The Chartered Institute of
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CIPFA

CIPFA BULLETIN 09 - Closure of the 2020/21 Financial Statements

April 2021

The Local Authority Accounting Panel issues CIPFA Bulletins to assist practitioners with the application of the requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom (the Code)*, the *Service Reporting Code of Practice* (SeRCOP) and the *Prudential Code*, and to provide advice on emerging or urgent accounting issues. Bulletins provide influential guidance that is intended to be best practice but are not prescriptive and do not have the formal status of the Code, SeRCOP or the *Prudential Code*.

Please address any queries to CIPFA Technical Enquiry Service for CIPFA members and students:

technical.enquiry@cipfa.org

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Scottish Specific Items:

FINANCIAL REPORTING ISSUES THAT ARISE FOR LOCAL AUTHORITIES AS A RESULT OF THE COVID-19 PANDEMIC (REMINDER)

1. Local authorities started to see the impacts of the current pandemic back in March 2020. At that time this raised issues for financial reporting and events occurring post balance sheet for 2019/20. Many of those issues were covered in the CIPFA year-end bulletin for 2019/20.

2. The 2020/21 financial year has been a full year dealing with the issues generated by the ongoing pandemic. For the 2020/21 financial reporting period, authorities will still need to consider a range of potential reporting impacts, including but not limited to the following:

    a. Impact on property, plant and equipment, particularly where market value measurement is used

    b. Fair value measurement – impact on financial instruments and investment property measurement

    c. Expected credit losses

    d. The impact on Narrative reporting (see Section 3.1 of the Code)

    e. Reporting judgements and estimation uncertainty (see paragraphs 3.4.2.88 and 3.4.2.90 of the Code)

    f. IFRS 9 as adopted by the Code, linked to measurement of a local authority's interests in other entities

    g. Potential volatility in measurement of pension fund assets and liabilities.

3. Local Authorities should refer to CIPFA Bulletin 05, covering closure of the 2019/20 Financial Statements for further consideration of these issues. Local Authorities should also refer to CIPFA Bulletin 06 covering Application of the Good Governance Framework 2020/21. Bulletin 06 covers the impact of the continuing COVID-19 pandemic on governance in local government bodies and information supporting the Annual Governance Statement.

4. In December 2020 CIPFA issued a short survey on the impact of the pandemic on local authority accounts to understand in more detail how COVID-19 had affected local authority reporting and consider what guidance might be issued for the 2020/21 accounts. The survey received 139 responses, with 34% of respondents from English district councils.

5. The survey asked which were the most significant issues in terms of financial reporting and results of the survey can be found here under the heading - Impact of the Pandemic on Local Authority Financial Reporting:

    https://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board

Business Support Grant Funding from Department for Business, Energy and Industrial Strategy (BEIS) (England)

Background

6. As part of the COVID-19 response, the government has announced a range of grant schemes (see Appendix 3) to support businesses to be administered by local billing authorities e.g. the Small Business Grant Fund; Retail, Hospitality and Leisure Grant Fund; multiple Local Restrictions grants i.e. open, closed, sector, additional. Billing authorities are responsible for paying over the grants to the businesses and are then reimbursed by government using a grant under Section 31 of the Local Government Act 2003 (S31). Some of the schemes are fully reimbursed, others are a set allocation.
7. The eligibility criteria for these schemes are set out in government guidance and local authorities which are billing authorities are required to use their business rates system to identify the properties that meet the eligibility criteria. However, these grants are not Collection Fund transactions.

Principal or agent

8. Billing authorities need to assess whether they should be accounting for the S31 grants paid to them by BEIS and the distribution of the grants to eligible business, as either principal or agent transactions in accordance with Section 2.6 (Principal and Agent Transactions) of the Code.
9. Paragraph 2.6.2.1 of the Code specifies that the authority is deemed to be an agent where it is acting as an intermediary. Paragraph 2.6.2.2 of the Code sets out that the authority is principal where it is acting on its own behalf. Where the authority is acting as principal, the transactions shall be included in its comprehensive income and expenditure statement (CIES) in accordance with the relevant section of the Code.
10. To establish whether an authority is acting as principal or agent, local authorities will need to consider all the relevant facts and circumstances and consider how the grant operates. This might require consideration of the guidance that accompanies each grant scheme as issued by BEIS.
11. The Code Guidance Notes Module 2 Section F provides additional guidance for local authorities in making the assessment about whether a local authority is acting as principal or agent. Paragraph F11 states:
    a. Where an authority is acting as a distribution point for grant monies to other bodies and has no control over the amount of grant allocated to a recipient, then the authority is likely to be acting as agent.
12. Where an authority is able to conclude that it has control over the distribution or amounts of the grant it would be deemed to be acting a principal.
13. Ultimately, the authority has to determine whether or not it has any performance obligations with regard to the grants. Those schemes where the billing authority does not determine the eligibility criteria or control the amount of grant awarded and is fully reimbursed, then the authority may conclude that it is not acting on its own behalf. Whereas those schemes where the billing authority does determine for example eligibility, amount of grant awarded and has a limited amount of funding to distribute, they may conclude that they are acting on their own behalf. However,

local authorities will need to take their own decisions considering all relevant circumstances.

14. Paragraph 2.6.2.4 of the Code requires that where an authority acts as an agent, transactions will not be reflected in an authority's financial statements. Exceptions to this are in respect of cash collected or expenditure incurred by the agent on behalf of the principal, in which case there is a debtor or creditor position and the net cash position included in financing activities in the Cash Flow Statement.

15. If the sums involved are material then financial statement preparers should consider separate disclosure under para 3.4.2.53 which states: "When items of income or expense are material, an authority shall disclose their nature and amount separately". This would require consideration of disclosure in the notes to the financial statement.

COVID-19 COUNCIL TAX HARDSHIP FUND 2020/21 (ENGLAND)

16. The COVID-19 Council Tax Hardship Fund was established to deliver relief to council taxpayers during 2020/21 by reducing council tax liability using discretionary powers under S13A(1)(C) of the Local Government Finance Act 1992. The awarding of the additional council tax discounts by collection fund billing authorities is funded in full or part, by a grant under S31.

17. The full cost of any section 13A(1)(c) discretionary discounts are borne only by the billing authority's general fund not the collection fund in accordance with the Localising Support for Council Tax: The Collection Fund (Council Tax Reductions) (England) Directions 2013. An amount equal to the discount (**not the S31 grant**) will therefore need to be transferred from the billing authority's general fund to the collection fund. The S31 grant will reimburse the billing authority's general fund to the extent of the authority's S31 allocation.

18. There is no requirement to have spent all of the funding in 2020/21 or to return any unspent allocation at the end of the financial year. Where councils have a remaining allocation, MHCLG recognises that this could be best spent supporting vulnerable households during 2021/22. Councils will also want to take a decision on how best to respond to any retrospective adjustments to local council tax support eligibility for 2020/21, where this may impact on the Hardship Fund discount that a taxpayer might have been, or may become, entitled to.

19. If any of the Hardship Fund remains unspent at the end of the financial year, councils can therefore spend this in a way that is consistent with the aims of the fund as set out in the MHCLG guidance. This should involve the provision of additional support to vulnerable households, through discounts for council taxpayers under section 13A 1(c) of the Local Government Finance Act for 2020/21 or 2021/22 liability, or broader welfare support. The fund should not be used to write off historical council tax debt.

20. Writing off debt has the effect of attributing some of the cost of the write off to the preceptors, as it is not covered by the collection fund direction for the transfer from general fund to collection fund.

75% Tax Income Guarantee compensation

21. MHCLG issued details on the 75% of 2020/21 irrecoverable losses for council tax and business rates scheme (announced in the Spending Review) with the provisional settlement documents (see paragraphs 32 to 40 and Annex A) https://www.gov.uk/government/publications/covid-19-emergency-funding-for-local-

government/covid-19-funding-for-local-government-in-2021-22-consultative-policy-paper#local-tax-income-guarantee-for-2020-21 .

22. The compensation will be paid to local authorities (billing and precepting) by way of a S31 grant, so does not feature in the Collection Fund, but will require recognition in the general fund.

23. Paragraph 2.3.2.8 of the Code requires that grants and contributions including donated assets should not be recognised until there is reasonable assurance that:

    a. the authority will comply with the conditions attached to them, and

    b. the grants or contributions will be received.

24. The basis for calculation of the amounts receivable is known for council tax and will be clarified in April 2021 for non-domestic rates. There is no return condition attached to the compensation, so authorities will need to recognise the total amounts due in the CIES in 2020/21. Such amounts will be paid to authorities in 2021/22. Authorities may also wish to consider whether to earmark this element of the General Fund balance.

25. The statutory definition of retained rates income, for the purposes of calculating whether an authority is in levy or safety net for 2020/21, will be amended to avoid double compensating for the same losses.

Council Tax Collection Fund surplus/deficits for 2020/21

26. The arrangements for apportioning estimated surpluses and deficits arising on the council tax collection fund are set out in the Local Authorities (Funds)(England) Regulations 1992 (SI 1992/2428) Schedule 2 paragraph 6, (as amended) by The Local Authorities (Collection Fund: Surplus and Deficit) (Coronavirus) (England) Regulations 2020 (SI 2020/1202).

27. The Code Guidance Notes, Paragraphs H22 and H23 of Module 2, set out the requirements for apportioning the outturn council tax collection fund surplus/deficit, prior to SI 2020/1202. As a result of SI 2020/1202, the requirements for apportioning the 2020/21 council tax collection fund outturn surplus/deficit will need to be changed for those authorities that calculated a negative exceptional balance in accordance with the regulations and ultimately are spreading the exceptional balance deficit over the three years 2021/22 to 2023/24.

28. Therefore, for those authorities that calculated a negative exceptional balance in accordance with SI 2020/1202, the collection fund outturn surplus or deficit shall be apportioned as follows.

    a. Adjust the collection fund balance for the impact of any net movement on community charges for the year (usually limited to any windfall income from charges previously written off or adjustment to the bad debt provision).

    b. Extract the balance estimated for 15 January 2021 purposes and apportion this to authorities based on the proportion of their demand/precepts for 2020/21

    c. Extract the remaining two thirds of any exceptional balance calculated as a negative deficit for 15 January 2021 purposes in accordance with SI 2020/1202 and to be spread over three years, and apportion this to authorities based on the proportion of their demand/precepts for 2020/21

d. Apportion the balance remaining after the first three adjustments according to proportions of demand/precepts for 2021/22. This is done because any remaining balance at the end of the year that will not be recovered/distributed at the end of the year will effectively roll forward to be part of the balance at the next January 15 estimate.

29. For those authorities that calculated a positive exceptional balance and are not spreading such amounts over three years, the existing Code Guidance (Module 2, paragraph H23) approach still applies (and step c. above does not apply).

30. Billing authorities are reminded that they must communicate to their precepting authorities, their share of the above balance and all other relevant information to allow the precepting authorities to account for their own share of the collection fund position and performance for 2020/21.

31. The arrangements for apportioning the NDR collection fund outturn surplus/deficit do not change for 2020/21, nor do any of the other accounting arrangements. However, as a result of authorities awarding expanded retail, hospitality and leisure relief, nursery and newspaper reliefs in 2020/21 that were not included on the NNDR 1 for 2020/21, the resulting collection fund deficit and S31 grant reconciliation and compensation amounts are expected to be much larger than in previous years. As such, authorities may want to consider managing the S31 grant through earmarked reserves and explain any large balances in their narrative report (see paragraphs 32 to 38 below).

Presentation of the transfer between the General Fund and the Collection Fund Adjustment Account

32. During 2020/21, local authorities received approximately £10bn in S31 grants to offset the reliefs given to businesses during lockdown. Under current collection fund accounting rules, the S31 grants received this year will not be discharged against the Collection Fund deficit until 2021/22, thereby inflating General Fund balances at the end of the 2020/21 financial year. This could lead to potentially misleading 2020/21 accounts, showing a significant increase in available reserves that are not actually available but earmarked against the following year's collection fund deficit.

33. LAAP have considered a variety of options and take the view that the most appropriate course is to transfer the grant income to an earmarked reserve within the General Fund.

34. This would allow for greater explanation of the purpose of the reserve, which would be used in 2021/22 to fund that element of the estimated Collection Fund deficit at 31 March 2021 which is transferred from the CFAA back to the General Fund in 2021/22.

35. Authorities may also wish to consider transferring the 75% Tax Income Guarantee S31 grant to an earmarked reserve for the same reasons as above.

36. Where the compensation grant income is material, authorities should consider:

a. separate disclosure either on the face of the CIES as an additional line showing it as a material component of Taxation and non-specific grant income or in a note to the CIES in line with para 3.4.2.53 of the Code;

b. Presenting the earmarked reserve as a separate column within usable reserves in the Movement in Reserves Statement to emphasise that this falls outside the scope of the reserves earmarked for service requirements (e.g. General Fund, Earmarked Reserves and S31 business rate relief compensation grant reserve);

c. presenting the earmarked reserve as a separate line on the face of the balance sheet within Usable Reserves;

d. providing sufficient supplementary information in notes to the accounts to make clear the status of the unspent grant.

37. LAAP's view is this approach gives greater prominence to the reserve and draws attention to the fact that the balance does not represent additional spending power taken forward into 2021/22.

38. The presentation of additional reserves within the MiRS and Balance Sheet, although uncommon, is permitted within the Code which only specifies the minimum disclosure requirements – Code paragraphs 3.4.2.58 and 3.4.2.64 refer.

Narrative Report

39. The Narrative Report should include a section on the local authority's overall response to the Covid-19 pandemic including the administration of the various grants and reliefs administered by the authority on behalf of central government. This would include both principal and agent transactions to give a fuller picture of the local authority's activity, than reported in the CIES and supporting grant disclosure notes which will just disclose those where the authority is acting as principal.

Accounting for compensation from sales, fees and charges compensation scheme

40. In August 2020 the Government announced, for local authorities in England, details of a compensation scheme to compensate for irrecoverable and unavoidable losses from sales, fees and charges income generated in the delivery of services. This was available in the financial year 2020/21, now extended to June 2021 for local authorities except police authorities, for which it ended at 31 March 2021. https://www.gov.uk/guidance/local-government-income-compensation-scheme-for-lost-sales-fees-and-charges

41. The guidance sets out how authorities can access the scheme but not how it should be accounted for in terms of whether it should be treated as a general source of income or service specific.

42. As covered in Code Guidance Notes 2020/21 Module 2 paragraphs C13 and C14, paragraph 2.3.2.10 of the Code requires that general government grant and contributions in the form of Revenue Support Grant, NDR redistribution and other unringfenced government grants are disclosed as taxation and non-specific grant income and expenditure. Paragraph 2.3.2.11 of the Code requires that revenue grants and contributions that are not general grants as described above shall be credited to service revenue accounts, support services, trading accounts and the Housing Revenue Account (HRA).

43. Module 2, paragraph C42 of the Code Guidance Notes goes on to say "*Practitioners should note that where revenue grants can be identified to services they will be credited to the gross income of the relevant service line they relate to. However, revenue grants and contributions that cannot be identified to particular service*

expenditure, including non-ringfenced government grants, are credited to the taxation and non-specific grant income and expenditure line in the comprehensive income and expenditure statement."

44. Authorities will need to review the scheme guidance and make a decision as to where they judge that the income should be reflected in the accounts, either in taxation and non-specific grant income and expenditure, or in to service revenue accounts, support services, trading accounts and the HRA.

45. The scheme guidance makes reference to a "one-off income loss scheme (the scheme) will compensate for irrecoverable and unavoidable losses from sales, fees and charges income generated in the delivery of services, in the financial year 2020/21". To qualify for compensation "the income is transactional income from customer and client receipts (excluding commercial and residential rents and investment income), which is generated from the delivery of goods and services and which was budgeted for in 2020/21", and "the savings on expenditure should be netted off the claim that is made for lost revenues." All of which may lead authorities to a conclusion of including in cost of services.

46. However, it also makes reference to the fact that "compensation will be provided to mitigate the net budget gap which irrecoverable service income losses have created in the local authority's balanced budget set before the start of the year", which may lead to a conclusion of general income for inclusion in the taxation line.

47. Ultimately the authority will need to consider whether the income can be identified to a service and what would be of most use to the reader of the accounts in terms of where it is presented. If the amounts involved are material, then the authority may wish to consider including a disclosure note.

48. The same principles should be applied to all other grant transactions in terms of determining where they should be recognised in the CIES, assuming they are being accounted for as principal.

Accounting for COVID-19 Related Rent Concessions

49. In January 2021, CIPFA LASAAC issued a consultation on including in the Code guidance on the accounting treatment for COVID-19-related rent concessions. These arrangements can include the forgiveness of a portion of or all lease payments for an agreed period (i.e. a temporary rent reduction or rent holiday).

50. CIPFA LASAAC did not change the Code because it did not have enough evidence to consider whether this was a significant transaction for local authorities, but if local authorities do have a transaction of this kind LAAP would recommend following the accounting treatment set out in the amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland - COVID-19-related rent concessions.

51. A lessee shall recognise any change in lease payments arising from rent concessions over the periods that the change in lease payments is intended to compensate. An entity shall apply the requirements to temporary rent concessions occurring as a direct consequence of the COVID-19 pandemic if, and only if, all of the following conditions are met:

    a. the change in lease payments results in revised consideration for the lease that is less than the consideration for the lease immediately preceding the change;

b. any reduction in lease payments affects only payments originally due before applying the concession; and

c. there is no significant change to other terms and conditions of the lease.

ACCOUNTING FOR DEDICATED SCHOOLS GRANT DEFICITS – ENGLAND

Background

52. On the 6 November 2020, the secretary of state for Ministry of Housing, Communities and Local Government laid before Parliament a statutory instrument[1] (the instrument) to amend The Local Authorities (Capital Finance and Accounting) Regulations (the 2003 Regulations). The provisions came into effect from 29 November 2020.

53. The instrument amends the 2003 Regulations by establishing new accounting practices in relation to the treatment of local authorities' schools budget deficits such that where a local authority has a deficit on its schools budget relating to its accounts for a financial year beginning on 1st April 2020, 1st April 2021 or 1st April 2022, it must not charge the amount of that deficit to a revenue account. The local authority must record any such deficit in a separate account established solely for the purpose of recording deficits relating to its school's budget. The new accounting practice has the effect of separating schools budget deficits from the local authorities' general fund for a period of three financial years.

54. The instrument follows from the School and Early Years Finance (England) Regulations 2020, (the 2020 Regulations) applicable to local authority accounting periods beginning on 1 April 2020, that set out that a schools budget deficit must be carried forward to be funded from future Dedicated Schools Grant (DSG) income, unless permission is sought from the secretary of state for education to fund the deficit from general resources. Further detail on this was provided in CIPFA bulletin 05 (April 2020). This instrument aligns accounting practices with the changes to the grant status.

55. The guidance below sets out the background to the instrument and the requirements under the amended 2003 Regulations for the separation of the schools budget deficits from the general fund.

Basis for the amendment

56. Deficits arise where schools budget expenditure exceeds that of the available funding provided through the DSG. Where this has occurred in prior financial years, many local authorities have carried an accumulated deficit position into future financial years by holding these deficits separately from the general fund, thereby ensuring the deficits do not place pressure on their ability to delivery other services.

57. However, in 2019, concerns were raised that accounting practices did not permit deficits to be separated from a local authority's general fund, as there was no statutory basis to hold them separately. The view shared by Government and the sector was that the deficits should not place pressure on resources required for other essential services, nor place pressure on an authority's reserves. It was agreed that

[1] THE LOCAL AUTHORITIES (CAPITAL FINANCE AND ACCOUNTING) (ENGLAND) (AMENDMENT) REGULATIONS 2020

until the deficits are closed, measures should be taken to ensure the deficits could be accounted for separately from the general fund i.e. that such deficits are ring-fenced.

58. To provide a statutory basis for the separation of the deficits from the general fund, the Department for Education (DfE) established through the 2020 Regulations that a local authority must either deduct the deficit from its school budget, or carry forward the deficit to future financial years rather than fund it from other sources. Further, the regulations specify that a local authority is only able to fund a deficit from a previous financial year from other sources if the secretary of state has given authorisation. However, during the audits of the 2019/20 local authority accounts, auditors and councils raised concerns that there was still uncertainty as to whether proper accounting practices permitted this separation.

59. In response, government engaged with auditors, the sector and CIPFA to establish the issue and what further steps were required. As a result of these discussions, the Government decided that accounting practices that provided for the separation of the deficits from the general fund would provide a solution to the outstanding concerns raised by councils and auditors. This was implemented through the instrument.

Accounting treatment

60. In practice, where an authority has a deficit in respect of its schools budget for a financial year beginning on 1st April 2020, 1st April 2021 or 1st April 2022, the authority:

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

    b. 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: the 2021/22 Code has established this as the ‘Dedicated Schools Grant Adjustment Account’, an unusable reserve.

61. The value of the deficit to be transferred to the unusable reserve must be calculated in accordance with Section 4 (2) of the instrument. In summary:

    a. Any deficit carried at year end 2020/21 must be moved to the unusable reserve.

    b. For subsequent financial years 2021/22 and 2022/23, the deficit to be taken to the unusable reserve at year end is simply any deficit between the DSG grant and sixth form grant received in year and the schools budget expenditure for that financial year.

    c. If for either financial years 2021/22 or 2022/23 there is a surplus on the schools budget i.e. the DSG grant and sixth form grant received exceeds schools budget expenditure, this is not taken to the unusable reserve noted above but should be held from a budgetary perspective as a ring-fenced reserve.

62. This issue can only be fully resolved by closing the deficits. Therefore, the accounting treatment introduced by this regulation is limited to the financial reporting periods 2020/21, 2021/22 and 2022/23 to provide time for Government and local authorities to look at budgetary and financial management strategies to reduce the deficits.

63. **Appendix 1** to this bulletin provides guidance and examples for accounting for School Budget Deficits. The examples in appendix 1 are design to assist practitioners in presentation within the Movement in Reserves Statement (MiRS).

64. **Appendix 2** to this bulletin provides guidance agreed with the Department for Education on the up to date disclosure note requirements for DSG in 2020/21.

PERSONAL PROTECTIVE EQUIPMENT (PPE) STOCK FOR POLICE BODIES

Background

65. The national police distribution hub has been supplying Personal Protective Equipment free of charge to all Forces. CIPFA has received some queries on how any stocks issued in the year or held at the balance sheet date should be accounted for.

66. If the organisation concludes they are acting as agent, the accounting will follow the treatment set out in Code paragraph 2.6.2.4. However, on the general presumption that the issuing and holding of PPE stock reflects the organisation acting as 'principal', the following references in the Code provide clarification on the accounting and measurement requirements.

67. Paragraph 5.1.1.5 of the Code explains that the following public sector interpretations from IPSAS 12 - Inventories have been adopted by the Code that are relevant to stock acquired through non-exchange transactions:

    a. *Inventories shall be measured at the lower of cost and net realisable value, except where inventories are acquired through a non-exchange transaction in which case their cost is deemed to be their fair value as at the date of acquisition.*

    b. *Inventories shall be measured at the lower of cost and current replacement cost where they are held for distribution at no charge or for a nominal charge; or consumption in the production process of goods to be distributed at no charge or for a nominal charge.*

68. The accounting requirements are then set out in paragraphs 5.1.2.8 and 5.1.2.9 (for recognition of the stock) and 5.1.2.18 (for issues from the stock). Typical accounting entries for authorities acting as principal should be as follows:

    <u>Initial receipt of the stock</u>:

    Dr Stock

    Cr Donated Inventories Account

    (measured at the lower of Fair Value on receipt or current replacement cost)

    <u>Issues of the stock</u>:

    Dr CIES (to appropriate service line)

    Cr Stock

    (issue of the stock on the measurement basis above)

    Dr Donated Inventories Account

Cr CIES (to appropriate service)

(to write down the value of the 'donation' to the CIES)

69. Any residual stock at the balance sheet date will be matched with the balance in the Donated Inventories Account. Where transactions or balances are material, there may be merit in including commentary within accounting policies that explains to readers of the accounts how PPE stock has been accounted for.

ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

70. Paragraph 3.3.2.13 of the Code requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code. Paragraph 3.3.4.3 requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year.

71. Paragraph 3.3.4.3 and Appendix C of the Code adapt IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* on an annual basis to limit the impact of standards that have been issued but not yet adopted to those listed in Appendix C of the Code in the relevant year of account (in this case the 2021/22 Code). This adaptation has been in place since the inception of the IFRS based Code in 2010/11. Additional clarification confirming this adaptation has been included in the 2021/22 Code which at the time of drafting has been approved by CIPFA and LASAAC (though the Code has not yet fulfilled its final due process steps). However, this clarification has not changed the Code's requirements in this area.

72. This means that only the standards listed below are included in the requirements for IAS 8 for standards that have been issued and not yet adopted. This excludes IFRS 16 *Leases* and IFRS 17 *Insurance Contracts* from being included in these reporting requirements.

73. The standards introduced by the 2021/22 Code and relevant for additional disclosures that will be required in the 2020/21 financial statements in accordance with the requirements of paragraph 3.3.4.3 of the Code are:

    a. Definition of a Business: Amendments to IFRS 3 Business Combinations

    b. Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

    c. Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

CHANGES TO FINANCIAL REPORTING DEADLINES FOR 2020/21 (ENGLAND)

74. The Ministry of Housing, Communities and Local Government (MHCLG) has put in place revised regulations that come into force on 31 March 2021. The Accounts and Audit (Amendment) Regulations 2021 extend the statutory audit deadlines for 2020/21 and 2021/22 for all local authorities.

75. The publication date for audited accounts will move from 31 July to 30 September 2021 for all local authority bodies.

76. To give local authorities more flexibility, the requirement for the public inspection period to include the first 10 working days of June has been removed. Instead, local authorities must commence the public inspection period **on or before** the first working day of August 2021. This means that accounts that must be confirmed by the responsible finance officer (RFO) and be published by 31 July 2021 at the latest. They may be published earlier. There will be no requirement to wait for a common inspection period. However, the requirements under the Accounts and Audit Regulations 2015 to follow the RFO's confirmation and publication of relevant documents in Regulation 9(1)(b) has not been amended by the new Regulations so local authorities will need to ensure that inspection period follows the confirmation by the RFO.

77. Authorities must publish the dates of their public inspection period. Guidance from the MHCLG recommends that local authorities provide public notice on their websites (where available) when the public inspection period would usually commence, explaining why they are departing from normal practice for 2021.

CHANGES TO FINANCIAL REPORTING DEADLINES FOR 2020/21 (NORTHERN IRELAND)

78. For the 2019/20 Accounts the Department for Communities (DfC) introduced the Local Government (Accounts and Audit) (Coronavirus) (Amendment) Regulations (Northern Ireland) 2020, which amended the dates for submission of accounts to 30 September 2020 and 31 December 2020. These regulations related solely to the 2019/20 accounts.

79. For the 2020/21 Accounts, DfC are reverting to the **Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015** dates for submission of accounts. Therefore requiring signing, dating and certifying of the statement of accounts by 30 June, and 30 September for the publication of documents relating to the financial year beginning in 2020.

80. DfC Local Government and Housing Regulation Division has prepared a Direction for the appropriate form and content of accounts for Northern Ireland District Councils for 2020/21 which can be accessed here.

GOING CONCERN BASIS OF ACCOUNTING – NOTE: This section is taken from CIPFA Bulletin 05.

81. The provisions in the Code on the going concern accounting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that they have no ability to cease being a going concern as described by IAS 1 Presentation of Financial Statements (i.e. management deciding to liquidate the entity or cease trading). As authorities cannot be created or dissolved without statutory prescription, it would not therefore be appropriate for local authority financial statements to be prepared on anything other than a going concern basis. Paragraph 3.4.2.23 of the Code therefore confirms as a matter of fact that local authority accounts must be prepared on a going concern basis.

82. The requirements to use the going concern basis of accounting means that authorities therefore cannot apply paragraph 25 of IAS 1 mandating management to make an assessment of the authority's ability to continue as a going concern. The going concern assumption under the Code is therefore drawn up to assume that a

local authority's services will continue to operate for the foreseeable future.[2] This is despite the impact of COVID-19 on local authority financial sustainability because the going concern basis of reporting in the Code and the rationale behind it remains unchanged.

83. However, it is recognised that while the going concern assumption in the Code remains in place, this is separate from the need for local authorities to report on the impact of financial pressures in the narrative report and the relevant liquidity reporting requirements under the Code's adoption of IFRS 7 Financial Instruments: Disclosures. It is also recognised that these reports will be vital following the impact of COVID-19 on local authority financial sustainability. Local authorities will also need to ensure that their reports on credit risks appropriately reflect the impact of the COVID-19 pandemic.

IFRS 16 – LEASES, IMPLEMENTATION FOR 2022/23

84. The CIPFA LASAAC Local Authority Accounting Code Board has agreed to defer the implementation of IFRS 16 Leases in the *Code of Practice on Local Authority Accounting in the United Kingdom (the Code)* until the 2022/23 financial year. This aligns with the decision at the Government's Financial Reporting Advisory Board to establish a new effective date of 1 April 2022 for the implementation of IFRS 16.

85. CIPFA LASAAC has taken this decision in response to pressures on council finance teams as a result of the COVID-19 pandemic. CIPFA LASAAC would note that this further deferral is **limited to one year only** and it will not be granting any further extensions based on lack of preparedness. CIPFA LASAAC would encourage finance teams to continue their preparations for implementation and to look to the adoption of this standard in the 2022/23 financial year.

86. It is the intention of CIPFA to issue technical guidance on leasing that will look at the earlier preparation work, the lead up to 2022/23 budget setting and the approach to the transition and beyond. This guidance will be available in due course through the CIPFA website.

[2] Authorities may want to reference Audit Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (revised) published by the Financial Reporting Council (FRC) to understand audit assessments in this area.

SCOTLAND SPECIFIC ITEMS:

SCOTTISH GOVERNMENT FINANCIAL FLEXIBILITIES

87. The Scottish Government has worked jointly with COSLA to identify a package of financial flexibilities for Councils to address the funding pressures they face due to COVID. The following funding flexibilities open to Councils in Scotland are:

    a. enabling the use of capital receipts to fund the financial impact of COVID-19.

    b. allowing local authorities to take a repayment holiday in either 2020-21 or 2021-22 to defer loan fund repayments

88. In terms of capital receipts, there is dispensation to allow capital receipts received in both 2020/21 and 2021/22 to be used to finance COVID costs[3]. Statutory Guidance has been issued that allows Councils to place capital receipts in the Capital Grants and Receipts Unapplied Account and then be used to finance COVID expenditure (revenue). The statutory guidance adopts the same approach as for current schemes that permit the use of capital receipts e.g. equal pay.

89. Regarding credit arrangements, councils are required by statutory guidance[4] to charge the debt element of service concession arrangements to their accounts over the contract period. It should be noted that the Scottish Government is consulting on further flexibilities in this area.

90. Under new regulations[5] a Loans Fund Principal Repayment Holiday flexibility is being offered which will permit a council to defer loans fund repayments due to be repaid in either 2020/21 or 2021/22 (but not both).

91. LASAAC have determined that these flexibilities do not require changes to the Code of Practice on Local Authority Accounting (the Code) applicable to councils in Scotland. The Code already deals with what is proper accounting practice as outlined in the Scottish Governments guidance and legislation.

92. Should councils take up the flexibilities available for 2020/21, they should consider the adequacy of any disclosures in relation to accounting policies and disclosure notes, in accordance with paragraph 3.4.2.17 and 20 of the Code, to the financial statements.

CHANGES TO FINANCIAL REPORTING DEADLINES FOR 2020/21 (SCOTLAND)

93. The Local Authority (Capital Finance and Accounting) (Scotland) (Coronavirus) Amendment Regulations 2021 amend The Local Authority Accounts (Scotland) Regulations 2014. The 2021 regulations confirm the change to the audit completion deadline for local government 2020/21 Annual Accounts from 30 September to 31 October 2021.

94. The publication date for the annual accounts is also amended from the 31 October to 15 November. Both changes in paragraphs 93 and this paragraph are for the 2020/21 financial reporting year only.

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[3] See Local Government Finance Circular No 2/2021, February 2021
[4] See Local Government Finance Circular No 4/2010, March 2010
[5] The Local Authority (Capital Finance and Accounting) (Scotland) (Coronavirus) Amendment Regulations 2021

95. Practitioners should note that the expiry date of the Coronavirus (Scotland) Act 2020 been extended to 30 September 2021. Under the Act, Scottish local authorities have the same powers as in 2019/20 to defer production of the unaudited accounts, public inspection, approval, and publication of the audited accounts beyond that set out in the amended accounts regulations.

96. In terms of guidance, part 1 of Finance Circular 10/2020 issued by the Scottish Government in respect of 2019/20 continues to be a useful reference point for 2020/21. Scottish councils should discuss and agree timetables locally with their auditors with regard to finalisation and publication of the audited accounts.

GUIDANCE ON RESERVES

97. At the time of publication of this bulletin, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) is completing a revision to its 2005 guidance on the Statutory Basis for Accounting and Disclosing Reserves in Local Authorities in Scotland. The revised guidance will be available here on completion of this review.

ACCOUNTING FOR CORONAVIRUS (COVID-19) SUPPORT MEASURES IN LOCAL GOVERNMENT (SCOTLAND)

98. At the time of publication of this bulletin, LASAAC is completing new guidance on the accounting for coronavirus support measures in Local Authorities in Scotland. The revised guidance will be available here on completion of this review.

APPENDIX 1.

Schools Budget deficit accounting examples

Basic principles

The impact of the School and Early Years Finance (England) Regulations 2020, (the 2020 Regulations) and Regulation 30L of The Local Authorities (Capital Finance and Accounting) Regulations (the 2003 Regulations) inserted by SI 1212/2020 is to establish a new reserve:

- Firstly, for those authorities with a positive (i.e. credit) balance on the schools budget, as per CIPFA Bulletin 05, this is held in an earmarked usable reserve. This earmarked surplus should be analysed and disaggregated in the disclosure note for the DSG. It is also useful to note that paragraph 3.4.2.58 of the Code sets out that local authorities are required to separately identify the total reserves held by schools.

- Secondly, for those authorities where a schools budget deficit occurs to the 2020/21 closing balance, a statutorily ring-fenced unusable reserve is required – the Dedicated Schools Grant Adjustment Account.

The Dedicated Schools Grant Adjustment Account is a new reserve and the 2020/21 accounts will need to an explanation of the nature and purpose of the ring-fenced reserve. This new reserve is fully established in the 2021/22 Code.

Similarly, the Dedicated Schools Grant Adjustment Account will be a new unusable reserve to be included in the Unusable Reserves disclosure notes with suitable explanation of the nature and purpose of the reserve.

Transition

Given that Regulation 30L takes effect from 1 April 2020, local authorities will need to determine the amount of the schools budget deficit or surplus as at 31 March 2021 following the regulations. This will be reported as either an earmarked surplus within usable reserves or Dedicated Schools Grant Adjustment Account in unusable reserves for any deficit held. A range of examples of presentation are shown below for information purposes.

Example 1

Authority has a positive schools budget at 1 April 2020 of £7.5m and has an in-year surplus of £6.3m in 2020/21.

Movement in Reserves Statement - examples

	General Fund Balance									
	Unearmarked General Fund Balance £000s	***Earmarked Schools Budget Reserve*** **£000s**	***Other Earmarked Reserves*** **£000s**	**General Fund Balance £000s**	**Housing Revenue Account £000s**	**Capital Receipts reserve £000s**	**Capital Grants Unapplied Reserve £000s**	**Total Usable Reserves £000s**	**Unusable reserves £000s**	**Total Council Reserves £000s**
Balance at 1 April 2020	**(15,000)**	**0**	**(125,000)**	**(140,000)**	**(32,000)**	**(23,000)**	**(16,000)**	**(211,000)**	**(650,000)**	**(861,000)**
Reporting of Schools Budget Surplus to Earmarked Usable Reserve at 1 April 2020	7,500	(7,500)		0				0		0
Restated balance at 1 April 2020	**(7,500)**	**(7,500)**	**(125,000)**	**(140,000)**	**(32,000)**	**(23,000)**	**(16,000)**	**(211,000)**	**(650,000)**	**(861,000)**
Movement on Reserves in 2020/21										
Total Comprehensive Income and expenditure	(65,000)			(65,000)	(12,200)			(77,200)		(77,200)
Adjustments between accounting basis and funding basis under statutory provisions										0
(Increase)/decrease before transfers to earmarked reserves	**(65,000)**	**0**	**0**	**(65,000)**	**(12,200)**	**0**	**0**	**(77,200)**	**0**	**(77,200)**
Transfers to/(from) earmarked reserves	29,300	(6,300)	(23,000)	0				0		0
(Increase)/decrease in the year	**(35,700)**	**(6,300)**	**(23,000)**	**(65,000)**	**(12,200)**	**0**	**0**	**(77,200)**	**0**	**(77,200)**
Balance at 31 March 2021	**(43,200)**	**(13,800)**	**(148,000)**	**(205,000)**	**(44,200)**	**(23,000)**	**(16,000)**	**(288,200)**	**(650,000)**	**(938,200)**

Example 2

Authority has a positive schools budget at 1 April 2020 of £7.5m and has an in-year deficit of £6.3m in 2020/21.

	General Fund Balance									
	Unearmarked General Fund Balance £000s	***Earmarked Schools Budget Reserve*** **£000s**	***Other Earmarked Reserves*** **£000s**	**General Fund Balance £000s**	**Housing Revenue Account £000s**	**Capital Receipts reserve £000s**	**Capital Grants Unapplied Reserve £000s**	**Total Usable Reserves £000s**	**Unusable reserves £000s**	**Total Council Reserves £000s**
Balance at 1 April 2020	**(15,000)**	**0**	**(125,000)**	**(140,000)**	**(32,000)**	**(23,000)**	**(16,000)**	**(211,000)**	**(650,000)**	**(861,000)**
Reporting of Schools Budget Surplus to Earmarked Usable Reserve at 1 April 2020	7,500	(7,500)		0				0		0
Restated balance at 1 April 2020	**(7,500)**	**(7,500)**	**(125,000)**	**(140,000)**	**(32,000)**	**(23,000)**	**(16,000)**	**(211,000)**	**(650,000)**	**(861,000)**
Movement on Reserves in 2020/21										
Total Comprehensive Income and expenditure	(65,000)			(65,000)	(12,200)			(77,200)		(77,200)
Adjustments between accounting basis and funding basis under statutory provisions										0
(Increase)/decrease before transfers to earmarked reserves	**(65,000)**	**0**	**0**	**(65,000)**	**(12,200)**	**0**	**0**	**(77,200)**	**0**	**(77,200)**
Transfers to/(from) earmarked reserves	16,700	6,300	(23,000)	0				0		0
(Increase)/decrease in the year	**(48,300)**	**6,300**	**(23,000)**	**(65,000)**	**(12,200)**	**0**	**0**	**(77,200)**	**0**	**(77,200)**
Balance at 31 March 2021	**(55,800)**	**(1,200)**	**(148,000)**	**(205,000)**	**(44,200)**	**(23,000)**	**(16,000)**	**(288,200)**	**(650,000)**	**(938,200)**

In this scenario, there is an in-year deficit of £6.3m, but this does not put the closing cumulative position (at 31 March 2021) into overall deficit as the opening surplus £7.5m is greater. In accordance with the new regulations the closing surplus balance remains within usable reserves.

Example 3

Authority has a positive schools budget at 1 April 2020 of £7.5m and has an in-year deficit of £9.3m in 2020/21.

	General Fund Balance									
	Unearmarked General Fund Balance £000s	***Earmarked Schools Budget Reserve* £000s**	***Other Earmarked Reserves* £000s**	**General Fund Balance £000s**	**Housing Revenue Account £000s**	**Capital Receipts reserve £000s**	**Capital Grants Unapplied Reserve £000s**	**Total Usable Reserves £000s**	**Unusable reserves £000s**	**Total Council Reserves £000s**
Balance at 1 April 2020	**(15,000)**	**0**	**(125,000)**	**(140,000)**	**(32,000)**	**(23,000)**	**(16,000)**	**(211,000)**	**(650,000)**	**(861,000)**
Reporting of Schools Budget Surplus to Earmarked Usable Reserve at 1 April 2020	7,500	(7,500)		0				0		0
Restated balance at 1 April 2020	**(7,500)**	**(7,500)**	**(125,000)**	**(140,000)**	**(32,000)**	**(23,000)**	**(16,000)**	**(211,000)**	**(650,000)**	**(861,000)**
Movement on Reserves in 2020/21										
Total Comprehensive Income and expenditure	(65,000)			(65,000)	(12,200)			(77,200)		(77,200)
Adjustments between accounting basis and funding basis under statutory provisions	(1,800)			(1,800)				(1,800)	1,800	0
(Increase)/decrease before transfers to earmarked reserves	**(66,800)**	**0**	**0**	**(66,800)**	**(12,200)**	**0**	**0**	**(79,000)**	**1,800**	**(77,200)**
Transfers to/(from) earmarked reserves	15,500	7,500	(23,000)	0				0		0
(Increase)/decrease in the year	**(51,300)**	**7,500**	**(23,000)**	**(66,800)**	**(12,200)**	**0**	**0**	**(79,000)**	**1,800**	**(77,200)**
Balance at 31 March 2021	**(58,800)**	**(0)**	**(148,000)**	**(206,800)**	**(44,200)**	**(23,000)**	**(16,000)**	**(290,000)**	**(648,200)**	**(938,200)**

In this scenario, there is an opening surplus of £7.5m and in-year deficit of £9.3m. In accordance with the new regulations the closing deficit balance is held within unusable reserves in the new Dedicated Schools Grant Adjustment Account.

Example 4

Authority has a negative schools budget at 1 April 2020 of £7.5m and has an in-year deficit of £9.3m in 2020/21.

	General Fund Balance									
	Unearmarked General Fund Balance £000s	***Earmarked Schools Budget Reserve* £000s**	***Other Earmarked Reserves* £000s**	**General Fund Balance £000s**	**Housing Revenue Account £000s**	**Capital Receipts reserve £000s**	**Capital Grants Unapplied Reserve £000s**	**Total Usable Reserves £000s**	**Unusable reserves £000s**	**Total Council Reserves £000s**
Balance at 1 April 2020	**(15,000)**	**0**	**(125,000)**	**(140,000)**	**(32,000)**	**(23,000)**	**(16,000)**	**(211,000)**	**(650,000)**	**(861,000)**
Reporting of Schools Budget Deficit to new Adjustment Account at 1 April 2020	(7,500)			(7,500)				(7,500)	7,500	0
Restated balance at 1 April 2020	**(22,500)**	**0**	**(125,000)**	**(147,500)**	**(32,000)**	**(23,000)**	**(16,000)**	**(218,500)**	**(642,500)**	**(861,000)**
Movement on Reserves in 2020/21										
Total Comprehensive Income and expenditure	(65,000)			(65,000)	(12,200)			(77,200)		(77,200)
Adjustments between accounting basis and funding basis under statutory provisions	(9,300)			(9,300)				(9,300)	9,300	0
(Increase)/decrease before transfers to earmarked reserves	**(74,300)**	**0**	**0**	**(74,300)**	**(12,200)**	**0**	**0**	**(86,500)**	**9,300**	**(77,200)**
Transfers to/(from) earmarked reserves	23,000	0	(23,000)	0				0		0
(Increase)/decrease in the year	**(51,300)**	**0**	**(23,000)**	**(74,300)**	**(12,200)**	**0**	**0**	**(86,500)**	**9,300**	**(77,200)**
Balance at 31 March 2021	**(73,800)**	**0**	**(148,000)**	**(221,800)**	**(44,200)**	**(23,000)**	**(16,000)**	**(305,000)**	**(633,200)**	**(938,200)**

In this scenario because the authority's schools budget starts and remains in deficit, only the new Dedicated Schools Grant Adjustment Account is activated within unusable reserves and the Schools Budget Earmarked Reserve is not required.

APPENDIX 2.

Dedicated Schools Grant (England)

The requirement is for a disclosure that demonstrates whether the Dedicated Schools Grant (made under Section 14 of the Education Act 2002) has been deployed in accordance with regulations made under Sections 45A, 45AA, 47, 47ZA, 47A, 48, 49 and 138(7) of, and paragraph 2B of Schedule 14 to, the School Standards and Framework Act 1998, and Section 24(3) of the Education Act 2002.

School funding for local authorities in England is provided by a ringfenced grant called the Dedicated Schools Grant (DSG). Regulation 7(4) of the Accounts and Audit Regulations 2015 requires a note to the accounts that confirms that DSG has been deployed in accordance with the statutory provisions quoted in the Code.

The terms on which DSG is payable are set out in DSG Conditions of Grant 2020 to 2021 issued by the Education and Skills Funding Agency (ESFA) in December 2019. The School and Early Years Finance (England) Regulations 2020 are complicated as they require authorities to set the Schools Budget, determine the amount of the Schools Budget to be applied to central expenditure and divide the Individual Schools Budget between schools. However, it is relatively straightforward to meet the accounting requirements for the grant in a way that will be sufficient to:

- allow further exploration of the authority's performance of its statutory duties by interested users of the accounts
- provide base material for external audit work on the deployment of the grant in accordance with the regulations.

The conditions of grant set by the ESFA provide that:

DSG can only be used to support the Schools Budget.

For DSG purposes, grant allocated to the Individual Schools Budget (ISB) is taken to have been spent as soon as it is deployed – i.e. passed to schools' budget shares. There is no requirement to track DSG through the ISB to its use by individual schools, and changes in balances held by schools are not to be recorded in this note.

Paragraphs 3.3 and 6 of the 2020 to 2021 conditions of grant provide details of DSG payments.

The regulations no longer provide for formal changes to the Schools Budget during the year, or redetermination of budget shares except in specific prescribed situations. Where the DSG changes, the authority (after consulting the schools forum) will need to decide how to deal with this change in terms of altering early years funding or central budgets or carrying forward additional grant or deficit to the following year.

The final DSG for 2020 to 2021 before the academy recoupment figure includes a provision for the early years block. This figure is derived from the 2019 to 2020 data. The final allocation for the 2020 to 2021 early years block will be made in June 2021: the basis of this is still under discussion. Any adjustments are to be treated as an 'in year adjustment' for 2021/22. This should be included as a note in the 2020/21 accounts. Local authorities will need to agree year-end practice with their auditors.

New provisions have been put into regulation 8, paragraphs (7) and (8), and Schedule 2 Part 8 of the School and Early Years Finance (England) Regulations 2020, so that local authorities are required to carry forward overspends of DSG to their schools budget either in the immediately following year or the year after. They can apply to the Secretary of State to disregard this requirement. In the case of the Secretary of State giving such permission, this may be for all or part of the sum requested by a local authority, and permission may be given subject to conditions.

The impact of these statutory provisions will be that a local authority with a DSG deficit from the previous year must under the Regulations either:

- carry the whole of the deficit forward to be dealt with in the schools budget for the new financial year, deducting all of it under regulation 8(7)(a) from the money available for that financial year
- carry part of it forward into the new financial year and the rest of it into the following financial year, using regulation 8(7)(b)
- carry all of it into the following financial year, using regulation 8(7)(c)
- apply to the Secretary of State under regulation 8(8) for authorisation to disregard the requirements in regulation 8(7) if it wishes to fund any part of the deficit from a source other than the DSG

This creates, on a statutory basis, a new requirement that a deficit must be carried forward to be dealt with from future DSG income, unless the Secretary of State authorises the local authority not to do this.

The Ministry of Housing, Communities and Local Government (MHCLG) has made regulations regarding the accounting treatment of DSG deficits, which affect the financial years beginning on 1 April 2020, 1 April 2021 and 1 April 2022. These are the Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2020, SI 2020 No 1212. Where a local authority has a deficit in respect of its schools budget for a financial year beginning on 1st April 2020, the authority—

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

(b) 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.

A local authority that charges an amount to such an account in respect of the financial year 2020/21 should record the fact and the amount charged in this note. This will ordinarily be the same as any deficit recorded in line N of the illustrative note set out below.

If an authority’s actual spend on central expenditure is less than its central expenditure budget, the underspend must be carried forward to support the Schools Budget in future years including any money that is moved into earmarked reserves.

Treatment of national copyright licences and reimbursement of VAT

In relation to the treatment of copyright licences* and reimbursement of VAT, authorities are required to show the DSG allocation before the deduction of the charges for national copyright licences and treat gross expenditure on these licences as central expenditure as per regulations. (VAT reimbursement will be shown as an income in the accounts.)

** From April 2015, the Department for Education manages ten copyright licences for all state-maintained schools in England. These are the Copyright Licensing Agency’s Education licence; the Music Publishers Association licence (the SPML); the Newspaper Licensing Agency Schools licence; the Educational Recording Agency licence; the Performing Rights Society licence; the Phonographic Performance Limited licence; the Mechanical Copyright Protection Society ‘Limited*

Manufacture' licence; the Public Video Screening licence; the Motion Picture Licensing Corporation's licence; and the Christian Church Licensing International Licence.

Do not deduct the charges made for national copyright licences.

The demonstration that an authority needs to provide is therefore that:

the Schools Budget (net of post-16 income from the Education and Skills Funding Agency outside the DSG) is equal to or greater than DSG payable for the year (taking into account any grant (surplus or deficit) brought forward from the previous year)

an appropriate treatment has been applied to differences between forecast and finalised grant entitlements (in line with the points above)

over- and underspends on central expenditure and in the deployment of the ISB have been accounted for appropriately.

The ESFA requires chief financial officers to sign a separate return to the Department containing a written assurance confirming the deployment of DSG. For the figures, the ESFA relies on the published note to the authority's accounts setting out the deployment of DSG. In order for this note to provide the requisite level of assurance on a consistent basis, the format of the note has been standardised at the request of the ESFA, and is set out below, along with explanatory material to assist in the completion of the note.

The following illustrative note to the accounts provides information that will meet the Accounts and Audit Regulations 2015 for England requirements on the application of DSG and the assurance required by the ESFA. The illustration only covers expenditure in relation to the grant, rather than being a comprehensive statement of expenditure against the Schools Budget for the year. The table shows the allocation that the authority made of the grant and the expenditure incurred in the year that was eligible for DSG funding. Practitioners may find that their own local circumstances differ from those in the illustration and additional lines (with explanation) or explanatory notes might be necessary to explain fully the authority's position:

Illustration: disclosure of deployment of Dedicated Schools Grant

The council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) (No 2) Regulations 2018. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 20XX/YY are as follows (example shown for 2020/21):

Notes		Central Expenditure	Individual Schools Budget	Total
A	Final DSG for 2020/21 before academy and high needs recoupment			1
B	Academy and high needs figure recouped for 2020/21			2
C	Total DSG after academy and high needs recoupment for 2020/21			3 (= 1-2)
D	Plus: Brought forward from 2019/20			4
E	Less: Carry-forward to 2021/22 agreed in advance			5
F	Agreed initial budgeted distribution in 2020/21	6	7	8 (=3+or-4 and/or+or-5)
G	In year adjustments	9	10	11 (=9+10)
H	Final budget distribution for 2020/21	12 (=6+or-9)	13 (=7+or-10)	14 (=8+or-11)
I	Less: Actual central expenditure	15		15
J	Less: Actual ISB deployed to schools		16	16
K	Plus: Local authority contribution for 2020/21	17	18	19 (=17+18)
L	In year Carry-forward to 2021/22	20 (=12-15+17)	21 (=13-16+18)	22 (=20+21)
M	Plus: Carry-forward to 2021/22 agreed in advance			23 (-5)
N	Carry-forward to 2021/22			24 (=22+23)

A: Final DSG figure before any amount has been recouped from the authority as published March 2021, **excluding the January 2021 early years block adjustment**.

B: Figure recouped from the authority in 2020/21 by the DfE for the conversion of maintained schools into academies and for high needs payments made by ESFA.

C: Total DSG figure after academy and high needs recoupment for 2020/21, as published March 2021. (Do not deduct centrally funded licences.)

D: Figure brought forward from 2019/20, positive or negative.

E: Any amount which the authority decided after consultation with the schools forum to carry forward to 2021/22 rather than distribute in 2020/21 – this may be the difference between estimated and final DSG for 2020/21, or a figure (positive or negative) brought forward from 2019/20 which the authority is carrying forward again.

F: Budgeted distribution of DSG, adjusted for carry-forward, as agreed with the schools forum.

G: Changes to the initial distribution, for example, adjustments for exclusions, or final early years block adjustment.

H: Budgeted distribution of DSG as at the end of the financial year.

I: Actual amount of central expenditure items in 2020/21 – amounts not actually spent, e.g. money that is moved into earmarked reserves, should be included in items L20 or L21 as carried forward.

J: Amount of ISB actually distributed to schools (ISB is regarded for DSG purposes as spent by the authority once it is deployed to schools' budget shares). Note that budget shares include early years funding, sixth form funding and high needs place funding: they do not include high needs top-up funding which is treated as central expenditure.

K: Any contribution from the local authority in 2020/21 which will have the effect of substituting for DSG in funding the Schools Budget. Do not include any change in balances held by schools **as they are not to be recorded in this note**.

L: In year carry-forward to 2021/22, i.e.:

For central expenditure, difference between final budgeted distribution of DSG (item H12) and actual expenditure (item I15), plus any local authority contribution (item K17).

For ISB, difference between final budgeted distribution (item H13) and amount actually deployed to schools (item J16), plus any local authority contribution (item K18).

M: Plus/minus any carry-forward to 2021/22 already agreed (item E5).

N: Total is carry-forward on central expenditure (item L20) plus carry-forward on ISB (item L21) plus/minus any carry-forward to 2021/22 already agreed (item E5).

As DSG is paid specifically to finance the Schools Budget, it is appropriate to credit the grant receivable for the year to the relevant service segment.

APPENDIX 3.

Government Grants and Financial Support for COVID-19 (England)

NOTE: As Government Policy develops this may mean that this list is not exhaustive at the time of publication of this bulletin.

Practitioners should refer to paragraphs 6 to 48 above for accounting considerations

Grants in Support of Local Authorities	
Local council tax support grant	The £670 million of new grant funding for local council tax support. Allocations will be based on each billing authority's mean average working-age local council tax support caseload across the first two quarters of 2020/21 and its average bill per dwelling in 2020/21, compared to the England average.
Local tax income guarantee for 2020/21	The government has outlined that it will compensate local authorities for 75% of irrecoverable losses in council tax and business rates income in respect of 2020/21.
Sales, fees and charges scheme extension	Compensation to authorities for irrecoverable and unavoidable losses from sales, fees and charges income generated in the delivery of services, in the financial year 2020/21. Government have extended this scheme into the first three months of 2021/22.
COVID-19 hardship fund 2020 to 2021	Government announced in the Budget on 11 March 2020 that it would provide local authorities in England with £500 million of new grant funding to support economically vulnerable people and households in their local area. Billing authorities will receive this allocation for 2020/21 under s31 of the Local Government Act 2003.

Business rate relief S31 grant	Compensation from government paid to billing authorities and major preceptors for the cost of reliefs announced by government for 2020/21.
Grants in support of Local Business	
Local Authority Discretionary Grants Fund	This fund is aimed at small and micro businesses who were not eligible for the Small Business Grant Fund or the Retail, Leisure and Hospitality Fund. Local authorities will be responsible for delivering grants to eligible businesses. Section 1 of the Localism Act 2011 provides all local authorities with the vires to make these payments.
Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund	This support takes the form of two grant funding schemes in Financial Year 2020/21, the Small Business Grant Fund and the Retail, Hospitality and Leisure Grant Fund. The government will, in line with the eligibility criteria set out in this guidance, reimburse Local Authorities that pay grants to eligible businesses.
Local Restrictions Support Grants (LRSG)*, Restart Grant and Additional Restrictions Grant (ARG)	Local Authorities pay grants to support businesses during national lockdown periods and periods of local restrictions. Eligibility for support is determined by government and authority payments are reimbursed by government through s31 grant.

*** There are a range of supports for national and local lockdowns under LRSG supports. Further information on the range of supports can be found on the Department for Business, Energy & Industrial Strategy website.**