



Leicester
City Council

**WARDS AFFECTED:
ALL WARDS (CORPORATE ISSUE)**

AUDIT & RISK COMMITTEE

27th November 2018

Financial and Accounting Developments Update

Report of the Director of Finance

1. Purpose of Report

- 1.1. To provide the Committee with an update on key changes currently affecting the Council, and which may have an impact on the work of this committee.

2. Summary

- 2.1. The report will include an update to the committee on the following areas:
- New Codes of Practice
 - Budget 2019/20
 - CIPFA Code of Practice Changes
 - Format changes to the Statement of Accounts

3. Recommendations

The Committee is recommended to:

- 3.1. Receive the report and note its contents;
- 3.2. Make any recommendations or comments it sees fit, either to the Executive or Director of Finance

4. New Codes of Practice

- 4.1 The Government has issued a new code of practice on investments, and CIPFA has updated its “prudential code” on capital expenditure. The need for these codes arises from Government concern about a small number of authorities borrowing substantial sums to invest in commercial property (often in other parts of the country). Spelthorne Borough Council, for instance, has borrowed money on a scale which is many times its net revenue budget. The practical implication is that, when Council considers the budget in February, there will be some extra strategies:

- (a) A capital strategy, setting out our approach to capital as a whole, and in particular our attitude to risk;

- (b) An investments strategy. We have always produced a strategy governing the investments we use for treasury purposes, but this new strategy will cover other types of investment (for instance, the recent investment in the “Blue Tower” which has now been repaid). Again, we will need to state our attitude to risk, and how we ensure we do not become too reliant on income from such investments.
- 4.2 The Council’s approach to such activity has always been prudent, and when we make investments this is always for service purposes (e.g. creation of jobs) as well as a hope of financial return. This will be stressed in the strategy.

5. Budget 2019/20

- 5.1 This will be published for consultation on 11th December. We anticipate setting a balanced budget for 19/20; but there is considerable uncertainty about our position from 20/21 in the absence of any funding information from the Government, and the introduction of a new system of local government finance.

6. CIPFA Code of Practice Changes

- 6.1 The Council is annually required to produce a Statement of Accounts under the Accounts and Audit Regulations 2015. The Code of Practice for Local Authority Accounting specifies the principles and practices of accounting required to give a true and fair view of the financial position of an organisation. The code is based on International Accounting Standards and reflects changes in international accounting standards.
- 6.2 For the financial year 2018/19, two new standards have been introduced:
- IFRS9, Financial Instruments - Financial instruments are where contracts exist that give rise to a financial asset or liability. For example, cash and investments are a financial asset and borrowing is a financial liability. The basic principle of the standard is that changes in the “fair value” of an investment are charged (or credited) to income and expenditure while we continue to own it. Following a recent consultation, a statutory override has been implemented for fair value movements in pooled funds for at least five years until 31st March 2023. This will mean that any movement will not affect the Council’s bottom line and therefore not have a budgetary impact. There may be some other investments that are covered by this standard, but any effects on the Council’s budget are anticipated to be minimal.
 - IFRS15, Revenue from Contracts with Service Recipients - The standard covers when revenue should be recognised when arising from a contract. It is envisaged this change will have limited impact on the accounts, but the team is currently working through the standard.
- 6.4 A future change in the leasing standard IFRS16 will be introduced for the 2019/20 accounts. All leases will have to be recognised on the balance sheet. A project is underway to identify all such leases.

7. Format Changes to the Statement of Accounts

7.1 The Statement of Accounts is a complex document and due to that can be hard to prepare and difficult for readers to understand. Therefore, authorities are being encouraged to declutter and streamline their accounts wherever possible. The purpose of this is to ensure accountability and clarity of the financial statements. When completing this review, we are asked to consider:

- Stakeholder engagement
- Removal of immaterial disclosures
- Removal of duplication
- Re-order
- Use of different presentational formats

7.2 The Council has been working on the above items for a few years e.g. removal of immaterial disclosures and duplication. For 2018/19 a review of the presentation of the accounts is being completed. The purpose is to improve the presentation of the accounts and stakeholder engagement. The new format will be presented to the Committee members at training to be completed in March.

8. Financial Implications

8.1. This report is concerned with financial implications throughout.

9. Legal Implications

10.1 There are no direct legal implications arising to this report.

10. Other Implications

<u>OTHER IMPLICATIONS</u>	<u>YES/NO</u>	<u>PARAGRAPH REFERRED</u>
Equal Opportunities	No	
Policy	No	
Sustainable and Environmental	No	
Crime and Disorder	No	
Human Rights / People on low incomes	No	
Corporate Parenting	No	
Health Inequalities Impact	No	

11. Consultations

Not applicable

12. Author

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