

report

Paper CL 07 06-16C

Committee	CIPFA/LASAAC
Venue	CIPFA Scotland, Edinburgh
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Subject	Development of the 2017/18 Code of Practice on Local Authority Accounting

To approve the issues that needs to be considered for inclusion in the consultation on the Code of Practice on Local Authority Accounting for 2017/18

1 Introduction

- 1.1 This report is intended to set out the developments both in financial reporting standards and legislation that are likely to need to be considered for inclusion in the 2017/18 Code. There are a number of substantial issues to be included and therefore some of these items are considered in separate reports.

2 Items for the Development of the 2017/18 Code

- 2.1 CIPFA/LASAAC has agreed a number of items for the development of the 2017/18 Code. These are listed in the following paragraphs.

Narrative Reporting (ED1)

- 2.2 The approach to the Exposure Draft of the 2017/18 Code and the Invitation to Comment (ITC) is considered in a separate report (CL 07-06-16A).

Going Concern (ED2)

- 2.3 Review of the reporting requirements for going concern is discussed in a separate report (CL 07-06-16B).

Review of the Accounting Policies Listed in Section 3.4 of the Code (ED3)

- 2.4 A FRAB Member commented that "it seems circular to explain a significant policy by reference to it having a significant effect". He noted that at the IASB's meeting, they discussed accounting policy disclosures and how they could be improved. This in turn could lead to the use of boilerplate accounting policies by local authorities. The Secretariat has utilised the paragraphs in IAS 1 to redraft the accounting policies paragraphs in section 3.4. It has removed the list of

accounting policies in paragraph 3.4.2.87 and has instead included the list of accounting policies as an Annex to section 3.4.

- 2.5 The Secretariat has also included additional commentary in the ITC about avoiding boilerplate listing of accounting policies and suggesting innovative approaches to the inclusion of accounting policies in the financial statements. Reference has been made to the work of the FRC's Financial Reporting Lab. The Secretariat has also badged this change as a part of the Telling the Story continuing project.

CIPFA/LASAAC's views are sought on the approach to redrafting the provisions on accounting policies in the Code and the commentary in the Exposure Draft and the ITC.

Structure of Chapter One Introduction (ED4)

- 2.6 One of the members of CIPFA/LASAAC raised concerns relating to the structure of Chapter one (Introduction). This chapter has been completely restructured to separate the reporting requirements of each jurisdiction.

CIPFA/LASAAC's views are sought on the restructuring of Chapter One in the Exposure Draft and the ITC.

Accounting and Reporting by Pension Funds – Investment Transaction Costs Disclosure

- 2.7 CIPFA/LASAAC agreed that due to the level of scrutiny across sectors of investment management costs for pension funds it would consider mandating this disclosure in the 2017/18 Code and has included commentary to that effect in the 2017/18 Code. The ITC covers this issue and indicates that paragraph 6.5.5.2 will become a required disclosure, subject to the consultation process.

CIPFA/LASAAC's views are sought on the approach in the Exposure Draft to mandating the recommended disclosure at paragraph 6.5.5.2 of the 2016/17 Code.

3 Financial Reporting Developments for the 2017/18 Code

- 3.1 The following amendments to standards are included for adoption in the 2017/18 Code.

- IAS 7 *Statement of Cash Flows (Disclosure Initiative) (Ref ED5)* – the amendments have an effective date of 1 January 2017 and are anticipated to be adopted by the EU by 1 January 2017. The Secretariat has included the relevant provisions in ED5 in paragraph 3.4.4.1 as this is a new disclosure requirement. It has included only the main reporting requirements under IAS 7 and has cross referred to IAS 1 for the remaining provisions.

CIPFA/LASAAC is invited to consider the approach in the Exposure Draft and ITC for this new disclosure requirement.

- IAS 12 *Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses)* – the amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments to IAS 12 have an effective date of 1 January 2017. It is likely only to affect the Group Accounts of a local authority. This standard is only referred to in Appendix A of the Code and (as is indicated in the ITC) adoption of these

changes will be reflected in the update of the new Appendix D to the Code which lists the new standards adopted by the Code in the relevant year. Therefore no Exposure Draft is provided.

CIPFA/LASAAC is invited to consider the approach in the ITC for the amendments to IAS 12.

4 Legislative Developments

The Housing Revenue Account (Accounting Practices) Directions 2016 (Ref ED6)

- 4.1 The Housing Revenue Account (Accounting Practices) Directions 2016 were issued in May. The Exposure Draft of the 2017/18 Code repeats the statutory disclosure requirements for local authorities and therefore the Secretariat has not included a question for interested parties.

CIPFA/LASAAC is invited to confirm its approval for this approach to the Housing Revenue Account (Accounting Practices) Directions 2016.

Cities and Local Government Devolution Act 2016 – Accounting for Combined Authorities

- 4.2 The Cities and Local Government Devolution Act 2016 was given Royal Assent in January 2016. The Act is intended to support delivery of the Government's policy to "devolve powers and budgets to boost local growth in England", in particular to devolve powers over economic development, transport and social care to large cities.
- 4.3 As discussed at the last meeting the Secretariat is not currently aware of any specific reporting requirements for the Code as a result of that Act although it will keep this situation under review.

CIPFA/LASAAC is invited to confirm its approval for this approach to accounting for combined authorities.

The Housing and Planning Act 2016

- 4.4 The Housing and Planning Act received Royal Assent on 12 May 2016. As discussed in previous meetings the transactions anticipated under this legislation (ie the payments to the Secretary of State for high value housing) will take place using a similar mechanism as the payments of housing capital receipts into the Housing Pool. Therefore the ITC proposes that this payment will be recorded in the same line (operating expenditure) in the Comprehensive Income and Expenditure Statement.

CIPFA/LASAAC is invited to confirm its approval for this approach to accounting for the Housing and Planning Act 2016.

The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (Ref ED7)

- 4.5 These regulations were made in February 2016. Amendments have been made to the relevant legislative provisions throughout the Code. The Secretariat understands that statutory guidance will be issued under these Regulations. These may need to be reflected in the Code when issued.

- 4.6 In addition the Secretariat has taken the opportunity to review the statutory accounting requirements across the Code for Scottish authorities. This is with the exception of the provisions for post-employment benefits which the Secretariat understands are under review by the Scottish Government.

CIPFA/LASAAC is invited to confirm its approval for this approach to the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 in the Code.

The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2017 for English Authorities

- 4.7 The consultation on the Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2017 (Item 8 Determination) was issued on 26 May 2016. The consultation by the Department of Communities and Local Government proposes to amend the Item 8 Determination to:
- Continue to allow impairment charges on dwelling assets to be reversed out of the HRA following the end of the transitional period.
 - Extend the principle to non-dwelling assets in the HRA from 2017/18.
 - To confirm that from 2017-18 depreciation should be charged to the HRA in accordance with proper practices.

- 4.8 The consultation responses are due by 8 July 2016. Normally CIPFA/LASAAC only consults on changes to the Code which have been confirmed by statutory provision and therefore this has been reflected in the ITC. CIPFA/LASAAC may need to consider the case for a separate consultation on the effects of these changes. The amendments will be come into force from 1 April 2017 and will take precedence over the Code. The Secretariat would point out that there was an exception to this approach for the Regulations on the move to retention of non-domestic rates for the 2013/14 Code in December 2012. However, due to the potential for change as a result of the consultation process the Secretariat would not recommend this approach for the Item 8 Determination.

CIPFA/LASAAC's views are sought on the approach to the changes to the Code and the commentary on the ITC in the Item 8 Determination.

Accounts and Audit Regulations 2015

- 4.9 At this current juncture the consultation on the amendments to the Accounts and Audit Regulations 2015 has not yet been issued. CIPFA/LASAAC may need to consider the case for both a separate consultation on the effects of these changes and a 2016/17 Code Update, depending on when the regulations come into force.

CIPFA/LASAAC is invited to agree the commentary in the ITC relating the anticipated consultation on amendments to the Accounts and Audit Regulations 2015.

- 5 Other development items for future editions of the Code (ED 8 and ED9)

- 5.1 CIPFA/LASAAC has confirmed its approach to the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* for the consultation on the 2017/18 Code ie that the relevant provisions would be

included in separate Appendices in the 2017/18 Code but with an effective date for the 2018/19 Code. These are considered in separate reports on the agenda ie CL 08-06-16 and CL 09-06-16 respectively.

5.2 Other development these items include:

- statutory adjustments
- future amendments to standards and new financial reporting standards, and
- review of the concepts section when the IASB conceptual framework is issued.

5.3 CIPFA/LASAAC will be aware that with regard to the second bullet in the list in paragraph 5.2 IFRS 16 *Leases* was issued by the IASB in January 2016. The Secretariat considers that this again is a substantial new standard and would invite CIPFA/LASAAC to consider whether it wishes to use the same approach as it did for IFRS 9 and IFRS 15 and provide a high level overview of the Standard in the ITC to raise awareness and obtain early views from interested parties on the approach to adoption in the Code.

CIPFA/LASAAC is invited to consider whether it wants to include an overview of IFRS 16 in the consultation on the 2017/18 Code.

Recommendation

CIPFA/LASAAC is asked to approve the developments that need to be considered for the development programme for the 2017/18 Code.