

AUDIT AND GOVERNANCE COMMITTEE
13 MARCH 2020**STATUTORY ACCOUNTS 2019/20 PROGRESS AND**
ACCOUNTING POLICIES

Recommendation

1. **The Chief Financial Officer recommends that:**
 - a) **The work in preparation for the 2019/20 Statutory Accounts be noted; and**
 - b) **The changes to the accounting policies for 2019/20 are approved.**

Background

2. This report provides a review of existing and proposed change to the County Council's accounting policies and a progress update.

Accounting Policies 2019/20

3. The accounting policies are the principles, bases, conventions, rules and practices applied by the Council that specify how the financial effects of transactions and other events are reflected in the financial statements. As in 2018/19, the notes to the 2019/20 Statement of Accounts will include the relevant accounting policy.
4. Following a review, there are no changes proposed to the Council's accounting policies for 2019/20 with the exception of the items noted below:
 - Future accounting standards: IFRS 16: Leases - to highlight new arrangements for the accounting of leases from 1 April 2020; and
 - Group Accounts – to disclose the basis of identification of the group boundary and the preparation of group statements.
5. These two new accounting policies are as follows:

Future accounting standards

6. IFRS 16: Leases will be adopted from 1 April 2020. Under IFRS 16, a lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset for a period of time'.
7. Where a right-of-use asset is identified, the Council will recognise an asset and a lease liability on the Balance Sheet. The right-of-use asset is measured at cost, made up of the initial measurement of the lease liability, any initial direct costs

incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

8. The Council has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

WCC Group Accounts

9. The Council has prepared Group Accounts to consolidate the Council's wholly owned subsidiary, Worcestershire Children First (WCF), and its interest in West Mercia Energy (WME) Joint Committee, identified as a Joint Venture.

10. In accordance with IFRS 3: Business Combinations, WCF has been consolidated on a line by line basis; WME has been consolidated using the equity method.

11. The Group Accounts are prepared using uniform accounting policies. The accounting policies of the subsidiary WCF and joint venture WME are aligned with the policies of the Council, with adjustments made where materially different to ensure conformity.

Statutory Account Progress Update

12. The Council's statutory account team are fully staffed and on target with both the preparation work for the Statutory Accounts production and with the work to support interim external audit requests.

13. The team has for a number of months being engaging with the Councils asset valuer, PPL and have been challenging process and valuations as part of regular meetings. There are no issues arising and progress in on target.

14. A lunch and learn training session has been held with finance staff, and closedown deadline instructions have been issued to relevant staff.

15. Apart from asset valuations work, the main new activity for the team has been the consideration of group accounts.

16. In 2019/20, Worcestershire County Council (WCC) will prepare group accounts to include the relevant transactions and balances from our material interests in other entities which we have determined to meet the definition of a subsidiary, associate or joint venture:

- Worcestershire Children First (WCF) is a 100% wholly owned **subsidiary** of WCC
- West Mercia Energy (WME) is a **joint venture**

Worcestershire Children First (WCF)

17. The Council controls the entity, established as company limited by guarantee, by virtue of its 100% shareholding. WCF will be accounted for as a subsidiary with line-by-line consolidation in the group accounts, in accordance with IFRS 10: Consolidated Financial Statements.

West Mercia Energy Joint Committee (WME)

18. WME is constituted as a Joint Committee; WCC is one of four constituent authorities alongside Shropshire Council, Herefordshire Council, and Telford & Wrekin Council. In accordance with IFRS 11: Joint Arrangements, WME will be accounted for as a joint venture in the 2019/20 Group Accounts on the basis that a collaborative arrangement exists, WCC has joint control, there is a separate vehicle in place and WCC has rights to 25% of the net assets of the arrangement.

IFRS 16: Leases

19. IFRS 16: Leases will replace IAS 17: Leases for the reporting period commencing 1 April 2020. Under the new standard, leases will no longer be classified as finance or operating leases and all leases will be recognised on balance sheet with the exception of short-term leases (leases of 12 months or less) and low-value assets (where the right-of-use asset is less than £10,000).

20. Where a contract meets the required criteria, the Council will recognise a right-of-use asset and corresponding lease liability on the Balance Sheet and depreciation of the asset and interest on the lease liability through the Comprehensive Income & Expenditure Statement.

21. For 2019/20, we have carried out a detailed review to consider existing operating leases and contracts which may meet the criteria a right-of-use asset, ensuring completeness across Directorates, Schools and Land & Property assets. We have applied the practical exemptions in respect of short-term and low-value assets and are currently in the process of quantifying the cost and lease liability in respect of all remaining assets.

22. In the 2019/20 Statement of Accounts, we will disclose an estimate of the impact of the application of the new standard in terms of the value of the right-of-use assets and lease liabilities to be recognised on Balance Sheet from 1 April 2020 and the depreciation charge and interest expense to be recognised in the Comprehensive Income & Expenditure Statement.

23. Our approach and proposed IFRS 16 disclosures will be subject to review by Grant Thornton as part of planned audit work in 2019/20. From 1 April 2020, we will continue to record and monitor the Council's lease arrangements to ensure complete and accurate disclosure in future reporting periods.

Contact Points

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Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following background papers relate to the subject matter of this report:

Statement of Accounts including Accounting Policies 2018/19