



the code of practice on local authority
accounting in the united kingdom
2011/12 code update and 2012/13
code

informal comments on the amendments to the
Code following the consultation process

informal comments on amendments to the code following the consultation process

Introduction

1. This publication is an informal commentary from CIPFA/LASAAC updating practitioners on the amendments to the *Code of Practice on Local Authority Accounting in the United Kingdom (the Code)* following the consultation process in August and September 2011. This process included the issue of a main Invitation to Comment (ITC), a separate ITC on Accounting for Schools' Non – Current Assets and the extracted Exposure Drafts of the proposed amendments to the Code (these documents are available on the consultation pages of the CIPFA Website). **This informal commentary does not form any part of the 2011/12 Code Update or the 2012/13 Code.**
2. 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 the CIPFA/LASAAC Local Authority Code Board (CIPFA/LASAAC). The Code is reviewed continuously and is normally updated annually.
3. Under the oversight of the Financial Reporting Advisory Board, the CIPFA/LASAAC Code Board is in a position to issue mid-year updates to the Code. There have been a number of developments to statutory accounting or disclosure requirements which have taken place since the approval for publication of the 2011/12 Code. CIPFA/LASAAC therefore decided to issue a 2011/12 Code Update. As with the 2011/12 Code, the 2011/12 Code Update is applicable for the 2011/12 financial year and is based on accounting standards in effect on 1 January 2011 or earlier. The amendments in the 2011/12 Code Update are covered in **Section A** of this informal commentary.
4. CIPFA/LASAAC is also issuing a 2012/13 Code (which will also include all the relevant amendments from the 2011/12 Code Update) and a number of other amendments described in the paragraphs below. The 2012/13 Code is based on accounting standards in effect on 1 January 2012 or earlier. The amendments included in the 2012/13 Code only are included in **Section B** of this informal commentary.
5. The following summarises the main changes to the 2011/12 Code Update and 2012/13 Code:

Section A – 2011/12 Code Update and 2012/13 Code – Statutory Accounting and Disclosure Requirements

- (a) Issues arising from the Accounts and Audit (England) Regulations 2011
- (b) The revised disclosure requirements in the Housing Revenue Account (Accounting Practices) Directions 2011 applicable in England
- (c) The requirements for the inclusion of a Remuneration Report as a part of the statutory accounts resulting from the new regulations in Scotland
- (d) The reporting requirements for reporting local authority pension funds in accordance with new statutory guidance issued in Scotland
- (e) The revisions to the statutory accounting requirements for the treatment of short-term accumulated compensated absences for Northern Ireland District Councils
- (f) Business Rate Supplements (England) and Community Infrastructure Levy (England and Wales) – clarification of statutory requirements

- (g) IAS 24 *Related Party Disclosures* – the November 2009 amendments to IAS 24 definitions and guidance.
- (h) Other Minor Changes for the 2011/12 Code Update (and 2012/13 Code).

Section B – 2012/13 Code Only

- (i) Explanatory Foreword/Management Commentary
 - (j) Accounting for Financial Instruments – Amendments to IFRS 7 Financial Instruments Disclosures (transfers of financial assets)
 - (k) Updates resulting from the first phase of the IASB Conceptual Framework for Financial Reporting 2010.
6. **Section C** of this informal commentary also highlights those issues anticipated to be included in the 2012/13 Code Update.

SECTION A – DEVELOPMENT ITEMS INCLUDED IN THE 2011/12 CODE UPDATE AND 2012/13 CODE

7. References in this section to matters being addressed in the 2011/12 Code Update should also be read as being addressed also in the 2012/13 Code.

Statutory Accounting and Disclosure Requirements

The Accounts and Audit (England) Regulations 2011

8. The 2011/12 Code Update has largely amended the Code in accordance with the proposals in the ITC and Exposure Draft. However, a further clarification has been added to the section relating to the authorised for issue date, ie where an authority is unable to publish its audited financial statements on or before the statutory publication deadlines.

The Housing Revenue Account (Accounting Practices) Directions 2011

9. The 2011/12 Code Update has largely been amended in accordance with the amendments proposed in the ITC and Exposure Draft. A minor additional commentary has been added.

Remuneration Report (Scotland)

10. The 2011/12 Code Update has largely been amended in accordance with the amendments proposed in the ITC and Exposure Draft. An additional commentary has been added which recommends that authorities include non-statutory remuneration disclosures in the remuneration report.

Accounting for Local Authority Pension Funds (Scotland)

11. No substantive changes have been made from the proposed amendments in the Exposure Draft and the ITC.

New Statutory Guidance – Scotland

12. No substantive changes have been made from the proposed amendments in the Exposure Draft and the ITC.

Accounts Direction – Northern Ireland District Councils 2010/11

13. No substantive changes have been made from the proposed amendments in the Exposure Draft and the ITC.

Business Rate Supplements (England) and Community Infrastructure Levy (England and Wales) – Clarification of Statutory Requirements

Business Rate Supplements (England)

14. No substantive changes have been made from the proposed amendments in the Exposure Draft and the ITC.

Community Infrastructure Levy

15. The 2011/12 Code Update has largely been amended in accordance with the amendments proposed in the ITC and Exposure Draft. Additional minor amendments and clarification in relation to the recognition of the Community Infrastructure Levy have been included.

Other Minor Changes for the 2011/12 Code Update (and the 2012/13 Code)

England – Revenue Grant Funding

16. The 2011/12 Code Update has largely been amended in accordance with the amendments proposed in the ITC and Exposure Draft with additional minor clarification of the treatment of general/unringfenced grants.

Accounting and Other Financial Reporting Requirements

Accounting for Non-current Schools' Assets

17. The 2011/12 Code Update does not include any amendments in relation to the accounting treatment for non-current schools' assets. The response to the separate ITC provided inconclusive evidence in terms of the recognition criteria for voluntary controlled schools. In addition, a review group is being established in relation to accounting for schools.

Related Party Disclosures

18. The 2011/12 Code Update includes the November 2009 amendments to IAS 24 Related Party Disclosures ie to the definition of a related party, related party transactions and close members of the family of a person and to the guidance on the treatment of related parties.

Minor Amendments – 2011/12 Code Update (and 2012/13 Code)

19. The minor amendments were largely agreed as drafted. However, the consultation process identified a number of minor amendments where additional clarification was required. These are identified in the forewords to the 2011/12 Code Update and the 2012/13 Code.

Appendix C Addendum, 2011/12 Code Update

20. The 2011/12 Code Update includes an Addendum to Appendix C which confirms the additional disclosure requirements that will be required in the 2011/12 financial statements in respect of the accounting changes that are introduced by the 2012/13 Code.

SECTION B – DEVELOPMENT ITEMS WHICH WILL BE INCLUDED IN THE 2012/13 CODE ONLY

Accounting and Other Financial Reporting Requirements

Explanatory Foreword /Management Commentary

21. CIPFA/LASAAC agreed to proceed with the encouragement approach in a manner similar to that proposed in the ITC and Exposure Draft to the 2012/13 Code. However, it decided that this encouragement would take into consideration only the provisions of the Government's Financial Reporting Manual (FReM), in relation to the management commentary, where these provisions disclose information relevant to local authorities.
22. CIPFA/LASAAC took into consideration the responses to the consultation noting the dissenting views and spent some significant time debating the way forward. As indicated in the ITC it decided not to make mandatory changes to the Code until the legislative position, particularly in England, is clear. Authorities are instead given an opportunity to take into consideration the FReM's provisions in relation to the management commentary in the preparation of the explanatory forward. CIPFA/LASAAC is of the view that the encouragement included in the 2012/13 Code is both voluntary and optional for authorities.

Accounting for Financial Instruments – Amendments to IFRS 7 Financial Instruments: Disclosures (transfers of financial assets)

23. The 2012/13 Code has largely been amended in accordance with the amendments proposed in the ITC and Exposure Draft. There is a minor addition which clarifies that these disclosures may include financial assets that are derecognised in their entirety but in which an authority has continuing involvement. As noted above CIPFA/LASAAC has also included within the 2011/12 Code Update an addendum to Appendix C covering the reporting changes required as a result of this change in accounting policy for the 2011/12 and 2012/13 financial years. These requirements have been restated for the avoidance of doubt in the 2012/13 Code, where they relate to that financial year.

IASB Conceptual Framework for Financial Reporting 2010

24. The 2012/13 Code has not taken the approach set out in the ITC and the Exposure Draft. CIPFA/LASAAC has decided to take forward Phase 1 of the IASB Conceptual Framework for Financial Reporting 2010 in the 2012/13 Code. It agreed that it would, where possible, adopt the provisions of Phase 1 of the Framework, ie the chapters relating to the objective of general purpose financial reporting and qualitative characteristics of useful financial information, into Chapter Two Concepts and Principles of the 2012/13 Code. The objective of the financial statements has been subject to specific interpretation and adaptation for public sector circumstances.

CIPFA's Code of Practice on Transport Infrastructure Assets.

25. The ITC raised the issue of the voluntary adoption of the CIPFA Code of Practice on Transport Infrastructure Assets in the 2012/13 Code. However, the consultation responses reported substantial practical difficulties in implementing the Transport Code in relation to possible future adoption in the Accounting Code. CIPFA/LASAAC therefore considered that it would not be appropriate at this juncture to include either of the voluntary options in the Code. It will review this position against future progress under the Whole of Government Accounts adoption of the Transport Code by local authorities and a comment to this effect is included in the Foreword to the Code and in Section 2 of the 2012/13 Code.

Local Government Finance Act (Northern Ireland) 2011

26. The 2012/13 Code does not include any amendments in relation to the Local Government Finance Act (Northern Ireland) 2011 (2011 Act), its associated regulations and statutory guidance in relation to the introduction of the new prudential capital finance system in Northern Ireland (except for direct references to the 2011 Act itself). This will require amendment to the recommended wording in the Statement of Responsibilities in Section 3.2, the statutory accounting requirements in chapter four Non-Current Assets and Part 2 of Appendix B Sources and Legislation. Amendment to the Code as a result of the Act and the introduction of the new prudential system to local authorities in Northern Ireland will be included in the 2012/13 Code Update.

Other Minor Changes Reflecting Revisions to Accounting Standards, Codes and Legislation

27. The 2012/13 Code does not include the changes anticipated in the consultation on the Code relating to the amendments to IAS 12 Income Tax (*Deferred Tax: Recovery of Underlying Assets*) as at the date of publication it appeared that this standard would not be adopted by the EU by its effective date.

2012/13 Code Drafting Issues

28. During the development of the 2012/13 Code CIPFA/LASAAC reviewed the document's structure to ensure that it clearly presents the different reporting requirements for local authorities ie by separating the statutory reporting requirements from those required by accounting standards. Whilst this review did not substantially change the reporting requirements for local authorities, it did mean a relocating of some requirements from statutory to non-statutory (and vice versa). However, two minor additional requirements were identified as a result of the review ie:
 - clarification that partnership schemes to be disclosed in the financial statements should also include schemes under s33 of the National Health Service (Wales) Act 2006
 - the statutory requirement to disclose the audited Memorandum Account of a fund established under Section 15(1) (c) of the Community Care and Health (Scotland) Act 2002 (see paragraph 3.4.5.1).

SECTION C – FUTURE DEVELOPMENTS TO THE CODE

Accounting for Carbon Reduction Commitment (CRC) Energy Efficiency Scheme Allowances

29. The ITC raised the issue of accounting for Carbon Reduction Commitment (CRC) Energy Efficiency Scheme Allowances. A Bulletin will be issued by the CIPFA Local Authority Accounting Panel (LAAP) to cover the treatment in 2011/12. CIPFA/LASAAC will consult on the accounting treatment of these assets and will include its conclusions on the accounting treatment in a 2012/13 Code Update.

Housing Revenue Account Reform in England – Statutory Accounting Requirements

30. The government has consulted on draft determinations to implement self-financing for council housing under the Localism Act 2011. It is likely that this will require some amendment to the provisions in the Code that relate to the statutory accounting requirements for the Housing Revenue Account. As was indicated in the ITC this will be taken forward in the 2012/13 Code Update. Again, as was indicated in the ITC this will not prevent local authorities implementing the statutory requirements provided by the determinations.