Appendix C

Changes to the 2016/17 Code

The Council have identified changes that will be required from the 2016/17 Code and will ensure that they are reflected in the 2016/17 financial statements.

The Council's accounting policies are set out in the annual Statement of Final Accounts (SOFA) and have been developed to comply with the *Code of Practice on Local Authority Accounting in the United Kingdom* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). They have been based on International Financial Reporting Standards (IFRS) since 2010/11. An updated Code of Practice, applicable for 2016/17 was issued in March 2016.

Changes reflected in the 2016/17 updated Code and any subsequent supplementary updates do, on the whole, have to be incorporated into the Council's accounts but do not necessarily impact on the Council's accounting policies. This is because the changes are principally around additional or changed disclosure notes, points of clarification and additional guidance etc.

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 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.

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. 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.

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.

There have been a few significant changes made to the IFRS-based Code of Practice on Local Authority Accounting for 2016/17:

	Change	Relevant to the Council
1	**Highways Network Asset (Section 4.1)** The 2016/17 Code specifies the revised measurement requirements as Depreciated Replacement Cost for the Highways Network Asset. Currently infrastructure assets are valued at historic cost. The Code includes specific accounting policies for the initial recognition, measurement, derecognition and disclosure requirements for the Highways Network Asset. Consequential amendments are also required, principally to the section on Property, Plant and Equipment. On 14th November 2016, CIPFA/LASAAC announced the postponement of the implementation date to 1 April 2017. The decision to defer implementation was taken as a result of key information required from Central Government, regarding central rates to be used in the calculation, not being available in good time for the 2016/17 financial statements. The position will be reviewed in March with a view to implementation in 2017/18. Whilst implementation was not deferred due to concerns regarding local authorities' readiness to meet the Highways Network Asset Code requirements, it nevertheless provides Councils with the time to improve the integrity of the data inputs, and the opportunity to further consider the valuation procedures as part of the 2016/17 accounts 'close down'. Cipfa have confirmed that only Highways Authorities are required to comply with the requirements of the code and as such, it does not apply to District Councils.	No
2	**Presentation of the financial statements (Section 3.4)** The Code includes changes resulting from the 'Telling the Story Review' on improving the presentation of local authority financial statements. These include new formats and 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 and an Income Analysed by Nature note. **Comprehensive Income and Expenditure Statement (CIES)**	Yes

	Change	Relevant to the Council
	The 2016/17 Code now requires the service segments section of the CIES to be provided in the way in which local authorities organise themselves and manage financial performance. It is no longer based on the full Service Reporting Code of Practice (SeRCOP) definition of total cost. This means overhead apportionment will depend on the way in which an authority operates or manages its services and its segmental reporting arrangements. The 2016/17 Code confirms that each segment should include the appropriate charges for the use of its non-current assets (e.g. depreciation, impairment and impairment reversals) and employee benefits as defined in IAS 19 Employee Benefits. **Movement in Reserves Statement (MIRS)** The 2016/17 Code has removed the lines for earmarked reserves and their transfers, as the earmarking of reserves has no formal status in financial reporting or statute for local government and as such the earmarking process does not take funds out of the General Fund. Analysis of the General Fund is disclosed in the notes to the accounts. The Surplus or Deficit on the Provision of Services line has been removed from the MIRS and is now incorporated in the Total Comprehensive Income and Expenditure line. The Movement in Reserves Statement (MIRS) disclosure has been reduced to a minimum in comparison with previous years. Earmarked reserves no longer have to be presented within the MIRS as distinct from the General Fund Balance. However, the detail of reserves identified for specific purposes will be set out elsewhere in the Statements. **Expenditure and Funding Analysis (EFA)** The 2016/17 Code has introduced the new EFA statement which takes the net expenditure that is chargeable to taxation and rents and reconciles it to the CIES. To demonstrate accountability and to meet segmental reporting requirements it is necessary to reconcile to the statutory position on the General Fund balance. **The service analysis for both the EFA and the CIES are now presented in the way in which an authority organises itself and manages financial performance.**	

	Change	Relevant to the Council
	The Expenditure and Funding Analysis (EFA) will show how annual expenditure is used and funded from resources in comparison with the accounting basis for those items. It also shows how the expenditure is allocated for decision making purposes between directorates/services. The EFA will take the net expenditure that is chargeable to taxation/rents and reconcile it to the CIES Surplus or Deficit on the Provision of Services. This change has enabled the previous segmental reporting requirements to be streamlined. Full retrospective restatement of the 2015/16 CIES and EFA related information will have to be made. However there is no requirement for a restated balance sheet as there are no changes to that information as a result of the new accounting policies.	
3	**The Narrative Report (Section 3.1)** 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. The requirement for a Narrative Statement (previously the Explanatory Foreword) arose in 2015/16 following an Update to the 2015/16 Code and this was included in the 2015/16 Statement of Accounts. External Audit identified that there are opportunities for the Council to enhance its Narrative Statement to more clearly comply with the requirements and this will be a consideration in preparing the 2016/17 Statement of Accounts. The narrative report needs to be prepared so that it is consistent with the Statement of Accounts but is not formally bound by true and fair requirements.	Yes

	Change	Relevant to the Council
	IAS 24 Related Party Disclosures (Section 3.9) The definition as to whom this disclosure relates has been amended and now also includes key management personnel. Key management personnel are chief officers, elected members, Chief Executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority. The 2015/16 Statement of Accounts included Members, Councillors and Senior Officers in addition to other public bodies. We have previously provided more information than the guidelines required, as we included senior officers, and therefore this change will not require any further disclosure.	Yes
	Statement Reporting Reviews of Internal Controls (Section 3.8) An update for the changes to the *Delivering Good Governance in Local Government: Framework (2016)* published by CIPFA and SOLACE.	Yes
	Group Accounts (Chapter 9) Amendments for the changes relating to IFRS 11 *Joint Arrangements* – Accounting for Acquisitions of Interests in Joint Operations and to include an interpretation of IAS 27 *Separate Financial Statements* where the option to equity account for investments in subsidiaries, associates or joint ventures is withdrawn.	No
	Earlier closedown The Accounts and Audit Regulations 2015 require local authorities to approve and publish the accounts by 31 May and 31 July respectively (currently 30 June and 30 September) effective from the accounts for the year 2017/18. Preparation for these earlier closedown requirements is underway and the Statement of Accounts 2016/17 will be a trial run to ensure the Council is equipped to meet this requirement. The first full draft of the financial statements is anticipated to be produced by mid May 2017.	Yes

	Change	Relevant to the Council
	Rights of Access to the Statement of Accounts 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. 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, although transitional arrangements amend this to the first 10 working days of July for reporting of financial years 2015/16 and 2016/17. At present local electors can exercise public rights, however, under the Local Audit (Public Access to Documents) Bill– currently being discussed in the House of Commons–this right may be extended to journalists as ‘interested parties’. This would also enable journalists to have access to the accounting records and supporting documents for the relevant year where they are not otherwise an ‘interested person’. The extension of the right to inspect and make or request copies of local authority accounts documentation is intended to increase transparency. This may lead to additional resources being taken up responding to queries. The extension of the right to inspect accounts could also lead to journalists having the right to lodge objections to the accounts, just as local electors may do already. There is strong opposition to this and Government are being lobbied to not allow this.	Yes

POTENTIAL CHANGES TO THE CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING POLICIES IN THE PIPELINE:

CIPFA have consulted and confirmed on some of the proposed changes to the 2016/17 Code of Practice, and have also provided indications of further potential changes that are likely to be reflected in updates to the 2017/18 Code and beyond.

Early Accounts Closure from 2017/18

The Council has been notified that from 2017/18, the 2017/18 accounts must be approved by the S151 Officer by 31 May 2018 (one month early than the current statutory deadline of 30 June), and the 2017/18 audited accounts must be published by 31 July 2018 (two months earlier than the current statutory deadline of 30 September).

The Council is already reviewing its processes to meet these significant challenges. There will also be additional pressure on External Auditors to meet much more challenging timescales.

Leases

The Council are aware that CIPFA are considering the implications of adopting IFRS 16 – Lease. It is anticipated that IFRS 16 could potentially be introduced from January 2019.

The Council understand that the definition of a finance lease is to be extended, which may create an accounting implication that the associated lease needs to be capitalised as an asset (with a corresponding liability extending over the life of the lease) on the lessee's balance sheet.

Exceptions may be granted for leases of small value assets and for very short term leases, but an increased number of existing operating leases may need to be reclassified as finance leases, which could have prudential borrowing implications for the Council.

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