BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Strategic Director - Finance & Legal**
Date of Decision:	**15 March 2016**
Subject:	**Adoption of Accounting Policies for 2015/16**

1 Purpose of Report

1.1 To seek members' approval to the adoption of accounting policies for the completion of the Council's accounts for 2015/16.

1.2 To notify members of the changes in accounting standards that will impact on the Council's accounts in future years.

2 Decisions recommended

That Audit Committee:

2.1 Consider and adopt the accounting policies for the determination of the Council's accounts for 2015/16.

2.2 Note the implications for future years' accounts arising from the changes in accounting standards.

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3 Compliance Issues

3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies:
Yes.

3.2 Relevant Ward and other Members/Officers etc. have been consulted on this matter:
The Chair of Audit Committee has been consulted.

3.3 Relevant legal powers, personnel, equalities and other relevant implications:
Sections 3(3) and 3(4) of the Local Audit and Accountability Act 2014 require the Council to prepare financial accounts for each 12 month period ending 31 March.

3.4 Will decisions be carried out within existing finances and resources:
Yes.

3.5 Main Risk Management and Equality Impact Assessment Issues:
The Council is required to produce its annual accounts within statutory deadlines. The adoption of its accounting policies at an early stage will ensure that there are clear guidelines on recording accounting entries.

4 Background

4.1 The Council is required to prepare its accounts with regard to:

a) Relevant accounting standards
b) The Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 published by the Chartered Institute of Public Finance and Accountancy, which is updated annually
c) Relevant Statutes

4.2 Whilst accounting standards provide the framework for the preparation of accounts, they are subject to interpretation and judgement, for example, the period over which non-current assets are depreciated. The Council's accounting policies set out the Council's interpretation of the application of relevant accounting standards and form a consistent basis for recording activities.

4.3 The major change in accounting standards for 2015/16 is the implementation of IFRS 13, *Fair Value Measurement*, which sets out a consistent definition for the determination of fair value across accounting standards and requires additional disclosure within the financial statements.

4.4 The proposed accounting policies for consideration by members are set out in annex 1 to this report.

5 Future Years

Change in Accounting Policy

5.1 In 2016/17, the Council will be required to change its accounting policy to reflect the change in the basis of valuation of its Highways Network Asset (HNA). HNA consists of:

- Roads
- Bridges and tunnels
- Footpaths
- Street lighting
- Street furniture

5.2 For accounts up to 2015/16, the Council has included HNA on the basis of depreciated historical cost. From 2016/17, the Council will have to include its HNA on the basis of depreciated replacement cost. This will increase the value of HNA on the balance sheet from £430m to approximately £10,300m.

5.3 As part of its 2015/16 accounts the Council will have to include, as a disclosure note, the impact of the change in accounting policy in 2016/17.

5.4 When signing off accounts, the external auditors state that the accounts reflect a true and fair view of the Council's financial activities. In 2016/17 the change in valuation of HNA will be under close audit scrutiny as a small error, of say 1%, would have a material impact on the Council's net assets, of around £100m.

Accounting Standards for Future Years

5.5 IFRS 15 - Revenue from Contracts with Customers – effective date 1 January 2018, impact on the accounts in 2018/19.

This standard has a core principle of entities recognising revenue depicting the transfer of promised goods/services that reflects the consideration expected for those goods/services. This may impact on areas such as sales where there are incidental obligations, for example, where there are ongoing maintenance agreements attached to equipment sales.

5.6 IFRS 9 – Financial Instruments – effective date 1 January 2018, impact on the accounts in 2018/19.

This standard may impact on the accounting arrangements for available for sale financial assets, for example, shares in a company. At present any change in the fair value of such an asset is accounted for through a revaluation reserve and only impacts on the Comprehensive Income and Expenditure Statement (CIES) when the asset either matures or is sold. Under the new standard, any changes in valuation may be posted to the CIES as they arise, which would impact on the General Fund immediately.

5.7 IFRS 16 – Leases – effective date 1 January 2019, impact on the accounts in 2019/20.

This standard does not impact on an entity that is a lessor but does have an impact where it is a lessee. Once the standard is implemented lessees will have to account for leases greater than 12 months for substantial assets by recognising an asset, with an associated liability for the present value of the unavoidable lease payments, on its balance sheet. Effectively operating leases would be treated in the same way as finance leases are at present.

The change in approach is likely to mean that all new substantial leases of a lessee would be treated as capital expenditure and fall within the Prudential Framework.

6 Accounting Implications

6.1 The implementation of IFRS 13, Fair Value Measurement, will result in additional disclosures within the financial statements.

6.2 The change in accounting policy in respect of the Highways Network Asset will have no direct financial implications to the Council. However, the recording of those assets on a depreciated replacement cost basis will increase the risks of delivering an unqualified set of financial statements as a very small error on recording those assets is likely to have a material impact on the Council's balance sheet.

6.3 The potential implications for future years' accounts as a result of the implementation of the new accounting standards will be reported to members as the standards are published and additional information becomes available.

7 Recommendations

7.1 It is recommended that members:

a) adopt the accounting policies for 2015/16 as detailed in annex 1.

b) note the implications for future years of the introduction of new accounting standards.

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Jon Warlow, Strategic Director – Finance & Legal