

Financial Reporting Advisory Board Paper

Code of Practice on Local Authority Accounting

Issue:	Update on CIPFA LASAAC development of the <i>Code of Practice on Local Authority Accounting in the United Kingdom</i> (the Code) encompassing: <ul style="list-style-type: none"> a) Anticipated content of the 2024/25 Code b) Strategic Plan, Terms of Reference, and Board Effectiveness Review c) Infrastructure Assets d) Update to the 2022/23 Code reflecting recent FReM amendments
Impact on guidance:	This report sets out the current position regarding the development of the 2024/25 Code. Material in relation to previous Codes is provided, increasing alignment with other public sector reporting having regard to recent amendments to 2022-23 FReM requirements for PFI PPP reporting.
IAS/IFRS adaptation?	No new adaptations are proposed
Impact on WGA?	No new issues for WGA
IPSAS compliant?	No misalignment is anticipated.
Impact on budgetary regime?	None – local authorities only.
Alignment with National Accounts	Liaison will be maintained with FRAB secretariat / HM Treasury staff if National Accounts implications seem likely to arise.
Impact on Estimates?	None – local authorities only.
Recommendation:	The Board is requested to comment on the proposed approach to Code development.
Timing:	2022/23: Code update to align with amended 2022-23 FReM 2024/25: main Code development and Infrastructure Assets 2025/26: other improvement initiatives and IFRS 17

DETAIL

Background

1. CIPFA LASAAC met on 9 March 2023. Key items discussed included:

- a) Anticipated content of the 2024/25 Code
- b) Strategic Plan, Terms of Reference, and Board Effectiveness Review
- c) Infrastructure Assets
- d) Update to the 2022/23 Code reflecting late FReM amendments

Anticipated content of the 2024/25 Code

2. CIPFA LASAAC received a report on the anticipated content of the 2024/25. The main anticipated changes are noted at Appendix A to this report. Since the CIPFA LASAAC meeting regulations have been passed allowing the continuation of the current treatment of pooled assets under IFRS 9, *Financial Instruments* for a further two year period.

3. The 2024/25 Code will continue to reflect a substantially stable platform, except in relation to the implementation of IFRS 16 *Leases*, which will be mandatory. While a substantial matter, this material has been extensively trailed in previous editions of the Code.

4. CIPFA LASAAC will receive a draft Invitation to Comment and Exposure Draft at its June 2023 meeting. The bulk of the Exposure Draft will be the familiar material on IFRS 16, *Leases*.

Strategic Plan, Terms of Reference, and Board Performance Review

5. CIPFA LASAAC received a report on its Strategic Plan. Projects in the plan have been prioritised in line with available resources, reflecting the considerable resources being diverted to address issues around infrastructure assets. The various strands of the strategic plan encompass:

- Annual Code update process (routine)
- Infrastructure Assets Long-Term Solution
- Narrative Reporting – Performance Reporting and Summary Financial Information
- IFRS 17 *Insurance Contracts*
- Better Reporting
- Horizon Scanning (feeding into the routine update process)

Work was commenced on research into local authority narrative reports but was paused to prioritise the work required to address the urgent issues in respect of infrastructure assets. In addition to the matters above, CIPFA LASAAC requested that the 2024/25 consultation should explore issues in which the structure of the Code might be revised, directing that an example treatment for one chapter be included in the ITC

6. The Board approved in principle a revised Terms of Reference Document. The revisions reflect changes in the UK implementation of IFRS after exiting the European Union, and some

other changed nomenclature. The Board is considering whether and how it might expand its terms of reference to encompass wider developments adjacent to financial reporting, particularly in relation to sustainability reporting, and will address this as part of a board performance review.

7. CIPFA LASAAC determined that it would hold an additional meeting in May to review board effectiveness.

Infrastructure Assets

8. CIPFA LASAAC received a presentation explaining developments in this area, which are now moving to determine the long-term solution for reporting on infrastructure assets.

9. The CIPFA / CIPFA LASAAC task and finish group has been reconstituted with slightly different membership, including representatives from CIPFA's Accounting and Financial Reporting Forum, the CIPFA LASAAC board, and other local authority stakeholders including preparers and highways engineers.

10. The group (and CIPFA LASAAC) were presented with various options, and analysis suggesting that in practice the only realistic approaches for a sustainable solution need to be substantially aligned with reporting on a DRC basis. CIPFA LASAAC noted the likely difficulties in promoting the value of such reporting to stakeholders, given the attendant costs. Some members set out their own concerns in following this approach.

11. A survey is being undertaken to explore the resource and other logistical implications of DRC based solutions. A parallel webinar on infrastructure assets developments will raise consciousness and promote the survey.

Update to the 2022/23 Code reflecting recent FReM amendments

12. CIPFA LASAAC noted an update to the 2022/23 Code which it developed and approved between meetings to respond to changes to PFI PPP treatment in the 2022-23 FReM which was approved by the FRAB at its November 2022 meeting. Under the amended FReM, central government, health and other bodies will not be permitted to apply the requirements of IFRS 16 to lease liabilities in PFI PPP arrangements.

13. Complete alignment with the FReM is not possible given that IFRS 16 is not mandatory under the Code until 2024/25. However, those local authorities which have chosen to implement IFRS 16 in 2022/23 may also choose to defer application of the IFRS 16 approach to PFI PPP arrangements.

14. CIPFA LASAAC approved consequential amendments to the 2023/24 Code, setting out transitional reporting requirements for local authorities which choose to implement IFRS 16 in 2022/23 but defer application of the IFRS 16 approach to PFI PPP arrangements.

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

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

- a) Anticipated content of the 2024/25 Code
- b) Strategic Plan, Terms of Reference, and Board Effectiveness Review
- c) Infrastructure Assets
- d) Update to the 2022/23 Code reflecting late FReM amendments

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

**CIPFA LASAAC
March 2023**

APPENDIX A

LEGISLATIVE DEVELOPMENTS

UK / England / Scotland / Wales / Northern Ireland	
Development	Implications for Code
England	
DLUHC has committed to extending the deadline for publishing audited local authority accounts to 30 November 2022 for 2021/22 accounts, then 30 September for 6 years, beginning with the 2022/23 accounts.	Relevant changes to accounts submission dates would need to be reflected in the Code.
In 2018, MHCLG enacted a statutory override to ameliorate the effect of IFRS 9 in relation to pooled investments, making a time-limited amendment to the Local Authorities (Capital Finance and Accounting) (England) Regulations. Without further regulation this would expire with effect from 2024/25. DLUHC have consulted on this in <i>Future of the IFRS 9 statutory override: mitigating the impact of fair value movements of pooled investment funds</i> . Initial indications have been provided to local authorities that the Regulations will extend for a further two years.	Relevant changes to statutory reporting would need to be reflected in the Code.
Scotland	
The Scottish Government has deferred its review of capital accounting for a year. Any changes are likely to impact on the statutory provisions explained in the Code.	Relevant changes to statutory reporting would need to be reflected in the Code.
Wales	
No relevant developments anticipated based on feedback from Welsh government, except a planned extension of IFRS 9 relief, which will preserve the current code provisions.	Relevant changes would need to be reflected in the Code.
Northern Ireland	
No relevant developments anticipated based on feedback from Department for Communities (NI)	Not applicable

FINANCIAL REPORTING DEVELOPMENTS

Items already considered by C/L in previous years	
Development	Implications for Code
IFRS 16 Leases	IFRS 16 material to be provided in main body of the Code, in line with the previous planned implementations. There will be some differences in the transitional arrangements due to voluntary adoption being allowed in 2022/23 and 2023/24.
PFI PPP accounting – effect of IFRS 16 Leases	Material to be provided in main body of the Code, in line with previous planned implementation. There will be some differences in the transitional arrangements due to voluntary adoption being allowed in 2022/23 and 2023/24.
<p>IFRS 17 Insurance Contracts</p> <p><u>UK GAAP position:</u> IFRS 17 Insurance Contracts was approved for adoption by the UK Endorsement Board on 16 May 2022.</p> <p>The effective date of UK-adopted IFRS 17 is 01 January 2023</p> <p>The UKEB will carry out a review of the impact of the adoption of the standard and a report setting out the conclusions of this review will be published by the UKEB by 1 January 2028.</p> <p><u>UK central government position:</u> Mandatory adoption of IFRS 17 in the FReM is deferred until 2025/26.</p> <p><u>CL Code position:</u> Adoption of IFRS 17 in the FReM is deferred until 2025/26.</p>	<p>Implementation in local government deferred in line with the FReM position.</p> <p>Consultation in successive consultations has reinforced the view that IFRS 17 will seldom be materially relevant to local authorities, and that the current approach where no detailed material is included in the Code has not proved to be inappropriate though confirmatory work is still needed. Responses to the 2023/24 ITC raised</p> <ul style="list-style-type: none"> - An example of another class of insurance related arrangements for which IFRS 16 might be relevant - Further representations in relation to the applicability of insurance accounting to some pension guarantees <p>No implications for 2024/25. Further discussions will be carried out with the relevant parties to determine the scope of the above points to confirm they do not challenge the proposed approach for 2025/26. Appropriate liaison to be carried out with CIPFA forums if guidance rather than Code material is appropriate.</p>
Other IFRS not yet effective, or not yet UK endorsed	
<p>Financial Statements</p> <ul style="list-style-type: none"> • Non-current Liabilities with Covenants • Deferral of Effective Date Amendment • Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) <p>Issued 31 October 2022 Effective 1 January 2024</p>	<p>This requires additional disclosures around non-current liabilities subject to conditions and may be relevant and material for some local authority preparers.</p>
<p>Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)</p> <p>Issued 22 September 2022 Effective 1 January 2024</p>	<p>Prima facie this will have little impact on local authority preparers and should be adopted into the Code without amending any of the main Code text</p>

IPSAS	
IPSAS 43, <i>Leases</i> Phase One of the leases project, covering commercial leases. Effective 2025	No direct impact. It will be interesting to see how Phase Two of the project progresses, encompassing public sector specific matters such as leases with a non-exchange element.
UK public sector developments	
HMT Thematic Review	This focused on information around measurement of assets and will inform and influence Code development. The Exposure Draft of proposed changes to the FReM should be issued by the time of the CIPFA LASAAC meeting and is noted in the agenda as an information item.