FRAB 143 (05)
25 March 2021

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)
Impact on guidance:	This report sets out the current position regarding the Update to the 2020/21 Code (for Transport for London (TfL) only), the outcomes of the 2021/22 Code consultation and the consultation on Housing Tenancies and the HRA. FRAB Members are also requested to consider FRAB reports FRAB 134 (04), 138 (07) and FRAB 142 (07) and the previous decisions made by the Board.
IAS/IFRS adaptation?	A) IFRS 16 *Leases* – The Update to the 2020/21 Code includes the adaptations as agreed with FRAB. B) 2021/22 Code – no new adaptations are anticipated. C) Adoption of IFRS 16 Leases – the CIPFA LASAAC housing sub group proposes changing the adaptation scoping housing tenancies out of IFRS 16 accounting to an interpretation that indicates that housing tenancies are operating leases and with the exception of the reporting of housing tenancy income the disclosure requirements for operating leases for lessors do not apply as they are not relevant.
Impact on WGA?	The Update of the 2020/21 Code may require adjustments for TfL for WGA purposes these are likely to be similar to those required for the central government departments that have early adopted IFRS 16.
IPSAS compliant?	A) IFRS 16: The adoption of IFRS 16 will create a misalignment with IPSAS which is based IAS 17 *Leases*. The IPSASB has issued an Exposure Draft (ED 75 *Leases*) on leases which follows the right-of-use model in IFRS 16. B) Development of 2021/22 Code (as reported in FRAB 142 (07): The Code has previously included reference to IPSAS 29 *Financial Instruments: Recognition and Measurement.* This will now be replaced with reference to IPSAS 41 *Financial Instruments* regarding accounting for loans at discretionary rates. There are no changes though to the recognition and measurement requirements for financial instruments. The Code does not yet adopt IPSAS 42 *Social Benefits* though there are unlikely to be substantial differences in accounting treatment.
Impact on budgetary regime?	None – local authorities only.

Alignment with National Accounts	The Update of the 2020/21 Code may require adjustments for TfL for National Accounts purposes these are likely to be similar to those required for the central government departments that have early adopted IFRS 16.
Impact on Estimates?	None – local authorities only.
Recommendation:	1. This report requests that: • FRAB notes that there may be changes to the 2020/21 and 2021/22 Codes because of COVID-19 related rent concessions changes which will be reported to FRAB in an out of meeting paper. • FRAB agrees the minor changes to the 2021/22 Code made since the last report was made to the Board. • FRAB notes that a separate report will be provided on the results of the Housing Tenancies and Leasing Standards consultation. 2. FRAB is also invited to consider and comment on the changes to CIPFA LASAAC's Updated Strategic Plan.
Timing:	2020/21: IFRS 16 *Leases* early adoption considerations affect 2020/21 2021/22 2022/23

DETAIL

Background

3. FRAB Members will be aware that it considered the Update to the 2020/21 Code, the 2021/22 Code and changes to the 2022/23 Code for the adoption of IFRS 16 *Leases* at its last meeting and agreed them in principle. No further commentary was received following FRAB's November meeting and the Update to the 2020/21 Code (Statement by CIPFA LASAAC) and most of the changes to the 2021/22 Code have been agreed following the due processes for CIPFA and LASAAC.

4. In the interim FRAB is also aware from report 142 (07) that CIPFA LASAAC had issued its consultation on Housing Tenancies and Leasing Standards. This was subject to consultation until 12 March 2020 and the CIPFA LASAAC Secretariat is analysing responses which will be considered by the Housing Tenancies and Leases sub-group prior to the Board's meeting on 25 March 2021 and by CIPFA LASAAC at its meeting on 29 March 2021 (the Secretariat may be able to report verbally to FRAB on the tentative decisions of the Housing sub-group).

5. Subject to FRAB's views the Secretariat will report to FRAB in an out of meeting paper on the results of the consultation and any proposed changes to the 2021/22 and 2022/23 Codes.

COVID-19 Related Rent Concessions

6. The report provided at FRAB's last meeting (FRAB (142) (07)) explained that CIPFA LASAAC would consider including provisions on rent concessions in the 2021/22 Code. Although it was not clear that this would be a substantial transaction for local authorities themselves it is possible that this will be an issue for local authority Group Accounts. The consultation papers therefore also included a separate section on rent concessions.

7. In October 2020, the Financial Reporting Council (FRC) issued its Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland - COVID-19-related rent concessions*. The amendments require a lessee to recognise any change in lease payments arising from qualifying rent concessions over the period that the change in lease payments is intended to compensate. A similar treatment has been included for lessors (the amendments require a lessor to recognise any change in lease income arising from qualifying rent concessions over the periods that the change in lease payments is intended to compensate). The accounting treatment should only be applied if the qualifying conditions are met ie:

- the change in lease payments results in revised consideration for the lease that is less than the consideration for the lease immediately preceding the change

- any reduction in lease payments affects only payments originally due on or before 30 June 2021, and

- there is no significant change to other terms and conditions of the lease.

8. The consultation paper therefore cross-refers to the accounting treatment provided in FRS 102. CIPFA LASAAC proposes that the Code requires the use of the accounting treatment prescribed by the amendments to FRS 102, with the Code cross referring to these amendments. CIPFA LASAAC is of the view that as the amendments to FRS102 are based on IAS 17, it would be useful to local authorities if the same accounting treatment is followed as this will allow for consistency and comparability of treatment. Following the approach outlined in the amendments to FRS 102 would also allow for easier consolidation of Group Accounts transactions. The Exposure Draft issued with the consultation is attached to this report at Annex 1. Subject to the outcomes of the consultation and CIPFA LASAAC's decisions on 29 March 2021, an additional paragraph will be included in the 2021/22 Code to provide the cross reference. CIPFA LASAAC may also decide to issue an Update to the 2020/21 Code for these transactions depending on the outcomes of the consultation.

Other changes to the Code

9. Following FRAB's last meeting there have been a small number of changes to the legislative references in the Code. This includes:

- a minor correction at paragraph 3.4.2.57 to make it clear that the note on the Movement in Reserves Statement should be able to include adjustments for fair value movements because of regulatory requirements in Wales as well as England.

- confirmation of the impact of back pay arising from the regulations and guidance on this issue across the UK as the permissions allowed for by the Regulations have come to an end, and

- confirmation of the dates for confirmation of the unaudited statements of account and the publication date following the recent amendments to the Accounts and Audit Regulations 2015.

These changes have been included as an Annex 2 to this report.

Strategic Plan – Questions

10. CIPFA LASAAC's consultation on the Code during September and October 2020 included several questions on its Strategic Plan. The consultation questions focussed on specific areas which are outlined in Annex 3 to this report. A high-level overview and the conclusions arising from each of the sets of responses is summarised in Annex 3. The consultation questions emanated from CIPFA LASAAC's original strategic plan and earlier discussions with stakeholders.

11. The Redmond Review and its recommendations have been reported following CIPFA LASAAC's original strategic plan and the recommendations report [1]was issued just three days before the planned publication date of CIPFA LASAAC's September consultation paper. The review commented on the possibilities for simplification of local authority accounts. Particular commentary (though no explicit recommendation) was made on the measurement of property, plant and equipment and pensions assets. The dual impetus of the Redmond Review recommendations and the perception that local authority accounts as being overly complicated for stakeholders led to a refocusing of the strategic plan to on these issues. CIPFA LASAAC has therefore reprioritised its strategic plan to focus on six project areas, which also allows for implementation of IFRS. This refocusing will allow for clear priorities and milestones to be set for the next two years.

12. The Strategic Plan now focuses on the following six projects:

    - Project 1 – *Materiality* – this project will focus on who the users of local authority financial reports are, what information they need and how this might be best presented. It will also cover issues raised by the Redmond Review ie the measurement of property, plant and equipment and pensions assets.

    - Project 2 - *Streamlining the accounts* – this project will look at options for streamlining local authority financial statements and will particularly focus on the impact of the

[1] Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting, Sir Tony Redmond

statutory reporting requirements ie the adjustments that reconcile General Fund Balances to the amounts charged as result of the council tax requirement rather than IFRS as adopted by the Code.

- Project 3 – *Annual Development Programme for the 2022/23 Code*. Principally this will include the adoption of IFRS 16 *Leases* (which has already been largely considered by FRAB, except for the outcomes of the Housing Tenancies and Leasing Standards consultation and Project 4 on the measurement of the service concession arrangement liability), other amendments to standards and legislation.

- Project 4 – *PFI/PPP Contracts Working Group* – as discussed in FRAB 142 (07) this group will consider the measurement of the PFI/PPP Scheme liabilities and assess the fact patterns in relation to what is being measured ie one view put forward is that the transaction is not like a lease, but a deferred asset purchase and cash flow changes therefore relate to the payment for the services provided with the contract. An alternative view is that experience suggests that the proportion of indexed unitary charge in PFI operator financial models is there solely to optimise the overall funding solution and the indexed element rarely if ever derives either directly or indirectly from assumptions for lifecycle and facilities management costs and that the indexation would flow to the assets.

- Project 5 – *Implementation of IFRS 17 Insurance Contracts*. Consultations on the 2020/21 and 2021/22 Codes have indicated that some local authorities may have transactions which would be accounted for under IFRS 4 *Insurance Contracts* and IFRS 17. The examples provided need to be investigated to determine whether they may impact on the approach to adoption in the Code ie a change from the approach to insurance contracts from that of the adoption of IFRS 4.

- Project 6 - *Narrative Reporting* – This project has links to the Redmond Review, which recommended the production of a standardised statement of service information and costs to increase transparency and accountability for the layperson in terms of financial performance of its services. The project will also review the current approach to narrative reporting which was changed in 2017 and examine best practice across the public sector.

13. The projects included in CIPFA LASAAC's previous Strategic Plan will be considered within the longer-term plan although many are likely to be captured under the broader project headlines of materiality and streamlining. Any areas not picked up by the six projects will be addressed during the second stage of the Strategic Plan which will commence in 2023. CIPFA LASAAC at its meeting on 4 March 2021 recognised that although some of the issues raised by the Redmond Review will be included in its updated Strategic Plan (in projects 1, 2 and 6) the projects will need to be agile enough to adapt to the government's detailed consideration of the Redmond Review recommendations, for example, the final format and outcomes for the standardised statement of service information and costs.

14. Although not yet a part of CIPFA LASAAC's strategic plan the Board is aware of developments at CIPFA and across the public and private sectors with regards to

sustainability and sustainability reporting and has also agreed to include sustainability reporting as a standing item on its agenda.

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

15. This report requests that:

    - FRAB notes that there may be changes to the 2020/21 and 2021/22 Codes because of COVID-19 related rent concessions changes which will be reported to FRAB in an out of meeting paper.

    - FRAB agrees the minor changes to the 2021/22 Codes made since the last report was made to the Board.

    - FRAB notes that a separate report will be provided on the results of the Housing Tenancies and Leasing Standards consultation.

16. FRAB is also invited to consider and comment on the changes to CIPFA LASAAC's Updated Strategic Plan.

CIPFA/LASAAC
March 2021

4.2 LEASES AND LEASE TYPE ARRANGEMENTS

4.2.2 Accounting requirements

…

COVID-19 related rent concessions for operating leases for lessees and lessors

4.2.2.40 A lessee shall recognise any change in lease payments or a lessor shall recognise any change in lease income arising from rent concessions in accordance with *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime: COVID-19-related rent concessions* issued by the Financial Reporting Council in October 2020. Where material the disclosure requirements in the amendments to FRS 102 shall also be followed.

…

Annex 2

EXTRACTS OF MINOR CODE CHANGES

Movement in Reserves Statement

…

3.4.2.57 A local authority shall present, either in the Movement in Reserves Statement or in the notes, an analysis of the amounts included in items b), d) g) (and for Scottish local authorities item c)) of the statement. For item e) analysis is required as specified in paragraph 3.4.5.1. The analysis of item g) shall include the following transactions where relevant, but these transactions do not have to be individually identified in the analysis (authorities shall refer to paragraph 3.4.2.26 and 3.4.2.27, and legislative requirements where necessary, when preparing this disclosure):

- depreciation, impairment and revaluation losses (charged to surplus or deficit on the provision of services) of non-current assets
- amortisation of intangible assets
- movements in the fair value of investment properties
- capital grants, contributions and income in relation to donated assets credited to the Comprehensive Income and Expenditure Statement
- revenue expenditure funded from capital under statute
- costs of disposal funded from capital receipts
- net gain or loss on sale or derecognition of non-current assets and non-current assets held for sale
- amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements (in Scotland statutory guidance requires an analysis of the total amount into constituent elements – see paragraph 3.4.5.1)
- amount by which pension costs calculated in accordance with the Code (ie in accordance with IAS 19) are different from the contributions due under the pension scheme regulations
- amount by which council tax income, non-domestic rate income and residual community charge adjustment included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulations (England only)
- fair value gains and losses of defined pooled investment funds as required by regulation (England and Wales only)
- amounts related to statutory adjustments for equal pay, with an analysis of the amounts into constituent elements according to statutory guidance (Scotland only – see paragraph 3.4.5.1)

- capital receipts transferred to the capital grants and receipts unapplied account, differentiating between amounts to fund equal pay settlements and amounts to support transformation projects (Scotland only – see paragraph 3.4.5.1)
- amounts debited or credited to the business rate supplements revenue account
- statutory provision for repayment of debt
- capital expenditure charged to the general fund balance
- transfers in respect of community infrastructure levy (CIL) receipts
- transfer from capital receipts reserve equal to the amount payable into the housing capital receipts pool (in England and Wales only)
- any voluntary provision for repayment of debt
- net transfer to or from earmarked reserves required by legislation
- transfers between other reserves required by legislation.

8.2.3 Statutory accounting requirements

8.2.3.1 In England and Wales, regulations and, in Scotland, statutory guidance (see part 2 of Appendix B for the legislative basis) permitted an authority to defer the impact of any provision made for back pay arising out of unequal pay claims on a revenue account. In England and Wales the ability to defer the reserves impact of new provisions ~~ceases~~ ceased on 1 April 2020. The regulations in England and Wales and statutory guidance in Scotland allows a local authority to continue to hold a deferred charge for qualifying equal pay provisions as a statutory adjustment until the back pay arising out of unequal pay claims payment is made to the employee.

1.4 PUBLICATION

General

1.4.1 The statement of accounts should be prepared promptly by authorities in a form that fulfils the purpose outlined above in accordance with the statutory timetable and CIPFA's *Standard of Professional Practice on Financial Reporting.*

Confirmation and publication requirements for the statement of accounts in England

1.4.2 In England, the responsible financial officer in each authority is required to confirm that they are satisfied that the statement of accounts presents a true and fair view of the financial position of the authority at the end of the relevant financial year and the authority's income and expenditure for that financial year, prior to the commencement of the period for the exercise of public rights by 1 August ~~(which includes the first ten working days in June)~~ and to approve and publish them by ~~31~~30 ~~July~~September, or as soon as reasonably practicable after the receipt of the auditor's final findings (if later). The complete set of financial statements as defined in paragraph 3.4.2.17, and including the significant accounting policies and notes to the accounts, should form the relevant statement of accounts for the purpose of the auditor's certificate and opinion in England. The statements should be published with an audit certificate and opinion in England. If the published statement of accounts has not been audited, this should be stated clearly on the front of the document.

Annex 3

High Level Summary of Consultation Question Responses to CIPFA LASAAC' September/October Consultation on its Strategic Plan

Area	Comments	Conclusions
Consideration of the possibility of the introduction of a Statement of Taxpayers Funding	• Some support for the statement. • Comments that this needs to await Redmond Review outcomes and particularly the Standardised Statement of Service Information and Cost • Information is already provided/similar to the Expenditure and Funding Analysis • There needs to be exemplification of what the new Statement might look like.	Await the outcomes of the Redmond Review on the Standardised Statement of Information and Costs.
Expenditure and Funding Analysis (EFA) note	• More support than anticipated for this note and its objectives. • Comments on the positioning of the EFA within the financial statements • Suggestions for inclusion in the Narrative Report • Comments on duplication of information in the Movement in Reserves Statement (MiRS) note and there were some suggestions to combine the EFA and the MiRS • Would benefit from simplification.	Overlaps with reporting of objectives of the Redmond Review Standardised Statement of Information and Costs so needs to await the outcomes of government decisions and other actions with regard to this issue.
The Comprehensive Income and Expenditure Statement	• Overall respondents supported no change. • Issues raised relating to comparability of service costs. • Respondents noted that the accounts are reported on a resource basis – a few	No immediate change necessary.

Area	Comments	Conclusions
	respondents raised the issue of reporting on a deficit basis. • Comments suggested that more explanation of performance was needed in narrative report.	
Capital Accounting	• Most respondents believed that no change was required to the capital accounting arrangements. • There was some support for consideration of materiality with regard to measurement and disclosure. • Comments suggested that the statutory disclosures could be improved.	No immediate change is necessary except for the consideration of materiality (see project 1).
Pensions accounting	• Only one dissenting view from a treasurers' society on pensions accounting (in general) noting that it introduces '*considerable cost and brings considerable volatility'*. • Substantial support for a review of disclosures indicating they were too excessive. • Other respondents supported the disclosures.	No immediate change is necessary except for the consideration of materiality (see project 1)
Financial instruments disclosures	• Substantial numbers indicating the disclosures are too complex and not useful to primary users of the accounts. • Other respondents noted the provisions in the Code were appropriate and there was a '*risk that bodies will take out complex investments and/or borrowing instruments*'.	No immediate change is necessary except for the consideration of materiality (see Project 1) and at some point, potentially the disclosure approach in FRS 102.

Area	Comments	Conclusions
	• Suggestions put forward on the use of the basic financial instrument approach in FRS 102.	
Group Accounts	• Issues raised around ensuring that the risks and different nature of the consolidated subsidiaries can be clearly presented in local authority groups. • Positive comments relating to the need for Group Accounts to present risk of interests in other entities. • Discussions around prominence of the Group Accounts within local authority financial statements.	It would be useful to consider how and whether local authority Group Accounts properly manage to relay the economic substance of local authorities' relationship with its interests in other entities.