# Financial Reporting Advisory Board Paper

## Code of Practice on Local Authority Accounting

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| **Issue:** | Update on CIPFA/LASAAC development of the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) encompassing:<br><br>- A draft Invitation to Comment on the 2027/28 Code and the illustrative example accountability report and revised financial statements. |
| **Impact on guidance:** | The 2027/28 Code will be the definitive specifications for local authority accounting in the relevant accounting periods.<br>The current consultation also seeks views on a number of wider reporting reforms, several of which are proposed for implementation from 2028/29 rather than 2027/28. |
| **IAS/IFRS adaptation?** | The consultation includes proposals affecting the presentation of IFRS-based information for local authorities, most notably the proposed Accountability Report and related revisions to the primary financial statements.<br><br>It also proposes deferring mandatory implementation of IFRS 18 in the Code until 2028/29 so that it can align with the wider reporting reforms, and concludes that IFRS 19 should not apply to local authority subsidiaries because accounts prepared under the Code are not IFRS financial statements without modification. |
| **Impact on WGA?** | The proposals are intended to support alignment for WGA purposes. |
| **IPSAS compliant?** | The proposals do not seek additional major IPSAS-based changes for 2027/28. CIPFA/LASAAC proposes retaining the Code's existing adaptations for leases at peppercorn, nominal or nil consideration, concludes that IPSAS 50 and the related IPSAS 12 amendments would have no impact on the Code, and notes that the IPSAS materiality amendments do not require changes to the Code. |
| **Impact on budgetary regime?** | None – local authorities only.<br><br>The proposed Accountability Report would present budgetary control information, reserves information and the capital financing requirement more clearly on a funding basis. |
| **Alignment with National Accounts** | No misalignment anticipated. |
| **Impact on Estimates?** | None – local authorities only. |

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| **Recommendation:** | This report requests that FRAB:<br>• notes the draft Invitation to Comment on the 2027/28 Code of Practice on Local Authority Accounting in the United Kingdom, and the illustrative example accountability report and revised financial statements; and<br>• provides comments and advice on the main proposals and priorities set out in this paper. |
| **Timing:** | The ITC sets out proposals for the 2027/28 Code. In addition, several more substantial reporting reforms are proposed for later implementation, from 2028/29. |

# DETAIL

## *A draft Invitation to Comment on the 2027/28 Code*

1. CIPFA/LASAAC has developed the draft Invitation to Comment (ITC) on the 2027/28 Code as a central element of its programme of financial reporting reform, which is intended to improve the clarity, usefulness and accessibility of local authority accounts. In consequence, this year's ITC does more than provide the customary annual update for new standards and other technical changes: it is also being used to bring together a number of broader reporting reform proposals and to seek views on the future direction of local authority financial reporting.

2. At the heart of the consultation is a reconsideration of how local authority accounts are structured and understood. The proposals are intended to simplify reporting, reduce unnecessary complexity and improve the intelligibility of the statement of accounts, whilst maintaining the Code's IFRS-based foundation. In particular, the consultation draws together proposals on the primary user of the accounts, the possible introduction of an Accountability Report, associated changes to the presentation of the primary financial statements and disclosures, early-stage work on pensions reporting, and the further development of sustainability reporting proposals.

3. The ITC also continues to discharge CIPFA/LASAAC's annual standard-setting function. Alongside the wider reform material, it includes the proposed treatment of standards and other technical developments relevant to the 2027/28 Code, including IFRS 18, IFRS 19, the IAS 21 amendments, and the IPSAS-related matters addressed in the consultation. Accordingly, the consultation should be understood as comprising both the annual Code update and a broader reform package, some elements of which are proposed for implementation later than 2027/28.

4. The accompanying illustrative example accountability report and revised financial statements is included as a worked example of the principal reporting reform proposals. Its purpose is not to prescribe a final presentation at this stage, but to assist readers in understanding how the proposed Accountability Report, revised primary financial statements, and related disclosure changes might operate as a package if taken forward.

*Content of the consultation for the 2027/28 Code of Practice on Local Authority Accounting in the United Kingdom*

## *Updates to CIPFA/LASAAC's Strategic Workplan and the Better Reporting Group*

5. The ITC explains that financial reporting reform remains an important element of CIPFA/LASAAC's strategic plan. Alongside the annual maintenance of the Code, the current programme includes matters such as better reporting, the longer-term infrastructure assets solution, review of the structure and format of the Code, the identification of the primary user of the accounts, LGPS pension fund accounts in England, and sustainability reporting. The present consultation therefore sits within a broader body of ongoing work, rather than comprising only the annual standards update.

6. Within that wider programme, the Better Reporting Group continues to provide support for the development of potential reform proposals. The ITC records completed work on users of local authority accounts, materiality and indexation guidance, alongside current work on the presentation of statutory adjustments and pensions reporting. It also notes a number of possible future topics, including narrative reporting, summary accounts, group accounting and outturn/performance reporting.

### *Primary user of the accounts*

7. One of the more important proposals within the ITC is that the Code should specify a single primary user of local authority financial statements, namely the elected members taken together as a body. This follows the Better Reporting Group's work on the users of local authority accounts and is intended to provide a clearer basis for future Code development.

8. The effect on the text of the Code and on recognition and measurement requirements is expected to be limited. The proposal is instead relevant chiefly to matters of presentation, explanation and materiality, with the needs of elected members being treated as the principal point of reference for those aspects of reporting. The ITC accordingly proposes revised wording for paragraph 2.1.2.6 of the Code.

### *Accountability Report and related reforms*

9. The principal package of proposals within the ITC concerns the proposed accountability report, illustrated by the example accountability report and revised financial statements provided with the consultation. The essential proposal is that funding-basis information should be presented in a separate report, whilst the primary financial statements should be presented in a form more closely aligned with IFRS principles.

10. As described in the ITC, the proposed accountability report would become the main location for financial information presented on a funding basis. It would:

- report the year's income, expenditure and reserves position by reference to the regulatory council tax-setting and HRA rent-setting framework;
- provide a summary reconciling total expenditure and funding on a funding basis to the (surplus) / deficit on provision of services in the IFRS financial statements;
- include outturn statements based on budgetary control information already reported to elected members;
- include information on usable reserves and earmarked reserves; and
- include the capital financing requirement within the capital outturn material.

11. The accountability report proposals are accompanied by a linked set of changes to the primary financial statements and disclosures. These include:

- presentation of the Income and Expenditure Statement on a nature of spend/income basis;
- separation of the Income and Expenditure Statement from the Statement of Comprehensive Income and Expenditure;
- presentation of reserves as general reserves and revaluation reserves;
- replacement of the current Movement in Reserves Statement with a Statement of Changes in Reserves; and
- updating of terminology so that it is more consistent with IFRS usage.

### *Removal of the Expenditure and Funding Analysis*

12. If the wider package of accountability report proposals is implemented then the ITC proposes the removal of the Expenditure and Funding Analysis and a number of related disclosures that would no longer be needed.

13. CIPFA/LASAAC previously consulted on the removal of the EFA and received strong feedback that it should not be removed until it was known what would replace it. The present consultation identifies the proposed accountability report and the associated revised financial statements and disclosures as CIPFA/LASAAC's preferred longer-term approach for the presentation of funding-basis information.

14. At the same time, the ITC also seeks views on whether the EFA should be removed in its current form for 2027/28, a year earlier than the proposed implementation of the wider accountability report package, and regardless of whether the accountability report is implemented. The consultation therefore distinguishes between the proposed longer-term replacement framework and the possible earlier removal of the EFA itself.

### *Audit implications of the accountability report*

15. The ITC also considers the audit implications of locating the proposed accountability report outside the audited financial statements. On the proposed model, the report would not fall within the auditor's opinion on the truth and fairness of the financial statements, which would represent a change from the current position in which the equivalent matters are embedded within the statements and related disclosures. The consultation accordingly notes that some form of auditor reporting beyond the ISA (UK) 720 other information consistency check may be required.

16. Several possible approaches are outlined, including other information only, an opinion on regularity, an opinion on another reporting responsibility, exception reporting and agreed-upon procedures. CIPFA/LASAAC does not seek to conclude that question at this stage but records it as an issue requiring consideration alongside the wider reporting proposals.

### *Timing of implementation for the accountability report package*

17. Although CIPFA/LASAAC considers that the accountability report and related changes could improve clarity and reduce burden over time, it also recognises the present pressures on local government finance teams and auditors, including local audit recovery and local government reorganisation. CIPFA/LASAAC therefore seeks views on implementation of the accountability report and the associated revisions to the primary financial statements and disclosures from 2028/29 rather than 2027/28.

18. The proposed timing reflects CIPFA/LASAAC's view that, if these changes are to be implemented, sufficient lead time would be needed for guidance, systems changes and implementation planning.

### *Pensions reporting*

19. The ITC also includes early-stage material on pensions reporting, reflecting longstanding concerns that pensions reporting under IAS 19 and IFRIC 14 is complex, resource-intensive and difficult for users to engage with. It is therefore seeking evidence on where the principal difficulties arise in practice and whether more fundamental reform may in due course be warranted.

20. One of the options on which CIPFA/LASAAC is seeking views is whether local government pension schemes could, within the Code, be treated as if they were defined contribution schemes, with the focus of reporting shifting towards contributions payable and funding information rather than annually remeasured IAS 19 surpluses or deficits, as previously discussed in the March FRAB meeting.

21. CIPFA/LASAAC makes clear that such an approach would involve a departure from the current IAS 19 model and would raise important conceptual and practical issues. It should be noted that these changes are not being proposed for the 2027/28 Code, and that this section of the ITC is exploratory in nature.

### *Sustainability reporting*

22. The ITC also develops proposals on sustainability reporting. CIPFA/LASAAC proposes a TCFD-based approach for local government and seeks views on whether the requirements should be set directly in the Code or by reference to HM Treasury's TCFD-aligned application guidance for the UK public sector.

23. CIPFA/LASAAC further proposes threshold-based application, aligned to central government, and a phased three-year implementation model. In addition, it seeks evidence on authorities' readiness, whether implementation should begin on a voluntary basis, when reporting should become mandatory, and whether authorities due to cease to exist on 1 April 2028 should have an optional exemption.

### *Changes to standards for 2027/28 (IFRS and related matters)*

- IFRS 18, *Presentation and Disclosure in Financial Statements*;
- IFRS 19, *Subsidiaries without Public Accountability: Disclosures*; and
- Amendments to IAS 21, *The Effects of Changes in Foreign Exchange Rates* (Translation to a Hyperinflationary Presentation Currency).

24. Of these, the most significant is IFRS 18. CIPFA/LASAAC notes that under UK-adopted IFRS, the standard would ordinarily apply to the 2027/28 financial year; however, it proposes that mandatory implementation in the Code should be deferred until 2028/29, so that it may be aligned with the proposed accountability report and related presentation changes.

25. CIPFA/LASAAC resolves that IFRS 19 does not apply to local authority subsidiaries, and that the IAS 21 amendments do not require changes to the Code.

### *Changes to standards for 2027/28 (IPSASB developments)*

- *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, 47 and 48);
- IPSAS 50, *Exploration for and Evaluation of Mineral Resources*, and the related amendments to IPSAS 12 on *Stripping Costs in the Production Phase of a Surface Mine*; and
- *Definition of* Material (Amendments to IPSAS 1, IPSAS 3 and the Conceptual Framework).

26. In relation to these matters, CIPFA/LASAAC proposes retaining the existing Code approach to leases entered into at peppercorn, nominal or nil consideration, whilst clarifying the definition of such arrangements.

27. CIPFA/LASAAC also considers that IPSAS 50 and the related IPSAS 12 amendments concerning surface mining would have no effect on the Code, and proposes that the amendments to the IPSAS definition of material do not require Code changes.

### *Code timetable*

28. CIPFA/LASAAC intends to publish the 2027/28 Code ITC in July, with responses requested by Sunday 4 October 2026. Following consideration of those responses, CIPFA/LASAAC intends to complete the usual due process so that the final 2027/28 Code can be published by 1 April 2027.

**CIPFA/LASAAC**
**June 2026**