

Taunton Deane Borough Council

Corporate Governance – 23 June 2014

Significant Changes to the Accounting Requirements for the 2013/14 accounts

Report of the Interim Financial Services Manager, Jo Nacey

(This matter is the responsibility of Executive Councillor Stock-Williams)

1. Executive Summary

This report updates the Committee on the significant changes which are applicable to the Statement of Accounts 2013/14 and the associated disclosures and restatements which have resulted.

2. Background

Each year the Code of Practice on Local Authority Accounting is updated by a technical panel from the Chartered Institute of Public Finance and Accountancy (CIPFA) and communicated to authorities via publications and when necessary, workshops.

Sometimes these changes are wide-ranging and have significant impact on the accounts, eg the move to International Financial Reporting Standards (IFRS). In other years the changes are more subtle and are often for transparency purposes only.

3. This year's changes

This year there have been two significant changes to the code, one of which has resulted in a "prior-period adjustment" i.e. we have had to amend some of the figures in the approved 2012/13 Accounts but there is no impact on the useable reserves of the Council for this change.

a) Accounting for Pension Interest Costs in Relation to Current Service Cost and Pension Administration Costs.

The accounting standard IAS 19 – Employee Benefits has changed and because the change is reflected in various parts of the accounts it has been necessary to restate last year's figures to provide suitable comparatives. These are only

presentational changes to meet the requirements of the Code. The “bottom line” stays the same.

The standard requires that administration costs are split between:

- those that relate to the management of plan assets, these are recognised as a reduction in the return on scheme assets and recorded in Other Comprehensive Income and Expenditure and;
- “other” administration costs which are required to be shown in Surplus or Deficit on the Provision of Services. We have opted to include this amount in “Other operating expenditure in the Comprehensive Income and Expenditure”.

In previous years they were all netted off against the return on scheme assets.

Interest Costs in relation to Current Service Cost.

In 2012/13 we included in Note 10 Financing and Investment Income and Expenditure, a line for “Pension interest cost and expected return on pensions assets”. The new requirements have “split” these values and the line now contains the “net interest cost” only. The expected return on pensions assets is now shown within “Actuarial (gains)/losses on pension assets/liabilities”. For this reason we have restated those lines in the notes and the “Comprehensive Income and Expenditure Statement”. Last year the administration costs were £8k and this year (13/14) they were £29k, hence not material.

This change also impacts on the Cash Flow Statement and Note 25 as the distinction between the categories has changed. See Appendix A for the Prior Year Adjustments.

Overall, because these entries are notional, they are reversed out before they impact on Council Tax and are therefore for transparency reasons only.

b) Non Domestic Rates – Provision for Appeals against the Rateable Value of Business Properties

The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area. The new arrangements for the retention of business rates came into effect on 1 April 2013.

The change has meant that billing authorities like us, have to make a new provision for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This will include amounts relating to non-domestic rates charged to businesses in 2012-13 and earlier financial years.

To create a provision the following criteria must be met,

- The authority has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, ie it is more likely than not that a settlement will take place, and
- A reliable estimate can be made of the amount of the obligation, ie that a fair figure can practicably be assessed for recognising the obligation.

The Code requires that if the conditions cited in the above are not met, a provision must not be recognised in the financial statements.

In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognised. That liability is disclosed as a contingent liability.

The amount recognised as a provision should be the best estimate at the Balance Sheet date of the expenditure required to settle the present obligation.

In order to determine the amount to settle the appeals, this entailed a great deal of analysis by our Principal Revenues Officer and input by ourselves to analyse trends and precedents to provide us with a reliable estimate of the impact for our council.

After much deliberation and robust challenge we have included a provision of £1,979,731 in 2013/14 as an estimated cost of outstanding appeals and refunds.. This is a high risk estimate and fluctuations will impact directly on the “bottom line”. In future years this provision will be determined by the financial effect of appeals submitted.

4. Finance Comments

We are confident that we have complied with the changes to the Code and have made the necessary amendments.

5. Legal Comments

We have a statutory requirement to adhere to the Code.

6. Links to Corporate Aims

N/A

7. Environmental Implications

N/A

8. Community Safety Implications

N/A

9. Equalities Impact

N/A

10. Risk Management

N/A

11. Partnership Implications

N/A

12. Recommendations

Members are asked to note the changes which will be reflected in the accounts for 2013/14.

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Appendix A

Changes to the Comprehensive Income & Expenditure Statement

	2012/13 Statements £'000	Adjustments Made £'000
Other Operating Expenditure	(1,908)	8
Financing and investment income and expenditure	4,715	889
(Surplus) or Deficit on Provision of Services	(5,462)	-897
Actuarial (gains)/losses on pension assets/liabilities	2,406	-897

Changes to the Movements in Reserves Statement

Movement in Reserves Statement – Usable Reserves

	2012/13 Statements £'000	Adjustments Made £'000
Surplus or (deficit) on provision of services	5,462	-897
Adjustments between accounting basis and funding basis under regulations	4,859	897

Movement in Reserves Statement – Unusable Reserves

	2012/13 Statements £'000	Adjustments Made £'000
Other Comprehensive Income and Expenditure	4,859	897
Adjustments between accounting basis and funding basis under regulations	(3,098)	-897

Changes to the Cash Flow Statement

	2012/13 Statements £'000	Adjustments Made £'000
Net surplus or (deficit) on the provision of services	5,462	-897
Adjustments for items included in the net surplus or deficit on the provision of services for non-cash movements (Note 25)	11,550	897

Changes to Note 25 – Cash Flow Statement – Operating Activities

	2012/13 Statements £'000	Adjustments Made £'000
Other non cash items charged to the net surplus or deficit on the provision of services	(445)	897