Havering
LONDON BOROUGH

AUDIT COMMITTEE

Subject Heading:	Accounting Policies 2018/19
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Policy context:	This report advises the Audit Committee of amendments required to the accounting policies adopted for preparation of the accounts for the financial year 2018/19
Financial summary:	There are no financial implications arising from this report which is for noting/comments only.

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[]
Places making Havering	[]
Opportunities making Havering	[x]
Connections making Havering	[]

SUMMARY

This report summarises the main contents of the accounting policies adopted by the Council and the required changes to ensure the accounts for 2018/19 are prepared in accordance with accounting regulations. Any further changes to accounting regulations may require the policies to be changed further, however none are anticipated at this stage. Any significant changes will be highlighted to the committee in the Statement of Accounts report in July 2019.

- The report presents the accounting policies applicable to the financial year 2018/19 and will be reflected in the published statement of accounts.
- The CIPFA Better Governance Forum has produced a tool-kit for local authority Audit Committees that recommends Members review accounting policies on an annual basis

Appendix A includes the revised accounting policies for 2018/19.

RECOMMENDATIONS

The Committee is asked to note and comment on the accounting policies applicable to financial year 2018/19.

REPORT DETAIL

1. Introduction

1.1 This report sets out the revised accounting policies that will be applied during the financial year 2018/19 in preparation of the Council's financial statements. The full policies are shown in appendix A to this report and will be included in the Statement of Accounts. The policies are prepared under the International Financial Reporting Standards (IFRS). Members of the Audit Committee are invited to note these policies and make comment. Reviewing of accounting policies by Members ensures that the Council and Audit Committee follow the CIPFA Better Governance Forum toolkit for local authority Audit Committees.

1.2 Unless there are major changes to accounting rules and regulation, accounting policies do not change significantly between years because the accounts would not be comparable from one year to the next.

1.3 The audited Statement of Accounts for 2018/19 will be presented to the July 2019 Audit Committee for approval. The accounting policies statement will be included within the accounts and any changes made during the course of the closedown programme and/or audit will be highlighted and explained by officers.

2. Purpose of Accounting Policies

2.1 The Code of Practice for Local Authority Accounting defines accounting policies as "the principles, bases, conventions, rules and practices applied by an authority that specify how the effects of transactions and other events are to be reflected in its financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves".

2.2 The application of accounting policies supports the implementation of the main accounting concepts of best practice. These ensure financial reports:

- Are **relevant** – providing appropriate information on the stewardship of Authority monies.
- Are **reliable** – financial information can be relied upon and is without bias and free from error, within the bounds of materiality and has been prudently prepared.
- Allow **comparability** – the interpretation of financial reports is enhanced by being able to compare information across other accounting periods and other organisations.
- Are **understandable** – though financial reports have to contain certain information, they have to be understandable.
- Reflect **material** information – significant transactions must be incorporated in the financial reports.
- Prepared on a **going concern** basis – the assumption that the authority will continue in operational existence for the foreseeable future.
- Prepared on an **accruals** basis – accounts are prepared to reflect the benefit of goods and services received and provided rather than when cash transactions occur when invoices are paid in a later accounting period.

2.3 The accounting policies currently adopted by the Council are in line with the concepts set out in 2.2.

3. Contents of Accounting Policies

3.1 The appendix contains all of the Council's accounting policies. The more significant policies cover the treatment of the following:

- **Property Plant and Equipment** – the basis for valuing major long-term assets, such as council dwellings and offices.
- **Impairment** – The carrying value of assets is reviewed annually to determine whether there is a material change in value and the basis on which impairment losses are written off.

- **Depreciation** – Depreciation is charged to spread the value of an asset over its useful life.
- **Provisions and reserves** – A **provision** is created because the Council will have to make a future payment to settle a financial obligation and a reasonable estimate can be made of the amount payable. Provisions are charged to the relevant service area. A **reserve** is created for a planned future purpose or maintained as a general contingency. These are recorded separately on the Movement in Reserves Statement.
- **Accruals of Income and Expenditure** – The Council raises accruals to comply with the concept of accounting to measure when payments or receipts are due rather than where cash is transferred to settle the liability
- **Pensions** – This note describes the three pension schemes Council employees contribute to (teachers, health workers and Local Government Pension Scheme). The policy includes detail on the investment valuation basis used and the calculations made of future liability.
- **Value Added Tax** - As the vast majority of VAT paid by the Council is recoverable from H.M. Revenue & Customs, recoverable VAT is excluded from the cost of services within the accounts.

4. Changes in Accounting Policies for 2018/19

4.1 The application of most accounting policies is consistently applied from year to year. Changes are required when new accounting regulations are introduced or updated or if there is a significant change within the financial activities of the Council.

4.2 There are several changes proposed to Havering's accounting policies for the 2018/19 accounts, driven by the adoption of two new standads;

- IFRS[1] 9 - *Financial Instruments*, which replaces IAS[2] 39 – *Financial Instruments*, and
- IFRS 15 - Revenue from Contracts with Customers, which replaces IAS 18 – Revenue.

4.3 The key changes under IFRS 9 for local authorities are:

- 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.

[1] IFRS – International Financial Reporting Standards
[2] IAS – International Accounting Standards

- IFRS 9 has also introduced a new expected credit loss model for impairment in contrast to the incurred loss model in IAS 39. 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.

- In addition, 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. More detail is included in relation to the disclosure of the carrying amounts and the gains and losses on financial instruments held. The expected credit loss model requires information on the credit losses of local authorities including a new disclosure providing a reconciliation of the loss allowances and details of the decisions authorities are likely to make in relation to the estimation and measurement of loss.

4.4 IFRS 15 introduces a five-step model for assessing the performance obligations in a contract for the provision of goods or services and how much of the transaction price is to be taken as each obligation is satisfied. In most cases, this will not change the way revenue is currently recognised within the accounts.

4.5 However, IFRS 15 might require some reconsideration of contracts where there is a significant timing difference between the authority providing goods and/or services and receiving payment. Payments in advance will bring a particular risk that the recognition point for income might have to be pushed back.

4.6 Revenue relating to such things as council tax, business rates, and housing rents shall be measured at the full amount receivable as these are statutory duties of the Council and there can be no difference between the delivery and payment dates.

4.7 The appended Accounting Policies for 2018/19 incorporate the above changes. Due to the nature of the financial activities with the authority the change is not expected to have a material impact to the 2018/19 accounts.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are financial implications arising from this report which is for noting/comments only.

In addition, there are no direct financial implications arising from the publication or approval of accounting policies. There are no material changes to policy impacting upon the Councils financial position.

Legal implications and risks:

The statement of accounts must be prepared in accordance with proper practices by virtue of Regulation 7 of the Accounts and Audit Regulations 2015/234. The proposals to change the accounting policies comply with this requirement.

Human Resources implications and risks:

There are no HR implications or risks arising directly as a result of this report.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

(i) the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
(ii) the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
(iii) foster good relations between those who have protected characteristics and those who do not.

Note: ‘Protected characteristics’ are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

There are no Equality implications regarding this matter.