**Audit Committee**

**25 February 2021**

# Changes to the Code of Practice for Local Authority Accounting in the UK for 2020/21

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**Paul Darby, Corporate Director of Resources (Interim)**

## Electoral division(s) affected:

None

## Purpose of the Report

1 This report provides the Audit Committee with a summary of the key accounting changes in the latest edition of the Code of Practice for Local Authority Accounting in the UK (the Code). These changes apply to the 2020/21 Statement of Accounts.

## Executive summary

2 In preparing the annual Statement of Accounts we closely follow CIPFA's Code of Practice for Local Authority Accounting in the UK, which is based upon approved accounting standards.

3 The 2020/21 Statement of Accounts will be prepared in accordance with the CIPFA Code of Practice for Local Authority Accounting in the UK 2020/21. The main changes to the Code from 2019/20 to 2020/21 are outlined in Appendix 2, detailing their relevance and applicability to the council.

## Recommendation

4 Members are asked to note the changes detailed in the report and in Appendix 2, which will be taken into account in the preparation of the 2020/21 statements.

## Background

5 This report is presented to the Audit Committee in accordance with paragraph 4.2.3 of the Committee’s operational terms of reference which requires it ‘to maintain an understanding of internal and external reporting requirements’.

6 In preparing the annual Statement of Accounts we closely follow CIPFA’s Code of Practice for Local Authority Accounting in the UK (the Code), which is based upon approved accounting standards.

7 The Code is based on International Financial Reporting Standards (IFRS), and has been developed by the joint CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board overseen by the Financial Reporting Advisory Board. It is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

8 The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. The latest edition of the Code applies for accounting periods commencing on or after 1 April 2020. It supersedes the 2019/20 Code.

9 In England and Wales, the Code constitutes a ‘proper accounting practice’ under the terms of section 21(2) of the Local Government Act 2003.

10 The CIPFA/LASAAC Code Board, overseen by the Financial Reporting Advisory Board, is in a position to issue mid-year updates to the Code. This will only be done in exceptional circumstances.

## Main implications

11 Appendix 2 provides a summary of the main changes to the Code and their relevance to the council in preparing its Statement of Accounts for the year ended 31 March 2021.

12 In addition to the Code, the following key changes are relevant to the preparation of the 2020/21 accounts:

(a) The findings of the Independent Review of Local Authority Financial Reporting and Audit (the Redmond Review) were reported to Audit Committee on 25 September 2020. Whilst some recommendations are still under consideration, Government have accepted the recommendation to extend the audit deadline from 31 July to 30 September, for 2020/21 and 2021/22 initially. This is subject to legislation.

(b) Dedicated Schools Grant (DSG) deficit balances – legislation came into force in November 2020, after the Code was issued. Where a local authority has a deficit in respect of its schools budget for a financial year beginning on 1 April 2020, 2021 or 2022, the authority:

(i) must not charge to a revenue account an amount in respect of that deficit; and

(ii) must charge the amount of the deficit to an account established, charged and used solely for the purpose of recognising deficits in respect of its schools budget.

This means that the council can no longer hold a negative earmarked DSG reserve and will instead transfer any DSG deficit balance to a new unusable reserve.

(c) Adoption of IFRS 16 Leases, originally due in 2020/21, has been further deferred to the 2022/23 Code.

## Other useful documents

- Audit Committee, 25 September 2020 – Statement of Accounts for the Year Ended 31 March 2020
- Audit Committee, 25 September 2020 – Independent Review of Local Authority Financial Reporting and Audit


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| **Contact:** | Anita Hawkins | Tel: 03000 266242 |
| | Beverley White | Tel: 03000 261900 |

## Appendix 1: Implications

### Legal Implications

It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.

### Finance

There are no direct financial implications arising for the council as a result of this report, although by implementing the changes in the Code in our financial reporting we are demonstrating efficient arrangements for the proper administration of the council's financial affairs.

### Consultation

None.

### Equality and Diversity / Public Sector Equality Duty

None.

### Climate Change

None.

### Human Rights

None.

### Crime and Disorder

None.

### Staffing

None.

### Accommodation

None.

### Risk

This report requires no decision and so a risk assessment has not been carried out.

### Procurement

None.

## Appendix 2: Changes to the Code of Practice for Local Authority Accounting in the UK for 2020/21

The table below provides a summary of the changes in the 2020/21 CIPFA Code and their applicability to Durham County Council.

| | **Change** | **Relevant to Durham County Council?** |
|---|---|---|
| 1 | Amendments to implement and emphasise the application of Amendments to IAS 1 and IAS 8: Definition of Material, for example the importance of ensuring that material information is not obscured for users. | Yes |
| 2 | Reference to arrangements for the application of accounting standards arising as a consequence of the UK withdrawal from the remit of the EU-endorsement framework, that is that the Code will be based on standards adopted for UK application. | Yes |
| 3 | Legislative amendments relating to investments in specified pooled investment funds that are measured at fair value through profit or loss (FVPL), and back payments following unequal pay | Yes |
| 4 | Clarification of the treatment relating to some financial instruments entries | Yes |
| 5 | Fees and charges for services under statutory requirements are now specified to include Housing Revenue Account tenancy rental income | Not currently |
| 6 | References to RICS valuation guidance publications updated – they are now based on a global framework | Yes |
| 7 | The signage used at the foot of the Comprehensive Income and Expenditure Statement should be clearly identified, to enable the reader to distinguish between a surplus or a deficit | Yes |
| 8 | Recognition that the presentation of a disclosure of movements in property, plant and equipment for the year in the accounts may differ from Whole of Government Accounts practices. | Yes |