

LICENSING AND GENERAL PURPOSES HEAD OF FINANCIAL SERVICES
COMMITTEE REPORT NO. FIN1720
25TH MAY 2017

ACCOUNTING POLICIES AND RELATED MATTERS FOR THE YEAR 2016/17

SUMMARY AND RECOMMENDATIONS:

SUMMARY: This report reviews the proposed accounting policies to be applied for the closure of the 2016/17 accounts. These are prepared in line with CIPFA's Code of Practice on Local Authority Accounting in the UK 2016/17 (the Code). Adopting the policies supports timely and robust production of a high-quality set of annual accounts. In addition, this report notifies members of the nature of updated disclosures required, reviews the internal level of materiality and provides information about a prior period adjustment to be contained in the 2016/17 statement of accounts.

RECOMMENDATION:

- (i) Licensing and General Purposes Committee adopt the accounting policies including the amendment disclosed at Appendix 1 for closure of the 2016/17 Accounts
- (ii) The Committee notes the updated disclosures, internal level of materiality and information relating to a prior period adjustment to be made in the statement of accounts for 2016/17.

1 INTRODUCTION

1.1 As part of its statement of accounts, the Council needs to disclose the accounting policies it has applied to all material balances and transactions. This process is described in the Code as proper accounting practices and the Council has limited discretion. In relation to the financial year 2016/17 there have only been minor changes in the Code in relation to accounting policies that are relevant to the Council. Accounting policies are discussed at Section 2 of this report.

1.2 Other items for the committee to note are provided at:

Section of this report

- 3 Updated disclosure requirements
- 4 Materiality
- 5 Prior period adjustment

2 ACCOUNTING POLICIES

2.1 The accounting policies have not changed compared to the policies applied for the previous financial year (2015/16), other than for the following reasons:

- (a) Policy number xviii - Overheads and Support Services. The Council will produce the Statement of Accounts for 2016/17 containing service expenditure and income based on the style of the Portfolio analysis utilised for the ongoing quarterly revenue monitoring purposes throughout the financial year.

The costing **principles** of CIPFA's Service expenditure reporting Code of Practice (SerCOP) continue to apply for 2016/17 and future years, but the information provided in regular monitoring disclosures during the financial year and the Statement of Accounts now present disclosures in Rushmoor's own reporting style. Policy number xviii - Overheads and Support Services therefore requires some modest amendment for application in 2016/17 and future years.

Appendix 1 provides detail of this updated accounting policy.

- (b) Date references relating to the financial year 2016/17 applicable to some of the accounting policies have been updated

2.2 The entire set of accounting policies applied for the year 2016/17 remain as per the previous financial year, and apart from changes disclosed at paragraph 2.1 there are no other modifications of amendments required. These accounting policies do not depart from the provisions of the 2016/17 Code.

2.3 There will be adjustments to the appearance of the accounts in relation to the changes regarding the following statements:

- Comprehensive Income and Expenditure (CI & E), &
- Movement in Reserves

& the introduction of the following new statement:

- Expenditure and Funding Analysis (EFA)

2.4 Each of the above items are discussed in Section 3 of this report. None of the changes have any direct effect on the underlying accounting policies of the Council.

3 UPDATED DISCLOSURE REQUIREMENTS FOR 2016/17

3.1 CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This

has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

- 3.2 The presentation of the CI & E Statement for 2016/17 has been revised so that this will better reflect how the Council is structured and manages its resources. This is a change from previous financial years where the format of the CI & E statement followed a national standard for service expenditure (Service Reporting Code of Practice (SerCOP)).
- 3.3 In addition, a new EFA Statement is introduced for 2016/17. This statement will reconcile the movement on the General Fund balance to the Surplus or Deficit on Provision of Services contained within the body of the CI & E. It explains the statutory adjustments made to figures calculated in line with International Financial Reporting Standards (IFRS). Although these disclosures already existed within the accounts, the proposed changes are designed to help make the accounts clearer for readers.
- 3.4 Other changes have been made to streamline the current Movement in Reserves Statement (MIRS) in order to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of the earmarked reserves column. CIPFA highlight that earmarked reserves transfer in & out entirely to the General Fund. Reference to the General Fund in the Statement of Accounts 2016/17 will therefore include the value of Earmarked Reserves related to the General Fund.

4 MATERIALITY

- 4.1 On 28th May 2015 the Licensing and General Purposes committee approved an agenda item entitled "Financial Statements – Decluttering the accounts". This paper discussed that the majority of the existing disclosures are requirements laid down in the CIPFA Accounting Code of Practice (ACOP), but there remains some scope within the 'decluttering' agenda to rationalise what information is included in the statements.
- 4.2 In addition, the report discussed the internal level of materiality that members recommended for the preparation of each year's statement of accounts. The committee approved the application of a de-minimus level of materiality of 1% of total Net Assets/Reserves (measured at the start of the financial year) regarding the preparation of the statement of accounts. For 2016/17 the committee should note this amount is marginally increased to £622,000.
- 4.3 Members should however note that the materiality threshold may be lower, for example for common transactions and outcomes where materiality judgements are usually particularly sensitive. These include:

Transactions with related parties

Sensitive matters, such as fraud and non-compliance with law

Unusual or non-recurring transactions/balances

- 4.4 The Finance Accountancy team have reviewed the statement of accounts for 2016/17 currently under preparation against the above stated level of materiality and its content remains the same when compared to recent years.

5 PRIOR PERIOD ADJUSTMENT

- 5.1 After the conclusion of the external audit of the Council's 2015/16 statement of accounts, section 106 contributions to be obtained from an external developer were secured by contract during that financial year. The amount that the developer is contractually bound to pay the Council over a seven year period amounts to £3m.

- 5.1 This amount exceeds the level of materiality set for the Council by its external auditor and for this reason the accounts preparation for 2016/17 will contain a prior period adjustment in relation to balances at the end of 2015/16 (31st March 2016).

- 5.2 The prior period adjustment will amend the following balances at the end of 2015/16 by the introduction of a £3.0m debtor into the upper half of the balance sheet coupled with a related unpaid (conditions met) income amount of £3.0m on the lower half of the balance sheet

Balance Sheet Section

Upper half of balance sheet	Add a debtor amounting to £3.0m
Lower half of balance sheet	Add £3.0m "conditions met" income

Utilise the additional income to discharge £1.4m debt in relation to 2015/16 capital expenditure for Activation Aldershot

- 5.3 The "conditions met" contribution income will pass in & out of the CI & E affecting the total cost of continuing services but has no financial effect on the Council's in-year General Fund. As at the end of the financial year 2015/16 no element of the debt has been discharged in cash from the external contractor, who is liable to successively repay elements of the debt over a 7-year period starting in 2016/17.

6 CONCLUSION

- 6.1 This report states the accounting policies, informs members of additional/amended disclosures, the level of internal materiality to be applied and notification of a prior period adjustment that are to be contained in the statement of accounts for 2016/17.

AMANDA FAHEY
HEAD OF FINANCIAL SERVICES

Minor amendments are presented for the accounting policy stated below in order for it to accommodate changes in reporting practice and style required for the Council’s Statement of Accounts for 2016/17

xviii. Overheads and Support Services (for application to the 2016/17 accounts)

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2016/17 (SerCOP).

Support services represent the cost of individual services provided within the Council to the organisation as a whole, such as Information Technology, Financial Services and Personnel. They are charged out to direct services by way of Service Level Agreements (SLAs) that are negotiated between departments that are responsible for delivering and using support services.

All costs of management and administration are allocated to Direct Services, with the exception of “Corporate and Democratic Core” – costs relating to the Council’s status as a multifunctional, democratic organisation, & “Non Distributed Costs” – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on non-operational properties.

These two cost categories are as defined in the SerCOP and included within the Council’s Corporate Services Portfolio contained within the Comprehensive Income and Expenditure Statement, as part of “Cost of services – continuing operations”, and within the Expenditure & Funding Analysis as “Net cost of services”.

The above accounting policy was PREVIOUSLY stated as below:

xviii. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015/16 (SERCOP).

Support services represent the cost of individual services provided within the Council to the organisation as a whole, such as Information Technology, Financial Services and Personnel. They are charged out to direct services by way of Service Level Agreements (SLAs) that are negotiated between departments that are responsible for delivering and using support services.

All costs of management and administration are allocated to Direct Services, with the exception of:

- Corporate and Democratic Core – costs relating to the Council’s status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on non-operational properties.

These two cost categories are defined in the Service Reporting Code of Practice and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.