FRAB 157 (04)
20 November 2025

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 2026/27 Code and other matters consulted on the annual Code consultation
Impact on guidance:	The 2026/27 Code will be the definitive guidance for local authority accounting in the relevant accounting periods.
IAS/IFRS adaptation?	The draft 2026/27 Code clarifies the existing adaptations to IFRS 15 and IAS 20. These adaptations continue to be considered appropriate for the public sector context, and the Code has taken the opportunity to set them out more clearly. In doing so, the Code does not refer to the new IPSAS 47 and 48 standards – an approach which aligns with the FReM. Amendments to IFRS 7 and IFRS 9 have been adopted in the Code without adaptation or interpretation.
Impact on WGA?	The proposals should ensure alignment for WGA purposes.
IPSAS compliant?	The proposals do not completely align with IPSAS 49 Retirement Benefit Plans which includes a cash flow statement. Other pension fund accounts in the UK are not required to include a cash flow statement and although a cash flow statement could provide useful information, CIPFA/LASAAC felt that the additional burden this would place on preparers and auditors would outweigh any benefits. The proposals align with the underlying accounting concepts in IPSAS 47 Revenue and IPSAS 48 Transfer Expenses.
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 2026/27 Code in Annex 1 • FRAB notes and provides comments on the work of the Better Reporting Group

Timing:	2026/27: The draft of the Code attached at Annex 1 sets out proposals following consultation for the Code which would be effective in 2026/27.

DETAIL

Update on revisions to the 2026/27 Code and other matters consulted on the annual Code consultation

1. CIPFA LASAAC met on 5 November 2025 to consider the outcomes of its annual consultation. CIPFA/LASAAC consulted on the 2026/27 Code amendments from 14 August 2025 to 12 October 2025. In total there were 73 responses to the public consultation on the draft 2026/27 *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code). This is a significant increase from last year's response rate of 46, likely due to the consultation returning to its usual timeframe.

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

3. A copy of the draft of the 2026/27 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 2026/27 Code covered the following matters:

a)	CIPFA LASAAC's strategic work plan and the Better Reporting Group
b)	Format and structure of the Code
c)	Removal of the expenditure and funding analysis (EFA)
d)	Decoupling LGPS pension fund accounts (England)
e)	Changes to Standards for 2026/27
f)	Other financial reporting or emerging issues
g)	Further Guidance

a) CIPFA LASAAC's strategic work plan and the Better Reporting Group.

The consultation responses reaffirmed alignment with the overarching aims of the financial reporting reform programme, particularly its emphasis on simplification and user focused reporting. However, sector capacity constraints were frequently highlighted by respondents. Challenges such as local audit recovery and local government reorganisation were cited, indicating that reform proposals must be carefully timed and proportionate to ensure feasibility.

There were several respondents who emphasised the need to prioritise a long-term solution for infrastructure assets. However, it's unlikely to be programmed in for 2026 due to existing commitments and implementing any solution is going to require capacity within the sector.

Some respondents also suggested greater standardisation in the Statement of Accounts, and highlighted the ongoing challenge posed by the existence of multiple financial reporting formats, including the Revenue Account returns (RA and RO), and WGA returns. Other suggestions included the adoption of technologies like XBRL data tagging to improve consistency and enable benchmarking. Additionally, the potential role of AI in enhancing reporting and predictive analytics was noted, and will be considered in future phases of reform.

Additional suggestions were received, such as a lighter version of IFRS reporting through the use of adaptations and interpretations, restructuring the Comprehensive Income and Expenditure Statement (CIES) and publishing employee notes as part of transparency data instead of in the accounts. These suggestions will be shared with the CIPFA Better Reporting Group (BRG) for further consideration.

CIPFA LASAAC noted the alignment between stakeholder views and the financial reporting reform programme, while also recognising the significant capacity challenges faced by local authorities which will need to inform future implementation timescales.

Better Reporting Group
In addition to the consultation feedback, the Board received an update on the work of the Better Reporting Group (BRG), focusing on its key projects during 2025:

Completed projects and outputs:
- A position statement on Users of Local Authority Accounts
- A discussion paper on Materiality.
- Indexation application guidance to assist with the implementation of changes from the Non-investment Asset Thematic Review.

CIPFA LASAAC were also informed of progress with the two ongoing projects: Statutory Overrides and Pensions Reporting.

For statutory overrides, there was considerable support for introducing a separate accountability statement, conceptually similar to the Statement of Parliamentary Supply used in central government. This statement would include an authorities management/funding position with a high-level reconciliation to their IFRS-based financial statements. Work is continuing with a view to consulting on this proposal as part of the 2027/28 Code Invitation to Comment (ITC).

For pensions reporting the BRG is initially focusing on the accounting and disclosure of pension costs in local authority accounts from the employer perspective, rather than pension fund accounts. While improvements to disclosures were considered, the group recognised that these would likely have limited impact for preparers and auditors. The area identified as having the greatest potential for improvement is a shift towards defined contribution accounting, which is currently being explored.

CIPFA LASAAC expressed support for the Better Reporting Group's completed outputs and ongoing work, noting the alignment between the group's projects and the wider objectives of financial reporting reform. The outputs on Users of Local Authority Accounts, Materiality, and Indexation were welcomed, and the direction of travel on Statutory Overrides and Pensions Reporting was positively received

b) Format and Structure of the Code

Objectives
The ITC asked respondents for their views on the seven objectives of the Code with a majority (75%) responding that they felt that the seven objectives were correct. There

were suggested amendments to the seven objectives, which resulted in revised objectives included at Annex A.

Accessibility
Respondents expressed support for an interactive digital version of the Code, highlighting the benefits of improved accessibility, enhanced search functionality, hyperlinks, and multi-format or multilingual options. CIPFA is actively exploring software solutions to improve access to the Code and Guidance Notes, aiming to consolidate key information in a single location and reduce reliance on multiple PDFs.

Structure
One of the options consulted on included possibly adopting a model more like the FReM, with the standards taken as read and only interpretations and adaptations listed. However, 69% of respondents expressed a preference for the other proposal which is more aligned to the current Code structure and continues to bring together requirements for specific elements of the accounts. As a result, the existing Code format is expected to remain largely unchanged; however, CIPFA LASAAC will explore options to improve the clarity of how interpretations and adaptations are presented. The Board requested a draft chapter to review this approach before making a final decision.

Additional suggestions
Some respondents reiterated the idea of separate Codes for different jurisdictions, police, and fire services. While this would not align with CIPFA LASAAC's objective for a unified Code covering all UK local authorities, a digital version may offer a practical solution by allowing jurisdiction specific content to be selectively displayed or hidden depending on the user's preference. Other comments included support for making the Code freely available to improve accessibility.

CIPFA LASAAC noted the feedback and agreed to adopt the revised objectives set out in Annex A and requested a draft chapter to illustrate alternative presentation of interpretations and adaptations in the Code before making a final decision.

c) Removal of the expenditure and funding analysis (EFA)
Consultation responses indicated a mixed but generally open attitude toward change regarding the EFA. While a majority supported its removal in its current form, analysis suggests that approximately one-third of respondents opposed the inclusion of any EFA-style statement in the accounts. Nonetheless, there remains a broad consensus in favour of retaining some form of reconciliation between the Comprehensive Income and Expenditure Statement (CIES) and management accounts, though views varied on the most appropriate format.

Opinions on the timing of removal were divided, with a slight majority (52%) supporting removal in 2026/27 without a replacement, while 40% opposed this approach due to concerns about losing the link between management and financial reporting.

In relation to compliance with IFRS 8, most respondents did not anticipate issues, noting that local authorities typically fall outside its scope. However, concerns were raised about alignment with the Financial Reporting Manual (FReM), where IFRS 8 applies in full. Importantly, no impact is expected on Whole of Government Accounts (WGA), as the proposal does not alter the format of the Comprehensive Income and Expenditure Statement (CIES). In any case, the version of the CIES prepared by local authorities presents expenditure by service, whereas the WGA consolidates expenditure by nature.

CIPFA LASAAC noting the mixed consultation feedback and the ongoing progress of the Better Reporting Group, proposes to retain the existing Expenditure and Funding Analysis (EFA) for the 2026/27 Code, with a replacement approach likely to be developed for implementation in the 2027/28 Code

d) Decoupling pension fund accounts (England)

There was strong support for decoupling LGPS pension fund accounts from administering authority accounts in England. The majority of respondents agreed that separate publication would reduce audit delays, improve clarity, and align practice with Scotland and Wales.

There was also broad support for introducing separate governance and accountability arrangements, including a distinct Annual Governance Statement and Statement of Responsibilities. Views varied on appropriate signatories and approval mechanisms, with some favouring pension fund-specific roles. Feedback on publication deadlines was mixed, with concerns raised about the feasibility of earlier publication given current audit pressures and reliance on third-party data.

CIPFA LASAAC noted the feedback and all responses will be shared with MHCLG to support their consideration of legislative changes.

e) Changes to standards for 2026/27 consulted upon included the following:

<u>IFRS</u>
Amendments to the classification and measurement of financial instruments (amendments to IFRS 9 and 7)
There was strong support (78%) for implementing the proposed amendments to the classification and measurement of financial instruments (IFRS 9 and IFRS 7) as outlined in the ITC and Exposure Draft.

Respondents generally agreed with the approach set out, with two audit firms providing constructive suggestions to improve clarity and accessibility. These included referencing all relevant IFRS paragraphs within the Code and repeating key criteria where appropriate to avoid ambiguity. Subsequently amendments have been made to paragraphs 7.1.3.4, 7.1.4.2, 7.1.4.5 and 7.1.5.4 in the draft 2026/27 Code at Annex one.

One audit firm also highlighted the potential operational impact of the amendments, noting that changes could affect internal controls, bank reconciliations, and cash flow statements. It was recommended that further guidance be provided in the Code Guidance Notes to support practitioners.

Contracts referencing nature-dependent electricity (amendments to IFRS 9 and 7)
A majority of respondents (64%) supported the proposed amendments to IFRS 9 and IFRS 7 relating to contracts referencing nature-dependent electricity, as outlined in the ITC and Exposure Draft. Three respondents who partially supported the proposals suggested updates to paragraph 7.1.2.27 of the Code, to include relevant references to IFRS material. These amendments have been made in the draft 2026/27 Code at Annex one, which also includes a new paragraph - 7.1.2.28.

Responses to the ITC indicate that engagement with power purchase agreements (PPAs) or virtual power purchase agreements (VPPAs) remains limited across the sector. Only 7% of respondents confirmed that their authority has entered into such agreements, while a further 15% are considering doing so. Nearly half (48%) stated that they are not considering a PPA or VPPA, and 30% were unsure.

A couple of authorities also recommended that further guidance be provided to support implementation. CIPFA will consider issuing additional guidance to assist practitioners in applying these changes.

Annual improvements to IFRS accounting standards – Volume 11
There was strong support (78%) for the proposed implementation of amendments to standards as outlined in the ITC and Exposure Draft. Respondents generally agreed with the approach, with one audit firm suggesting minor wording changes to paragraph 7.1.6.3 of the Code to improve clarity including replacing "have" with "contain" and referencing the practical expedient in IFRS 15. These amendments have been made to paragraph 7.1.6.3 in the draft 2026/27 Code at Annex one.

<u>FRS 102</u>
Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (amendments to heritage assets)
A clear majority (87%) of respondents agreed with CIPFA/LASAAC's view that recent amendments to FRS 102 regarding heritage assets do not require changes to the Code. However, one accountancy institute disagreed, highlighting that paragraph 34.55(f)(v) of FRS 102 introduces a new disclosure requirement for depreciation or amortisation of heritage assets, which is not currently reflected in paragraph 4.10.4.4 of the Code. The institute felt that aligning the Code with this update would improve clarity and consistency for preparers. This amendment has been made in the draft 2026/27 Code at Annex one.

CIPFA LASAAC proposes inclusion of all the amendments to standards in the 2026/27 Code without adaptation or interpretation.

<u>IPSAS</u>
IPSAS 47 Revenue and IPSAS 48 Transfer Expenses
Rather than adopting IPSAS 47 and 48, CIPFA LASAAC proposed formalising existing adaptations to IFRS 15 and IAS 20, as applied in the FReM. This approach was supported by 83% of respondents, who favoured maintaining current accounting practice. While some raised concerns about the continued use of the exchange/non-exchange terminology, the Secretariat considers the underlying accounting concepts unchanged and the existing adaptations appropriate. A future transition to binding arrangements may be considered, though this would require significant redrafting and is best aligned with the planned reformatting of the Code.

IPSAS 49 Retirement Benefit Plans
CIPFA LASAAC proposed not to include the IPSAS 49 requirement for a cash flow statement, viewing it as an unnecessary burden with limited benefit. This position was supported by 91% of respondents, who echoed concerns about its practical value and relevance. Additionally, an audit firm felt further evaluation was needed to determine if LGPS could be accounted for as a defined contribution scheme and the BRG are investigating this as part of the pension reporting project.

CIPFA LASAAC noted support for formally adapting IFRS 15 and IAS 20 for the local authority context, and for including IPSAS 49 in the Code, with the exception that a cash flow statement would not be introduced. CIPFA LASAAC agreed to revisit binding arrangements in a future edition of the Code.

f) Other financial reporting or emerging issues

Changes to IFRS standards which could impact on the Code (beyond 2026/27) CIPFA LASAAC sought stakeholders' views on the impact of the new standards on the Code's provisions.	Responses to the ITC indicate that the forthcoming IFRS 18 and IFRS 19 standards are not expected to have a significant impact on local authority financial reporting, with around half of respondents expressing this view. However, IFRS 18 may offer an opportunity for CIPFA LASAAC and the Better Reporting Group to consider improvements to the format and presentation of primary statements.
Changes to IPSAS standards which could impact on the Code (beyond 2026/27) CIPFA LASAAC sought stakeholders' views on the impact of the new standards on the Code's provisions.	Responses to the ITC reflected a cautious approach to the potential impact of new IPSAS standards on the Code. Around half of respondents raised concerns about IPSAS 43, particularly regarding concessionary leases and its interaction with IFRS 16, which has only recently been implemented. Some respondents suggested that revised drafting would help clarify IPSAS requirements within the local government context. Others noted that the full impact of the new standards remains uncertain and questioned the relevance of IPSAS, citing complexity and divergence from IFRS. CIPFA LASAAC will continue to assess IPSAS developments on a case-by-case basis, considering their practical implications and alignment with sector needs.

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

Local Government Reorganisation
The majority of respondents to the ITC indicated that further guidance would be helpful to support local government reorganisation. Key areas identified included the disaggregation and reapportionment of balance sheets (particularly reserves and debt), alignment of accounting policies, year-on-year comparatives, and worked examples. Additional

support was also requested for transactions involving devolution in police and fire services, the CIES, going concern assessments, and policy decisions.

One respondent highlighted ongoing public service reform discussions in Scotland, including the potential development of single authority models.

CIPFA will consider how best to address these needs through future guidance and engagement with the sector.

Sustainability Reporting
Responses indicated broad support for a phased and voluntary approach to introducing sustainability reporting in local government. Around half of respondents favoured a gradual rollout, with many recommending an initial voluntary phase to ease implementation. Nearly half also emphasised the need for clear, practical guidance to support authorities, while a similar proportion raised concerns about the additional burden on practitioners, particularly given existing capacity constraints and pressures within the local audit system. An authority also noted that 2027/28 may be the final reporting year for some councils due to local government reorganisation, making it an impractical time to introduce new requirements.

CIPFA LASAAC recognise the importance of sustainability reporting and agreed on a phased voluntary approach starting with the 2027/28 code. They discussed adopting TCFD principles and potentially excluding certain organisations based on size or local government reorganisation status.

CIPFA LASAAC will take forward work to implement sustainability reporting within the 2027/28 Code, informed by sector engagement and ongoing developments.

g) Further Guidance

A number of requests for further guidance were put forward, most of which will be considered by CIPFA when developing the 2026/27 Code Guidance Notes.

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

5. This report requests that:

- FRAB agrees in principle the draft 2026/27 Code in Annex 1
- FRAB notes and provides comments on the work of the Better Reporting Group

CIPFA/LASAAC
November 2025

Annex A – Seven objectives of the Code of Practice on Local Authority Accounting in the United Kingdom

1. supports CIPFA/LASAAC's objective to promote timely high-quality financial reporting, specifically its vision statement and strategic themes, and in accordance with the relevant authority memorandum of understanding (terms of reference).
2. ensures that its users can understand how local authorities can achieve the reporting of a true and fair view of its financial position, financial performance, and cash flows, enabling them to effectively hold their local authority to account.
3. supports local authorities in ensuring that they can communicate the key messages of the financial statements to local authority users of the financial statements
4. is the principal codification of principles and practices of accounting for local government and narrative reporting, including the reporting of financial performance.
5. is structured so that its provisions are understandable and readily accessible to its users.
6. clearly sets out where local government circumstances (and therefore reporting requirements) differ from both the private sector and in some cases the rest of the public sector, so ensuring that the adaptations and interpretations of UK- adopted IFRS are readily understood.
7. identifies all the reporting requirements for local authorities across the UK (including separate statutory reporting requirements for each of the devolved administrations and England).