# report

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| Committee | CIPFA/LASAAC |
| Venue | CIPFA Scotland Edinburgh |
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| Subject | Development of the 2019/20 *Code of Practice on Local Authority Accounting in the United Kingdom* |

To note those issues that need to be considered for inclusion in the 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom and agree the process for the post implementation reviews of specific sections of the Code

## 1 Introduction

1.1 This report is intended to highlight developments in financial reporting standards, legislation and policy that need to be considered for inclusion in the 2019/20 *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) or subsequent Codes.

1.2 The report also outlines the Secretariat's proposals for initiating CIPFA/LASAAC's post implementation reviews of specific sections of the Code.

## 2 Legislative Developments

**England**

2.1 There may be changes to the Accounts and Audit Regulations 2015.

2.2 It is anticipated that the Department for Communities and Local Government will issue a consultation on amendments to the guidance on the Minimum Revenue Provision and the statutory guidance on Investment Strategies. It is unlikely that either of these two issues will have a substantial impact on the provisions of the Code.

**Local Government Reform - Scotland**

2.4 The paper A Plan for Scotland 2016 -17 the Government's Programme for Scotland indicates that the Scottish Government has committed to work with local authorities to review their roles and responsibilities. It will discuss with key stakeholders the scope and timing of the review.

**Education Governance - Scotland**

2.5 CIPFA/LASAAC is aware of the Scottish Government's review of Education Governance. The Scottish Government has indicated that it will introduce a new Education Bill in the second year of the Scottish Parliament. It is possible that there could be accounting issues arising similar to those that occurred under the move to academies transfers in England. Any impact will depend on the exact proposals that are now being developed following the initial consultation exercise.

**Accounts and Audit (Wales) Regulations 2014**

2.6 Amendments to the Accounts and Audit (Wales) Regulations 2014 were issued for consultation in November 2016. CIPFA responded to the consultation. CIPFA/LASAAC saw the draft response to the consultation.

2.7 The consultation proposes changes to the timetable for closure of the financial statements ie to bring forward:

- the final date on which the responsible financial officer must sign and date the statement of accounts of a larger relevant body from 30 June to 31 May, and

- the date that a larger relevant body must consider, approve and publish an audited statement of accounts from 30 September to 31 July.

Note that there are transitional provisions in the regulations which will mean that the revised timetable is implemented for the 2018/19 financial year for fire and rescue authorities, national park authorities, police and crime commissioners and chief constables. For county or county borough councils, it is proposed that the revised timetable be implemented for 2020/21. There are also interim arrangements for county or county borough councils in the last two years of the transition period.

2.8 The consultation also proposed removing the requirement to include in the statement of accounts financial statements relating to pension funds administered in accordance with the Local Government Pension Scheme Regulations 2013. It also proposed changes for the requirements for public notices.

2.9 It is anticipated that the Regulations will be issued before the end of November 2017. They are anticipated to have an effective date for the 2017/18 year.

**Proposed amendments to the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003**

2.10 The Welsh Government issued its consultation on amendments to Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 on 20 October 2017. The Regulations cover amendments in the following areas:

- **Securitisation** - the Welsh Government proposes to introduce a new regulation to ensure that, if it is used lawfully by local authorities in Wales, securitisation will be on an equal footing with borrowing and other forms of credit. It also proposes to amend the regulations to provide that entry into a credit arrangement, in the case of a securitisation transaction, must be treated as the borrowing of an amount equal to the value of the consideration received by the authority as a result of that securitisation transaction.

- **Expenditure to be capital expenditure** - the Welsh Government proposes:
  - to relax the constraint in relation to all loan capital transactions which means that authorities will not incur capital expenditure if they lend to individual companies by means of corporate bonds
  - to amend regulation 20 of the 2003 Regulations to provide exemptions for shares in collective investment schemes from the definition of capital expenditure. The consultation notes that this will ensure local authorities in Wales are placed on an equal footing with English authorities
  - to extend the relevant regulation so that expenditure incurred on the acquisition, production or construction of assets for use by, or disposal to, a person other the local authority, must be treated as capital expenditure, if it would have been capital expenditure had the assets been acquired, produced or constructed for use by the local authority.
- **Use of Capital Receipts** - the Regulations allow local authorities the use of up to 4% of a non-housing capital receipt to finance disposal costs. Currently this can only be applied if the disposal costs and capital receipts occur in the same financial year. The Welsh Government therefore proposes to amend the Regulations to avoid any potential practical implications should the disposal costs and capital receipts not occur in the same financial year.
- **Back pay following unequal pay** – the current regulations permit local authorities not to charge back-payments to their revenues until the payments were due - these provisions currently have effect until 1 April 2018; the Regulations propose extending this date until 1 April 2020.
- **Service Reporting Code of Practice** (SeRCOP) - the regulations propose removing references to the SeRCOP as proper practices following the removal of the requirements to include the SeRCOP service expenditure analysis in the Comprehensive Income and Expenditure Statement.

**Welsh Government White Paper - Reforming Local Government: Resilient and Renewed**

2.11 On 31 January 2017 the Welsh Government issued its White Paper *Reforming Local Government: Resilient and Renewed*. The White Paper proposed regional structures and in its preferred option proposes functions for regionalisation and seeks views on regional working. It also proposes new, enhanced 'Joint Governance Committees' to oversee regional services, based on the current joint committee model but with clearer powers and delegations.

2.12 The White Paper also discussed voluntary mergers of local authorities.

2.13 The timetable for local government reform is not yet confirmed though it is unlikely to impact on the 2019/20 Code. On 27 June 2017, the First Minister for Wales announced that a Local Government Bill to give effect to the Welsh Government's proposals would be included in the legislative programme for the second year of the current National Assembly term. At the moment the Secretariat cannot see any specific need to change the Code for the proposals.

**Carbon Reduction Commitment Scheme**

2.14 Agenda item 6 sets out that the Carbon Reduction Commitment (CRC) Scheme will come to an end following the 2018/19 year. The Secretariat considers that following the removal of the related provisions on the CRC Scheme a review should be undertaken as to whether there is a continuing need for the relevant section of the Code (Section 2.4 (Landfill Allowance and Other Trading Schemes)).

**Other Policy Developments**

2.15 There are no other new legislative developments that are currently anticipated to have effect on the Code.

**CIPFA/LASAAAC Members are invited to update the Board on any other policy or legislative developments that may impact on the 2019/20 or future Codes.**

## 3 Financial Reporting Developments for the 2019/20 Code

3.1 CIPFA/LASAAAC has already considered the approach to adoption of IFRS 16 *Leases* which will be most substantial change anticipated for the 2019/20 Code.

**CIPFA/LASAAC is invited to note this comment.**

*Financial Reporting Standards or Amendments to Standards or Interpretations Most Likely to be Included in the 2019/20 Code*

3.2 Other financial reporting developments that are likely be included in the 2019/20 Code:

- Amendments to IFRS 9 *Financial Instruments:* Prepayment Features with Negative Compensation (issued in October 2017), and
- Amendments to IAS 28 *Investments in Associates and Joint Ventures*: Long Term Interests in Associates and Joint Ventures
- IFRC 23 *Uncertainty Over Income Tax Treatments (June 2017)*

3.3 The IASB intend to issue the following amendments to IFRSs under the Annual Improvements to IFRSs 2015 – 2017:

- IAS 23 *Borrowing Costs*: Borrowing Costs Eligible for Capitalisation
- IAS 12 *Income Taxes*: Income tax Consequences of Payments on Instruments Classified as Equity
- IFRS *3 Business Combinations* and IFRS 11 *Joint Arrangements*: Previously Held Interests in a Joint Operation.

It is possible that these amendments to IFRS need to be included in the 2019/20 Code.

**CIPFA/LASAAC is invited to note the amended standards that may apply to the 2019/20 Code.**

## 4 Post Implementation Reviews of Specific Areas of the Code

4.1 At its last meeting CIPFA/LASAAC decided to consider the post implementation reviews of the IAS 19 *Employee Benefits* amendments included in the 2013/14 Code and for the Group Accounts amendments included in the 2014/15 Code separately from the 2018/19 Code consultation. The Secretariat considers that as section 4.3 (Service Concession Arrangements: Grantor) is being considered for amendment in relation to the measurement of the Service Concession Arrangement liability under the consequential changes on the Code's adoption of IFRS 16 that it would also be opportune to review the implementation of section 4.3.

4.2 The Secretariat would therefore recommend that post implementation reviews be undertaken in the three areas outlined in paragraph 4.1. The Secretariat considers that the provisions in the Code for these three areas are robust. Additionally, it has not received any substantial queries in these areas. However, there is one area in relation to section 4.3 which may benefit from a review as discussed at the Board's March 2017 meeting ie the grant of the right to the operator (third party payment) model. This has been raised by a firm for the last few years in its responses to the Code consultation (but not this year).

4.3 The Code does provide a response to this issue and requires that authorities account for such income and liabilities under the Code's general provisions for income recognition and accounting for liabilities. This issue was considered by CIPFA/LASAAC in its deliberations on service concession arrangements at the time. Unfortunately, there are two opposing views in international GAAP at the moment; one by the FRC emanating from its deliberations on FRS 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland* and one included in IPSAS 32 *Service Concession Arrangements: Grantor*. This issue was raised by a member of the IFRS 16 sub group as an issue which he considered needing resolution.

4.4 The Secretariat would note a Member of the IASB has written an article on the role of post implementation reviews[1] which CIPFA/LASAAC might consider interesting. The article describes the process as undertaking an initial assessment of how well the standard is performing in practice. This is followed by a formal request for information seeking information on specific topics. The Secretariat considers that this is a useful process to emulate.

4.5 The Secretariat considers for the Code that this might be augmented by an initial investigative process which seeks general views on the adoption of the amendments to the Code. It is suggested that the post implementation reviews are initiated on the consultation pages of the CIPFA website before the end of this calendar year. The Secretariat would also recommend that this consultation process should be a substantial period ie at least for a four month period to maximise the number of responses and comment. During this period the Secretariat can undertake the initial assessment of how well these amendments to the Code have performed thus far. CIPFA/LASAAC can then decide on whether any additional research will need to be undertaken.

**CIPFA/LASAAC is invited to agree the process for the post implementation reviews described in this section of the report.**

[1] http://www.ifrs.org/news-and-events/2017/09/role-of-post-implementation-reviews/

## Recommendation

**CIPFA/LASAAC is asked to note the developments that need to be considered for the development programme for the 2019/20 Code and agree the process for the post implementation reviews described in section 4 of this report**.