Financial Reporting Advisory Board Paper

Code of Practice on Local Authority Accounting

Issue:	Update on CIPFA/LASAAC development of the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) encompassing: • an update on revisions to the 2025/26 Code and other matters consulted on the annual Code consultation • an update on local audit in England
Impact on guidance:	The 2025/26 Code will be the definitive guidance for local authority accounting in the relevant accounting periods.
IAS/IFRS adaptation?	The draft 2025/26 Code reflects recent amendments relating to the HM Treasury Thematic Review on Non-investment assets which includes adaptations to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets.* There is also the proposal to remove an existing adaptation to IAS 16 in the Code relating to the treatment of accumulated depreciation on revaluation. All of these proposals mirror the FReM. IFRS 17 and an amendment to IAS 21 are adopted without adaptation or interpretation.
Impact on WGA?	Implementation of the HM Treasury Thematic Review on Non-investment assets will have an impact on WGA.
IPSAS compliant?	No misalignment is anticipated – However, note that compliance with IPSAS 46 *Measurement* regarding the exclusion of alternative sites in asset valuations is still under consideration.
Impact on budgetary regime?	None – local authorities only.
Alignment with National Accounts	None – local authorities only.
Impact on Estimates?	None – local authorities only.
Recommendation:	This report requests that: • FRAB agrees the revised 2025/26 Code in Annex 1 • FRAB notes and provides comments on the local audit update
Timing:	2025/26: The draft of the Code attached at Annex 1 sets out proposals following consultation for the Code which would be effective in 2025/26.

DETAIL

Update on revisions to the 2025/26 Code and other matters consulted on the annual Code consultation

1. CIPFA LASAAC met on 5 March 2025 to consider the outcomes of its annual consultation. CIPFA/LASAAC consulted on the 2025/26 Code amendments from 5 December 2024 to 14 February 2025. In total there were 46 responses to the public consultation on the draft 2025/26 *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code). This is slightly lower than last year's consultation response rate of 55 responses. However, the Secretariat is of the view that there is evidence that stakeholders are still engaged with Code processes.

2. CIPFA LASAAC also took assurance from outreach engagement in the form of a webinar held on 22 January, which was attended by more than 100 delegates.

3. A copy of the draft of the 2025/26 Code is attached to this report at Annex 1. It should be noted that this is not a final draft. CIPFA LASAAC has approved the changes in principle but has yet to review the full draft Code. Any significant changes that emanate from CIPFA LASAAC's final review will be presented to FRAB in an out of meeting paper.

Consultation Outcomes

4. The consultation on the 2025/26 Code covered the following matters:

a) Longer-term reforms
b) Change in approach to the measurement of operational property, plant and equipment in line with the HM Treasury Thematic Review
c) Changes to Standards for 2025/26
d) Legislative changes
e) CIPFA LASAAC's strategic work plan and the Better Reporting Group
f) Other financial reporting or emerging issues
g) Further Guidance

a) Longer term reforms.

A majority of respondents - 69% agreed with advancing the agenda in the context of longer-term reforms. However, half of those that made comments had concerns about the impact of changes on preparers and auditors as well as practical considerations.

CIPFA LASAAC noted the support for advancing the agenda in the context of longer-term reforms.

b) Change in approach to the measurement of operational property, plant and equipment in line with the HM Treasury Thematic Review

Theme	Consultation Outcome
Maintaining the use of EUV	A substantial majority of respondents – 72% agreed with the proposal. While agreeing respondents noted that practitioners and valuers are already

	familiar with EUV, it is well understood and changing it seemed unnecessary.
Future considerations - Depreciated replacement cost for specialised assets and/or assets where there is no market	A substantial majority of respondents – 76% supported a future move to value operational property, plant and equipment based on their current site and not consider alternative sites. However, respondents were not as certain on whether the modern equivalent asset approach should still be applied to the area of the site, although it wasn't always entirely clear if respondents had understood the proposals. For example, several respondents queried what the alternative would be. Overall though where respondents appeared to have understood the proposal, they were supportive of maintaining the MEA approach. A couple of respondents also noted the need to consider the impact of moving away from RICS guidance if not considering alternative sites.
Frequency of valuations and the use of indices to maintain the currency of valuations – including scenarios when full valuations would be required ie when no index is available and impairments	The majority of respondents agreed with the proposals regarding quinquennial/five year rolling basis for valuations supported by indexation, to have a backstop measure if no index is available and to only revalue assets where there are indicators of impairment under IAS 36. Although the need for guidance was clearly expressed by respondents. There was also a tweak proposed to the wording in the exposure draft for when no index is available to align with the FReM which was issued after the Code consultation. CIPFA LASAAC agreed with this proposal, and this is reflected in the draft 2025/26 Code at Annex 1.
Guidance	Concerns on agreeing indices between preparers and auditors was the main driver behind nearly half of respondents suggesting indices should be prescribed. However, there were still a fifth of respondents who suggested guidance rather than prescribed indices. CIPFA LASAAC supported following the approach to application guidance that has already been developed by the VOA for HM Treasury, which gives examples of

	some indices that could be used, rather than prescribing indices for each asset type. There was also valuable feedback from respondents on suggestions for what should be included in guidance, which will be taken forward by the Better Reporting Group who are working on the development of application guidance, with colleagues from HM Treasury and the VOA also in attendance.
Issues raised in connection with accumulated depreciation	Questions about the treatment of accumulated depreciation were raised in the consultation on the 2025/26 Code and at the BRG in the context of annual indexation of non-investment assets. IAS 16 para 35 allows either (a) proportionate re-statement of both gross carrying amount and accumulated depreciation and impairment or (b) eliminating accumulated depreciation and impairment The Code currently permits only the approach in 35(b). However, the approach outlined in IAS 16 para 35(a) appears close to an approach some authorities have already been taking when applying indexation. Therefore, CIPFA LASAAC proposes to remove the existing adaptation to IAS 16 in the Code and to allow either option for the treatment of accumulated depreciation. It is hoped this will provide another option which may be helpful, without preventing authorities from continuing with the existing approach in 35(b). Removing the existing adaptation in the Code would also align with the FReM.
Social Housing Assets	There was clear support to make no changes to how social housing assets are valued. However, there were two Councils who suggested updated guidance from MHCLG would be helpful, specifically to consider if adjustment/discount factors need to be updated.
Intangible Assets	There was overwhelming support for the withdrawal of the option to measure intangible assets using the revaluation

	model with over three quarters of respondents supporting this proposal. There was also a suggestion to include a transitional disclosure for intangible assets. CIPFA LASAAC agreed this proposal would be helpful to preparers, and this is reflected in the draft 2025/26 Code at Annex 1.
Transitional arrangements	The majority (65% who answered this question) agreed with the proposal to implement changes in 2025-26. While agreeing many respondents commented that the timeline offered sufficient time, with some suggesting that implementing the changes sooner would be beneficial. Approximately a fifth of respondents noted in their support that this would be dependent on the timely issue of guidance to assist with implementation. However, it's also worthwhile noting that there were also concerns raised by a few respondents regarding workload and other pressures in the sector due to the Local Audit Backstops and Local Government Reorganisation. Although, one Council felt that these issues meant it was increasingly important that changes and wider reforms were progressed at pace.

CIPFA LASAAC noted the support for implementing changes from the HM Treasury Thematic Review and proposes to remove the existing adaptation to IAS 16 in the Code thus allowing either option for the treatment of accumulated depreciation as set out in IAS 16 para 35.

c) Changes to standards for 2025/26 consulted upon included the following:

IFRS 17 Insurance Contracts adoption in 2025/26
This topic has been subject of five previous consultations, and the 2025/26 consultation maintained the view that the approach in the Code should not change from that in IFRS 4 Insurance Contracts ie that this is a standard that is included only in Appendix A because it has limited application in local authorities.

Half of respondents agreed with this approach and half either had no opinion or were unsure because IFRS 17 would have no impact on their organisation. This was the same regarding the timing of implementation.

One audit firm suggested an amendment to paragraph A1.8 to clarify which transactions are out of scope and this has been reflected in the draft 2025/26 Code at Annex 1.

Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates (Lack of Exchangeability)
The requirements of the amendment to IAS 21 seem unlikely to apply to local authorities so no change to the Code is proposed. Adoption of the amended standard would be signalled in Appendices C and D of the Code.

58% agreed with the proposal and the remainder of respondents either had no opinion or were unsure because amendments to IAS 21 would have no impact on their organisation.

CIPFA LASAAC proposes inclusion of all the amendments to standards in the 2025/26 Code without adaptation or interpretation.

d) Legislative changes

Fair value gains and losses on pooled investments (England and Wales)
The IFRS 9 override is set to expire after 31 March 2025 and the consultation sought views on authorities current approach to investments in pooled investments and what their future approach might be if the override was not in place. Of the 30 responses to this question, 10 were strongly in favour of either extending the override or making the override permanent. Eight respondents replied that they did not have any pooled investments, some citing the uncertainty around the override as the reason and four of those with pooled investments have already set up an earmarked reserve to smooth the effect of gains and losses on the general fund.

Furthermore, MHCLG have recently issued an announcement that the override will not be extended and any new investments from 1 April 2025 must comply fully with the IFRS 9 requirements in the Code. However, there will be transitional arrangements for legacy investments already in place before the override expires. Wales are currently considering if similar transitional arrangements will be required.

Extension of the temporary solution for Infrastructure assets
The infrastructure assets temporary solution was also set to expire after 31 March 2025. However, DLUHC (now MHCLG) had previously indicated their intention to extend the existing arrangements in the Code preserving the statutory prescriptions.

Nearly every respondent – 96% agreed with maintaining the temporary solution while a long-term solution is found. A few respondents felt that the override should become permanent. A significant number of responses - 66% reluctantly agreed that a one-off exercise would need to be undertaken to obtain deemed cost, although the responses indicated that deemed historical cost was still preferable to depreciated replacement cost.

Furthermore, MHCLG have recently confirmed they will extend the current exemption (until 1st April 2029). It is our understanding that Wales will also extend until this date. Scotland are also likely to extend, though possibly for a shorter period.

CIPFA LASAAC noted that the Code would need to reflect the recent changes to these statutory overrides.

e) CIPFA LASAAC's strategic plan

The majority of respondents were supportive of the improvement projects in CIPFA LASAAC's strategic plan and the focus on longer term reforms. Respondents were keen for changes to property, plant and equipment, pensions and statutory overrides, which are projects being lead by the Better Reporting Group in 2025.

CIPFA LASAAC also requested suggestions for improving local authority financial statements and the reports which accompany them. Nearly a quarter of all respondents felt that simplification was the key to easing burdens and improving readability.

Approximately a quarter of respondents suggested removal of the Expenditure and Funding Analysis (EFA). The EFA was brought in to reconcile the CIES to the reported outturn of the authority, as well as the primary source of meeting the reporting requirements of IFRS 8 Operating Segments. However, anecdotal evidence suggests that the EFA has not fully achieved its intended objectives.

Some Board members supported removal of the EFA on this basis and felt it would reduce the burden on preparers and auditors. However, others suggested that the EFA does provide a useful reconciliation between Outturn and the Income & Expenditure statement. There were also concerns that the Board had not formally consulted on this matter for the 2025/26 Code.

CIPFA LASAAC will continue to develop longer term reforms to the Code, through the Better Reporting Group and having regard to the views expressed.

CIPFA LASAAC determined that the EFA should be retained for the 2025/26 Code but potentially consult on its removal for 2026/27 – which will require a later decision as part of the 2026/27 Code consultation process.

f) Other financial reporting or emerging issues

Changes to IFRS standards which could impact on the Code (beyond 2025/26) CIPFA LASAAC sought stakeholders' views on the impact of the new standards on the Code's provisions.	Of the 21 respondents who left comments, over half felt the two new standards were unlikely to have a significant impact on local authorities. Five respondents welcomed the improved comparability and enhanced transparency anticipated from IFRS 18. However, one audit firm cautioned that the Code's application of IFRS 19 requirements should be limited to the direct impact on local authorities.
Changes to IPSAS standards which could impact on the Code (beyond 2025/26) CIPFA LASAAC sought stakeholders' views on the impact of the new standards on the Code's provisions.	Of the 18 respondents that left comments, eight welcomed the public sector specific clarifications IPSAS should bring.

CIPFA LASAAC noted these responses and will take them forward in consideration of future Codes.

g) Further Guidance

A number of requests for further guidance were put forward, most of which will be considered by CIPFA when developing the 2025/26 Code Guidance Notes. There were also some requests for clarifications which have resulted in minor amendments to the Code.

Update on local audit in England

5. From 2017-18 there has been a significant decline in the number of English local government body audited accounts published by the deadlines set by government. By 30 September 2023 only 5 local authorities in England had published audited accounts. At this point there were more than 900 sets of unaudited financial statements.

6. To clear the backlog of unaudited local body accounts in England the government introduced a statutory backstop date for unaudited accounts up-to-and-including financial year 2022/23. They also introduced further statutory backstop dates for financial years 2023/24 to 2027/28 to enable the local audit system to recover.

7. The first two statutory backstop dates (13 December 2024 and 28 February 2025) have now passed. Initial data published in the PSAA quarterly monitoring report on 11 February showed that the backlog for unaudited accounts up-to-and-including financial year 2022/23 had reduced from 521 outstanding opinions at September 2024 to 69. However, it is worthwhile noting to achieve this there were 361 disclaimed audit opinions.

8. More recent data published by MHCLG for the 13 December 2024 statutory backstop date as of 19 February 2025 shows this has reduced even further, with now only 21 bodies yet to publish all audited accounts for financial years up to and including 2022/23.

9. Forecasts published by the PSAA for the second backstop date of 28 February 2025 show they are expecting over 200 audit opinions to be disclaimed for the financial year 2023/24, plus 14 qualified opinions. This is out of a total of 530 audits.

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

10. This report requests that:

- FRAB agrees in principle the draft 2025/26 Code in Annex 1
- FRAB notes and provides comments on the update on local audit in England

CIPFA/LASAAC
March 2025