

Audit Committee

22 March 2012



Changes to the Code of Practice for Local Authority Accounting in the UK for 2011/12

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Purpose of the Report

- 1 The purpose of the report is to provide 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 2011/12 accounts.
- 2 The report is presented 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'**.
- 3 Appendix 2 provides a summary of all changes and their relevance to the Council.

Background

- 4 The Code is based on International Financial Reporting Standards (IFRS), and has been developed by the CIPFA/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.
- 5 The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance. The latest edition of the Code applies for accounting periods commencing on or after 1 April 2011. It supersedes the 2010/11 Code.
- 6 In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003
- 7 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. It is anticipated that an

update will be issued to provide accounting guidance on any regulations issued in respect of the Carbon Reduction Commitment Scheme. Guidance on other legislative developments may also need to be covered in an update in 2011/12.

Recommendations and reasons

8 Members are asked to note the changes detailed in Appendix 2.

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Appendix 1: Implications

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 County Council's financial affairs

Staffing -

None

Risk -

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

Equality and Diversity -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Discrimination Act -

None

Legal Implications -

None

Appendix 2: Changes to the Code of Practice for Local Authority Accounting in the UK for 2011/12

The table below provides a summary of the changes in the 2011/12 CIPFA Code and their applicability to Durham County Council.

	Change	Relevant to Durham County Council
1	The 2011/12 Code provides guidance on accounting for income from the Community Infrastructure Levy and Business Rate Supplements (see section 2.2).	Yes
2	Following the announcements in the Spending Review, the 2011/12 Code does not include any requirements in respect of the Carbon Reduction Commitment scheme. An update to the 2011/12 Code will be issued that will incorporate the required changes to the Code.	Yes, if an update to the Code is issued for 2011/12.
3	The 2011/12 Code requires additional disclosures in respect of remuneration and exit packages. <ul style="list-style-type: none"> • Disclosure of remuneration and pension contributions in respect of senior employees is required in England and Wales. • The Code has introduced a requirement to disclose the number and cost of exit packages agreed. 	Yes
4	The 2011/12 Code introduces a requirement that, within the annual governance statement or the statement on the system of internal financial control, an authority includes a specific statement on whether the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (see section 3.7).	Yes
5	The 2011/12 Code incorporates the changes made to the Accounts and Audit Regulations in Wales regarding the dates at which the financial statements are required to be approved by members (see section 3.8).	Yes

	Change	Relevant to Durham County Council
6	The 2011/12 Code amends the related party disclosures required in respect of central government departments, government agencies, NHS bodies and other local authorities. Additional guidance on the definition of a related party is also included (see section 3.9).	Yes
7	The 2011/12 Code incorporates the effect of regulations and statutory guidance introduced to mitigate the impact of the transition to IFRS on the General Fund (see sections 4.2.3, 4.3.3, 6.2.5 and 8.2.3).	Yes
8	The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets (see section 4.10). Heritage assets are carried at valuation where possible, and additional disclosures are required. The Code also permits, but does not require, authorities to adopt the measurement and disclosure requires within FRS 30 for community assets (see paragraphs 4.1.2.28 and 4.1.4.5). These changes amount to changes in accounting policy that may require additional disclosures in both the 2011/12 and 2010/11 financial statements. The disclosure requirements are set out in Appendix C to the Code. ¹	Yes, subject to decisions on materiality by the Council.
9	The 2011/12 Code clarifies that financial instrument disclosures are required in respect of leases and PFI, PPP and similar schemes (see section 7.1).	Yes
10	The 2011/12 Code incorporates minor changes to the disclosures of the nature and extent of risks arising from financial instruments. Additional disclosures are also required where the level of soft loans granted by an authority is material (see section 7.4).	Yes

¹ Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the reporting entity in pursuit of its overall objectives in relation to the maintenance of heritage. Heritage assets include historical buildings, archaeological sites, military and scientific equipment of historical importance, historic motor vehicles, civic regalia, orders and decorations (medals), museum and gallery collections and works of art. Community assets (including parks (excluding archaeological sites); cemeteries and crematoria (land only); and allotments where there are restrictions on alternative uses) are not heritage assets, but are accounted for as property, plant and equipment.

	Change	Relevant to Durham County Council
11	The 2011/12 Code includes clarification that where an authority is a party to a joint venture, does not have joint control of that joint venture but does has significant influence, the interest in the joint venture should be accounted for as if it were an associate in line with IAS 31.	Yes, subject to decisions on materiality by the Council.
12	<p>The 2011/12 Code clarifies the requirements in a number of areas where uncertainty was identified in the 2010/11 Code:</p> <ul style="list-style-type: none"> • The fair value of surplus assets should be based on the existing use value of the asset in its last operational use (see paragraph 2.1.2.26). • The adaptations of IAS 20 Government Grants apply equally to capital and revenue grants (see paragraph 2.3.1.2). • The 2011/12 Code replaces the term ‘Machinery of Government changes’ with ‘combinations of public sector bodies’ and clarifies the requirements for combinations involving authorities and other public sector bodies, and for transfers of functions from authorities to non-public-sector bodies (e.g. social enterprises) (see section 2.5 and chapter nine). • The 2011/12 Code confirms that the difference between the net cash received from the Collection Fund and the major preceptor’s share of cash collected from council tax debtors by the billing authority (England only) is a non-cash item that is not reported in the Cash Flow Statement (see paragraph 2.8.2.6). • The 2011/12 Code confirms that irrecoverable VAT can be included in the cost of an asset where appropriate (see paragraph 2.9.2.7). • The presentation of the financial statements (section 3.4) and HRA statements (section 3.5) have been clarified. 	<p>Yes</p> <p>Yes</p> <p>Unlikely at this stage.</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>

	Change	Relevant to Durham County Council
	<ul style="list-style-type: none"> <li data-bbox="255 325 1637 395">• The statutory accounting requirements in respect of the HRA and Major Repairs Reserve have been clarified (see paragraph 4.1.3.7). <li data-bbox="255 432 1682 576">• The 2011/12 Code clarifies the criteria to be used in classifying leases (see paragraphs 4.2.2.7 and 4.2.2.9). Additional or amended guidance has been incorporated in respect of changes to lease terms (paragraph 4.2.2.8) and the allocation of minimum lease payments between land and buildings (paragraph 4.2.2.10). <li data-bbox="255 612 1637 719">• The 2011/12 Code clarifies that the disclosures in respect of non-current assets held for sale apply to investment properties that meet the criteria under section 4.9 of the Code (see section 4.4). <li data-bbox="255 756 1637 863">• The 2011/12 Code clarifies that this section of the Code applies to leased intangible assets after initial recognition (see paragraph 4.5.1.3), and that an intangible asset is only recognised if the cost of the asset can be measured reliably (see paragraph 4.5.2.3). <li data-bbox="255 900 1671 1007">• The 2011/12 Code requires authorities to present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups) (see paragraph 4.9.4.2). 	<p data-bbox="1711 325 1771 352">Yes</p> <p data-bbox="1711 432 1771 459">Yes</p> <p data-bbox="1711 612 1771 639">Yes</p> <p data-bbox="1711 756 1771 783">Yes</p> <p data-bbox="1711 900 1771 927">Yes</p>