

Financial Reporting Advisory Board Paper

Code of Practice on Local Authority Accounting

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| Issue: | Update on CIPFA/LASAAC development of the <i>Code of Practice on Local Authority Accounting in the United Kingdom</i> (the Code) |
| Impact on guidance: | <p>Future editions of the local government Code will be affected by the following CIPFA/LASAAC work activities:</p> <ul style="list-style-type: none"> a) CIPFA/LASAAC Strategic Plan b) Development of the 20/21 Code consultation |
| IAS/IFRS adaptation? | <ul style="list-style-type: none"> A) Strategic Plan: Potentially stakeholder feedback may indicate areas for consideration of further adaptation and interpretation of existing standards. Liaison and communication with FRAB will be ensured. B) Development of 20/21 Code consultation: No adaptations are currently proposed in the Invitation To Comment (ITC). |
| Impact on WGA? | <ul style="list-style-type: none"> A) Strategic Plan: The potential longer-term impact on WGA processes of any changes which are indicated by the stakeholder engagement process will require specific and careful consideration. The avoidance of creating a disproportionate dual reporting process for local government will be a key concern. FRAB review of any future strategic plan derived changes is anticipated. B) Development of 20/21 Code consultation: No WGA impact identified. |
| IPSAS compliant? | <ul style="list-style-type: none"> A) Strategic Plan: Potentially stakeholder feedback may indicate areas for further adaptation and interpretation of existing standards. Liaison and communication with FRAB will be ensured. B) Development of 20/21 Code consultation: No new IPSAS standards proposed for adoption. No amendments proposed to existing IPSAS standards. |
| Impact on budgetary regime? | None – local authorities only. |

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| Alignment with National Accounts | <p>A) Strategic plan: The potential longer-term impact on National Accounts data of any changes which are indicated by the stakeholder engagement process will require specific and careful consideration. The avoidance of creating a disproportionate dual reporting process for local government will be a key concern. FRAB review of any future strategic plan derived changes is anticipated.</p> <p>B) Development of 20/21 Code consultation: Liaison will be maintained with FRAB secretariat / HM Treasury and ONS staff on proposals where National Accounts implications may arise.</p> |
| Impact on Estimates? | None – local authorities only. |
| Recommendation: | The Board is requested to provide early comment on the proposed approach to Code development. The full ITC, exposure drafts and relevant materials will be submitted as an out-of-meeting paper for review. |
| Timing: | CIPFA/LASAAC Strategic Plan : Primarily affecting 21/22 Code or later Development of the 20/21 Code Consultation: 20/21 Code |

DETAIL

Background

1. CIPFA/LASAAC met on 4 June 2019. Key agenda items discussed included:
 - a) CIPFA/LASAAC Strategic Plan
 - b) Development of the 20/21 Code Consultation

CIPFA/LASAAC Strategic Plan

2. CIPFA/LASAAC has agreed the following vision statement:

UK local authority annual accounts should be widely recognised as an exemplar for clear reporting of the financial performance and position of complex public sector bodies. Users of accounts should be able to access the information they want to help them to understand the finances of an authority and to take practical and informed decisions.

3. CIPFA/LASAAC action for 2019 to deliver the above includes the following:

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| Stakeholder survey and engagement | Summer 2019 |
| Discussion paper on future Code development | Summer 2019 |
| Discussion paper on differential reporting | Summer 2019 |
| Code Invitation To Comment 20/21: Key Areas | Summer 2019 |
| Narrative Reporting Review | Autumn/ Winter 2019 |

Stakeholder Survey and Engagement

4. CIPFA/LASAAC intends to actively seek stakeholder engagement and feedback through:

A stakeholder on-line survey to be launched over summer 2019. Primarily it will be aimed at the following key stakeholder communities:

- Accounts users interested in accountability for taxpayer resources
- Other accounts users
- Professional experts, subdivided into:
 - CFOs
 - Preparers and auditors
 - Other experts eg actuaries, valuers, TM advisors

CIPFA/LASAAC plans to support this with direct liaison with and attendance at, where requested, key stakeholder group meetings eg Local Authority Audit Group, Treasurer Societies, Councillor forums etc.

Discussion paper on future Code development

5. CIPFA/LASAAC proposes to develop a discussion paper, for issue over summer 2019, to promote discussion of, and gain feedback on, the following areas for Code development decisions:

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| Key Messages (Statutory Adjustments) |
| Statutory adjustments are a key aspect of local government financial management. The annual accounts present accounting based information which is then adjusted for the impact of legislation. The legislation affects the funds that councils can take into consideration in making budgeting decisions. |
| Examples relate to capital assets, pensions and financial instruments. |

Key Messages (Statutory Adjustments)

CIPFA/LASAAC wishes to explore how reporting and presentation practices can best provide clear information for accounts users. Identification of the primary users of the accounts and their needs, for example to support accountability for public resources, is important for this as indicated in recent central government financial reporting reviews.

Materiality and Disclosures

CIPFA/LASAAC wishes to understand and explore how materiality decisions and disclosure assessments, by preparers and auditors, can be supported to best meet the needs of the users of the accounts.

IASB amendments to the definition of material can be regarded as assisting in this. As above the identification of users and their needs is central to supporting appropriate decisions. The proposed FReM disclosure assessment questions are also relevant.

Code Structure and Format

The existing Code structure and format is being reviewed to assess whether it assists preparers, auditors and others in producing annual accounts which fulfil the vision statement.

Initial 'focus group' style feedback indicates some views that the quality of guidance on how the required treatment is achieved is most relevant. While the Code specifies what is required this may not always be directly referred to. Where queries do arise direct reference to standards and legislation can be required. It was suggested that more focus could be placed on adaptations and interpretations.

Key Areas for Stakeholders

Based on previous stakeholder communications the following are key areas and topics which are to be explored to inform future Code requirements:

- Capital: eg valuation bases for assets, need for historic cost information, role of depreciation compared to statutory repayment of debt,
- Financial instruments: eg potentially draw a distinction between basic and complex instruments (cf FRS 102 approach), relevance of risk and complexity in financial instruments
- Pensions: eg use of IAS 19 assumptions vs assumptions used for funding valuations, reliance on LGPS accounts to show liabilities (cf central government approach with pension liabilities in separate accounts),
- Group accounts: eg the importance of group accounts for the users of the accounts, how group accounts position informs financial management actions etc
- Out-turn and Income & Expenditure reporting: eg how to present the statutory out-turn position and compare or link this to the accounting standards based income

Key Areas for Stakeholders

- and expenditure position, use of a 'type of expenditure' analysis vs an 'operating segment' analysis in the CIES,
- Summary / Extract information eg key information on the accountability for public resources which could be brought together in the accounts in a single place, linkage to narrative report

Open discussion and engagement of these items is anticipated to raise sensitive topics and divergent views amongst stakeholders. The discussion paper will seek to be neutral and avoid early commitment to any particular view or approach. An issue to be noted is the potential for 'dual reporting' arising, for instance the need for councils to provide extensive additional adjustment data for WGA / RO / LFR/ National Accounts etc purposes.

Discussion paper on differential reporting

6. CIPFA/LASAAC proposes to develop a discussion paper, for issue over summer 2019, to promote discussion of, and gain feedback on, the longer term potential for differential reporting requirements for UK local government.

Differential Reporting

For those local government bodies which are required to comply with the Code, the requirements of the Code apply without differentiation (unless this is due to legislation).

The potential exists to implement differential reporting requirements within the Code structure dependent on scale or other relevant factors. The discussion paper seeks to explore the options and implications of this. The paper considers the current requirements for all local government bodies; private and other sector practices in the UK; and international examples of differential reporting requirements for public sector bodies.

An analysis of UK local government is provided. Feedback is to be requested.

Any movement to differential reporting requirements will require an exploration of legislative implications and of the need to appropriately support the Whole of Government Accounts process.

Development of the 20/21 Code Consultation

7. The consultation process is central to the Code development process. CIPFA/LASAAC reviewed an early draft of the Code Invitation To Comment (ITC) and accompanying Exposure Drafts.

8. Following review an amended ITC is to be provided for CIPFA/LASAAC approval, and subsequently FRAB review, with the following areas expected to be included:

CIPFA/LASAAC Vision Statement and Strategic Direction

Clarity and Streamlining

- Materiality: incorporating IFRS amendments to the definition and the disclosure of the basis for the assessment of materiality. An appendix of considerations is also to be provided.
- Disclosure Assessment: Incorporation of the proposed FReM assessment questions
- Exposure draft to be provided

Clarity and Streamlining – Disclosure Review

- Open feedback to be requested regarding potential improvements to disclosure requirements, for example to improve focus and relevance for users
- Example areas: capital, pensions, financial instruments, cash flow statement
- No exposure draft proposals to be provided

Accounting Standards

- Amendments previously consulted on to be implemented (Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures; and Annual Improvements to IFRS Standards 2015-2017 Cycle.)
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement'. The proposed Exposure Draft emphasises that application is only relevant where the treatment is material and provides direction regarding making an initial assessment of the quantitative materiality of the treatment.
- Definition of a Business: Amendments to IFRS 3. Minor amendments in the Exposure Draft.
- Amendments to References to the Conceptual Framework in IFRS Standards Impact of EU withdrawal on UK accounting standards. Minor amendments in the Exposure Draft.
- UK withdrawal from the European Union. Allowance in the Exposure Draft that the 'adopted standards' framework would change to a UK based one.
- IPSAS Standards (IPSAS 41 Financial Instruments, IPSAS 42 Social Benefits): No amendments proposed.
- Pension Fund Accounts: Alignment to Pensions SORP. Minor amendments in the Exposure Draft
- IFRS 16 Leases: No consultation questions. Agreed Code draft to be provided as an appendix for information.

Legislation

- Legislation changes in each area to be assessed with updated reference in the Code where applicable. Exposure Draft to be provided.

Other Areas

- Service Concession Arrangements (PPP/PFI): Treatment of third party revenues (income assigned to the operator). No Code amendments planned.
- Service Concession Arrangements (PPP/PFI): Measurement of the liability using IFRS 16 Leases. Subject to resolution of a query raised, it is proposed that the Code will follow the FReM in measuring the liability using the requirements of IFRS 16 Leases for lease liability measurement.
- IFRS 17 Insurance Contracts: Request for early identification of any potential arrangements which may be affected by IFRS 17

9. FRAB review of the 20/21 consultation proposals will be critical in supporting mutual alignment, and recognition and agreement of any divergences, between the Code and the FReM.

10. An out-of-meeting copy of the proposed Invitation To Comment, Exposure Drafts and appendices will be provided to FRAB members for review.

Summary and recommendation

11. This report sets out details of CIPFA/LASAAC proposals regarding

1. CIPFA/LASAAC strategic direction implementation actions
2. Development of the consultation proposals for the 20/21 *Code of Practice on Local Authority Accounting in the United Kingdom*.

12. The Board is requested to comment on the proposals affecting the development of future editions of the Code.

**CIPFA/LASAAC
June 2019**