Chichester District Council

Corporate Governance and Audit Committee 28 March 2019

2018-19 Accounting Policies

1. Contacts

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2. Recommendation

The committee is requested to consider this report and approve the accounting policies to be applied to prepare the Council's 2018-19 financial statements.

3. Background

3.1. In following the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting (the Code), the Council complies with the requirements of International Financial Reporting Standards (IFRS) except where CIPFA has agreed that departures from these standards are necessary and permissible in the context of local government, or to comply with the statutory framework that the sector is subject to.

3.2. The Code specifies the principles and practices required to prepare a Statement of Accounts which gives a true and fair view of the financial position and transactions of a local authority.

3.3. The Code is reviewed continuously and is normally updated annually. The 2018/19 Code has been developed by the CIPFA/LASAAC Local Authority Code Board and has effect for financial years commencing on or after 1 April 2018.

4. Changes to the Council's 2018-19 financial statements and accounting policies

4.1. CIPFA/LASAAC introduced two new accounting standards in the 2018/19 Code. These are:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers

A summary of the changes introduced by these new standards, and the principals that are recommended for inclusion in the Council's accounting policies, are included in the Appendix.

4.2. The adoption of these new IFRS in the 2018/19 Code does constitute a change in accounting policy which would normally require restatement of the previous year's accounts, but the Code contains provisions for transitional arrangements which only require adjustments to 1st April 2018 opening balances rather than full prior-year restatement.

4.3. Other than the necessary updates for these new standards, the Council's existing accounting policies, last approved by the Committee in March 2018 remain unchanged.

4.4. Continuing the practice outlined for last year's financial statements, officers intend that the accounting policies and disclosure notes in the Council's Financial Statements are focussed on information that is important to the presenting of a 'true and fair' view to service users and stakeholders.

4.5. In practice this means that;

(a) For accounting policies, only those that are material to a reader's interpretation of the accounts will be included.

(b) For disclosure notes, unless the note is qualitatively material (see paragraph 4.7) or required by statute, the note will not be prepared or will be replaced by a shorter text disclosure

4.6. In determining if a disclosure note contains material information or not, both qualitative and quantitative aspects of materiality will be considered. There appears to be no reason to alter the Council's previously determined quantitative materiality level of £1,000,000 for the total of any income, expenditure, assets or liabilities disclosed in a single note.

4.7. Similarly, there continue to be a number of disclosures that, even though they involve relatively small sums, are considered to be of particular interest to users and stakeholders and therefore will be retained. These disclosures are considered to be qualitatively material and are proposed as:

(a) Members' allowances
(b) Officers' remuneration
(c) External Audit Costs
(d) Related Parties
(e) Termination benefits
(f) Market risk exposure for Financial Instruments
(g) Investment property income and expenditure

4.8. For 2018-19 the above principals are particularly important in light of the focus of the Code's application of IFRS15. In applying these requirements, it is important to recognise that the Council's core function is not the generation of revenue and profits, but rather the democratic provision of public services, supported by a mixture of taxation revenues and other income sources. Although the Council does generate revenue from exchange transactions in the form of fees and charges, and this may be of some interest to a reader of the Council's financial statements, it is not the principal focus of the users' attention as it is for private

sector financial statements.

5. Streamlining the Accounts

5.1. The Committee may wish to note that, the elements of the Council's Statement of Accounts for 2017-18, and the wider governance approach used , including the equivalent of this report last year, was cited as a good practice in the CIPFA publication 'Streamlining the accounts: Guidance for Local Authorities'.

6. Resource and legal implications

6.1. The Council is required by the Accounts and Audit Regulations to comply with CIPFA's Code of Practice for Local Authority Accounting in preparing its accounts.

7. Consultation

7.1 Not applicable

8. Community Impact and Corporate Risks

8.1. Other than as set out in paragraph 6.1, none.

9. Other Implications

Are there any implications for the following?		
	Yes	No
Crime and Disorder		X
Climate Change and Biodiversity		X
Human Rights and Equality Impact		X
Safeguarding and Early Help		X
General Data Protection Regulations (GDPR)		X
Health and Wellbeing		X
Other		X

10. Appendices

10.1. Appendix – Draft accounting policy principles to be applied – IFRS9 and IFRS15

11. Background Papers

11.1. None.

APPENDIX - Draft accounting policy principles to be applied – IFRS9 and IFRS15

IFRS 9: Financial Instruments

IFRS 9 Financial Instruments has replaced IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 reclassifies financial assets and focusses on recognising how financial instruments are used by the Council in determining their accounting treatment.

The two most consequential changes for the Council Accounting Policies are set out below

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics.

There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Council has not to date designated any Financial Assets as FVOCI.

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (ie where the cash flows do not take the form of a basic debt instrument)

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Where the authority makes material loans at less than market rates (soft loans), a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Expected Credit Loss Model

The authority recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables, and contract assets and trade receivables with a significant financing component.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses.

Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

For trade and contract receivables without a significant financing component the Council has applied a simplified approach consistently to calculate expected credit losses, under which impairment losses are automatically based on lifetime expected credit losses, removing the need to consider changes in credit risk since initial recognition.

IFRS15 Revenue from contracts with customers

Local authorities are required to set out their accounting policies in relation to revenue from contracts with service recipients in accordance with the Code's requirements for the presentation of financial statements.

For accounting purposes, the Council defines revenue as "income arising as a result of the Council's normal operating activities". This is a subset of the Council's income, as income includes gains which may or may not arise from normal operating activities, such as gains relating to the revaluation of non-current assets, gains on the disposal of non-current assets and gains on financial assets measured at fair value.

In recognising revenue from contracts, the Council will differentiate between the following:

- Exchange Transactions, in which the Council directly receives consideration of approximately equal value for the provision of assets or services, or has liabilities extinguished in return for these goods or services; and,

- Non-exchange Transactions where the Council receives value from another entity without directly giving approximately equal value in exchange; or where the Council gives value to another entity without receiving approximately equal value in exchange.

For non-exchange transactions the Council will continue to recognise revenue using its existing accounting policy, ie

- it is probable that the economic benefits associated with the transaction will flow to the authority, and

- the amount of the revenue can be reliably measured.

For revenues from exchange transactions arising from contracts, revenue will be recognised in a way that reflects the pattern in which goods or services are transferred to service recipients and performance obligations are fulfilled, in accordance with the Code, subject to the practical expedient set out below.

For services where the recipient consumes continuing services as they are provided (generally these are the routine and recurring activities undertaken by the Council on a regular basis) the Council will, where appropriate, apply the practical expedient set out in

paragraph B16 of IFRS15. Where appropriate, the Council will recognise revenue when it has a right to invoice for services or goods provided. This largest area of income that this expedient covers relates to the Council's commercial and domestic waste collection services.

Where the Council makes charges in advance for individual services carried out in fulfilment of a statutory or contractual responsibility (for example as a licensing authority or planning authority) these charges will be recognised when the Council's performance obligation is discharged. Applying the overriding concept of materiality, where the difference in revenue recognised using this approach and that recognised using the approach for non-exchange transactions is judged not material the Council will employ the latter approach.

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