

Financial Reporting Advisory Board Paper

Code of Practice on Local Authority Accounting

Issue:	<p>Update on CIPFA/LASAAC development of the <i>Code of Practice on Local Authority Accounting in the United Kingdom</i> (the Code) encompassing:</p> <ul style="list-style-type: none"> - A revised draft Code for 2022/23, encompassing deferral of mandatory implementation of IFRS 16, <i>Leases</i> until 2024/25, while allowing and encouraging voluntary adoption - A draft Invitation to Comment on the 2023/24 Code - An update on the CIPFA/LASAAC Strategic Plan for development of the Code <p>No briefing is provided in this submission in relation to the consultation on accounting for infrastructure assets, for which a verbal presentation will be provided.</p>
Impact on guidance:	<p>The 2022/23 and 2023/24 Codes will be the definitive guidance for local authority accounting in the relevant accounting periods, subject to any additional guidance which may emanate from the consultation on infrastructure assets. Depending on the CIPFA/LASAAC's deliberations on that consultation, narrow scope changes may also be made retrospectively to previous editions of the Code.</p>
IAS/IFRS adaptation?	<p>IFRS 16 <i>Leases</i> – The revised draft of the 2022/23 Code includes the adaptations as agreed with FRAB in previous years.</p> <p>The exposure drafts for the 2023/24 Code include amendments to IAS 8, IAS 1, IAS 12 and IFRS 3 without adaptation on interpretation.</p>
Impact on WGA?	<p>The deferral of mandatory implementation of IFRS 16, <i>Leases</i> will have an impact on WGA.</p>
IPSAS compliant?	<p>No misalignment is anticipated.</p>
Impact on budgetary regime?	<p>None – local authorities only.</p>
Alignment with National Accounts	<p>The deferral of mandatory implementation of IFRS 16, <i>Leases</i> will require adjustments for National Accounts purposes</p>
Impact on Estimates?	<p>None – local authorities only.</p>

Recommendation:	This report requests that: <ul style="list-style-type: none">• FRAB agrees the revised 2022/23 Code in Annex A• FRAB notes and provides comments on the draft ITC and ED for the 2023/24 Code at Annex B• FRAB notes and provides comments on the CIPFA/LASAAC Strategic Plan
Timing:	<p>2022/23: The revised draft is for the Code effective in 2022/23</p> <p>2023/24: The ITC and ED set out proposals for the Code which would be effective in 2023/24</p> <p>Any amendments made in relation to infrastructure assets may result in narrow scope changes to the Code for accounting periods from 2018-19 to 2022/23</p>

DETAIL

Revised draft Code for 2022/23

1. CIPFA/LASAAC made what were expected to be its final determinations on the content of the Code at its 22 November 2021 meeting, deciding among other things that service concession arrangement liabilities should be measured in accordance with the measurement requirements of IFRS 16 *Leases*.
2. Submission of the draft Code to FRAB was delayed in the light of the DLUHC request for and subsequent consultation on property, plant and equipment valuation and deferral of IFRS 16, details of which were conveyed to FRAB in out of meeting papers.
3. At its March 2022 meeting FRAB reviewed and provisionally agreed the 2022/23 Code based on the November position, while noting that this was expected to change in the light of the emergency consultation.
4. That meeting also considered CIPFA/LASAAC proposals emanating from the emergency consultation, including a proposal to defer implementation of IFRS 16, *Leases* for a fixed 2-year period. FRAB advised that it was content for deferral of mandatory implementation to occur, subject to voluntary adoption being allowed and encouraged.
5. A revised draft of the full 2022/23 Code has been prepared and is attached at Annex A. This is a track changes document, based on changes to the 2021/22 Code, and compared to the text provided in March 2022. The changes:
 - Mainly reinstate IAS 17 *Leases* requirements in the main text of the Code
 - Reframe the Appendix (F) on IFRS 16 in terms of voluntary adoption during 2022/23, rather than serving primarily as a look-ahead to implementation in future years.

6. Note that the approach to the adoption of IFRS 16 has been considered by FRAB in previous meetings.

A draft Invitation to Comment on the 2023/24 Code

7. CIPFA/LASAAC discussed the content of the Invitation to Comment (ITC) and Exposure Draft (ED) for the 2023/24 Code at a meeting on 15 June 2022. Progress with the development of the ITC has been somewhat delayed due to pressures from other consultations, so the draft is still subject to Secretariat review and augmentation, however, largely CIPFA/LASAAC was content with the approach as outlined in the attached ITC and ED.

Consultation Process for the 2023/24 Code of Practice on Local Authority Accounting in the United Kingdom

8. Following two exceptional consultations reflecting pressures on local authority preparers and auditors, CIPFA/LASAAC is seeking to introduce as few changes as possible to the Code in 2023/24. The main developments being consulted on will include:

- a) a stable platform for the Code and IFRS 16 *Leases* deferral
- b) accounting for infrastructure assets (dependent on the changes emanating from the recently completed consultation) though it considers that any temporary solution will need to be extended to the 2022/23 Code
- c) changes to standards for 2023/24 including:
 - Definition of Accounting Estimates, Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
 - Disclosure of Accounting Policies, Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements
 - Deferred Tax relating to Assets and Liabilities arising from a Single Transaction, Amendments to IAS 12 Income Taxes
 - Reference to the Conceptual Framework – Amendments to IFRS 3 Business Combinations(Note that all these amendments to standards will be implemented in the Code without adaptation or interpretation).
- d) legislative changes
- e) IFRS 17 *Insurance Contracts*, where it is proposed that mandatory implementation be aligned with the central government timetables
- f) CIPFA/LASAAC's strategic plan (see paragraphs 9 to 14 below), and
- g) Whether further guidance on any matter is required.

9. The consultation will be subject to a further review by CIPFA LASAAC (as it considered an early draft) and full due process for its issue, but it is anticipated that the consultation will be issued in mid-July returning to the normal process and timescales for the annual development of the Code.

Update on CIPFA LASAAC's Strategic Plan

10. CIPFA/LASAAC considered its strategic plan and whether this needed to be updated to reflect changes in the financial reporting environment. The strategic plan proposes seven projects for 2022 and beyond:

- Sustainability reporting
- Improving the presentation of local authority financial statements
- Annual development programme for the 2023/24 Code
- Implementation of IFRS 17 *Insurance Contracts*
- Horizon scanning
- Narrative reporting
- Review of the structure and format of the Code

11. Local authorities do not currently have an explicit requirement to produce a sustainability report. The Sustainability Reporting project will consider the impact of the environment in local authority financial statements and accompanying reports and is likely to be a medium to long-term project. Sustainability reporting issues should, however, be addressed within local authorities' narrative reports. The ITC describes potential ways in which local authorities' narrative reports could integrate sustainability reporting and how climate change may affect local authorities' financial statements.

12. A Streamlining Workshop held in November 2021 considered ways in which local authority accounts presentation might be improved. The Streamlining Workshop noted the potential for separation of key areas of reporting such as, Pension Funds, Collection Fund and the Housing Revenue Account. Following the Streamlining Workshop, consideration has been given to the formal establishment of the Financial Reporting Hub (FRHub) to support and advise CIPFA/LASAAC, CIPFA's Public Finance and Management Board and CIPFA's Accounting and Financial Reporting Forum. The suggested work programme for the FRHub would be:

- Group Accounts
- Separation of the Pension Fund
- Collection Fund Reporting

13. The format and structure of the Code is under consideration. This work involves consideration of the digitisation of the Code and is mindful of the need to promote high quality financial reporting and to support local authorities in ensuring that they are able to communicate the key messages of the financial statements to their users.

14. The horizon scanning project in the strategic plan aims to avoid future urgent consultations. This work will include discussions with auditors and will be monitored by CIPFA's Accounting and Financial Reporting Forum.

15. CIPFA LASAAC considered its updated strategic plan included in Annex C and was generally content with the approach. However, it considered that more emphasis was needed on communicating the key messages in the financial statements (note that this was also considered by the Streamlining Workshop) and that the narrative reporting project should prioritise how its opening section should communicate the key elements of the operations of the authority and its financial performance and financial position (potentially in a similar approach to that of the FReM).

16. CIPFA LASAAC Secretariat is yet to obtain final sign off, including to the proposed timelines. Significant local audit issues carry the risk of consequential impacts on capacity in the near term. CIPFA LASAAC is concerned to have an ambitious but achievable plan.

Summary and recommendation for the Code of Practice on Local Authority Accounting in the United Kingdom

17. This report requests that:

- FRAB agrees the revised 2022/23 Code in Annex A
- FRAB notes and provides comments on the draft ITC and ED for the 2023/24 Code at Annex B
- FRAB notes and provides comments on the CIPFA/LASAAC Strategic Plan.

CIPFA/LASAAC
June 2022