NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

21 March 2022

ACCOUNTING POLICIES

Report of the Corporate Director – Strategic Resources

1.0 PURPOSE OF THE REPORT

1.1 To note there are no changes, at present, to the County Council's Accounting Policies for the current financial year 2021/22

1.2 To note potential changes in the pipeline that are likely to impact on future year's Accounting Policies and the Statement of Final Accounts.

2.0 BACKGROUND

2.1 Under his delegated decision making powers in the Officers' Delegation Scheme in the Council's Constitution, the Chief Executive Officer has power, in cases of emergency, to take any decision which could be taken by the Council, the Executive or a committee.

2.2 Following on from the expiry of the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 ("the 2020 Regulations"), which allowed for committee meetings to be held remotely, the County Council resolved at its meeting on 5 May 2021 (before the expiry of the Regulations) that, for the present time, in light of the continuing Covid-19 pandemic circumstances, remote live-broadcast committee meetings should continue as informal meetings of the committee Members, with any formal decisions required being taken by the Chief Executive Officer under his emergency decision making powers and after consultation with other Officers and Members as appropriate and after taking into account any views of the relevant Committee Members and all relevant information. This approach has been periodically reviewed since that time and will be further reviewed by full Council at its May 2022 meeting.

2.3 Part of the Audit Committee's Terms of Reference is to review changes in accounting policy.

2.4 The County Council's accounting policies are set out in the annual Statement of Final Accounts (SOFA) and have been developed to comply with the *Code of Practice on Local Authority Accounting in the United Kingdom* issued by the

Chartered Institute of Public Finance and Accountancy (CIPFA). An updated Code of Practice, applicable for 2021/22 was issued in April 2021.

2.5 In addition to considering required changes to the County Council's accounting policies for 2021/22, there are further changes which CIPFA have been consulting with local authorities which are in the pipeline for future years (2022/23 and beyond) to bring to the Committee's attention.

3.0 CHANGES IN ACCOUNTING POLICY FOR 2021/22

3.1 The need for changes in accounting policy can arise from:

(i) mandatory changes under the annual *Code of Practice on Local Authority Accounting* which require a new or revised accounting policy to be adopted by all local authorities

(ii) changes within the overall framework of the *Code of Practice* but where the policy to be adopted is discretionary and is dependent upon interpretation of local circumstances

3.2 Any changes required to the County Council's accounting policies for 2021/22 would therefore usually arise as a result of the updated *Code of Practice on Local Authority Accounting* issued by CIPFA in April 2021.

3.3 At present, there are no changes to the Code of Practice that impact on the County Council's 2021/22 Accounting Policies. However, on the 3 February 2022 CIPFA issued an exceptional consultation on time limited changes to the *Code of Practice* to help alleviate delays to the publication of audited financial statements. The consultation proposes the following:

(i) an adaptation to the code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (from 2021/22) with an index to be used to increase or reduce the valuations;

(ii) deferring the implementation of IFRS 16 *Leases* for a further year and reversing the planned changes to the 2022/23 code to implement that standard

3.4 The consultation closed on the 4 March 2022 however any decision on whether to adopt either of the above proposals and therefore amend the 2021/22 *Code of Practice* will not be communicated to local authorities until late March 2022 at the earliest.

3.5 Deferring the implementation of IFRS 16 *Leases* will not have an impact on the County Council's accounting policies, however adapting the *Code* to pause professional valuations for operation property, plant and equipment would require changes to the County Council's accounting policies in this area

3.6 The Accounting Policies ultimately determined for 2021/22 will be reported to Members on 28 November 2022 as part of the report accompanying the SOFA for 2021/22. At this stage, therefore, Members are asked to note the current position.

4.0 OTHER KEY CHANGES TO THE 2021/22 FINANCIAL STATEMENTS

4.1 Changes reflected in the 2021/22 updated Code may be required to be incorporated into the County Council's accounts but may not necessarily impact on the County Council's accounting policies. This is because the changes are principally around additional or changed disclosure notes, points of clarification and additional guidance etc.

4.2 The 2021/22 SOFA will again include disclosure notes to explain the financial impact of the Covid-19 pandemic on the County Council.

5.0 STATEMENT OF ACCOUNTS TIMETABLE 2021/22 AND 2022/23

5.1 Published in September 2020, the Redmond review on the effectiveness of external audit and transparency of financial reporting in local authorities recommended that the deadline for publishing audited local authority accounts should be extended.

5.2 In the Government's response, Ministers committed to amending the accounts publication deadline as recommended for 2 years, subject to review.

5.3 In December 2021 a statement issued by Department of Levelling-up Housing and Communities (DLUHC), 'Measures to Improve Local Audit Delays', referenced the above review and recommended extending the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts then 30 September for 6 years commencing in 2022/23. Although it has not yet been confirmed, it is anticipated that the deadline for the publication of draft local authority accounts will continue to be 31 July 2022, as in the previous two years.

5.4 A number of efficiencies have been identified in the Statement of Accounts process through the earlier accounts timetable introduced in 2017/18, enabling a more effective use of resources. As a result, the intention is to continue to produce the draft Statement of Accounts in line with an earlier timetable (31 May). It is therefore, anticipated that the Draft SOFA will be reported to the Audit Committee on 27 June 2022.

5.5 In addition, following consultation with the external auditor, the external audit is expected to be undertaken between July and November and the final SOFA will reported to this Committee in line with the proposed revised timetable on 28 November 2022.

6.0 POTENTIAL CHANGES IN THE PIPELINE FOR FUTURE YEARS

6.1 CIPFA have recently consulted on a draft *Code of Practice on Local Authority Accounting* for 2022/23 and provisional changes for future years beyond 2022/23, with the key potential changes set out in **Appendix A.**

6.2 The extent to which future changes will actually be fully implemented by CIPFA remains uncertain however and will be subject to further confirmation and guidance.

7.1 **RECOMMENDATION**

7.2 That Members:

(i) note there are no changes at present to the accounting policies for 2021/22 (**paragraph 3.3**).

(ii) note the changes to the Statement of Accounts Timetable for 2022 **(paragraph 5.5)**

(ii) note potential changes to the SOFA and accounting policies which are in the pipeline for future years (2022/23 onwards) (**paragraph 6.1** and **Appendix A**).

GARY FIELDING

Corporate Director – Strategic Resources

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4 March 2022

POTENTIAL CHANGES TO THE CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING POLICIES IN THE PIPELINE FOLLOWING RECENT CIPFA CONSULTATION:

1.0 CIPFA have consulted on and confirmed proposed changes to the 2021/22 Code of Practice which was published in April 2021 and have also provided indications of further potential changes that are likely to be reflected in updates to the 2022/23 Code and beyond.

1.1 In addition, the outcome of CIPFA's exceptional consultation in February 2022 described in paragraphs 3.3 to 3.6 may also impact on the 2022/23 Code of Practice.

2.0 Leases

2.1 CIPFA's current intention is to adopt IFRS 16 – Leases from 2022/23. However this may be delayed until 2023/24 as a result of CIPFA's current exceptional consultation described in paragraphs 3.3 to 3.6.

2.2 It was anticipated that CIPFA would instruct local authorities to adopt the requirements of IFRS 16 from 2019/20, but this was deferred by 12 months due to issues raised by Central Government. The adoption of IFRS 16 was again delayed until 2022/23 due to the impact of the Covid-19 pandemic on local authorities' planning and preparedness for the new standard.

2.3 IFRS 16 extends the current definition of a finance lease to cover all leases, from the lessee's position. An operational lease will no longer exist from a lessee's perspective. The change will result in accounting implications as the value of the lease needs to be capitalised and recorded as a 'Right of Use' asset on the lessee's balance sheet. A corresponding liability must also be recognised on the balance sheet, extending over the life of the lease, to reflect the lease payments still to be made.

2.4 IFRS 16 will have an impact on all the main statements in the SOFA including the balance sheet, comprehensive income and expenditure statement and cash flow statement. A number of new disclosure notes will also be required to be published in the SOFA.

2.5 Further changes as a result of adopting IFRS 16 relate to assets being leased under a 'peppercorn' agreement coming on balance sheet, the measurement of liabilities from leases, PFI and service concession arrangements which include an element of annual indexation.

2.6 Exceptions may be granted for leases of small value assets and for very short term leases, but an increased number of existing operating leases will need to be reclassified and reported on the County Council's balance sheet, which could potentially have prudential borrowing implications.

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