

# **NORTH YORKSHIRE COUNTY COUNCIL**

## **AUDIT COMMITTEE**

**22 March 2021**

## **ACCOUNTING POLICIES**

### **Report of the Corporate Director – Strategic Resources**

#### **1.0 PURPOSE OF THE REPORT**

- 1.1 To note there are no changes to the County Council's Accounting Policies for the current financial year 2020/21
- 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 Part of the Audit Committee's Terms of Reference is to review changes in accounting policy.
- 2.2 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 2020/21 was issued in July 2020.
- 2.3 In addition to considering required changes to the County Council's accounting policies for 2020/21, there are further changes which CIPFA have been consulting with local authorities which are in the pipeline for future years (2021/22 and beyond) to bring to the Committee's attention.

#### **3.0 CHANGES IN ACCOUNTING POLICY FOR 2020/21**

- 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 2020/21 would therefore arise as a result of the updated *Code of Practice on Local Authority Accounting* issued by CIPFA in July 2020.

3.3 However, there are no changes to the *Code of Practice* that impact on the County Council's 2020/21 Accounting Policies. The Accounting Policies ultimately determined for 2020/21 will be reported to Members on 20 September 2021 as part of the report accompanying the SOFA for 2020/21. At this stage, therefore, Members are asked to note the current position.

#### 4.0 **OTHER KEY CHANGES TO THE 2020/21 FINANCIAL STATEMENTS**

4.1 Changes reflected in the 2020/21 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 2020/21 SOFA will include new disclosure notes to explain the financial impact of the Covid-19 pandemic on the County Council.

#### 5.0 **STATEMENT OF ACCOUNTS TIMETABLE 2020/21 AND 2021/22**

5.1 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.

5.4 In addition, on the 9 February, the Government issued a consultation seeking views on the implementation of the revised timetable. In particular, the consultation proposes pushing back the requirement for publication of the draft accounts from 31 May to 1 August (together with a new requirement for local bodies to provide an explanation on their website if they miss the revised draft publication date). The consultation also proposes extending the requirement for publication of final accounts from 31 July to 30 September.

5.5 A number of efficiencies have been identified in the Statement of Accounts process through the earlier accounts timetable, 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 the earlier timetable (31 May). It is therefore, anticipated that the Draft SOFA will be reported to the Audit Committee on 28 June 2021.

5.6 In addition, following consultation with the external auditor, the external audit is expected to be undertaken between July and September and the final SOFA will

reported to this Committee in line with the proposed revised timetable on 20 September 2021.

## **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 2021/22 and provisional changes for future years beyond 2021/22, 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.
- 6.3 As reported to the Audit Committee in December 2020, CIPFA have developed a new Financial Management Code to support the financial management and resilience within local authorities. The first year of full compliance with the Financial Management Code is 2021/22. As a result, the impact of the Financial Management Code is currently being considered in relation to the closedown process and any changes required will be reflected in the Statement of Accounts 2021/22.

## **7.1 RECOMMENDATION**

7.2 That Members:

- (i) note there are no changes to the accounting policies for 2020/21 (**paragraph 3.4**).
- (ii) note the changes to the Statement of Accounts Timetable for 2021 (**paragraph 5.5**)
- (ii) note potential changes to the SOFA and accounting policies which are in the pipeline for future years (2021/22 onwards) (**paragraph 6.1 and Appendix A**).

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22 March 2021

**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 2020/21 Code of Practice which was published in July 2020 and have also provided indications of further potential changes that are likely to be reflected in updates to the 2021/22 Code and beyond. The change relating to Leases was reported to the Audit Committee in March 2020 as being in the pipeline.
- 1.1 In addition, the CIPFA Consultation on the 2020/21 Code of Practice stated that it is seeking views on the impact of the Redmond Review on financial reporting for local authorities.
- 2.0 Leases**
  - 2.1 CIPFA is adopting IFRS 16 – Leases from 2022/23.
  - 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 has now been 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.

### **3.0 Highways Network Assets**

- 3.1 It was anticipated that CIPFA would instruct local authorities to adopt the requirements of the Highways Network Assets Code of Practice. However, after further consultation CIPFA announced in 2016/17 that it would indefinitely postpone the implementation of the Code, on the basis that the cost of implementation outweighed the benefits of adoption. CIPFA have not announced any further plans to introduce the code.