

# CIPFA/LASAAC Local Authority Accounting Code Board

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Subject Local Authority Accounting Code of Practice: Feedback statement on Development of 2019/20 Code

Date April 2019

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## **Purpose**

This paper provides an indication of the matters considered by CIPFA/LASAAC in the development of the 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom (the Code). Consequently it also refers to an Update to the 2018/19 Code of Practice on a matter raised during the 2019/20 Code development.

## **1 Responses Received**

1.1 This Feedback Statement should be considered alongside:

- the consultation papers on the Code ( available via CIPFA's [consultation webpage](#) or the [archived consultations page](#)), and
- the papers to the November meeting which provided CIPFA/LASAAC with an analysis of the consultation responses, and the minutes which detail the consideration of these, will be available on the [CIPFA/LASAAC webpages](#)).

1.2 This Feedback Statement does not form any part of the 2019/20 Code or the 2018/19 Code Update.

1.3 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 requiring 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.

- 1.4 CIPFA/LASAAC's proposals for the code are subject to the separate consent of [CIPFA](#) and [LASAAC](#), as well as review, in terms of alignment with the [FReM](#), by the [Financial Reporting Advisory Board](#) (FRAB).
- 1.5 CIPFA/LASAAC is currently developing a Vision Statement and places an important emphasis on stakeholder engagement, recognising that while the formal consultation (Invitation To Comment) process will remain critical to Code development, it should be accompanied by a wider range of feedback opportunities for stakeholder groups.
- 1.6 CIPFA/LASAAC welcomes feedback on the Code, particularly suggestions regarding improvement and clarification that should be included in future editions of the Code. Please do not hesitate to contact [cipfalasaac@cipfa.org](mailto:cipfalasaac@cipfa.org) . Please note however that CIPFA/LASAAC secretariat will not provide individual accounting guidance which is a matter for the individual entity to assess, with due reliance on appropriate professional expertise.

## 2 Overview of Development Areas

- 2.1 Due to the significance of the planned IFRS 16 Leases implementation, the normal public consultation process, allowing at least eight weeks for responses, was split into two key themes:
  - IFRS 16 Leases ITC (Invitation To Comment)  
This was informed and supported by:
    - i. A specific and separate [public consultation process](#), issued earlier than the normal Invitation To Comment (ITC)
    - ii. This included a Readiness Assessment Questionnaire to inform CIPFA/LASAAC of implementation capacity
    - iii. In addition CIPFA developed an Impact Assessment Framework which a number of representative councils participated in working through. The participation of all involved is greatly appreciated and was invaluable in providing feedback, and also in informing stakeholders of the expected requirements.
  - Code Invitation To Comment 2019/20  
The formal [Invitation To Comment](#) included the following main areas
    - i. Narrow scope Amendments to IFRSs
    - ii. Legislative and Policy Changes
    - iii. IFRS Conceptual Framework
    - iv. Adaptation / Interpretations and Statutory Adjustments
    - v. Post Implementation Review and Other Issues
  - In addition to the formal consultation process, CIPFA/LASAAC is open to stakeholder engagement on specific areas where this is of relevance and, as indicated below, the development process reflects this.

2.2 CIPFA/LASAAC greatly appreciates the feedback from all respondents, which has significantly helped in the development of the Code and future plans.

### 3 IFRS 16 Leases Implementation Proposals

3.1 The table below indicates the key question areas raised in the Leases ITC, a brief note of more significant points arising and an indication of the current situation. Prior to reviewing this please note that the initially planned implementation date of 1 April 2019 has been deferred to 1 April 2020 as explained in this [CIPFA/LASAAC statement](#).

<b>IFRS 16 Leases ITC - Item</b>	<b>Items of Note</b> <i>(Supported = general support from respondents)</i>	<b>Key aspects of current implementation plans for 2020/21</b>
1 Short-term leases exemption	Supported	Prospective: Exemption mandatory
2 Low value assets exemption	Supported, some responses raised areas where guidance may assist.	Prospective: Exemption is optional
3 Identifying a lease	Supported,	Generally as proposed, compliant with IFRS 16
4 Practical issues that arise under IFRS 16 on identifying a lease	Some responses raised areas where guidance may assist.	Generally as proposed, compliant with IFRS 16
5 Initial measurement of the right-of-use asset and the lease liability	Supported, some responses raised areas where guidance may assist, for example restoration obligations.	Generally as proposed, compliant with IFRS 16

IFRS 16 Leases ITC - Item	Items of Note <i>(Supported = general support from respondents)</i>	Key aspects of current implementation plans for 2020/21
6 Determining the interest rate implicit in the lease or using the authority's incremental borrowing rate	The difficulties of identifying the implicit interest rate were noted. Some respondents suggested detailed specification on determining the incremental borrowing rate could be provided. The Board noted that entities would normally be able to identify a rate (eg used in lease or buy assessments).	Specification of incremental borrowing rate to be based on the wording in IFRS 16.
7a) Subsequent measurement of the right-of-use asset ie: <ul style="list-style-type: none"> <li>▪ option 1 - current value measurement with materiality based practical expedients or</li> <li>▪ option 2 - HM Treasury proposal as a practical expedient, to adopt the IFRS 16 cost model for lessees as a proxy for the revaluation model</li> </ul>	Supported, however the Readiness Assessment Questionnaire and impact Assessment work had raised issues relating to the cost-benefit balance of revaluation for all RoU assets carried at existing use value (EUV) or fair value (FV).  FRAB requested that the Code and the central government FReM achieved an aligned 'principles based' position regarding subsequent measurement.	Alignment of approach across the public sector is sought.  Both CIPFA/LASAAC and FRAB have developed a 'principles based' approach to the identification of which right of use assets are appropriately carried at cost (as a proxy for current value ie. EUV or FV), and which are appropriately subject to specific valuation.  Specific valuation is only expected to be applicable if <ul style="list-style-type: none"> <li>a) market indexation of rentals does not provide a reasonable proxy for cost; AND</li> <li>b) The market for the underlying asset is considered to be volatile.</li> </ul>

<b>IFRS 16 Leases ITC - Item</b>	<b>Items of Note</b> <i>(Supported = general support from respondents)</i>	<b>Key aspects of current implementation plans for 2020/21</b>
7b) The use under option 1 of either a materiality based approach to current value measurement or an approach which relies on information which is available without undue cost or effort.	See above	See above
8 Subsequent measurement of the lease liability	Supported, although it was noted that this will require more frequent recalculations.	Generally as proposed, compliant with IFRS 16
9 Concessionary leases for lessees	Supported, but comments indicated concerns regarding practical identification of 'below market rents'.	Amended to now refer to leases at 'peppercorn or nominal' rents and to treat the right of use asset as a donation or grant (initial recognition at FV). This will provide a clearer identification approach and is closer in compliance to the FReM.  Following FReM proposals and FRAB feedback CIPFA/LASAAC has also agreed to extend the definition of a lease to include 'nil consideration' arrangements.
10 Accounting by lessors	Supported	Generally as proposed, compliant with IFRS 16
11 Retention of the dual lessor accounting model.	Supported	Generally as proposed, compliant with IFRS 16
12 Sale and leaseback transactions	Supported	Generally as proposed, compliant with IFRS 16

<b>IFRS 16 Leases ITC - Item</b>	<b>Items of Note</b> <i>(Supported = general support from respondents)</i>	<b>Key aspects of current implementation plans for 2020/21</b>
13 Definition of a lease on transition	Supported	Generally as proposed, compliant with IFRS 16 (see application of exemptions / expedients below)
14 Retrospective transition	Supported	Generally as proposed, compliant with IFRS 16. 1 April adjustment approach mandatory, including transition date incremental rate..
15 Transitional approach to measuring the right-of-use asset for those assets previously classified as operating leases	Supported	Generally as proposed, compliant with IFRS 16
16 Practical expedients on transition	Supported	<p>Mandatory exemption of short term leases (&lt; 12 months to lease end).</p> <p>Reliance on IAS 37 and IFRIC 4 identification of leases is mandatory.</p> <p>Use of hindsight (eg re lease term) is retained, as per the standard, as optional. This differs from the FReM which has mandated the use of hindsight.</p> <p>Other transition practical expedients generally as per IFRS 16.</p>

<b>IFRS 16 Leases ITC - Item</b>	<b>Items of Note</b> <i>(Supported = general support from respondents)</i>	<b>Key aspects of current implementation plans for 2020/21</b>
17 Implications for Service Concession Arrangements	Although marginally most responses were supportive, there was significant concern expressed regarding the challenges of applying IFRS 16 liability measurement to SCA/PFI arrangements.	CIPFA/LASAAC is expected to establish a working group to consider the situation and the options of SCA liability measurement, as part of a wider review of SCA accounting treatment.
18 Effective date	Although supported as being possible, concerns were noted regarding the immediate implications eg extent of workload to implement in a short timescale. The potential of dual record keeping if WGA required an IAS 17 basis was also noted.	The initially planned implementation date of 1 April 2019 has been deferred to 1 April 2020 as explained in this <a href="#">CIPFA/LASAAC statement</a> .  CIPFA/LASAAC is currently considering a request to <i>permit</i> early adoption in 2019/20 due to exceptional circumstances for one organisation reporting under the Code.
19 Further Guidance	A number of areas for guidance were noted, however these were not necessarily items for inclusion in the Code.	Implementation guidance will generally be required and helpful.

3.2 The following table highlights the key issues and considerations affecting development of the 2019/20 Code.

Code 2019/20 Invitation To Comment Items Raised	Items of Note <i>(Supported = general support from respondents)</i>	Key aspects of current implementation plans for 2020/21
<b>Exposure Draft A: IFRS Amendments</b>		
1 Amendments to IAS 19 <i>Employee Benefits</i> : Plan Amendment, Curtailment or Settlement	An actuary response indicated concern at the cost-balance and workload implications arising from the Code approach to adoption. Further actuary responses supported the concerns noted.	The amendment was not EU endorsed by 1 January 2019 and so is not included in the 19/20 Code. CIPFA/LASAAC intends working with stakeholders to develop proposals for the 20/21 Code ITC.
3 Practical impact of the adoption of the Amendments to IAS 19 <i>Employee Benefits</i> : Plan Amendment, Curtailment or Settlement	See above	See above
3 Amendments to IFRS 9 <i>Financial Instruments</i> : Prepayment Features with Negative Compensation	Some respondents indicated that permitting early adoption, as allowed under IFRS itself, would be helpful in implementing the amendments.	Early adoption (in 18/19) to be permitted.



Code 2019/20 Invitation To Comment Items Raised	Items of Note (Supported = general support from respondents)	Key aspects of current implementation plans for 2020/21
4 Amendments to IFRS 9 <i>Financial Instruments</i> : Prepayment Features with Negative Compensation: changes in relation to modifications or exchanges of financial liabilities that do not result in de-recognition	<p>Some respondents raised concerns regarding the basis for conclusions commentary which clarified the treatment of financial liability modifications,</p> <p>CIPFA/LASAAC sought further stakeholder feedback. Evidence that a minority of councils may have some, relatively rare, historic (normally pre 2007) transactions which could be affected was provided. Quantification of the impact will only be possible on a case by case basis as each affected authority investigates and undertakes detailed calculations.</p> <p>CIPFA/LASAAC concluded that application, to align with implementation of IFRS, from 1 April 2019 (ie in 2018/19) was required and appropriate.</p>	An Update to the Code 2018/19 has been issued requiring implementation from 1 April 2019, with restatement of balances as at 1 April 2019 where the situation arises and is material.
5 IAS 28 <i>Interests in Associates and Joint Ventures</i> : Long-term Interests in Associates and Joint Ventures	Supported	The amendment was not EU endorsed by 1 January 2019 and so is not included in the 19/20 Code.
6 <i>Annual Improvements to IFRS Standards 2015-2017 Cycle</i>	Supported	The amendment was not EU endorsed by 1 January 2019 and so is not included in the 19/20 Code.
7 IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	Supported	Generally as proposed, compliant with IFRSs

Code 2019/20 Invitation To Comment Items Raised	Items of Note (Supported = general support from respondents)	Key aspects of current implementation plans for 2020/21
<b>Exposure Draft B: Legislative and Policy Changes</b>		
8 Scottish Local Authorities: Presentation of Transfers to or from Other Statutory Reserves	Supported (for Scotland)	Generally as proposed
9 Scottish Local Authorities: Presentation of Statutory Adjustments for the Revaluation Element of Depreciation	Supported (for Scotland) with some additional comments regarding phrasing and the location of specifications in the Code.	With some amendments to Code text the proposals are implemented.
10 Apprenticeship Levy	Supported	Generally as proposed
11 References to Legislation	Supported with some further legislative changes noted by the secretariat and CIPFA/LASAAC members.	Generally as proposed
<b>Exposure Draft C: IFRS Conceptual Framework for Financial Reporting (March 2018)</b>		
12 <i>IFRS Conceptual Framework for Financial Reporting</i>	Supported. FRAB provided some further feedback and suggested some clarifications.	Generally as proposed, with some clarifications.
<b>Exposure Draft D: Adaptation/Interpretation and Statutory Adjustments</b>		

<b>Code 2019/20 Invitation To Comment Items Raised</b>	<b>Items of Note</b> <i>(Supported = general support from respondents)</i>	<b>Key aspects of current implementation plans for 2020/21</b>
13 Clarification of adaptations and interpretations of IFRS and the description of the processes for statutory adjustments	Supported. The secretariat noted that some references to adaptations throughout the Code should be amended to 'interpretation', and made other amendments for consistency.	Generally as proposed, with some amendments.
<b><i>Post-implementation Reviews and Other Issues</i></b>		
14 Group Accounts: Prominence of Group Accounts	The majority of comments indicated the existing requirements were sufficient.	No amendment to the 19/20 Code but CIPFA/LASAAC expects to review this area as part of its forward work plan.
15 Group accounts presentation and disclosures.	See above	See above
16 IFRS 3 <i>Business Combinations</i>	A limited number of comments were received with some advocating further guidance, but others against this. CIPFA/LASAAC considered that no clear case for immediate change existed.	No amendment to the 19/20 Code but CIPFA/LASAAC may consider the area in future.
17 Local government public sector combinations (eg re-organisations) .	The majority of comments suggested no change was required.	No amendment to the 19/20 Code
18 Service Concession Arrangements: Third party income treatment.	A number of respondents indicated that it would be preferable for the Code to specify treatment, with most supporting an IPSAS 32 (deferred income) basis.	No change to 19/20 Code. CIPFA/LASAAC is expected to establish a working group to review SCA accounting treatment, with proposals for the 20/21 Code ITC.

<b>Code 2019/20 Invitation To Comment Items Raised</b>	<b>Items of Note</b> <i>(Supported = general support from respondents)</i>	<b>Key aspects of current implementation plans for 2020/21</b>
19 Trading operations disclosures	Varying views expressed by respondents. Voluntary disclosure, where material, was noted as an option for authorities.	The requirements for England, Wales & Northern Ireland are removed for 19/20. Scottish requirements, being based in legislation, are retained.
20 IASB Materiality Practice Statement	Supported	Generally as proposed, no commentary included.
21 Complex financial instruments	A significant number of respondents indicated that there were no identified complex instruments which required specific focus in the Code. Others also indicated that for complex arrangements the Code sufficiently indicated that IFRS standards applied. One respondent requested that the CIPFA/LASAAC <a href="#">LOBO clarification statement</a> be reflected in the Code.	Amendments to reflect the application of the clarification statement have been included in the Code 19/20.
22 English pilot arrangements for non-domestic rates	No substantive issues raised. No new changes to the Code 19/20 were considered necessary.	Generally as proposed
23 Areas for further guidance	In a separate communication one commentator indicated some areas of misalignment between the Code and the 2018 Pension SORP.	Proposals to be drafted and included in the 20/21 Code ITC.