CITY OF CARDIFF COUNCIL
CYNGOR DINAS CAERDYDD

AUDIT COMMITTEE: 23 MARCH 2015

ACCOUNTING POLICIES UPDATE

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 4.2

Reason for this Report

1. To provide Audit Committee Members with an update on changes to accounting policies included in the 2014/15 CIPFA Code of Practice and potential impact for the Councils statement of accounts. It will also highlight future Code updates that are likely to have a significant impact on the accounts.

Background

2. The Code of Practice is based on International Financial Reporting Standards (IFRSs), and is developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board.

3. The Code has been prepared on the basis of accounting standards and interpretations in effect for accounting periods commenting before 1 January 2014. This is with the exception of IFRS 13 *Fair Value Measurement* which has been deferred until the 2015/16 code while it reviews its application of the standard for local government circumstances.

4. There are a number of changes in the Code that will have little or no affect on the Council's statement of accounts. This report will focus on the key accounting changes to the Code which will have an impact on the Councils accounts.

Accounting for schools in local authorities

5. One of the main consultations on the 2014/15 Code by CIPFA/LASAAC was in relation to the accounting treatment for schools in local authorities in England and Wales.

6. The consultation looked at the issue around the accounting standard IFRS 10 and the indicators of control. It confirmed that for local authority maintained schools the balance of control lies with the local authority and schools' transactions are to be recognised in the local authority single entity accounts. Local authority maintained schools are currently included in the accounts therefore there is no change required.

7. The main issue that arose was in relation to accounting for the schools non-current assets, such as buildings, and those specifically held by Voluntary Aided and Voluntary Controlled (VA/VC) schools. Recognition of non current assets depends on whether schools as entities control the asset. Currently the Council has does not include assets of VA/VC schools on its balance sheet where it is deemed that we have no control over admissions policy or where there is a ministerial direction that property is to be transferred to the governors of a school.

8. Following advice from CIPFA and subsequent challenges of that advice from Grant Thornton, CIPFA have reiterated their view that assets owned by religious bodies are not controlled by schools and therefore should not be recognised in the local authority single entity accounts.

9. Wales Audit Office (WAO) has indicated that they agree with CIPFA's view and do not expect non current assets owned by VA/VC schools to be recognised on the balance sheet.

10. Currently most VA/VC schools and Whitchurch High School (foundation school) are not recognised on the Council balance sheet. We are currently undertaking a review of the current and required ownership and control of these assets to ascertain the status for their recognition in the 2014/15 accounts and to ensure presentation on consistent basis.

11. The review of ownership will determine whether a number of these schools assets may need to be brought onto the Councils balance sheet; this will be clarified in the coming months.

Group Accounts

12. The 2014/15 Code includes the introduction of the requirements of five new or amended standards relating to Group Accounts. These are IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Ventures*, IFRS 12 *Disclosures of Interest in Other Entities*, IAS 27 *Separate Financial Statements* and IFRS 28 *Investments in Associates and Joint Ventures*.

13. Following a review of authority's interests in other entities and the current Group Accounts assessment it is unlikely there will be a change to the current arrangements and therefore no impact on the accounting in the statement of accounts. This position will remain under review particularly given the current initiatives in respect of considering forms of alternative service delivery.

Forthcoming changes to the Code

14. The 2014/15 Code includes confirmation of changes to forthcoming editions of the Code, these include the application of IFRS 13 *Fair Value Measurement* and the adoption of the measurement requirement of the *Code of Practice on Transport Infrastructure Assets* in the 2016/17 Code. These changes are likely to require significant additional workload on the part of the local authority finance function and directorates at a time of significant financial pressures. Consideration of the cost and benefit of all changes will need to be undertaken as part of implementation particularly in respect of the materality of the impact of the requirements

IFRS 13 Fair Value Measurement

15. The main change impacting on the 2015/16 accounts is the application of IFRS 13 *Fair Value Measurement* of property, plant and equipment in local government. CIPFA/LASAAC deferred adoption of IFRS 13 to the 2015/16 financial year to allow time to review the concepts which underpin its measurement requirements and their relevance in the public sector.

16. CIPFA/LASAAC are of the view that the definition of fair value in IFRS 13 is not the most appropriate measurement base for operational property, plant and equipment in the public sector. Service potential is of primary interest when managing public sector assets therefore the measurement of Current Value will continue for operational assets.

17. Surplus assets however will be measured for their economic benefits at Fair Value, which is a move away from the 2014/15 code. Whilst the current code requires surplus assets to be valued at what is called 'Existing Use' and requires such assets to be depreciated, the Council as stated in its accounting policies does not do so. This is to ensure that this category of surplus assets is valued and presented on a consistent basis, and is more meaningful and understandable to the reader. The Code is likely to change in 2015/16 to a measurement of fair value which is consistent with the Council's current approach.

Transport Infrastructure Assets

18. Although the change in measurement of Transport Infrastructure Assets will not be implemented until the 2016/17 Code, there will be a significant impact on the balance sheet and comprehensive income & expenditure (CI&E) accounts and therefore it is important that those responsible for governance are made aware of the changes and its potential impact.

19. For highways infrastructure (such as, carriageways, footways, bridges, tunnels, street lighting, traffic management systems etc.) they will need to be measured at Depreciated Replacement Cost (DRC) rather than Depreciated Historic Cost (DHC) and they will also be a disclosed as a separate class of asset on the balance sheet. The move to DRC will have a major impact on the balance sheet and there will be increased depreciation charges to the CI&E.

20. There are a number of reasons for the change to DRC, these include:

- Whole of Government Accounts – deemed that nationwide assets were understated by over £200 billion largely due to the valuation of infrastructure assets.
- Leads to better financial and asset management.
- Better reflects cost of replacing an asset in its current condition.
- More realistic than Historic Cost which is extremely dated.
- Consistent with the key principles of the Infrastructure Code.

21. For the 2016/17 accounts there will be the need to have full retrospective restatement of 2015/16 figures, so there is a vast amount of work to be completed in 2015/16 to ensure that the disclosures are available for the 2015/16 accounts and full implementation in 2016/17. To take this forward given it is a significant

change Finance Officers would have to work closely with directorates, to review asset information, and systems. Additional resource would need to be allocated to implement any such changes if required and work undertaken with WAO to ensure the requirements can be managed having cost / benefit in mind.

Reasons for Recommendations

22. To ensure the Audit Committee are aware of the implications of accounting policy changes on the Council's Statement of Accounts.

Legal Implications

23. There are no direct legal implications as a result of this report.

The Committee is reminded of its statutory functions, which are to:

(a) review and scrutinise the authority's financial affairs,
(b) make reports and recommendations in relation to the authority's financial affairs,
(c) review and assess the risk management, internal control and corporate governance arrangements of the authority,
(d) make reports and recommendations to the authority on the adequacy and effectiveness of those arrangements,
(e) oversee the authority's internal and external audit arrangements, and
(f) review the financial statements prepared by the authority.
(g) to seek assurances that the Council has complied with the Treasury Management Strategy and Practices by demonstrating effective control of the associated risks and pursing optimum performance consistent with those risks.

Financial Implications

24. There are no direct financial implications as a result of this report.

Recommendations

25. That the update in respect of accounting policies be noted.

CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES
11 MARCH 2015