FRAB 130 (04)
15 June 2017

Financial Reporting Advisory Board Paper

Code of Practice on Local Authority Accounting

Issue:	Update on the consultation papers and Exposure Drafts of the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) 2018/19.
Impact on guidance:	Changes to the text of the 2017/18 Code to produce the 2018/19 Code are outlined in relation to: a) IFRS 9 *Financial Instruments* b) IFRS 15 *Revenue from Contracts with Customers* c) Narrow scope amendments to International Financial Reporting Standards and other minor amendments, and d) Legislative amendments and policy amendments. Note where relevant Exposure Drafts are included in the Annex to this report.
IAS/IFRS adaptation?	As discussed in FRAB 128 (06) under a) CIPFA/LASAAC will add a new adaptation to the Code for hedge accounting by not permitting the accounting policy choices in IFRS 9 which allow entities to continue to use IAS 39 policies. Also as discussed in FRAB 128 (06) CIPFA/LASAAC will also remove two adaptations on designation from the approach in IFRS 9. No adaptations are proposed for b) and c). Adaptations do not apply for d).
Impact on WGA?	The changes in a) are not anticipated to have a substantial effect on WGA as the changes either follow the approach in the current Code or align with the approach in the FReM. Items b) to d) should not impact on WGA.
IPSAS compliant?	Item a) is not consistent with current IPSAS because the IPSASB project to converge with IFRS 9 is ongoing. IFRS 15 changes under b) are also not consistent with IPSAS but the IPSASB has a project on revenue. The narrow scope amendments are not yet reflected in IPSAS for c). IPSAS compliance does not apply to d).
Impact on budgetary regime?	None – local authorities only.
Alignment with National Accounts	The current position regarding alignment with National Accounts is not expected to change.
Impact on Estimates?	None – local authorities only.
Recommendation:	The Board is requested to comment on the proposed approach to amendments for the 2018/19 Code.

Timing:	2018/19

DETAIL

Background

1. The CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC) considered an early draft of the Invitation to Comment (ITC) and Exposure Drafts on *the Code of Practice on Local Authority Accounting in the United Kingdom* (Code) at its meeting on 6 June 2016. This report sets out briefly the proposed substantive changes to the 2017/18 Code made in producing the Exposure Drafts of the 2018/19 Code based on CIPFA/LASAAC's early decisions. The decisions, the consultation paper and Exposure Drafts are still subject to approval and confirmation by CIPFA/LASAAC. If there are any substantial changes as a part of the approval process FRAB will be updated in an out of meeting paper or note. CIPFA/LASAAC anticipates consulting on these changes from mid-July to 6 October 2017. The main areas for change will be:

a) IFRS 9 *Financial Instruments*
b) IFRS 15 *Revenue from Contracts with Customers*
c) Narrow scope amendments to International Financial Reporting Standards and other minor amendments, and
d) Legislative amendments and policy amendments.

The Exposure Drafts of the 2018/19 Code are included in an Annex to this report.

Changes Since the 2017/18 Code – Specific Issues included in the Exposure Drafts and Consultation Papers

(a) IFRS 9 *Financial Instruments*

2. FRAB will be aware that CIPFA/LASAAC consulted on its proposed approach to the adoption of IFRS 9 last year. Following the consultation process and review by FRAB at its November 2017 meeting[1] CIPFA/LASAAC issued its agreed amendments to the Code for the adoption of IFRS 9 in a separate publication which accompanied the publication of the 2017/18 Code. This was to allow local authority accounts preparers appropriate time to make effective preparation for application of the Standard. The separate publication does not have the authority of the Code and cannot be adopted early by local authorities.

3. CIPFA/LASAAC does not intend to re-expose its agreed amendments to the Code as it needs to present a 'steady state' to allow local authorities clarity on the provisions so that accounts preparers can make adequate preparations for the IFRS 9. The consultation does set out that CIPFA/LASAAC is happy to consider any proposals for augmentation of the Code's provisions or additional guidance.

[1] See https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/602404/FRAB_128__06__Nov_201718_LA_Code.pdf and https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/602406/FRAB_128__06__Annex_2_201718_Code_including_Appendices_F_and_G.PDF

4. There are two areas which CIPFA/LASAAC has included in the consultation papers, relating to the impairment provisions of IFRS 9. CIPFA/LASAAC's agreed position was not to adapt or interpret the provisions of IFRS 9 for impairment in any way. However, the agreed position in the separate publication was that it was unlikely that local authorities would have purchased or originated credit-impaired financial assets (but where these did occur the Standard would need to be followed). A respondent to last year's consultation queried whether some housing rent debtors may be considered to be credit impaired on acquisition. CIPFA/LASAAC is therefore seeking interested parties' views on whether this is a material and/or a frequent transaction for local authorities.

5. The second area is the simplified approach for trade receivables, contract assets and lease receivables. The consultation raises the issue that this is different from the anticipated approach in the Government's Financial Reporting Manual. However, CIPFA/LASAAC is concerned about the potential impact of this change on council tax and housing rents. CIPFA/LASAAC is seeking views from interested parties on the implications of their agreed approach to maintain the accounting policy choice to use the simplified approach or the general approach in IFRS 9 for trade receivables or contract assets that contain a significant financing component and lease receivables.

6. The agreed approach to the adoption of IFRS 9 is summarised in the consultation papers. Only one new adaptation is included to restrict the accounting policy choice for hedge accounting to the use of IFRS 9's hedge accounting provisions only. This was reviewed by FRAB in its meetings last year. In addition, the approach has removed two adaptations from those it previously included in the Code for IAS 39 *Financial Instruments: Recognition and Measurement*:

i) the prohibition against designations of financial instruments, and

ii) the adaptation for the treatment of 'regular way' trades of financial assets where the Code previously only permitted 'trade date' accounting to be used (and not "settlement date").

b) IFRS 15 Revenue from Contracts with Customers

7. Again FRAB will be aware that CIPFA/LASAAC also consulted on the approach to the adoption of IFRS 15 *Revenue from Contracts with Customers*. CIPFA/LASAAC's agreed approach to the adoption of IFRS 15 is also included in the separate publication which was issued with the 2017/18 Code. These amendments to the Code do not contain any adaptations or interpretations of IFRS 15 and have been reviewed by FRAB (see FRAB 128 (06)).

8. CIPFA/LASAAC does not intend to re-expose its agreed amendments to the Code as it needs to present a 'steady state' to allow local authorities clarity on the provisions so that accounts preparers can make adequate preparations for the adoption of IFRS 15. The consultation does set out that CIPFA/LASAAC is happy to consider any proposals for augmentation of the Code's provisions or additional guidance.

9. CIPFA/LASAAC's agreed approach to disclosures in the separate publication is that an authority is required to include IFRS 15 disclosures if the information relating to the disclosure is material to its financial statements and to require direct reference to IFRS 15. CIPFA/LASAAC has raised the issue of the disclosure requirements in IFRS 15 in the consultation papers as it is concerned about the impact on local authority financial statements and the balance of disclosure between taxation and other sources of income, given that for the majority of authorities taxation remains the main source of income. It has also highlighted its research on reliefs from the disclosure requirements for non-public entities within Accounting Standards Codification (ASC)

606 *Revenue from Contracts with Customers*. However, due to the increasing commercialisation of income generation of local authorities the consultation paper noted that it is not minded to change the approach to adoption, allowing materiality judgements to reduce unnecessary disclosure, but is seeking interested parties' views on the approach.

c) i) Narrow Scope Amendments to IFRS

10. CIPFA/LASAAC proposes to adopt the following narrow scope amendments (and the IFRIC) in the Code without adaptation or interpretation.

- IAS 7 *Statement of Cash Flows* (Disclosure Initiative)
- IAS 12 *Income Taxes* (Recognition of Deferred Tax Assets for Unrealised Losses)
- IAS 40 *Investment Property* (Transfers of Investment Property)
- *Annual Improvements to IFRS Standards 2014 – 2016 Cycle*, and
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration.*

FRAB is invited to note that the amendments to IAS 7 and IAS 12 were included in the consultation on the 2017/18 Code. However, these amendments were not adopted by the European Union in time for inclusion in the 2017/18 Code and have therefore been rolled forward into the 2018/19 Code. The consultation papers include the relevant Exposure Draft for information but do not explicitly seek the views of interested parties as the changes were consulted on last year.

c) ii) Removal of Disclosures on the Analysis of Debtors and Creditors Across Specified Categories of Public Sector Organisations

11. CIPFA/LASAAC has decided to remove the disclosures on the analysis of debtors and creditors across specified categories of public sector organisation as this disclosure has been removed from the FReM.

e) Legislative and Policy Developments

12. The consultation papers and Exposure Drafts will also include relevant updates for legislative developments with proposed updates reflecting the relevant statutory requirements where these are issued in time for inclusion in the consultation papers. These comprise:

- the Accounts and Audit Regulations 2015 for English Authorities
- amendments to the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
- the Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2017 for English Authorities, and
- the Accounts and Audit (Wales) Regulations 2014 – Update.

Pooling of Local Government Pension Scheme Investments in England and Wales

13. In the Summer Budget 2015 the Chancellor announced the Government's intention to invite the 89 administering authorities in England and Wales to bring forward proposals for pooling Local Government Pension Scheme investments, to deliver reduced costs while maintaining overall investment performance. CIPFA/LASAAC is of the view that there are appropriate provisions already in the Code to accommodate the reporting requirements for these investments but has included the issue in the consultation papers to raise awareness amongst interested parties.

IFRS 16 Leases

14. The consultation papers also include a separate Appendix providing interested parties with an overview of IFRS 16 *Leases*. The papers set out that CIPFA/LASAAC has established a sub group on the implementation of the leasing standard which will assist CIPFA/LASAAC with the development of its consultation paper and Exposure Draft on the adoption of the standard in the Code. The consultation papers are anticipated to be issued in December, timed to co-ordinate with the HM Treasury consultation paper on IFRS 16. The Appendix also includes a number of investigatory questions seeking interested parties' views on application for local government circumstances.

Post-Implementation Reviews of IAS 19 Employee Benefits and the Group Accounts Standards

15. The first post-implementation review of the IFRS-based Code took place in 2012/13 based on the provisions in the Code from the first IFRS-based Code to date. FRAB Members may be aware that the Code adopted the substantial amendments to IAS 19 *Employee Benefits* (June 2011 amendments) in the 2013/14 Code and the Group Accounts standards[2] in the 2014/15 Code. CIPFA/LASAAC will issue a separate consultative process to initiate a post-implementation review into these two sets of new amending standards and will seek interested parties' views on their application in the Code.

Impact on disclosures in the financial statements

16. Substantial new disclosures are introduced by IFRS 9 under a) and b). A new disclosure is introduced under the amendments to IAS 7 to enable users of the financial statements to evaluate changes to liabilities arising from financing activities for c). There may be new disclosures introduced under the legislative changes brought about by the Accounts and Audit Regulations 2015 for English Authorities.

IAS/IFRS compliance

17. As discussed in FRAB 128 (06) under a) CIPFA/LASAAC will add a new adaptation to the Code for hedge accounting by not permitting the accounting policy choices in IFRS 9 which allow entities to continue to use IAS 39 policies. Also as discussed in FRAB 128 (06) CIPFA/LASAAC will also remove two adaptations on designation from the approach in IFRS 9 (see paragraph 6). No adaptations are proposed for b) and c). Adaptations do not apply for d).

[2] IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interest in Other Entities*, IAS 27 (May 2011) *Separate Financial Statements*, IAS 28 (May 2011) *Investments in Associates and Joint Ventures*

Impact on WGA

18. The changes in a) are not anticipated to have a substantial effect on WGA as the changes either follow the approach in the current Code or align with the approach in the FReM. Items b) to d) should not impact on WGA.

IPSAS compliance

19. Item a) is not consistent with current IPSAS because the IPSASB project to converge with IFRS is ongoing. IFRS 15 changes under b) are also not consistent with IPSAS but the IPSASB has a project on revenue. The narrow scope amendments are not yet reflected in IPSAS for c). IPSAS compliance does not apply to d).

Proposed text for the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)

20. The proposed text of the Exposure Drafts of the Code is attached in the Annex to the report. It is still subject to review and any substantive changes will be reported to the Board.

Impact on the budgetary regime

21. The proposals relate to the *Code of Practice on Local Authority Accounting in the United Kingdom* and therefore do not impact on the budgetary regime.

Summary and recommendation

22. This report sets out details of the proposed amendments to the 2018/19 *Code of Practice on Local Authority Accounting in the United Kingdom*.

23. The Board is requested to comment on the proposed approach to the amendments for the 2018/19 Code.

CIPFA/LASAAC
June 2017