Report No: 20/2016
PUBLIC REPORT

AUDIT AND RISK COMMITTEE

26 January 2016

ACCOUNTS CLOSURE PLANNING 2015/16

Report of the Director for Resources

Strategic Aim:	Delivering Services within the Medium Term Financial Plan	
Exempt Information	No	
Cabinet Member(s) Responsible:	Mr T C King, Deputy Leader and Portfolio Holder for Places (Development and Economy) and Resources	
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Ward Councillors	Not Applicable	

DECISION RECOMMENDATIONS

That the Committee:

1. Notes the contents of the report including the following key changes that impact the Statement of Accounts for 2015/16;

   - Implementation of the Transport Infrastructure Code;
   - Accounting for the Better Care Fund; and
   - Early closure 2017/18.

1 PURPOSE OF THE REPORT

1.1 To inform the Committee of the emerging changes that will have an impact on the production of the Statement of Accounts for 2015/16 and how the Council are planning on meeting the new requirements.

2 BACKGROUND AND MAIN CONSIDERATIONS

2.1 Transport Infrastructure Code

2.1.1 The Chartered Institute for Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) have agreed that the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom will adopt the measurement requirements of the CIPFA Code of Practice on Transport Infrastructure Assets (TIA).

2.1.2 The TIA was first published in 2010 and since that time has been used to provide information for the Whole of Government Accounts. The purpose of the Code is to support an asset management based approach to the provision of financial information about local authority transport infrastructure assets. The TIA Code classifies Transport Infrastructure Assets under the following headings:

- Carriageways;
- Footways and cycleways;
- Structures (e.g. bridges, subways, underpasses);
- Street lighting;
- Traffic management systems; and
- Street furniture.

2.1.3 Currently the Council accounts for these assets using a valuation method known as Depreciated Historic Cost (DHC). This valuation method is based on the amount the Council has spent on the asset and then this amount is reduced on an annual basis through depreciation.

2.1.4 Once adopted from 1 April 2016 the Council will be required to use a different valuation method called Depreciated Replacement Cost (DRC). This represents the current cost of replacing an asset less an allowance for the age of the asset (depreciation). This change in valuation is expected to increase the value of the assets to c£1.4 billion from c£34 million. There are a number of reasons for the change in valuations, these include:

- The valuation method DHC does not take into account the time value of money, for instance a road that the Council spent £500,000 on resurfacing 20 years ago would be valued at a significantly higher rate today;
- Roads transferred to the Council for £1 or peppercorn would now have a value based on the cost of re-building the road, whereas previously they would have had no value, this includes all adopted highways.
- Roads constructed by the Council would also have a valuation rather than be based on a cost to build.

2.1.5 The valuation is based on 4,657,986m^2 of road/footway network. In order to get a value an assumed build rate per square metre ranging from £136.04 to £74.87 (depending on road/footway type) is multiplied by the m^2 plus the land value either £410 per m^2 for urban or £2.10 per m^2 for Rural.

2.1.6 The change in valuation basis is to be applied retrospectively and will, therefore, require valuations as at 1st April 2015 and comparative values for 2015/16 as well as for 2016/17.

2.1.7 The key question that Members of the Audit Committee might ask is how confident Officers are that the new requirements can be met. Officers believe the requirement will be met because:

- The Council has purchased the relevant guidance notes and codes issued by CIPFA and understands the requirements.
- The Accounts Team have been working closely with Highway colleagues and have all the information of the Assets required for valuation and will be able to provide this information to the contractor (Yotta Professional Services) for Valuation.
- The Council completed the CIPFA toolkit in 2014/15 to complete the Whole of Government Accounts (we have been providing indicative valuations on TIA to Government as part of this return) which further evidences the Council has the data on which to base valuations.
- The accounts team are expecting to produce comparative figures for 2015/16 accounts process.
- The Council has engaged with the external auditors (KPMG LLP) and completed progress questions and they are supportive of our approach.

2.2 Better Care Fund (BCF)

2.2.1 The Government has set up the BCF – this is a pooled budget to improve the ways health services and social care services work together, starting with services for older people and people with long term conditions. The BCF aims to drive forward health and social care integration so that people receive the right care and support at the right time, in the right place. The main aims of the BCF include:

- Improving services even though there is greater demand and less money;
- Getting people cared for in their own homes, avoiding admission to hospital and residential care;
- Providing help for people to better manage their health conditions; and
- Spending money on supporting people to live well in their communities, to prevent them needing costly health or social care services later.

2.2.2 The Council is the host authority for the BCF fund between Rutland County Council and the East Leicestershire and Rutland Clinical Commissioning Group (ELRCCG).

2.2.3 The accounting standards for pooled budgets changed from the 1 April 2014 and rather than apply a simple standard, the Council has to understand the underlying arrangement and how it works in practice to determine how to account correctly for the transactions associated with it.

2.2.4 Healthcare Financial Management Association (HFMA), with the support of CIPFA, has produced some guidance that allows us to assess how our BCF should be accounted for.

2.2.5 In applying this guidance it is considered that our BCF scheme is classed as one with Joint Control. IFRS 11 defines joint control as

'…the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control'.

2.2.6 Joint control requires that all the parties, or a group of the parties, must act together to direct the activities that significantly affect the returns of the arrangement – the relevant activities. This means that:

- No single party controls the arrangement on its own; and
- Any one of the parties in the arrangement can prevent any of the other parties from controlling the arrangement.

2.2.7 Our BCF fund is governed by a Section 75 legal agreement, a Partnership Board and works to an approved BCF plan. The legal agreement and actual working arrangements require consensus over how the funds are used.

2.2.8 Under a joint control arrangement there are two possible options:

- Joint Operation – A joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement; or
- Joint Venture - A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, normally through a joint vehicle (a company that is set up for a specific purpose).

2.2.9 As our BCF is hosted by the Council and no separate vehicle has been created, our BCF will take the form of a Joint Operation. We will be discussing our provisional view with external audit for their view.

2.2.10 Based on our view of the BCF being a Joint Operation IFRS 11 states that a joint operation should be accounted for in the following way:

a) Each joint operator to the joint operation will recognise (in relation to its interest in that joint operation):

   i) Its assets, including its share of any assets held jointly;

   ii) Its liabilities, including its share of any liabilities incurred jointly;

   iii) Its revenue from the sale of its share of the output arising from the joint operation;

   iv) Its share of the revenue from the sale of the output by the joint operation; and

   v) Its expenses, including its share of any expenses incurred jointly.

b) Each joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with IFRSs applicable to the assets, liabilities, revenues and expenses (IFRS 11, para 22)

c) When accounting for transactions such as the sale, contribution or purchase of assets between an entity and a joint operation in which it is a joint operator, the entity will recognise the gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation (IFRS 11, paras B34-B37).

2.2.11 Regardless of which arrangement the BCF falls under the Council will have to make the following disclosures as set out in IFRS 12. This is to enable users of its financial statements to evaluate the nature, extent and financial effects of interests in joint operations including the nature and effects of its contractual relationship with the other investors with joint control. For material joint operations, the following will need to be disclosed:

- The name of the joint arrangement;
- The nature of the Councils relationship with the joint arrangement (could include description of the nature of activities);
- The principal place of business of the joint arrangement; and
- The proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable).

2.3 Early Closure 2017/18

2.3.1 The Council currently has to publish a draft Statement of Accounts (SoA) signed by the Chief Finance Officer by the 30 June. These accounts are then required to be audited, approved by the Audit and Risk Committee and published by the 30 September.

2.3.2 From 2017/18 these dates are going to be brought forward with the draft SoA published by the 31 May and then audited, approved by the Audit and Risk Committee and published by the 31 July. In order to meet this deadline changes to the Audit and Risk Committee timetable will be required.

2.3.3 As part of the plans to achieve these dates the accounts team are planning on producing a statement of accounts by the 31 May 2015. In order to achieve this a number of key tasks will be completed earlier, including:

- Accounting for the valuation of Fixed Assets;
- Financial Instruments (cash, evidence of an ownership interest in an entity, or a contractual right to receive or deliver cash);
- Many notes to the accounts e.g. Senior Officer Remuneration; and
- Preparation of working papers e.g. revaluation of Fixed Assets.

2.3.4 The outcome will be monitored and risk areas identified to ensure improvements can be made to processes to ensure the Council is compliant.

3 CONSULTATION

3.1 Formal external consultation is not required for any decisions being sought in this report

4 ALTERNATIVE OPTIONS

4.1 The Council could choose not to apply relevant accounting practice, however, in doing so the Council would be in breach of the Code of Practice and could potentially have the accounts qualified by the external auditors.

5 FINANCIAL IMPLICATIONS

5.1 The costs of the changes highlighted in the report will be met from within existing budgets. This includes any costs related to the valuation of the infrastructure assets as we already produce the majority of the information for the Whole of Government Accounts.

6 LEGAL AND GOVERNANCE CONSIDERATIONS

6.1 The Council must adhere to the code of practice setting out the proper accounting practices required by section 21(2) of the Local Government Act 2003.

6.2 To ensure the Councils accounts are prepared in accordance with the statutory framework established for England by the Accounts and Audit (England) Regulations 2011.

6.3 On 30 January 2014, the Local Audit and Accountability Act 2014 received Royal Assent. The implications of this act relate to early closure and publication of the SoA as discussed in 2.3.

7 EQUALITY IMPACT ASSESSMENT

7.1 An Equality Impact Assessment (EqIA) has not been completed because the report does not represent the introduction of a new policy or service or a change / review to an existing policy or service.

8 COMMUNITY SAFETY IMPLICATIONS

8.1 There are no community safety implications.

9 HEALTH AND WELLBEING IMPLICATIONS

9.1 There are no health and wellbeing implications.

10 CONCLUSION AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

11 To ensure the Committee is aware of plans in place to ensure effective and timely closure of accounts.

12 BACKGROUND PAPERS

12.1 There are no additional background papers to the report.

13 APPENDICES

13.1 No appendices.

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