# 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>• an update on revisions to the 2027/28 Code and other matters consulted on the annual Code consultation |
| **Impact on guidance:** | The 2027/28 Code will be the definitive guidance for local authority accounting in the relevant accounting periods. |
| **IAS/IFRS adaptation?** | Proposed for pensions accounting (see below) |
| **Impact on WGA?** | The proposals include directing the use of the defined contribution basis to account for LGPS schemes, which will require WGA preparers to gather balance sheet information elsewhere. |
| **IPSAS compliant?** | Some differences as outlined in the paper |
| **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:<br>• FRAB agrees the excerpts from the revised 2027/28 Code in Annex 1<br>• FRAB notes and provides comments on those proposals still being developed |
| **Timing:** | 2027/28: The draft of the Code attached at Annex 1 sets out proposals following consultation for the Code which would be effective in 2027/28. |

# DETAIL

## *Update on revisions to the 2027/28 Code and other matters consulted on the annual Code consultation*

1. CIPFA/LASAAC met on 3 November 2026 to consider the outcomes of its annual consultation. CIPFA/LASAAC consulted on the 2027/28 Code amendments from 20 July 2026 to 27 September 2026. In total there were 110 responses to the public consultation on the draft 2027/28 *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code). This is a 50% increase from last year's response rate of 73 and an all-time high watermark for responses, likely due to the range and impact of the proposals.

2. CIPFA LASAAC also took assurance from outreach engagement in the form of a webinar held on 1 September, which was attended by around 200 delegates.

3. Draft copies of the relevant paragraphs of the 2027/28 Code are 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 2027/28 Code covered the following matters:

a) CIPFA LASAAC's strategic work plan and the Better Reporting Group
b) Adoption of elected members as the defined primary user
c) Proposals for an accountability report
d) Pensions reporting
e) Sustainability reporting
f) Changes to Standards for 2027/28
g) Other financial reporting or emerging issues

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

The consultation responses supported the Board's threefold focus on clearer accounts, engagement with stakeholders, and reviewing its own operations. Some respondents wanted to see further work to reduce the focus on valuation of assets held primarily for service delivery. As in previous years, the constraints of sector capacity given ongoing spending pressures and recovery from the audit reset were highlighted – even accepting that immediate concerns about local government reorganisation had been delayed by government.

There was particular attention on the work of the Better Reporting Group, including feedback on what its next priorities should be. This was fed into the latest BRG meeting, where narrative reporting and alignment of government returns were selected for advancement as the next projects. Alignment of returns has been raised before, with challenges posed by the variety of returns required, each with its own different reporting requirements and approach. Narrative reporting was the most requested topic for review, which ties into proposals elsewhere in this report around the proposed accountability

report as well as sustainability reporting to make up a wide-ranging reformation of reporting as a whole.

Respondents also highlighted the need for resolution of an approach for infrastructure assets; this work is already underway by a subgroup of LASAAC, given the earlier end of the relevant statutory override in Scotland, and BRG are represented on and contributing to this work.

**CIPFA/LASAAC noted the support from stakeholders for their overall direction, while also recognising the significant capacity challenges faced by local authorities.**

**b) Identification of a primary user for the accounts**

Building on a survey performed by the BRG in 2025 to identify all relevant users, the consultation considered the question of whether a primary user should be defined within the Code, and proposed that the appropriate user group should be elected members, acting collectively in their governance and oversight role. Respondents were asked both whether a single primary user should be identified, and if elected members were the appropriate primary user if so. It is not expected that significant changes to the letter of the Code will result, but this determination would inform decisions such as materiality and prominence of relevant disclosures.

There was broad support for the identification of a primary user, with the most common concern being that it should be clear that other users exist and their needs should not be ignored – including residents, regulators, lenders, auditors and central government. But some respondents did question whether a single primary user could adequately reflect the breadth of local authority accountability arrangements.

Likewise, elected members, while not a majority (46%), was the most supported group to be chosen as the primary user, with local residents as the most commonly suggested alternative. Some suggested that multiple groups should be identified.

There was also a notable theme relating to those bodies which apply the Code but do not have elected members, such as police bodies, fire and rescue authorities, and national park authorities. Consideration would need to be made for how the proposed requirement should be applied in these cases.

**CIPFA/LASAAC decided to proceed with the adoption of elected members as the primary users, with careful wording (shown in Annex A) to make it clear that other users' needs are not to be disregarded. For those bodies without elected members, those charged with governance will instead be identified as the primary users.**

**c) Accountability report proposals**

The consultation proposed the introduction of an accountability report and amendments to financial statements and disclosures to change the way that differences between the funding basis and reporting basis are reported in local authority accounts. The proposal is at an early stage and not planned for implementation until 2028/29 and so the amendments required do not appear in the draft Code updates at this time.

It was proposed that the accountability report would contain a summary of the outturn against budget for the general fund, housing revenue account (if applicable) and capital expenditure as reported to elected members in the authority's management reporting. The outturn position is reconciled to the income and expenditure statement. The accountability report also includes information on usable reserves balances and where these have been earmarked for specific purposes as well as a calculation of the capital financing requirement. The accountability report is accompanied in the proposal by some amendments to the financial statements and disclosures, including removal of the expenditure and funding analysis and the adjustments between accounting basis and funding basis disclosure. The proposal also incorporated changes to the financial statements resulting from IFRS 18, so that all presentational changes to the accounts are made at once rather than incorporating changes in successive years.

There was strong support for the concept of the accountability report, with over 2/3rds of respondents agreeing that it would improve the understandability of the accounts for users and would make financial information more accessible. There were concerns about duplication with other reports already available to members, disclosures in the financial statements, and the narrative report, which will be considered as the proposals are further developed.

The main concern reflected in responses was the proposal to show reserves split only between "general reserves" and "revaluation reserves" on the Statement of Financial Position and the Statement of Changes in Reserves. The objective of this proposal was to simplify reporting and remove the need to show adjustments for statutory overrides in the core financial statements. However, there was a strong view that the existing split between usable and unusable reserves is important for users of the accounts and should remain on the main statements, even if they are shown separately in the disclosures.

There was also discussion on the appropriate level of assurance to be applied to the new report, and more widely its relative place and status within the financial statements. These matters will require coordination with audit bodies and government and so will be taken forward as the proposals are finalised and developed ahead of the 2028/29 Code next year.

**CIPFA/LASAAC agreed to take forward the accountability report proposals for further development and refinement. A final proposal will be consulted upon for the 2028/29 Code in 2027.**

**d) Pensions reporting**

The consultation sought views on a range of potential reforms to pensions reporting in local authority financial statements, following concerns raised regarding the complexity, cost and usefulness of current pensions reporting under IAS 19. Respondents were asked to identify where difficulties arise in preparing, auditing and using pensions information, to comment on the usefulness of current disclosures and IFRIC 14, and to provide views on a range of potential solutions ranging from improved disclosures and audit efficiencies through to a more fundamental move to treating local government pension schemes as if they were defined contribution schemes.

Respondents broadly agreed that pensions reporting remains one of the most complex and resource-intensive areas of local authority financial reporting, citing the volume and technical nature of IAS 19 disclosures, the challenges of explaining pensions accounting

to non-specialist users, and the significant effort required from preparers, auditors and actuaries. Common issues included the use of estimated data to meet reporting timetables, responding to detailed audit queries, obtaining actuarial support and applying the requirements of IFRIC 14 and the asset ceiling.

Views on the usefulness of the information itself were more mixed. Several respondents considered that information derived from funding valuations and employer contribution rates is more relevant to financial planning and decision-making than IAS 19 disclosures. However, other respondents emphasised the importance of information regarding pension obligations, pension assets, funding positions and the long-term sustainability of pension arrangements.

There was strong support for reviewing CIPFA Bulletin 15 and for developing additional implementation guidance. Respondents particularly supported the development of worked examples, model disclosures and plain-English explanatory material.

Views were considerably more mixed regarding the proposal to treat local government pension schemes as if they were defined contribution schemes, though a plurality of respondents opposed the move. Whilst some respondents considered that such an approach would better reflect statutory funding arrangements, align more closely with budget-setting processes and reduce complexity, a larger number of respondents raised concerns regarding the implications of moving away from IAS 19.

Discussion at CIPFA/LASAAC focused on whether changes to disclosures and guidance within the framework of IAS 19 could possibly achieve the simplification required. It was strongly felt at the Board that guidance and disclosure adjustments alone could not be expected to achieve the desired simplifications.

**CIPFA/LASAAC concluded that retaining the existing approach would not deliver the simplification required, and that streamlining disclosures within the current framework was unlikely to produce a material reduction in the burden on preparers or auditors. Hence the Board has determined to proceed with treating LGPS, fire and police pensions as defined contribution from 2027/28. Annex A shows the proposed wording.**

The CIPFA LASAAC secretariat has previously agreed to bring their proposals for implementation to the Relevant Authorities Working Group for discussion.

**e) Sustainability reporting**

The consultation sought views on the introduction of sustainability reporting to local authority financial reporting. The proposals were based on the Task Force on Climate-related Financial Disclosures (TCFD) framework and included questions on sector readiness, the most appropriate reporting framework, implementation arrangements, timing, location within the Statement of Accounts and assurance requirements. Respondents were also asked whether sustainability reporting requirements should be incorporated within the Code itself or whether the Code should instead refer to HM Treasury's TCFD-aligned application guidance.

There was broad support for the proposals, with respondents generally agreeing that sustainability reporting has the potential to improve transparency, accountability and understanding of climate-related risks and wider sustainability issues. Several

respondents also recognised that frameworks based on TCFD provide an established starting point which is already familiar across parts of the public sector.

The consultation proposed that implementation begin rolling out from 2027/28, and many respondents supported a phased approach to implementation and considered that reporting should initially be voluntary, allowing authorities to build capacity, learn from early adopters and develop systems and processes before sustainability reporting becomes mandatory. However, some respondents expressed concern that a voluntary approach could reduce consistency and comparability across the sector. Citing capacity concerns, the vast majority of respondents supported implementation in 2029/30 or even later.

Discussion at the Board focused on the importance of sustainability reporting, particularly as many local authorities have declared a climate emergency, as sustainability-related information may be relevant to members' oversight and decision-making. There was also an expressed desire not to fall behind other parts of the sector in adopting sustainability reporting standards.

**Recognising that the TCFD framework embeds a comply-or-explain approach, and that the year-one requirements are limited, CIPFA/LASAAC resolved to implement sustainability reporting from 2027/28, with the current intention being to continue to expand the requirements annually in line with TCFD.**

The Code will link to the external TCFD framework and will not incorporate all sustainability requirements explicitly – the proposed wording is shown in Annex A.

**f) Other changes in standards**

*IFRS 18 Presentation and Disclosure in Financial Statements*

IFRS 18 replaces IAS 1 and introduces new requirements relating to the presentation of financial performance, aggregation and disaggregation of information, and management-defined performance measures. Given the interaction between these proposals and the proposed Accountability Report, the ITC proposed deferring mandatory implementation of IFRS 18 in the Code to 2028/29 to allow the proposals to be implemented together, which was widely supported.

**CIPFA/LASAAC agreed to defer IFRS 18 implementation to align with the new accountability report.**

*IFRS 19 Subsidiaries without Public Accountability*

The ITC considered whether the disclosure exemptions available under IFRS 19 could be relevant to local government. IFRS 19 permits eligible subsidiaries preparing IFRS financial statements to apply reduced disclosure requirements. The ITC noted that local authorities are not themselves within the scope of IFRS 19, as they are not subsidiaries.

This approach was broadly supported, although some respondents had concerns on the implementations for local authority subsidiaries if inconsistent conclusions on eligibility for IFRS 19 disclosure exemptions are drawn; however while the Board acknowledged that these concerns, ultimately these considerations are outside of the Board's remit.

**CIPFA/LASAAC agreed that no consequential amendments are required to the Code.**

*Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates (Translation to a Hyperinflationary Presentation Currency)*

The ITC considered the implications of the amendments to IAS 21, which provide guidance on how entities translate financial statements when their presentational currency is that of a hyperinflationary economy, but their functional currency is not. The ITC proposed no changes to the Code would be required in response to these amendments as the circumstances addressed are not expected to arise for UK local authorities.

The consultation showed strong agreement with this view.

**CIPFA/LASAAC agreed that the amendments would not effect any change in practice, but to accept them under the reasoning that the Code is based on IFRS.**

*Concessionary Leases and Other Arrangements Conveying Rights over Assets (Amendments to IPSAS 43, 47 and 48)*

The ITC considered the implications for local government reporting of recent amendments to IPSAS 43 Leases, IPSAS 47 Revenue and IPSAS 48 Transfer Expenses relating to concessionary leases and other arrangements conveying rights over assets. The IPSAS amendments introduce a model under which a concessionary component of a lease is identified and recognised separately, with the associated right-of-use asset measured using market-based lease payments and the difference recognised as revenue.

Respondents overall supported the Code's existing treatment, feeling that a separate concessionary lease model is not needed and that existing requirements already appropriately consider the effect of below-market leases.

**CIPFA/LASAAC determined not to adopt the revised accounting treatment or definitions.**

*Exploration for and Evaluation of Mineral Resources and Stripping Costs in the Production Phase of a Surface Mine (Amendments to IPSAS 12)*

The ITC considered the implications of IPSAS 50 and the amendments to IPSAS 12. These introduce accounting requirements for expenditure associated with mineral exploration, evaluation and stripping activities. The ITC noted that such activities are not generally undertaken by local authorities and therefore proposed that no changes to the Code were required.

The consultation strongly supported this belief.

**CIPFA/LASAAC determined not to change the Code in response to these amendments.**

*Definition of Material (Amendments to IPSAS 1, IPSAS 3 and the Conceptual Framework)*

The ITC considered the implications of the IPSASB's amendments to the definition of material in IPSAS 1, IPSAS 3 and the Conceptual Framework. The amendments align IPSAS requirements more closely with the equivalent amendments made by the IASB. The ITC noted that the Code already incorporates a materiality framework based on IFRS requirements, and proposed no amendments to the Code in respect of these changes.

The consultation strongly supported this belief.

**CIPFA/LASAAC determined not to change the Code in response to these amendments.**

g) Other financial reporting or emerging issues

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| **Changes to IFRS standards which could impact on the Code (beyond 2027/28)**<br>CIPFA LASAAC sought stakeholders' views on the impact of the new standards on the Code's provisions. | IFRS 14 *Regulatory Deferral Accounts* is being replaced by IFRS 20 *Regulatory Assets and Regulatory Liabilities*. While this will have a substantial impact on companies' presentation of their financial statements, it is unlikely to impact on the current requirements of the Code. The consultation supported the view that no changes are required at this time. |
| **Changes to IPSAS standards which could impact on the Code (beyond 2027/28)**<br>CIPFA LASAAC sought stakeholders' views on the impact of the new standards on the Code's provisions. | CIPFA/LASAAC considered three standards issued by IPSASB which are effective from 1 January 2028. These are:<br>• IPSASB 51 Tangible Natural Resources Held for Conservation<br>• IPSAS 33 First-time Adoption of Accrual Basis IPSAS Standards<br>• Amendment to IPSAS Standards as a Result of the Application of IPSAS 46 Measurement<br><br>The consultation held that IPSASB 51 may apply to authorities which hold relevant properties; that IPSAS 33 would not apply; and that IPSAS 46 could be relevant if operational value is considered for inventory accounting. |

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

## *Other matters discussed at CIPFA/LASAAC*

5. The Board had commissioned a review of its effectiveness and governance, led by Lynn Pamment with support by an external agency. The completed review was included in the papers for the meeting of the Board, along with secretariat's assessment of how to proceed with the recommendations made.

6. The Board reviewed the report. Some recommendations were accepted for immediate implementation, but some required additional work to finalised and put into effect. Accordingly, a task and finish group will be established to work through these remaining recommendations, with a goal of reporting back to the next full CIPFA/LASAAC meeting in March 2027.

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

7. This report requests that:

- FRAB agrees in principle the draft amendments for the 2027/28 Code in Annex 1
- FRAB notes and provides comments on any other aspects of the work of CIPFA LASAAC and the Better Reporting Group

**CIPFA/LASAAC**
**November 2026**