Statement of Accounts to be prepared and certified by the responsible financial officer by 30 June. In accordance with best practice for local authorities, the draft accounting policies should be reviewed by Audit Committee before the draft 2016/17 Statement of Accounts is produced.
- 1.3 In addition, where IFRS allows a degree of choice, Audit Committee should be aware of and confirm the choices made.

2 BACKGROUND

- 2.1 The draft 2016/17 accounting policies are included in Appendix 1. The policies are reviewed annually to identify any which should be removed as they are no longer relevant or have no material effect to the Statement of Accounts for 2016/17. With effect from 2016/2017 there is new requirement to measure and disclose Highways Network Assets at depreciated replacement cost. There have been no other significant changes to the accounting policies from 2015/16.

In order to give the main focus to the core financial statements, only the critical Accounting Policies will be included in the body of the Statement of Accounts with a full version shown as an appendix.

2.2 Critical Accounting Policies

The critical accounting policies provide the fundamental bases for producing the Statement of Accounts and warrant particular consideration. The only changes from 2015/16 are the policy for the valuation of the Highways Network Asset and the depreciation methodology for Housing Stock. The proposed 2016/17 Critical Accounting Policies are shown below:

Accruals of Expenditure and Income

The revenue and capital accounts of the Council are maintained on an accrual basis. This means that income and expenditure are recognised in the accounts in the period in which they are earned or incurred and not when money is received or paid. Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor is recorded in the Balance Sheet.

Government Grants and Contributions

Government Grants and contributions are credited to income in the Comprehensive Income and Expenditure Statement only when there is reasonable assurance that any attached conditions will be met. Specific grants are credited to the relevant service line, while non-ring fenced and capital grants are credited to Taxation and Non-specific grant income.

Any grants received where conditions have not been met are carried in the Balance Sheet as creditors.

Charges to Revenue for Non-Current Assets

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

Valuation of Non-Current Assets

Generally non-current assets are valued initially at cost and subsequently revalued at fair value. The main exceptions are infrastructure, which are generally valued at depreciated historical cost, council dwellings, which are valued at Existing Use Value for Social Housing and heritage assets, which are valued at market value by an external valuer.

Valuation of the Highways Network Asset

Carriageways, footways and cycletracks, structures (e.g. bridges), street lighting, street furniture, traffic management systems and land which together form a single integrated Highways Network Asset. This is valued at Depreciated Replacement Cost.

Interests in Companies and Other Entities

Inclusion in the Council's Group Accounts is, in accordance with the Code, dependent upon the extent of the Council's interest and control over an entity. In the Council's single-entity accounts, the interests in companies and other entities are shown as investments and valued at cost less any provision for losses.

2.3 **Choices made under IFRS**

For some policies the IFRS provide different options that can be used. The choices made in these instances have been applied consistently over the years, however, it would be prudent for Audit Committee to reaffirm the choices made. The key proposals are detailed below:

De Minimus Capital Expenditure

All assets acquired can be included in the Balance Sheet, regardless of their cost. However where the current value is less than the following amounts the Council may choose to exclude the asset from the Balance Sheet:

	£m
Vehicles and Plant	0.003
Computer Equipment	0.005
Land & Buildings	0.010

Componentisation

Where an asset consists of significant components that have different useful lives and or depreciation methods to the remainder of the asset, these components are separately identified and depreciated accordingly. The Council has chosen to only apply componentisation where the value of the asset is in excess of £3m.

Depreciation (including amortisation of intangible assets)

Certain Property Plant and Equipment components and Intangible Assets are written down over time and charged to revenue. International Financial Reporting Standards allow the Council to assess the period as well as the depreciation method. The following assets are depreciated on a straight line basis over their individually assessed useful life, unless otherwise stated:

- Buildings, vehicles, plant, furniture and equipment
- Infrastructure and Community are depreciated over 25 years
- Intangible assets are depreciated over 5 years
- [Dwellings, based upon major components current price data allocated on a straight line basis over the useful life.](#)

2.4 The draft accounting policies will also be reviewed by the external auditors, KPMG, and therefore are still subject to change. Any major changes will be highlighted to Audit Committee at a future meeting.

3 BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION

3.1 None

4 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

4.1 Annual Accounts 2015/16
Accounting and Audit Regulations 2015
Code of Practice on Local Authority Accounting in the United Kingdom 2016/17