The 2020/21 Code of Practice on Local Authority Accounting in the United Kingdom

Invitation to Comment

the people in public finance

CIPFA/LASAAC Strategy: Clarity and Streamlining

1. CIPFA/LASAAC has undertaken a review to inform the strategic direction of Code development proposals. To take this forward CIPFA/LASAAC has agreed a vision statement to provide a basis for Code development and direction:

> "UK local authority annual accounts should be widely recognised as an exemplar for clear reporting of the financial performance and position of complex public sector bodies. Users of accounts should be able to access the information they want to help them to understand the finances of an authority and to take practical and informed decisions."

2. The review is consistent with the ongoing drive for transparency and assurance regarding financial sustainability and the building of trust by providing clear and relevant information. This is generally referred to as streamlining, which focuses upon who the principal users of the accounts are and what information they need; improvement in clarity by removing unnecessary detail; and focusing upon key messages which enables users to better understand the financial position and performance.

3. To support the vision statement [opens to pdf] a strategic plan [opens to pdf] has been agreed by CIPFA/LASAAC which is based on the following three key themes:

    - Ensuring that the annual accounts clearly articulate their key messages regarding their financial performance and position
    - Engaging with stakeholders to raise awareness and understanding
    - Reviewing its operations to ensure it is able to deliver its vision.

4. This Invitation To Comment (ITC) is a key initial step, but not an end point, of this process. This ITC includes proposed changes for 20/21.

5. CIPFA/LASAAC recognises that this ITC is not in itself sufficient to ensure success in fulfilling the vision statement. CIPFA/LASAAC is therefore also:

    - Issuing an on-line survey for stakeholders, including the public, other users of financial statements, preparers, auditors and professional expert communities (eg valuers and actuaries), regarding their views on the annual accounts and the Code. The survey closes on 23 August 2019.

    - Issuing during summer 2019 a discussion paper on differential reporting requirements, to inform longer term potential legislative and Code changes which support proportionate financial reporting requirements

    - Issuing during summer 2019 a discussion paper on the strategy for the Code, including consideration of specific areas raised by stakeholders, to explore the factors which should influence the Code requirements.

    - Actively engaging with relevant stakeholder communities and groups, for example by attending relevant meetings where requested and by inviting guests to attend CIPFA/LASAAAC meetings

    - Accepting open comment and suggestions, at any time, sent to cipfalasaac@cipfa.org (Please note that this is not an advice or technical enquiries response service.)

    - Commencing, later in 2019, a review of the Code's narrative reporting requirements

Invitation to Comment

Introduction

6. Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper practices'. This includes, for the purposes of local government legislation, compliance with the terms of the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code), prepared by the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC). The Code is reviewed continuously and is issued annually.

7. Under the oversight of the Financial Reporting Advisory Board, CIPFA/LASAAC is in a position to issue mid-year updates to the Code. However, this will only be done in exceptional circumstances.

8. The edition of the Code that is applicable for a financial year is normally based on accounting standards in effect on 1 January prior to the start of the financial year. For the 2020/21 Code, this means that European Union (EU) endorsed accounting standards with an effective date of 1 January 2020 or earlier will need to be taken into account[1].

9. This Invitation to Comment (ITC) sets out CIPFA/LASAAC's proposals for developing the new edition of the Code (the 2020/21 Code) to apply to accounting periods commencing on or after 1 April 2020 (Part 2 of this ITC). An overview (Part 1) highlights the key areas being consulted on.

The Consultation Process

10. Where CIPFA/LASAAC is interested in specific issues, consultation questions have been included in the ITC. However, CIPFA/LASAAC also welcomes responses to individual questions or areas if these are of specific interest to an interested party, and comments on any aspect of the draft 2020/21 Code. In order to assess comments properly CIPFA/LASAAC would prefer respondents to support comments with clear evidence, reasons and, where applicable, preferred alternatives.

11. Responses to this Invitation to Comment will be regarded as on the public record and may be published on the CIPFA website unless confidentiality is specifically requested. Copies of all correspondence and an analysis of responses may be provided to the Financial Reporting Advisory Board.

12. A copy of the Exposure Drafts of the 2020/21 Code in PDF format can be downloaded from the CIPFA website.

13. To assist interested parties in responding to the consultation, a response form (in Word format) is attached. We would be grateful if respondents to the consultation could use this form as this will speed up the analysis.

14. Responses are required by **27 September 2019** and may be sent, preferably e-mailed, to:

[1] In the event of the UK withdrawing from the remit of the EU-endorsement framework, the 20/21 Code will apply standards adopted for UK application under the terms of The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 (SI 2019/685).

Email: cipfalasaac@cipfa.org

Or by post to:

The Secretary

CIPFA/LASAAC Local Authority Accounting Code Board

c/o Policy and Technical Directorate

CIPFA

77 Mansell Street

London

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(For ease of handling, emailed responses using the Word document form provided are preferred.)

PART 1 – OVERVIEW

15. The following tables provide an overview of the areas where stakeholder feedback would be particularly appreciated:

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PART 2: 2020/21 CODE – CONSULTATION FEEDBACK REQUEST

Exposure Draft A – Clarity and Streamlining: Principles

16. In considering the strategic direction of the Code and stakeholder feedback received, CIPFA/LASAAC has developed a vision statement to support and inform proposals for the Code. The following changes are proposed for 20/21.

17. In developing these proposals CIPFA/LASAAC considered a paper on 'Materiality and Disclosures'. A copy of this paper is provided as Appendix A to this ITC, in order to allow and support respondents who wish to review relevant references, considerations and other potential actions.

A1. Materiality

18. The IASB published '*Definition of Material: amendments to IAS 1 and IAS 8*' in October 2018. It will, subject to confirmation of endorsement, be effective from 1 January 2020. The amendment notes that one objective was to support a reduction in the provision of immaterial information in financial statements.

19. CIPFA/LASAAC proposes amendments which implement the revised definition of material, including explanatory text regarding practices which may obscure material information. (See Exposure Draft A).

20. A requirement to disclose the basis on which materiality has been assessed, such as the benchmarks used, is also proposed. This is intended to assist readers in understanding the decisions made regarding the information provided in the financial statements. (See Exposure Draft A).

21. CIPFA/LASAAC is concerned to ensure that preparers and auditors are enabled to make and enact appropriate materiality decisions for the circumstances of each authority. CIPFA/LASAAC would therefore welcome any suggestions to support this. Areas which respondents may particularly wish to consider, as referenced in Appendix A, include:

    - The assessment of overall materiality, including the identification of, or suggestions concerning, overall materiality and the benchmark used to determine this
    - Items for which particular materiality levels, below the overall materiality figure, may be considered appropriate
    - The treatment of cumulative (prior period) errors which may have been immaterial in preceding years but, due to their cumulative nature (eg impact of an error in the calculation of depreciation over a number of years), may be material for the current period financial statements
    - The determination of materiality for group accounts application
    - Qualities or characteristics which are particularly important in local government in assessing the qualitative materiality of an item (for instance a specific complex transaction or contract).

A1. Materiality

Q1	Do you agree with the proposals for implementation of the 'Definition of Material: amendments to IAS 1 and IAS 8'? If not, why not? What alternatives would you suggest?
Q2	Do you agree with the proposed requirement to disclose information concerning the assessment of materiality? If not, why not? What alternatives would you suggest?
Q3	What comments or suggestions do you have concerning other potential specifications in the Code to support and promote the appropriate application of materiality?

A2. Disclosure Assessment

22. The publication Towards a Disclosure Framework for the Notes- Discussion paper (EFRAG, ANC, FRC:2012) noted (paragraphs 1-14) that "the more uncertainty affects the amounts in the primary statements, the more disclosures are usually needed." It also suggested "Disclosure requirements should achieve proportionality to the entity's users' needs, and meet a reasonable cost-benefit trade-off in all circumstances. Alternative disclosure regimes may have to be put in place to achieve proportionality."

23. Additionally The Government Financial Reporting Review (HM Treasury, 2019) was recently published. In relation to making disclosures it indicates that the FReM is intended to include the following questions in the revised Financial Reporting Manual for those preparing government financial reports. The final phrasing of these questions in the FReM may be subject to refinement. The questions are:

> "When considering whether to add new disclosures to the annual report and accounts, preparers should consider the following questions:
>
> Should the information be published?
> - Is the information required by statute?
> - Is there a user need, and who is the user?
> - Is the information accurate and reliable?
> - Do the benefits of disclosure outweigh the costs and give value for money?
>
> How should the information be published?
> - Is this report the right place for it?
> - Is this information already available elsewhere, or could it be?
> - How will the new disclosure affect the overall balance of the report?"

24. CIPFA/LASAAC proposes adopting these questions for inclusion in the Code, to maintain alignment with the FReM and to support appropriate materiality and disclosure decisions. (See Exposure Draft A).

25. With reference to group accounts CIPFA/LASAAC suggests an argument can be made that the primary focus for local government financial reporting is the accountability for the use and management of public resources committed to group activities.

26. The different legislative framework that applies to group entities may however affect the materiality of some disclosures for the group situation. For example Cash Flow Statement disclosures regarding liquidity and pension liability information may be assessed as being particularly material for group accounts.

27. CIPFA/LASAAC welcomes views and suggestions regarding the extent of disclosure information which is relevant for group accounts. Respondents may wish to consider whether:

- readers with an interest in a specific group entity would appropriately refer to that entity's specific (separate) financial statements
- accountability for public resources implies that, for group entities, fuller, more complete disclosures for some items (eg in relation to cash flows and pensions) are required compared to the disclosures that are appropriate for local authority single entity accounts
- group accounts and the related disclosures are appropriately helpful to the primary users

28. The IFRS Practice Statement 2: *Making Materiality Judgements* (2018) notes (paras 70-71) that prior period information is required, but that an "entity may summarise prior-period information, retaining the information necessary for primary users to understand the current-period financial statements." CIPFA/LASAAC considers that this would not extend to numerical data, unless specific adaptation of IFRS requirements is made.

29. CIPFA/LASAAC proposes explicitly supporting this position in the Code. (See exposure Draft A).

A2. Disclosure Assessment

Q4	Do you agree with the adoption of the proposed FReM disclosure assessment questions in the Code? If not, why not? What alternatives would you suggest?
Q5	What suggestions for focus and improvement would you make regarding disclosures which may have specific relevance for group entities?
Q6	Do you agree with the proposed provision to allow prior period information, subject to the specified criteria, to be summarised? If so which areas do you think this would be most applicable to? If not, why not? What alternatives would you suggest?

B – Clarity and Streamlining Disclosures Review

30. CIPFA/LASAAC wishes to support and promote appropriate and focused disclosures for accounts users. This section of the ITC seeks to explore and gain feedback on the optimum method of achieving this.

31. Responses, combined with stakeholder feedback from the other CIPFA-LASAAC activities noted earlier, will help to identify those amendments which will best achieve the vision statement objectives. In doing so CIPFA/LASAAC is mindful that a factor for consideration is the resource impact for authorities. In this respect an awareness is necessary of the potential 'cost of change' in the short term, with changes potentially for information systems, working papers and annual accounts practices.

32. Additionally any reduction in resources required for annual accounts production may be offset (ie not realised) where other information requirements either are unchanged, or actually increase, as a result of annual accounts changes. Examples could include Whole of Government Accounts returns and government financial returns (eg Revenue Outturn, Local Financial Returns etc in each government area).

33. Achievement of change will therefore require a full awareness of the implications, and care in implementation, in order to avoid unintended adverse consequences, including additional or unchanged resource burden, for stakeholders.

34. Evidence to support proposed adaptations or interpretations of the existing IFRS-based requirements is therefore required to inform support stakeholder engagement, including liaison regarding Whole of Government Accounts and FRAB overview.

35. Specific areas raised for feedback further below include capital; pensions; financial instruments, and cash flow.

B1 General Disclosure Considerations

36. The planned discussion paper on the strategy for the Code will explore a variety of issues in more depth. Reference to Appendix A of this ITC may also be helpful. It is however important that the discussion of disclosures in this ITC is in the context of some of the wider aspects which require consideration to inform debate. This includes:

User Needs: Example Considerations

Who are the primary users of the accounts?

Should the existence of (significant) group account entities affect the key users to be identified, and what their information needs are?

Which (if any) users should take precedence in the event of competing requirements?

User Needs: Example Considerations

For each user group what are the key decisions which they will use information in the accounts for?

What is the expectation of each user group regarding the level of detail that should be available in the accounts?

How easy is it presently for non-accountant users to access the information they want and how suitably is it presented for their needs (eg so it is easily understood)?

Resource Implications: Example Considerations

What are the key factors that affect the resource requirements for a specific disclosure (or set of disclosures eg for financial instruments)?

Would a difference in reporting requirements between the annual accounts and other requirements (eg whole of government accounts (WGA), financial statistic returns in each administration eg RO, LFR etc) place a significant additional reporting burden on authorities?

> Would significant differences result in a requirement for more returns to be specifically audited?

Where reliance is placed on materiality assessment to determine that a disclosure is not provided, will this significantly reduce resource requirements, or will the assessment of materiality involve largely the same level of resource?

Which disclosure requirements currently require the most resource (eg staff time) to support compared to the perceived materiality and relevance of the information for users?

Where an item is material to the assurance, governance and stewardship arrangements of an authority, does preparing the information required for relevant disclosures in the annual accounts require significant additional resource?

Where amendment of a disclosure requirement is considered, eg to improve usefulness to users, are there significant resource implications in making the change?

Adaptation and Interpretation: Example Considerations

Dependent on the assessment of users needs, do existing requirements sufficiently provide clarity for non-accountants?

Do existing requirements sufficiently support suitable consideration of whether a disclosure is appropriate?

Adaptation and Interpretation: Example Considerations

Do existing requirements sufficiently interpret or adapt the accounting standards disclosure requirements required for the local government context?

What evidence is available to demonstrate the need for further adaptation and interpretation of accounting standards disclosure requirements?

Do existing requirements support the provision of suitable information and explanation for users regarding the impact of estimation for each disclosure / accounts item (eg pensions liabilities, asset valuations)?

How can requirements support appropriate judgement regarding disclosure provision?

eg to ensure that material items such as complex transactions, significant investments etc are transparently disclosed

Would an indication of those disclosures which are expected to be generally applicable for authorities (with other disclosure requirements specifically requiring entity-specific judgement) be practical to implement in the Code of Practice?

Do existing requirements support sufficient attention to the explanation of information rather than the provision of data?

37. The following sections provide a summary of the disclosure requirements in the Code for specific areas. Stakeholder feedback in each area is requested, broadly in the three categories of considerations provided above.

B2 Capital Disclosures

38. Disclosures relating to capital, particularly property, plant and equipment (PPE) have been raised for debate by stakeholders.CIPFA/LASAAC would appreciate any feedback on the related disclosure requirements.

39. CIPFA/LASAAC notes that currently users of the accounts are provided with information regarding asset valuations, historic cost and statutory charges for the funding of assets and other aspects. Respondents may wish to comment on the relative importance of these aspects to the users of the accounts.

40. Disclosure requirements currently include:

Overview of Capital Related Disclosures	**19/20 Code**
PPE–Measurement bases, depreciation details etc	4.1.4.3 1) a-c
PPE - Main opening to closing balances reconciliation table	4.1.4.3 1) d-e
PPE – Impact of changes in estimates (eg useful lives)	4.1.4.3 3)
PPE – Details of valuations	4.1.4.3 4)

Overview of Capital Related Disclosures	**19/20 Code**
PPE – capital funding / financing table	4.1.4.3 5)
PPE – Fair Value disclosures surplus assets	4.1.4.5
Leases – Lessor & Lessee (FL,OL), MLP profiles, analysis of payments etc **Revised disclosure requirements will apply for 20/21 – see Appendix B of this ITC 4.2.2.99-100 and section 4.2.4**	4.2.4.2
SCA(PPP/PFI) – analysis of payments, liability movement, rights/obligations	4.3.4.2
SCA(PPP/PFI) – Description of the arrangement	4.3.4.3
Investment Property (IP)– IP held on operating leases*, restrictions, obligations, IP changes in year, FV hierarchy	4.4.4.2/ 2.10.4.1
Intangible Assets – useful lives, movements in year reconciliation, useful lives, changes in estimates, commitments, etc	4.5.4.2
Revenue Expenditure Funded from Capital Under Statute (REFCUS)	4.6.4.1
Impairment – losses, reversals	4.7.4.2
Held for Sale – information to evaluate disposals	4.9.4.2
Heritage Assets –for assets both on and off balance sheet, limitations applied, summary of movements etc	4.10.4.1-7

B2 Capital Disclosures:

Q7 **User Needs:** Do the current capital related disclosures appropriately meet user needs? Please provide details and evidence supporting your response (see example considerations in the ITC). Identification of specific evidence and related disclosures would be appreciated.

Q8 **Resource Implications:** What are the resource implications of the current capital related disclosure requirements, and where do you consider that attention should be focused on ensuring appropriate cost-benefit balance? Please provide details supporting your response (see example considerations in the ITC). Identification of specific evidence and related disclosures would be appreciated.

Q9 **Adaptation and Interpretation:** Are there grounds to further adapt or interpret the capital related disclosure requirements for local government circumstances? Please provide details supporting your response (see example considerations in the ITC). Identification of specific evidence and related disclosures would be appreciated.

B3 Pensions Disclosures

41. CIPFA/LASAAC would appreciate any feedback on the pensions related disclosure requirements. These currently include:

Overview of Pension Disclosures (DB = Defined Benefit, DC = Defined Contribution)	**19/20 Code**
DB: Overall disclosure objectives / judgements	6.4.3.42 1)-4)
DB: Characteristics & risks	6.4.3.42 5)
DB: Pension assets and liabilities	6.4.3.42 6)
DB: Pension CIES / MiRS items	6.4.3.42 6)-7)
DB: Movements in FV of plan assets	6.4.3.42 6)-7)
DB: Movements in PV Plan Liabilities	6.4.3.42 6)-7)
DB: Plan Assets Analysis /Nature/ Risks/ Quoted / Unquoted	6.4.3.42 8)
DB: Significant actuarial assumptions/ sensitivity analysis	6.4.3.42 10)-11)
DB: Asset-liability matching	6.4.3.42 12)
DB: Future cash flows	6.4.3.42 13)
DB/DC: Multi-employer schemes	6.4.3.42 14)

B3 Pensions Disclosures:

Q10 **User Needs:** Do the current pensions related disclosures appropriately meet user needs? Please provide details supporting your response (see example considerations in the ITC). Identification of specific evidence and related disclosures would be appreciated.

Q11	**Resource Implications:** What are the resource implications of the current pensions related disclosure requirements, and where do you consider that attention should be focused on ensuring appropriate cost-benefit balance? Please provide details supporting your response (see example considerations in the ITC). Identification of specific evidence and related disclosures would be appreciated.
Q12	**Adaptation and Interpretation:** Are there grounds to further adapt or interpret the pensions related disclosure requirements for local government circumstances? Please provide details supporting your response (see example considerations in the ITC). Identification of specific evidence and related disclosures would be appreciated.

B4 Financial Instrument Disclosures

42. CIPFA/LASAAC would appreciate open feedback on the financial instrument related disclosure requirements. These currently include:

Financial Instruments Disclosures Overview	**19/20 Code**
Carrying amounts of different classifications	7.3.2.2
Soft Loans	7.3.2.3
Financial Asset or Financial Lliabilities designated at FVPL	7.3.2.4
Investments in equity designated as FVOCI	7.3.2.5-6
Reclassifications	7.3.2.7
Offsetting of assets and liabilities	7.3.2.8
Collateral held/ provided	7.3.2.9, 7.3.3.20
Allowance account for credit losses	7.3.2.10
Defaults & breaches	7.3.2.11-12
Items of income, expense, gains, losses: analysed by classification, interest details, fees, de-recognitions	7.3.2.13-14
Fair value: Valuation technique and methodology	7.3.2.16-7.3.2.21
Nature and extent of risks	7.3.3.1 to 7.3.3.5
Credit risk	7.3.3.6 to 7.3.3.10
Credit risk management practices	7.3.3.11-19
Liquidity Risk	7.3.3.21
Market Risk	7.3.3.22

B4 Financial Instrument Disclosures:

Q13 **User Needs:** Do the current financial instrument related disclosures appropriately meet user needs? Please provide details supporting your response (see example considerations in the ITC). Identification of specific evidence and related disclosures would be appreciated.

Q14 **Resource Implications:** What are the resource implications of the current financial instrument related disclosure requirements, and where do you consider that attention should be focused on ensuring appropriate cost-benefit balance? Please provide details supporting your response (see example considerations in the ITC). Identification of specific evidence and related disclosures would be appreciated.

Q15 **Adaptation and Interpretation:** Are there grounds to further adapt or interpret the financial instrument related disclosure requirements for local government circumstances? Please provide details supporting your response (see example considerations in the ITC). Identification of specific evidence and related disclosures would be appreciated.

B5 Cash Flow Disclosures

43. CIPFA/LASAAC would appreciate open feedback on cash flow related disclosure requirements. These currently include:

Cash Flow Disclosures Overview	**19/20 Code**
Analysis of cash flows from: • Operating activities • Investing activities • Financing activities	Direct method: 3.4.2.72/ 3.4.2.71 Indirect: 3.4.2.76/ 3.4.2.74
Components of cash and cash equivalents	3.4.2.83 1)
Analysis of changes in liabilities arising from financing activities	3.4.2.83 2)

B5 Cash Flow Disclosures:

Q16 **User Needs:** Do the current cash flow related disclosures appropriately meet user needs? Please provide details supporting your response (see example considerations in the ITC). Identification of specific evidence and related disclosures would be appreciated.

Q17	**Resource Implications:** What are the resource implications of the current cash flow related disclosure requirements, and where do you consider that attention should be focused on ensuring appropriate cost-benefit balance? Please provide details supporting your response (see example considerations in the ITC). Identification of specific evidence and related disclosures would be appreciated.
Q18	**Adaptation and Interpretation:** Are there grounds to further adapt or interpret the cash flow related disclosure requirements for local government circumstances? Please provide details supporting your response (see example considerations in the ITC). Identification of specific evidence and related disclosures would be appreciated.

Exposure Draft C – Accounting Standards

C1. IFRS Amendments previously consulted on

44. In 2018 CIPFA/LASAAC consulted on the adoption of *Amendments to IAS 28*: *Long-term Interests in Associates and Joint Ventures*; and *Annual Improvements to IFRS Standards 2015-2017 Cycle*. Consultation responses supported the proposals. Due to a delay in EU endorsement, their implementation did not occur in the 19/20 Code. The proposed changes to Appendices C and D will be implemented in the 20/21 Code. (See Exposure Draft C)

C2. Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

45. CIPFA/LASAAC also previously consulted on the adoption of '*Amendments to IAS 19: Plan Amendment, Curtailment or Settlement'*. Due to a delay in anticipated EU endorsement implementation did not occur in the 19/20 Code.

46. Stakeholder feedback during and after the consultation indicated concerns regarding practical implications. CIPFA/LASAAC has therefore further refined the proposed treatment which emphasises that application is only relevant where the treatment is material for the readers of the accounts. It also provides direction regarding making an initial assessment of the quantitative materiality of the treatment.

C2 *Amendments to IAS 19: Plan Amendment, Curtailment or Settlement*

Q19	Do you agree with the proposal to emphasise the application of materiality and the support for this by providing direction regarding an initial assessment of quantitative materiality? If not, why not? What alternatives would you suggest?

C3 Definition of a Business: Amendments to IFRS 3

47. The IASB published '*Definition of a Business: Amendments to IFRS 3'* in October 2018. It will, subject to confirmation of endorsement, be effective from 1 January 2020. In summary the amendments:

- Specify that acquired activities and assets must include an input and substantive process that combined can contribute to the creation of outputs
- Refines definitions to focus on goods and services provided to customers. It removes a reference to an ability to reduce costs.
- Adds guidance and illustrative examples, for instance related to the assessment of a 'substantive process'
- Adds an optional simplified assessment test where effectively the acquisition relates to a single identifiable asset (or group of similar identifiable assets).

48. The application of the amendments is prospective for new acquisitions.

49. CIPFA/LASAAC considers that the amendments may affect specific cases prospectively. No substantive amendments to the Code are proposed. No requirement for adaptation or interpretation for local government application have been identified.

C3 Definition of a Business: Amendments to IFRS 3	
Q20	Do you agree with the proposals that no substantive amendments are required for implementation of '*Definition of a Business: Amendments to IFRS 3*'? If not, why not? What alternatives would you suggest?

C4 Amendments to References to the Conceptual Framework in IFRS Standards

50. The IASB has published '*Amendments to References to the Conceptual Framework in IFRS Standards'* in March 2018. The amendments will, subject to confirmation of endorsement, be effective from 1 January 2020. The amendments affect references in a number of standards and IFRICs regarding the appropriate application of IFRS framework requirements (generally the 2018 version).

51. Precise application arrangements can differ between the standards. The standards affected are:

IFRS 2 *Share-Based Payment*
IFRS 3 *Business Combinations*
IFRS 6 *Exploration For And Evaluation Of Mineral Resources*
IFRS 14 *Regulatory Deferral Accounts*
IAS 1 *Presentation Of Financial Statements*
IAS 8 *Accounting Policies, Changes In Accounting Estimates And Errors*
IAS 34 *Interim Financial Reporting*
IAS 37 *Provisions, Contingent Liabilities And Contingent Assets*
IAS 38 *Intangible Assets*
IFRIC 12 *Service Concession Arrangements*
IFRIC 19 *Extinguishing Financial Liabilities With Equity Instruments*
IFRIC 20 *Stripping Costs In The Production Phase Of A Surface Mine*
IFRIC 22 *Foreign Currency Transactions And Advance Consideration*
SIC-32 *Intangible Assets—Web Site Costs*

52. On the basis that, where relevant, the Code specifies reference to the requirements of the specific standards extensive Code text amendment is not considered necessary. No requirement for adaption or interpretation for local government has been identified.

53. Minor amendment to an explanation of the status and reliance on the Conceptual Framework, as specified in Section 2.1, is proposed. (See Exposure Draft C).

C4 *Amendments to References to the Conceptual Framework in IFRS Standards* Q21 Do you agree with the proposals for implementation of 'Amendments to References to the Conceptual Framework in IFRS Standards'? If not, why not? What alternatives would you suggest?

C5 UK Withdrawal from the European Union

54. The Code is based upon EU endorsed IFRS standards. In the event of UK withdrawal from the European Union this framework will no longer be directly applicable.

55. Recognition of this is allowed for in Section 2.1 through a proposed footnote indicating:

> "In the event of the UK withdrawing from the remit of the EU-endorsement framework, the Code will apply standards adopted for UK application under the terms of The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 (SI 2019/685)"

C5 UK Withdrawal from the European Union Q22 Do you agree with the proposals in the event of UK Withdrawal from the European Union? If not, why not? What alternatives would you suggest?

C6. IPSAS Standards IPSAS 41 Financial Instruments, IPSAS 42 Social Benefits

56. The International Public Sector Accounting Standards Boards (IPSASB) has issued two new standards, which are both effective from 1 January 2022, with earlier adoption encouraged. CIPFA/LASAAC considerations are noted below:

Standard	**Consideration**
IPSAS 41 Financial Instruments	CIPFA/LASAAC intends to review the requirements for UK local government financial instruments treatment and presentation for the 21/22 Code. IPSAS 41 will be reviewed to inform the development of 21/22 proposals. No amendments for the 20/21 Code are proposed.

Standard	Consideration
IPSAS 42 Social Benefits	The standard defines social benefits as "cash transfers provided to: (a) Specific individuals and/or households who meet eligibility criteria; (b) Mitigate the effect of social risks; and (c) Address the needs of society as a whole" Some local authority transactions may meet this criteria, however in wider terms the standard may be more relevant for central governments. To maintain alignment with central government reporting practices CIPFA/LASAAC plans to continue to liaise with any FReM proposals prior to any proposals for implementation in local government. No amendments for the 20/21 Code are proposed.

C6 IPSAS Standards: IPSAS 41 Financial Instruments, IPSAS 42 Social Benefits

Q23 Do you agree with the intention not to amend the 20/21 Code in relation to IPSAS 41 Financial Instruments and IPSAS 42 Social Benefits? If not, why not? What alternatives would you suggest?

C7 Pension Fund Accounts: Alignment to Pensions SORP

57. Following the 2018 Invitation To Comment process, amendments to more completely align the Code requirements for pension fund statements with the requirements of the 2018 Pension SORP have been suggested by a stakeholder.

58. CIPFA/LASAAC considers that this alignment is appropriate and will help to support consistency of practice and interpretation across pension funds.

59. The table below provides a summary of the key aspects where amendments are proposed:

Item	Code Ref	2018 Pension SORP Ref
Investment Assets: Analysis of pooled investment vehicles definition	6.5.3.6 (b) [Net Assets Statement]	3.10.8

Item	Code Ref	2018 Pension SORP Ref
Investment Assets: Insurance Policy presentation definition	6.5.3.6 (b) [Net Assets Statement]	3.11.3
Analysis of investment assets	6.5.5.1(i)	The Code specification of the analysis does not appear in the SORP. FV levels 1-3 disclosures apply.

60. Proposed amendments to align to the Pensions SORP are provided. The removal of the requirements of 6.5.5.1 (i) would no longer specifically require an analysis between UK and overseas investments assets. The Fair Value measurement disclosure requirements include a requirement for information on the valuation technique used (eg quoted or unquoted).

61. Currently CIPFA/LASAAC anticipates that, if material, prior year comparatives would need to be restated.

C7 Pension Fund Accounts: Alignment to Pensions SORP

Q24 Do you support the proposed amendments to ensure alignment with the Pensions SORP, and the expectation of prior period restatement where material? If not, why not? What alternatives would you suggest?

Exposure Draft D: Legislation

D1 Legislation Amendments

62. The following legislation has been enacted since the development of the 2019/20 Code. An indication of each item and proposed amendments is noted.

Area	Legislation	Effective
England	The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2018 (SI 2018/1207) Back payments following unequal pay: extension of adjustment of impact on reserves to 1/4/20 (hence could affect 19/20 comparatives). Fair value gains and losses of pooled investment funds not charged to usable reserves. Amendments are proposed for Sections 3.4.2, 7.1.9, 8.2.3 and Appendix B.	December 2018
England and Wales	The Local Government (Miscellaneous Amendments) (EU Exit) Regulations 2018 (SI 2018/1386) Relates to council tax; investments; and the definition of money market funds. No changes to the Code are proposed.	Effective on date of withdrawal from EU
England and Wales	The Local Government Pension Scheme (Miscellaneous Amendment) Regulations 2018 (SI 2018/1366) Relates to benefit changes. No changes to the Code are proposed.	January 2019
England	The Local Government (Structural Changes) (General) (Amendment) Regulations 2018 (SI 2018/930) Relates to community empowerment; transfers of functions, assets and liabilities; reorganisation; schools and references to the Accounts and Audit Regulations 2015. No changes to the Code are proposed.	Sept 2018

Area	Legislation	Effective
England	Directions on the use of capital receipts to fund transformation projects. No changes to the Code are proposed.	February 2018
Scotland	The Local Government Pension Scheme (Miscellaneous Amendments) (Scotland) Regulations 2019 (SSI 2019/161) Primarily benefits amendments. No changes to the Code are proposed.	June 2019
Scotland	Finance Circular 7/2018: Financial Instruments Replaces FC 4/2007. Does not amend the statutory adjustments available but specifies explicit presentation requirements in the annual accounts and the application of capital receipts to fund premiums. Proposed Code amendments to sections 3.4.2 and 7.3.8, and amendment of Appendix B.	November 2018
Scotland	Finance Circular 1/2019: Accounting for Equal Pay Provides new statutory guidance on the deferral of provisions, and application of capital receipts, relating to equal pay claims. Specifies disclosures required in the annual accounts. Some provisions end on 31 March 2020, however balances as at 31 March 2020 may be applied in later years and comparative amounts (eg from 19/20) will be required. Amendments are proposed to sections 2.3.3, 2.3.5, 3.4.5; 7.3.9 and Appendix B.	2018/19
Scotland	Finance Circular 4/2019: capital receipts to fund transformational projects Provides time limited flexibility to allocate capital receipts to fund transformation projects. Specifies disclosures required in the annual accounts. Amendments are proposed to sections 3.4.2, 3.4.5, 4.6.3 and Appendix B.	2018/19

Area	Legislation	Effective
Wales	The Accounts and Audit Wales)(Amendment) Regulations 2018 (WSI 2018-91 W.22) Changes dates for preparation and submission of accounts, public rights notice, notice of audit conclusion, and extraordinary audit. Amendments are proposed to section 1.4.	March 2018
Wales	The Local Government Finance (Amendment) (Wales) (EU Exit) Regulations 2019 WSI 2019/436 (W.104) Small number of minor amendments relating to definitions in regulations. No changes to the Code are proposed.	Effective on date of withdrawal from EU
Wales	The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2018 (WSI 2018/325 W.61) Definition changes, securitisation transactions, cost of credit arrangements, repayment of loans etc to a local authority, bonds, specification of items to be treated as capital receipts, use of capital receipts for disposal costs, items included in capital expenditure, equal pay back payment extension to 1/4/20, proper (accounting) practices. Proposed Code amendments to section 8.2.3 and Appendix B.	March 2018
Wales	Directions on the use of capital receipts to fund transformation projects. (and related letter) No changes to the Code are proposed.	April 2018
Northern Ireland	No specific Northern Ireland legislative changes identified No changes to the Code are proposed.	

63. The Code proposals are indicated above and are provided in Exposure Draft D.

Legislative References

Q25	Do you agree with the proposed amendments to the Code in relation to legislation which has been enacted or made since the development of the 2019/20 Code? If not, why not? What alternatives do you suggest? Are there other items of legislation which you consider could usefully be included in the Code?

Exposure Draft E: Other Areas

E1. Service Concession Arrangements: Treatment of third party revenues

64. Stakeholders have noted that clarification of treatment of arrangements which involve the operator being provided with a right to third party revenues would be helpful. Such situations can only occur within a service concession arrangement where the authority controls the price charged to the service recipients.

65. IFRIC 12 *Service Concession Arrangements*, applicable to operators, states "The operator shall recognise an intangible asset to the extent that it receives a right (a licence) to charge users of the public service." IPSAS 32 Service Concession Arrangements: Grantor para 26 states "a liability is recognised for any portion of the revenue that is not yet earned."

66. Neither the Code nor the central government requirements (FReM) currently specify the grantor's treatment of the award of this right to the operator. CIPFA/LASAAC notes that it would consider that recognition of a liability on the part of the grantor, representing the obligation incurred to forego any claim to such income, would be consistent with the Code requirements; IFRIC 12; IPSAS 32; and with practices which appear to be established in bodies reporting under the FReM (eg some NHS arrangements).

67. To maintain alignment with the FReM, and to avoid any unintended disruption or additional costs for stakeholders, CIPFA/LASAAC does not intend providing additional specification in the Code.

E1 Service Concession Arrangements: Treatment of third party revenues

Q26	Do you agree with CIPFA/LASAAC that recognition of a liability related to operator rights to third party revenues is consistent with the requirements but that additional specification in the Code is not required? If not, why not? What alternatives would you suggest?
Q27	If alternative treatments, other than recognition of a liability on the part of the grantor, are currently being applied please provide details.

E2 Service Concession Arrangements: Measurement of the Liability

68. The consultation on the implementation IFRS 16 *Leases* requested views on the use of the IFRS 16 lease liability requirements to measure service concession arrangement liabilities. While a small majority were supportive, there was significant concern expressed regarding the challenges of applying IFRS 16 liability measurement to SCA (PPP/PFI) arrangements.

69. CIPFA/LASAAC therefore undertook a further review of potential implementation options.

70. The potential use of a financial instrument measurement approach was considered, however this would pose a number of significant challenges including classification of the instrument; the possibility that some elements may include a derivative (dependent on circumstances) potentially leading to some 'fair value through profit or loss' treatments; the requirement for recalculation of an amortised cost liability as cash flow forecasts change; and the recognition of gains/losses in SDPS as these arise.

71. Continuing reliance on IAS 17 *Leases* was also considered. CIPFA/LASAAC noted that this would be inconsistent with central government treatment, where IFRS 16 is to be used to measure liabilities for service concession arrangements. Consequently for Whole of Government Accounts purposes, especially given the public interest in SCA (PPP/PFI) liabilities, maintaining an IAS 17 basis would be anticipated to give rise to a significant risk of a 'dual reporting' burden for local government (ie maintenance of both an IAS 17 and IFRS 16 liability measurement).

72. CIPFA/LASAAC also noted that it would be undesirable, in the longer term, to rely for material transactions upon a standard which has been withdrawn and which will become less relevant in other parts of the public sector. In particular any future widely available general guidance and support services, including central government budgeting treatment, is anticipated to relate to IFRS 16 requirements. The ongoing maintenance of bespoke services and support for IAS 17 may be regarded as having longer term cost consequences for local government.

73. Based on the above no suitable or appropriate alternative to adoption of IFRS 16 *Leases* for service concession arrangement liability measurement has been identified. CIPFA/LASAAC therefore intends to support and promote pragmatic implementation of the IFRS 16 Leases liability measurement model.

74. It is particularly recognised that application of IFRS 16 Leases liability measurement will have practical implications for local government. Typically recalculation of lease liabilities can arise from a reassessment (eg a change in the lease payments under the existing clauses in the contract of the lease) or modification (eg a change in the clauses of the contract). The table below provides an overview of the accounting treatments arising:

A	Re-assessment (revised discount rate used)	• Change in the lease term • Change in assessment of an option to purchase (criteria apply)
B	Re-assessment (unchanged discount rate used)	• Residual value guarantee changes • Lease payments change due to a change in an index or rent review etc.
C	Modification (separate lease treatment)	• Treat as a separate lease if (a) right to use one or more underlying asset is added and (b) consideration is commensurate to that increase in scope

D	Modification (modified lease not separated, revised discount rate used)	• Re-state future expected cash flows • Determine if new lease term applies • Discount lease payments (new discount rate) • For full or partial lease termination, or a decrease in scope of the lease, recognise any gain or loss in SDPS • For all other modification changes adjust the right of use asset

75. For re-assessments, situation A may be relatively rare but B is expected to be common and frequent due to most SCA contracts including annual (or more frequent) indexation uplifts to the unitary charge which may affect the determination of the lease rentals, especially since the 'contingent rent' treatment under IAS 17 would no longer apply. The impact of indexation on cash flows is expected to need to be differentiated from changes in lifecycle capital cost cash flows arising due to variation in those capital works.

76. For modifications a change in the planned or actual lifecycle capital works which does not involve a related change in the Unitary Charge payments may not meet the relevant criteria for separation. Changes which do however involve a related change in the Unitary Charge payments may potentially be regarded as a modification, for example by increasing or decreasing the scope of the contract.

77. CIPFA/LASAAC noted that existing IAS 17 requirements regarding changes to cash flow estimates under existing clauses, also currently apply. IFRS 16 Leases however may be regarded as more explicit in its requirements.

78. CIPFA/LASAAC considered the potential materiality of liability remeasurement for service concession arrangements. Modelling indicated that the materiality would be particularly dependent on specific circumstances such as indexation arrangements applying, the term of future cash flows and other factors.

79. CIPFA/LASAAC concluded that there was no clear basis to support specification of set longer intervals between re-measurement (eg every three years). The application of the Code's general provisions relating to materiality may support individual consideration of this on a case by case basis.

80. In applying the IFRS 16 and section 4.2 (leases) transition arrangements to SCA liability measurement, no immediate remeasurement as at 1 April 2020 would be anticipated. As at 31 March 21 however an increase in SCA liabilities could be anticipated as the impact of implemented indexation changes on future cash flows will be incorporated into the lease liability measurement.

81. Proposed Code text is included in Exposure Draft E.

E2 Service Concession Arrangements: Measurement of the Liability

Q28 Do you agree with CIPFA/LASAAC's proposals on applying IFRS 16 *Leases* liability measurement to service concession arrangements? If not, why not? What alternatives would you suggest?

E3 Housing Revenue Account: Financial Instrument Impairments

82. For the Housing Revenue Account Income and Expenditure Statement the Code 19/20 does not specify a line for movements in financial instrument impairment allowances (eg for rent bad debts). Authorities may currently insert an additional line within the 'expenditure' section.

83. The presentation of changes in financial instrument impairment allowances in the whole council comprehensive income and expenditure statement (CIES) is however to include them in the 'financing and investment income and expenditure' line.

84. A comparable treatment for the HRA statement would be to include the HRA related items within 'share of the operating income and expenditure included in the CIES'. A separate and specific line item could be added to the Code for this (eg a new line item between 3.5.3.1 s) and t)).

85. A difference in presentation may, where material, require an explanation, and a reconciliation of the HRA net expenditure per the HRA statement and the net expenditure included in 'cost of services' in the CIES.

86. Arguably however alignment of presentation may affect the transparency of the costs of impairments (eg rent bad debts) to the HRA.

87. No amendments are currently included in the Exposure Draft. Views are sought on whether the Code should be amended to specifically align the presentation in the HRA income and expenditure statement with that for the CIES.

E3 Housing Revenue Account: Financial Instrument Impairments	
Q29	Should the presentation of Financial Instrument Impairments in the HRA income and expenditure statement be aligned to that in the whole council CIES? If so what presentation would you suggest? If not please explain why the current approach is preferred.

E4 Financial Instruments: Fair Value through Profit or Loss Presentation

88. The Code does not currently specify where fair value gains/losses, dividends and gains/losses on derecognition of financial instruments classified as fair value through profit or loss should be are presented in Surplus or Deficit on Provision of Services within the CIES.

89. CIPFA/LASAAC understands authorities commonly will present these in the Financing and Investment Income and Expenditure line in the CIES (see 19/20 Code paragraph 3.4.2.38 c)).

90. No amendments are currently included in the Exposure Draft. Views are sought on whether the Code should more specifically identify the presentation requirements in the comprehensive income and expenditure statement.

E4 Financial Instruments: Fair Value through Profit or Loss Presentation	
Q30	Should the presentation of gains/losses, dividends and gains/losses on derecognition of financial instruments classified as fair value through profit or loss within SDPS be more definitively specified in the Code? If so what presentation would you suggest? If not please explain why the current approach is preferred.

E5 Minor Code Updates

91. A number of updates, generally relating to what are considered to be minor clarifications, are included in the Exposure Draft. These relate to:

Code Section	Proposed Amendment
Section 2.1.2: Recognition of Revenue	To add the following to Fees and charges for services under statutory requirements (exchange transactions): "housing rental income for the Housing Revenue Account"
Section 4.6: Revenue Expenditure Funded From Capital Under Statute (REFCUS)	Amendment to text to state: "No IFRS or IAS deals with the statutory impact of these items on the reserves as they are a statutory departure from normal accounting practice." To clarify that it is the impact on reserves for which there are no existing accounting standards. Existing accounting standards are used to represent the impact on income, expenditure, assets and liabilities in the financial statements.

E5. Minor Code Updates	
Q31	Do you agree with the minor Code update proposals relating to HRA rents classification and REFCUS? If not please provide details and alternative suggestions. Please indicate if other minor amendments should be considered.

E6 IFRS 17 Insurance Contracts (Future Implementation)

92. IFRS 17 *Insurance Contracts* has been issued with an effective date of 1 January 2021. An IASB exposure draft of amendments has been issued (June 2019) which includes a proposal to defer implementation to 1 January 2022. The earliest anticipated year for local government adoption is 22/23.

93. CIPFA/LASAAC is participating in a working group established by HM Treasury to consider early implementation issues. Current work is focused on scope and the

extent to which the public sector may have contracts meeting the relevant criteria.

94. Application of the standard's criteria may be complex and could be potentially extensive. This may include guarantees or assurances underwriting losses or providing compensation if a third party fails to fulfil contractual obligations.

95. CIPFA/LASAAC would appreciate initial identification of local government practices which should be considered in the early scoping work. This will assist in identification of whether there are specific local government factors which would support adaptation or interpretation of the requirements.

96. This ITC will not seek to recreate in whole the IFRS 17 *Insurance Contracts* scope and application requirements. Some points of note are:

- For the purposes of IFRS 17 an insurance contract may be included within a wider contract i.e. IFRS 17 may apply to contracts which are not specifically titled as insurance contracts and/or are not considered to be primarily concerned with 'insurance'

- A number of exclusions are specified where other standards are considered to be applicable[2]

- An insurance contract is one in which the issuer (eg a council) accepts significant insurance risk insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder:

    - Significant insurance risk is measured only by reference to the scale of the potential compensation. The probability of the event occurring is not considered ie even an extremely unlikely event can be a 'significant insurance risk' and require to be treated under IFRS 17.

    - Insurance risk excludes financial risk[3].

    - Any new risk created by the contract for the entity or the policyholder is not insurance risk. Clarity of whether an existing risk is being retained by the issuer (eg a council) or is being passed to the third party may be required.

- Insurance contracts between group members (eg parent and subsidiary) would require recognition, but may require elimination on consolidation in group accounts.

[2] Examples include warranties provided which fall under IFRS 15 *Revenue from Contracts with Customers*, liabilities recognised under IAS 19, contingent lease payments and residual value guarantees under IFRS 16, contingent payments under IAS 38 *Intangible Assets, Leases*, financial guarantee contracts under IFRS 9 *Financial Instruments* (unless specified otherwise), some 'fixed fee' services

[3] Financial risk is "risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, currency exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract."

E6 IFRS 17 *Insurance Contracts* (Future Implementation)

Q32 Please provide an indication of any local government practices, arrangements or contracts where potentially treatment as an Insurance Contract (under IFRS 17) may arise.

Section F: IFRS 16 *Leases* Implementation 20/21

IFRS 16 *Leases*

97. CIPFA/LASAAC has previously consulted on the implementation of IFRS 16 *Leases* for local government (the archived consultation is available for reference). Following consideration, and in alignment with central government decisions, CIPFA/LASAAC provided a public statement (opens to pdf) that implementation would be deferred to 20/21 (ie. effective from 1 April 2020).

98. CIPFA/LASAAC has also provided a feedback statement (opens to pdf) on key decisions following the consideration of consultation responses received on IFRS 16 *Leases* and the 19/20 Code ITC.

99. Stakeholders may wish to particularly note:

- One 'special nature' local government body has requested permission to adopt IFRS 16 *Leases* in 2019/20 due to what is considered and expected to be unique subsidiary accounting arrangements (24 group bodies with material leases currently report under EU-endorsed IFRS) . CIPFA/LASAAC is considering the request. General permission to permit all local government bodies to voluntarily select early adoption is not anticipated.

- Right of Use Assets carried at current value: most of these assets can appropriately be carried using the IFRS 16 cost model as a proxy for current value. Specific valuation is only expected to be applicable if

    a) market indexation of rentals does not provide a reasonable proxy for cost; *and*
    b) The market for the underlying asset is considered to be volatile.

- In alignment with central government it is planned to adapt the definition of a lease to include 'nil consideration' arrangements (ie where there is no cash lease rental payable).

100. Full consultation on IFRS 16 *Leases* is not repeated in this ITC. A copy of the text approved to date by CIPFA/LASAAC is provided as Appendix B in order to inform and encourage preparation work during 19/20.

101. The use of the IFRS 16 *Leases* liability measurement model for service concession arrangements (PPP/PFI etc) is included in this ITC as a specific area for stakeholder consideration and feedback (see above).

Section G: Further Guidance / Open Feedback

Further Guidance

102. CIPFA/LASAAC would be interested to hear respondents' views on whether there are any areas within the Code, or as a result of policy developments, where additional guidance or improvements to the Code could be developed. This will help to inform the development programme for future editions of the Code, or where relevant, referral to the Local Authority Accounting Panel.

103. CIPFA/LASAAC would also wish to remind stakeholders that comments or suggestions regarding the Code can be submitted to cipfalasaac@cipfa.org at any time. Please note that this is not an advice or enquiries service.

Further Guidance

Q33 Are there any areas within the Code where additional guidance or improvements to the Code would be helpful? Please support your answer by giving details of the amendments you would suggest.