

Financial Reporting Advisory Board Paper

Code of Practice on Local Authority Accounting

Issue:	To consider an update on the Exposure Draft of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) 2015/16
Impact on guidance:	<p>Changes to the text of the 2015/16 Code are proposed in relation to:</p> <ul style="list-style-type: none"> (a) IFRS 13 <i>Fair Value Measurement</i> (b) Narrow scope amendments to IFRS (c) <i>IFRIC 21 Levies</i> (d) Changes to UK GAAP (e) Other minor and drafting amendments. <p>A separate joint paper by the relevant authorities (FRAB 121 (07)) on the approach to the adoption of IFRS 13 <i>Fair Value Measurement</i> is included on the agenda.</p>
IAS/IFRS adaptation?	The current adaptation of IAS 16 is clarified for (a). No adaptations are required for (b) and (c). IFRS does not contain any direct provisions for Heritage Assets. The Code currently relies on FRS 30 <i>Heritage Assets</i> for recognition, measurement and disclosure requirements for heritage assets. The current relaxation of the measurement requirements in FRS 30 is not explicitly included in FRS 102 <i>The Financial Reporting Standard applicable in the UK and Republic of Ireland</i> but for the avoidance of doubt CIPFA/LASAAC wishes to maintain these provisions, which may require an interpretation of FRS 102 (and IAS 16).
Impact on WGA?	Amendments to the Code in respect of (a) to (e) are expected to be consistent with WGA requirements.
IPSAS compliant?	Amendments in respect of (a) have yet to be reflected in IPSAS. The Exposure Draft of the second phase of the IPSASB Conceptual Framework includes consideration of measurement approaches consistent with both IFRS 13 (ie measures of financial capacity) and the proposed approach to measurement outlined in FRAB 121 (07). The narrow scope amendments (b) and IFRIC 21 (c) are yet to be included in IPSAS.
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: (1) to note and provide comments on the proposed approach to the amendments to the 2015/16 Code (2) to agree to consider the updated Invitation to Comment and Exposure drafts of the Code in an out of meeting paper.
Timing:	2015/16

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 at its meeting on 4 June 2014. This report sets out briefly the proposed substantive changes to the 2014/15 Code made in producing the Exposure Drafts of the 2015/16 Code¹. CIPFA/LASAAC anticipates consulting on these changes from mid-July to 10 October 2014. The main areas for change will be:

- a) IFRS 13 *Fair Value Measurement*
- b) Narrow scope amendments to IFRSs
- c) IFRIC 21 *Levies*
- d) Changes to UK GAAP, and
- e) Other minor and drafting amendments

Changes since the 2014/15 Code – specific issues included in the Exposure Draft

(a) IFRS 13 *Fair Value Measurement*

2. FRAB Members will be aware that the adoption of the amendments to IFRS 13 *Fair Value Measurement* was deferred to the 2015/16 Code. The CIPFA Secretariat has worked with HM Treasury colleagues to ensure that the approach is aligned in the development of previous and current papers.

3. At its meeting on 4 June 2014 CIPFA/LASAAC considered an approach which, following the conceptual debate on measurement of property, plant and equipment at the last meeting of FRAB, focussed on measuring the service potential of operational assets. This method maintains the current measurement requirements of the Code for operational assets ie a market based

¹ The comments on CIPFA/LASAAC's proposals are based on its initial views at CIPFA/LASAAC's 4 June 2014 meeting; final approval of the text of the Exposure Draft of the Code has yet to take place.

existing use valuation based on the definitions in the Royal Institution of Chartered Surveyors (RICS) *Valuation - Professional Standards*. For property, plant and equipment that does not have a market and/or for specialised assets the measurement will be on a Depreciated Replacement Cost (DRC) basis. Surplus Assets (ie property, plant and equipment not meeting the definition of held for sale) will be measured at fair value in accordance with IFRS 13 as they are not currently being held for their service potential. As a part of its conceptual approach to measurement CIPFA/LASAAC proposed describing all property, plant and equipment assets (with the exception of infrastructure and community assets) as being measured at current value, with current value including existing use value and fair value measurements.

4. CIPFA/LASAAC also agreed to explicitly include the disclosure objective of IFRS 13 in its provisions on property, plant and equipment ie for the users of the financial statements to understand the valuation techniques and inputs used to develop the measurements for property, plant and equipment and the impact of the changes of these techniques on the Comprehensive Income and Expenditure Statement.

5. Following the approach above CIPFA/LASAAC will adopt IFRS 13 without any adaptations.

(b) Narrow Scope Amendments

6. The draft of the 2015/16 Code adopts the following narrow scope amendments to IFRS without change:

- Amendments to IAS 19 *Employee Benefits* (Defined Benefit Plans: Employee Contributions)
- *Annual Improvement to IFRSs 2010 – 2012 Cycle; and*
- *Annual Improvement to IFRSs 2011 – 2013 Cycle.*

(c) IFRIC 21 Levies

7. The Exposure Draft of the 2015/16 Code proposes to adopt IFRIC 21 *Levies* without change.

(d) Changes to UK GAAP FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland

8. The Code draws on UK GAAP including the Pensions SORP² for three areas:

- Accounting for Value Added Tax (VAT).
- Accounting for Heritage Assets
- Accounting and Reporting by Pension Funds the format of the Pensions Fund Account and Net Assets Statement

9. The consultation papers do not propose any changes for the accounting for VAT or the pensions accounting statements (but will review the reporting requirements for pensions next year when the final version of the Pensions SORP is issued). However, FRS 102 no longer includes the specific provisions in FRS 30 *Heritage Assets* which permit that valuations "... may be made by any method that is appropriate and relevant" (see paragraph 21 of FRS 30).

² the Statement of Recommended Practice: Financial Reports of Pension Schemes (the Pensions SORP)

CIPFA/LASAAC considers that the current measurements promote transparency and support the presentation of a true and fair view of local government financial statements that these explicit relaxations should be retained in the Code. It is noted that the Charities SORP consultation includes these requirements based on FRS 102 whose measurement requirements are based on IAS 16. For the avoidance of doubt CIPFA/LASAAC therefore proposes to interpret FRS 102 (and theoretically IAS 16) to explicitly retain the provisions of included in the Code under FRS 30.

(e) Minor Amendments

10. Minor Amendments are included to the new Appendix E of the Code (Accounting for Schools in Local Authorities in England and Wales). This is a clarification only and does not change the previous conclusions reported to FRAB.

(f) Legislative Developments

11. The consultation paper includes reference to a number of legislative developments which will need to be reflected in the Code. Some of these changes will only require update to factual statements. It is not clear as yet whether these legislative developments will require further consultative processes for the 2015/16 Code.

Adoption of the CIPFA Code of Practice on Transport Infrastructure Assets

12. FRAB is aware that the 2014/15 Code confirmed the adoption of the measurement requirements of the CIPFA *Code of Practice on Transport Infrastructure Assets* in the 2016/17 year ie measurement on a DRC basis. The 2014/15 Code also confirmed the reporting requirements for the change of accounting policy. CIPFA/LASAAC will use the ITC to remind authorities of this position and to underline the need for effective and early preparation for this change.

Simplifying and Streamlining the Presentation of Local Authority Financial Statements

13. One of the key messages from CIPFA's consultation on simplifying and streamlining the financial statements was that local authorities are concerned that their traditional measure of performance (ie movements on their General Fund and HRA balances) is not clearly identifiable in their financial statements. CIPFA/LASAAC therefore wants to review how performance is presented and reported in local authority financial statements.

14. FRAB is aware that CIPFA/LASAAC has also had its provisions on its management commentary (Explanatory Foreword in the Code) under review as it was waiting for clarification on the relevant statutory reporting requirements. CIPFA/LASAAC therefore wishes for this review to take into account the narrative reporting requirements for local authorities. It will also be able to benefit from any lessons from the CIPFA project with the International Integrated Reporting Council. The review is anticipated to commence in September at roundtables held by CIPFA.

Impact on disclosures in the financial statements

15. There are increased disclosure requirements under (a) IFRS 13 and clarifications of the reporting requirements under (b) IFRS 8 *Operating Segments under the Annual Improvements to IFRSs 2010 – 2012 Cycle*. There are no new disclosure requirements under (c) IFRIC 21. The disclosure requirements under (d) FRS 102 for heritage assets are also clarified but there are no substantial changes. There are no new disclosure requirements under (e).

IAS/IFRS compliance

16. The current adaptation under IAS 16 for the measurement requirements of property, plant and equipment is clarified. A new interpretation (for the avoidance of doubt) may be required for (d) in relation to the measurement requirements for heritage assets. No new adaptations are required for the remaining changes.

Impact on WGA

17. The changes in respect of (a) to (e) are anticipated to be reflected or be similar to those of the FReM. As such, no impact on WGA is expected in respect of these standards, amended standards or the IFRIC.

IPSAS compliance

18. The Memorandum of Understanding requires relevant authorities to consider whether an adaptation of EU adopted IFRS is required where different or additional guidance is contained in an IPSAS. The following paragraphs are intended to demonstrate that due consideration has been given to this requirement.

19. The Code amendments include a number of updated standards or the IFRIC that have yet to be reflected in IPSAS. Consequently the Code will not be fully IPSAS compliant in these areas until the relevant IPSASs are updated in line with the IPSASB 'rules of the road'. The Exposure Draft of the second phase of the IPSASB Conceptual Framework includes consideration of measurement approaches consistent with both IFRS 13 (ie measures of financial capacity) and the proposed approach to measurement outlined in FRAB 121 (07).

Proposed text for the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)

20. The detailed proposals included in the Exposure Draft are currently being updated following the meeting of CIPFA/LASAAC on 4 June 2014. Once agreed by CIPFA/LASAAC the consultation and the Exposure Draft will be sent to FRAB Members in an out of meeting paper.

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 a proposed amendments to the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom.

23. The Board is requested:

- 1) to note and provide comments on the proposed approach to the amendments to the 2015/16 Code
- 2) to agree to consider the updated Invitation to Comment and Exposure Drafts of the Code in an out of meeting paper.

CIPFA/LASAAC
June 2014