

Financial Reporting Advisory Board Paper

Code of Practice on Local Authority Accounting

<p>Issue:</p>	<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 draft Invitation to Comment on the 2024/25 Code with relevant exposure drafts. - An update on the CIPFA/LASAAC Strategic Work 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 update will be provided.</p>
<p>Impact on guidance:</p>	<p>The 2024/25 Code will be the definitive specifications for local authority accounting in the relevant accounting periods, subject to any additional specifications as a result of the consultation on infrastructure assets. Depending on the CIPFA/LASAAC’s deliberations on that consultation, narrow scope changes are also made to the Code.</p>
<p>IAS/IFRS adaptation?</p>	<p>IFRS 16 <i>Leases</i> – The revised draft of the 2024/25 Code includes the adaptations agreed with FRAB in previous years. These were previously included in Appendix F for those authorities voluntarily implementing the standard in 2022/23 and 2023/24. A new adaptation for the transitional provisions of the Code in relation to PFI/PPP has been included in the Code which mirrors the one in the FReM.</p> <p>The exposure drafts for the 2024/25 Code include amendments to IFRS 16 and IAS 1, without adaptation or interpretation.</p>
<p>Impact on WGA?</p>	<p>The treatment of infrastructure assets will need to consider alignment for WGA purposes.</p>
<p>IPSAS compliant?</p>	<p>No misalignment is anticipated.</p>
<p>Impact on budgetary regime?</p>	<p>None – local authorities only.</p>
<p>Alignment with National Accounts</p>	<p>No misalignment anticipated</p>
<p>Impact on Estimates?</p>	<p>None – local authorities only.</p>

Recommendation:	This report requests that: <ul style="list-style-type: none">• FRAB notes and provides comments on the draft ITC and ED for the 2024/25 Code at Annex B• FRAB notes the CIPFA/LASAAC Strategic Workplan
Timing:	2024/25: The ITC and ED set out proposals for the Code which would be effective in 2024/25

DETAIL

A draft Invitation to Comment on the 2024/25 Code

1. CIPFA/LASAAC discussed the content of the Invitation to Comment (ITC) and Exposure Drafts (ED) for the 2024/25 Code at a meeting on 7 June 2023. CIPFA/LASAAC was content with the approach as outlined in the attached ITC and ED but requested a small number of clarifications and some additional commentary on emerging issues. The ITC and the Exposure Drafts of the Code are being considered for approval by CIPFA/LASAAC; any further significant changes will be provided verbally to FRAB at its 29 June 2023 meeting.

Consultation Process for the 2024/25 Code of Practice on Local Authority Accounting in the United Kingdom

2. The 2024/25 Code will include mandatory implementation of IFRS 16 *Leases*. Amendments will be made to chapter 4 of the Code in line with the text in Appendix F of the 2022/23 and 2023/24 Codes. The main amendments will be to Section 4.2 (Leases and Lease Type Arrangements) and Section 4.3 (Service Concession Arrangements: Local Authority as Grantor) and Section 4.4 (Investment Properties) as previously agreed with FRAB. As explained below, the 2024/25 ITC will be consulting on a recent minor amendment to IFRS 16 and an adaptation for the transitional arrangements for PFI/PPP transactions which aligns with recent amendments to the FReM. The Code consultation encompasses the following:

- a) Limiting the changes to the Code to implementation of IFRS 16, amendments to standards and some changes to narrative reporting on a voluntary basis
- b) Accounting for infrastructure assets (which will be subject to a separate consultation process).
- c) Changes to standards for 2024/25 including:
 - Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)
 - Amendments to IAS 1 Presentation of Financial Statements – *Non-current Liabilities with Covenants*

- d) CIPFA LASAAC's strategic workplan (see paragraphs 6 to 13 below)
- e) Other financial reporting or emerging issues (see paragraphs 14 to 16 below), and
- f) Whether further guidance on any matter is required.

3. At its single-issue meeting on infrastructure assets reporting (longer-term solution) on 27 April 2023 the CIPFA LASAAC Local Authority Accounting Code Board agreed to proceed with a measurement solution based on Depreciated Replacement Cost. This will be subject to the outcomes of HM Treasury Thematic Review of Non-investment Asset Valuation for Financial Reporting Purposes and a full consultation on the final proposals. The date for implementation will not be before 1 April 2025. The Secretariat will provide a further update at the meeting.

4. In line with the approach in previous years, it is not proposed that the Code includes detailed material in relation to insurance accounting. Formal adoption of IFRS 17, *Insurance Contracts* is anticipated in 2025/26 in line with adoption in central government.

5. CIPFA LASAAC is also consulting on the transitional approach to service concession arrangements, after review of the treatment in the 2023/24 FReM and GAM. While the budgetary issues identified for central government and health bodies do not read across to local government, CIPFA LASAAC considers that this treatment provides more coherent and consistent reporting than alternative approaches to cumulative catch up for these material transactions and balances. Taking an aligned approach also avoids the need for adjustments to be made in WGA returns.

Update on CIPFA LASAAC's Strategic Workplan

6. CIPFA/LASAAC's strategic workplan was revised in 2022. The updated strategic plan includes nine projects:

- *Project 1 – Annual Update of the Code (see paragraph 2 above)*
- *Project 2 – Infrastructure Assets Long-Term Solution (see paragraph 3 above)*
- *Project 3A – Narrative Reporting – Performance Reporting and Summary Financial Information*
- Project 3B – Second stage narrative reporting review (paused)
- *Project 4 – Implementation of IFRS 17 Insurance Contracts (see paragraph*
- *Project 5 – Better Reporting*
- Project 6 – Horizon Scanning
- *Project 7 – Sustainability Reporting*
- *Project 8 – Review of Structure and Format of the Code*
- Project 9 – Materiality

The italicised projects in the list are featured in its ITC.

Project 3A – Narrative Reporting – Performance Reporting and Summary Financial Information

7. CIPFA LASAAC has agreed to take forward project 3A as a priority. This had support from a number of respondents to last year's consultation.
8. CIPFA also made a similar recommendation in its response to the Redmond Review.
9. The Invitation to Comment includes a discussion on what should be included in the Narrative report focussing on performance and summary financial information. The overview of performance takes the approach used in the FReM adjusted for local authority circumstances and aligned to the current structure of the narrative report. This particularly prioritises the needs of the lay user. For further detail on the description please see the ITC.
10. The summary financial information focusses on service performance, a high-level summary of capital financing and expenditure and includes the summary financial position. This also includes the main financial elements of financial performance and position suggested by the Model standardised statements of service information and cost which accompanied the Redmond Review recommendations.

Project 5 – Better Reporting

11. CIPFA is creating a permanent working group (the Better Reporting Group) under its Accounting and Financial Reporting Forum which will look at establishing best practice in terms of financial reporting but will also support CIPFA LASAAC in solutions for better presentation of transactions. CIPFA LASAAC will take all decisions on any proposals for changes to the Code. The Better Reporting Group has had an initial meeting and aims to establish a membership which will be able to support its work and effective operations.

Project 7 – Sustainability Reporting

CIPFA LASAAC is considering the best approach to supporting local authorities in any moves to Sustainability Reporting and has included review of its approach in its effectiveness review as currently Sustainability Reporting is not explicitly included in its Terms of Reference it is therefore seeking views in the consultation documents how this might best be taken forward.

Project 8 – Review of Structure and Format of the Code

12. 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 can communicate the key messages of the financial statements to their users.
13. The review of the format and structure of the Code is an important part of the future development of the Code. The ITC focusses on several areas which could potentially be improved and/or where there have been differences of opinion. The ITC includes questions for stakeholders on the following:

- **Accessibility** – does the Code’s structure and format allow its provisions to be both easily understood and usable.
- **Approach to content of IFRS as adapted or interpreted for the public sector context** – different views have been expressed on the approach to this in the Code, some commentators have indicated that an approach more akin to the FReM where the detailed provisions of standards are not presented should be pursued. Alternatively other commentators have preferred a continuation of the current approach in the Code which does provide detailed text regarding IFRS implementation. The ITC seeks views on the best approach.
- **Adaptations and interpretations** are an important element of the Code’s provisions. The ITC indicates that CIPFA LASAAC wishes to understand if adaptations and interpretations of standards affecting application for UK local government are clearly presented and easily identified in the Code.
- **Structure of the Code** – the ITC sets out the current and possible future structures of the Code the future structure is intended to be more accessible to accounts preparers and auditors based on the format of the accounts and the statements which accompany them.
- **Statutory Accounting Provisions** – these are currently included in most sections and chapters of the Code many are a result of the same legislative prescriptions, but all of these are the subject of the statutory adjustment line in the Movement in Reserves Statement. These could therefore be simplified and included in the new chapter on the MiRS. This might have the additional benefit of improving the understandability of how the Code applies the statutory adjustments.

Other financial reporting or emerging issues

Local audit and accounting issues

14. Given the ongoing problems with the publication of audited financial statements, CIPFA LASAAC has invited comment on what it might helpfully do in this area, while noting that CIPFA LASAAC must work within the prescribed processes and frameworks.

Statutory Adjustments/Overrides

15. CIPFA LASAAC’s ITC often covers wider matters than annual changes to the Code. This year’s consultation documents have added a new section which considers wider financial reporting or emerging issues. It will consider the impact of two of the reconfirmed statutory adjustments/overrides on financial reporting of the resource impact on the authority. These are the extension of the capital finance and accounting regulations in England and Wales relating to the recognition of fair value gains and losses for pooled funds and the separate accounting for Dedicated Schools’ Grant Deficits.

Recognition of the Net Defined Benefit Pensions Asset

16. This section is seeking stakeholders’ views on the text in the Code on the asset ceiling per IAS 19 Employee Benefits and the interpretation provided by IFRIC 14 *IAS 19 – The Limit on a*

Defined Benefit Asset, Minimum Funding Requirements and their Interaction which limit the recognition of any net defined benefit asset to the amount which local authorities can realise. Recent IAS 19 information indicates that many pension funds are in surplus rather than in deficit. When the relevant specifications for the Code were drafted this was only a theoretical possibility, and the ITC seeks views on whether the Code might need to be augmented or whether guidance needs to be provided.

Changes to IPSAS standards which could impact on the Code

17. When reviewing its consultation paper CIPFA LASAAC noted that four new IPSAS standards have been recently issued. CIPFA LASAAC noted that while following the Relevant Authorities Terms of Reference and previous memorandums of understanding, there are several transactions and sections of the Code which rely on IPSAS standards for their interpretation. This is particularly the case for section 2.3 (Grants and Non-Government Grants) where the interpretations rely on IPSAS 23, *Revenue from Exchange Transactions*. IPSAS 23 will be superseded by IPSAS 47 *Revenue* and IPSAS 48 *Transfer Expenses* so the content of the Code will need to be re-articulated to reflect the new standards and may be reviewed for possible changes to the Code. It is noted that IPSAS 47 and 48 are discussed as a separate item on the FRAB agenda.

CIPFA LASAAC Governance and Effectiveness Review

18. CIPFA LASAAC's Terms of Reference allow for an annual review of performance. Due to the pandemic and emergency/urgent reporting issues this activity was paused. In restarting this important process, it was decided to undertake a full governance and effectiveness review including a survey of its members. This will also consider issues such as expanding the scope of the Board's work to encompass Sustainability Reporting. A first effectiveness review meeting was held on 15 June 2023 and there will be a follow-up meeting in September.

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

19. This report requests that:

- FRAB notes and provides comments on the draft ITC and ED for the 2024/25 Code at Annex B
- FRAB notes and provides comments on the CIPFA/LASAAC Strategic Plan.

CIPFA/LASAAC
June 2023