The Chartered Institute of
Public Finance & Accountancy

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Report

To:	CIPFA LASAAC
From:	Sarah Sheen, CIPFA Secretariat Advisor
Date:	4 March 2021
Subject:	2021/22 Code Feedback Statement and UK Endorsement

Purpose

The purpose of this report is to consider the draft Feedback Statement for the 2021/22 Code and the approach to the UK Endorsement Process

Report

1. Introduction

1.1 The Board considered its approach to its Feedback Statement on the Code of Practice on Local Authority Accounting at its June 2020 meeting. It agreed that it would like the Feedback from respondents to the consultation to be summarised in tabular format but wanted the information on response rates to each question to be presented more clearly. The Secretariat has therefore spilt the feedback into two tables. The Draft Feedback Statement is presented in the Appendix to this paper.

1.2 At its November meetings the Board agreed to defer the implementation of IFRS 16 *Leases* to the 2022/23 financial year. The consultation questions therefore focus on accounting standards changes consulted on to be applied in the 2021/22 Code and includes feedback on other augmentations to the Code.

1.3 The 2020/21 Feedback Statement will need to provide a commentary on COVID-19 related rent concessions which is currently subject to consultation. An update to the Feedback Statement will be provided to CIPFA LASAAC following the consultation (note that this consultation closes on 12 March 2020).

2. UK Adoption of International Accounting Standards and Adoption of Standards in the Code

2.1 The Board will be aware that the Code used to adopt EU adopted IFRS standards. This meant that they would be adopted based on the date standards were published in the Official EU Journal having been adopted.

2.2 The Board will also be aware that the 2021/22 Code included IFRS Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (issued on 27 August 2020). From the end of the transition period the Code moved to UK adoption of IFRS. The adoption statement which is available from this page for the amendments to these standards indicates that they:

‘…*must be used for financial years beginning on or after 1 January 2021’*.

which would mean that they come into the scope of UK adopted IAS for the relevant period for the 2021/22 Code.

2.3 The Secretariat would note, however, that the amendments were adopted on 5 January 2021. The Secretariat is of the view that to have a clear policy and for consistency the Code should follow the requirements of the adoption statement. However, there could be arguments that any amendments should follow the date of adoption. The Secretariat would also note that these set of amendments would be of assistance to any local authority that has contracts that would come within their scope. The Secretariat would therefore seek the views of the Board. Currently the 2021/22 Code includes these amendments.

Recommendations

- **The Board is invited to review the Feedback Statement for the 2021/22 Code and approve the text provided to date.**
- **The Board is also invited to comment on its approach to the adoption of UK adopted standards.**

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LASAAC

CIPFA

CIPFA LASAAC Feedback Statement on the 2021/22 Code

1 Introduction

1.1 This publication is a Feedback Statement from the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA LASAAC) updating accounts preparers and other interested parties on the amendments to the 2021/22 *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) following the consultation on proposed changes the Code in September to October 2020.

1.2 This Feedback Statement should be considered alongside the consultation papers on the Code. (The consultation documents are available on the archived consultation pages of the CIPFA website.)

1.3 In both the summer of 2018 and 2019 CIPFA/LASAAC consulted on implementation of IFRS 16 Leases. CIPFA LASAAC also consulted on final implementation issues about this standard in the autumn. However, the implementation date for this standard for the UK public sector has now moved to the 1 April 2022. A separate feedback statement on the implementation of IFRS 16 will be issued alongside the 2022/23 Code.

1.4 **This Feedback Statement does not form any part of the 2021/22 Code**.

1.5 Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper practices'. This is defined, for the purposes of local government legislation, as meaning compliance with the terms of the Code, prepared by CIPFA LASAAC. The Code is reviewed continuously and is normally updated annually. The Code confirms that in the unusual event that other statutory provisions require departures from the Code, then the statutory provisions must be followed.

1.6 In meeting its terms of reference CIPFA LASAAC is committed to having due regard to ensuring high quality financial reporting in local authority financial statements.

1.7 CIPFA LASAAC received 24 responses to the consultation. This was lower than in previous years. CIPFA LASAAC was of the view that this was principally due to the pandemic. The tables below show the distributions of responses:

Different Types of Organisation Responding to the 2021/22 Code Consultation
Accountancy Consultant
Audit Body
Audit Firm
Constabulary and Police & Crime Commissioner
County Council
District Council
English Unitary Authority
Fire and Rescue Authority

London Borough
Metropolitan District
Scottish Unitary
Treasury Management Advisor
Welsh Unitary

Geographical Distribution of Organisation Responding to the 2021/22 Code Consultation	
English – 13	Welsh – 1
Scottish – 2	Other – 8

Feedback on the Responses to the Questions Subject of Consultation in the 2021/22 Code

Exposure Draft C: Amendments to Accounting Standards

C1. Interest Rate Benchmark Reform (Phase 1): Amendments to IFRS 9, IAS 39 and IFRS 7

1.8 CIPFA LASAAC asked the following question on Interest Rate Benchmark Reform (Phase 1): Amendments to IFRS 9, IAS 39 and IFRS 7:

Question		Agree	Disagree	No Comment
7	Do you agree with the approach to the adoption Interest Rate Benchmark Reform (Phase 1): Amendments to IFRS 9, IAS 39 and IFRS 7? If not, why not? What alternatives would you suggest?	17 (71%)	2 (8%)	5 (21%)

1.9 The table below sets out respondents' comments and CIPFA LASAAC's decisions:

	Comments	CIPFA LASAAC's Deliberations	CIPFA LASAAC Decision
A	Most respondents agreed with the proposals in the consultation. They agreed that the transactions covered by the amendments to the standard will not (generally) apply to local authorities and that local authorities do not normally undertake hedging transactions.	CIPFA LASAAC agreed with the comments made by respondents.	As this is unlikely to be a frequent transaction for local authorities no amendments will be made to the Code. However, Appendix D will record that the amendments to these standards will apply in the Code.
B	Two respondents providing the same response indicated that this should be scoped out for local authorities given CIPFA LASAAC's comments in its strategic plan about the relevance of the financial instruments' standards.	CIPFA LASAAC was of the view that although not likely to affect many local authorities if such transactions do occur the amendments to the standard are likely to assist local authorities in properly reporting such transactions. Applying this amendment in this way is not at odds with CIPFA LASAAC's Strategic Plan which is to consider	See response in row A above.

	Comments	CIPFA LASAAC's Deliberations	CIPFA LASAAC Decision
		its approach to accounting for financial instruments.	
C	A respondent suggested: *'CIPFA/LASAAC might wish to consider referring to the amendments to ensure practitioners refer to the updated standards if hedge accounting applies.'*	This will be referred to in Appendix D which lists all the amendments to standards adopted by the Code.	See response in row A.

C2. Interest Rate Benchmark Reform Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

1.10 CIPFA LASAAC asked the following question on Interest Rate Benchmark Reform Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16:

Question		Agree	Disagree	No Comment
8	Do you agree with the approach to the Interest Rate Benchmark Reform (Phase 2): Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16? If not, why not? What alternatives would you suggest?	17 (71%)	2 (8%)	5 (21%)

1.11 The table below sets out respondents' comments and CIPFA LASAAC's decisions:

	Comments	CIPFA LASAAC's Deliberations	CIPFA LASAAC Decision
D	Most respondents supported the approach in the Code ITC. Comments included that such transactions are unlikely to occur regularly in local authorities.	CIPFA LASAAC agreed with the comments made by respondents.	CIPFA/LASAAC has included appropriate reference to the amendments to the standards in sections 7.2.4 (Amortised Cost Measurement) and 7.3.2 (Financial Instrument: Disclosures).
E	Three respondents providing the same response indicated	CIPFA LASAAC is of the view that local authorities should be able to	See row D.

	Comments	CIPFA LASAAC's Deliberations	CIPFA LASAAC Decision
	that '*authorities with investments in floating rate notes are the most likely to be affected by the reform*'. Another respondent considered that the amendments related to replacement issues.	account for the transactions in accordance with the standard. It would note that this might affect contracts with Lender Option Borrower Option clauses, leases and PFI contracts.	
F	Two respondents providing the same response indicated that this should be scoped out for local authorities given CIPFA LASAAC's comments in its Strategic Plan about the relevance of the financial instruments' standards.	See response in row B above.	See response in row B above.
G	Two respondents were of the view that there should be a reference to the amendments to the standards in the Code.	Although the amendments to the standard are included by cross reference in the Code this means that sufficient attention is given to these changes.	No further changes are required to the Code.

C3. IPSAS 41 Financial Instruments

1.12 CIPFA LASAAC asked the following question on IPSAS 41 *Financial Instruments*:

Question	Agree	Disagree	No Comment
9 Do you agree with that the Code does not need to be changed substantially for IPSAS 41 *Financial Instruments* (and only needs to be updated for the change from IPSAS 29 to IPSAS 41)? If not, why not? What alternatives would you suggest?	21 (88%)	0	3 (12%)
Question	**2021/22 Code**	**2022/23 Code**	**No comment**
10 Do you consider that this change should be made to the 2021/22 Code or to the 2022/23 Code?	15 (63%)	2 (8%)	7 (29%)

Please give a reason for your response.			

1.13 The table below sets out respondents' comments and CIPFA LASAAC's decisions:

	Comments	CIPFA LASAAC's Deliberations	CIPFA LASAAC Decision
H	There were only two substantial comments. One stated that it hoped that the fair value through profit of loss classification still existed. A second respondent also commented it could see no reasons to change the definitions in IFRS 9 for expected credit losses.	CIPFA LASAAC has not proposed any change in treatment of the recognition and measurement provisions of its adoption of IFRS 9. The changes introduced have only recognised the move from IPSAS 29 to IPSAS 41.	CIPFA LASAAC has not changed its approach to this change in the Code but has confirmed in chapter seven that no changes to the recognition and measurement requirements for financial instruments have been made.
Adoption in 2021/22 or 2022/23			
I	Most respondents indicated that as the changes to the Code are minor then they could be applied in 2021/22. A small number of respondents A small number of respondents were concerned that there might be changes in measurement so suggested deferral to 2022/23	See response in row H.	See response in row H.

C4. IPSAS 42 Social Benefits

1.14 CIPFA LASAAC asked the following question on IPSAS 42 Social Benefits:

Question		Agree	Disagree	No Comment
11	Do you agree with the proposed changes to the Code for the impact of IPSAS 42 Social Benefits? If not, why not? What alternatives would you suggest?	16 (67%)	0	8 (33%)
Question		**2021/22 Code**	**2022/23 Code**	**No comment**
12	Do you consider that this change should be made to the 2021/22	15 (63%)	3 (12%)	6 (25%)

Code or to the 2022/23 Code? Please give a reason for your response.			

1.15 The table below sets out respondents' comments and CIPFA LASAAC's decisions:

	Comments	CIPFA LASAAC's Deliberations	CIPFA LASAAC Decision
J	Although there was majority support for the change two respondents raised the issue of whether housing benefits might be a social benefit	CIPFA LASAAC also considered that council tax benefits may be included as a social benefit and therefore some commentary may need to be included in the Code.	CIPFA LASAAC decided to delay implementation of IPSAS 42 into the 2022/23 Code allow time to consult on the financial reporting implications for council tax benefit and housing benefits.
Adoption in 2021/22 or 2022/23			
K	Most respondents supported adoption in 2021/22 but this depended on there being no substantial changes to reporting a small number of respondents raised the issue of potential changes in reporting. Where change was deemed to be substantial support was given for implementation in 2022/23.	See response in row K above. CIPFA LASAAC has decided to consider the approach to adoption in the 2022/23 Code	See response in row K above.

D. Exposure Draft D: Augmentations to the Code's Provisions

D1. Sources of Estimation Uncertainty

1.16 CIPFA LASAAC asked the following question on sources of estimation uncertainty:

Question		Agree	Disagree	No Comment
13	Do you agree with the proposed changes to the Code to include additional reference to the guidance in IAS 1 *Presentation of Financial Statements* on sources of estimation uncertainty? If not, why not?	15 (63%)	4 (16%)	5 (21%)

What alternatives would you suggest?			

1.17 The table below sets out respondents' comments and CIPFA LASAAC's decisions:

	Comments	CIPFA LASAAC's Deliberations	CIPFA LASAAC Decision
L	Although there were mixed views on this response (some respondents were of the view that this would be best covered in guidance) most respondents supported this move. Some respondents indicated that there should be explicit provisions from IAS 1 included in the Code. One respondent suggested that the references should be extended to paragraph 133 in IAS 1.	The requirements of the standard are covered already in the Code which specifies the requirements of paragraph 125. Additional provisions in the Code will add more detail to the Code and could obscure the main provisions. CIPFA LASAAC has previously expressed that it wished to focus on the main provisions of the standards.	CIPFA LASAAC has maintained the position in the consultation documents and included cross reference to IAS 1 paragraphs. It has extended the paragraph cross-references to paragraph 133 of IAS 1.
M	A respondent mentioned that drafted on a similar basis to the Government's Financial Reporting Manual (the FreM) and include only the occurrences when the Code diverted from IFRS.	There is no substantial evidence that the main users of the Code want to adopt a FReM like approach. Local authorities have indicated that they wish the Code to contain the principal prescriptions for their financial reporting requirements though it is acknowledged that its structure of the Code could be reviewed.	No further changes.

COVID 19 Related Rent Concessions

1.18 From January to March 2021 CIPFA LASAAC consulted on whether to include provisions on COVID 19 related rent concessions in section 4.2 of the 2021/22 Code. *[Commentary awaiting conclusion of the consultation].*

Other Changes to the 2021/22 Code

1.19 The 2021/22 Code has adopted Definition of a Business: Amendments to IFRS 3 *Business Combinations* issued in October 2018. This has not included any changes to the provisions of the Code, but local authorities would need to refer to this standard where relevant transactions occur.

1.20 CIPFA LASAAC has also included the following changes:

Section Changed	**Changes**
Chapter 1 Introduction	Confirmation of the arrangements for the endorsement of standards arising because of the United Kingdom's withdrawal from the European Union.
Section 3.3 (Accounting Policies, Changes in Accounting Estimates and Errors)	Amendments to confirm (but do not introduce) the adaptation in section 3.3 and Appendix C of the Code for standards issued but not yet adopted
Appendix C Changes in accounting policies: disclosures in the 2020/21 and 2021/22 financial statements	Confirmation of the transitional reporting requirements of the new standards introduced in the 2021/22 Code
Appendix D New or Amended Standards	Confirmation of the new standards introduced in the Code