

# Technical Information Note: 17 (01) from the CIPFA/LASAAC Local Authority Accounting Code Board

## The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) – Feedback Following the Consultation on the 2017/18 Code

### Introduction

1. This publication provides feedback from the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC) updating accounts preparers and other interested parties on the amendments to the 2017/18 *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) following the consultation process on that Code in July to October 2016.

(The consultation documents are available on the archived consultation pages of the CIPFA website.<sup>1</sup>)

2. This feedback statement should be considered alongside the consultation papers on the Code.
3. **This feedback statement does not form any part of the 2017/18 Code.**
4. 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 CIPFA/LASAAC. The Code is reviewed continuously and is normally updated annually.
5. The main areas for amendments to the Code for 2017/18 include:
  - (a) a new principles based approach to narrative reporting
  - (b) a review of the Code's provisions on going concern reporting
  - (c) a review of accounting policies provisions in the Code
  - (d) new disclosure on transaction costs for pension fund investments
  - (e) legislative changes
  - (f) other minor amendments and clarifications.

### A New Principles-based Approach to Narrative Reporting

#### The overall approach

6. The majority of respondents supported the approach to narrative reporting and agreed that specific requirements should be included in the Code.

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<sup>1</sup> See links: [www.cipfa.org/policy-and-guidance/consultations-archive/201718-code-of-practice-on-local-authority-accounting-in-the-united-kingdom-invitation-to-comment](http://www.cipfa.org/policy-and-guidance/consultations-archive/201718-code-of-practice-on-local-authority-accounting-in-the-united-kingdom-invitation-to-comment)

7. One of the dissenting respondents to the Code consultation was of the view that the Narrative Report should only have a financial focus. A second dissenting respondent stated that the Narrative Report should not introduce any more mandatory requirements than those required by statute (for English authorities) ie the Accounts and Audit Regulations 2015. CIPFA/LASAAC considers that there should be appropriate emphasis on the statutory requirements but the narrower focus suggested by these two respondents does not agree with its view set out in the consultation that the Narrative Report should have a wider focus on the local authority as an organisation, covering corporate strategies, principal risks etc, and be consistent with other sectors, including other public and public benefit sectors. In addition CIPFA/LASAAC would note that the Accounts and Audit Regulations 2015 in stipulating the requirements for the narrative statement to include "*comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year*"<sup>2</sup> refer to "resources" and not merely "financial resources", suggesting a wider reporting framework.
8. A respondent commented that it understood that there could be no prescriptive format but considered that the wording in paragraph 3.1.1.4 could still be interpreted as recommendations rather than requirements for local authorities to follow. CIPFA/LASAAC debated this issue but considered that the wording in paragraph 3.1.1.4 properly reflected its desire that the Code included a principles based approach.

#### Principles based approach to narrative reporting

9. The majority of respondents supported a principles based approach to narrative reporting.
10. Two respondents commented that the Annual Governance Statement should provide enough information on governance and therefore 'governance' should not be included as a separate element in the Narrative Report. CIPFA/LASAAC concurred that the Annual Governance Statement should provide enough information on governance. However, in order to provide a complete picture of the authority it ought to be referred to in the Narrative Report and this may be achieved by appropriate cross-referencing. CIPFA/LASAAC has made minor clarifications to assist with this.
11. A respondent that disagreed with the approach considered that too little emphasis was given to the statutory requirements (for England) for narrative reporting. It considered that financial performance and financial position should be included as separate elements in the list in paragraph 3.1.1.4. CIPFA/LASAAC considered that this is a matter of emphasis and would note that financial position and financial performance are featured explicitly in the body of paragraph 3.1.1.4. CIPFA/LASAAC was of the view that financial performance and financial position should not be considered as separate elements and that to be adequately covered under the new framework they might cross a number of the different elements listed in paragraph 3.1.1.4.
12. Two respondents were of the view that more emphasis on local authority specific circumstances should be included in the Code's provisions on the elements. CIPFA/LASAAC concurred with this view and increased the emphasis on service issues as these are the main operational focus for local authorities. It also reviewed the terminology in section 3.1 of the Code to ensure that this better reflected local authority circumstances.
13. A respondent noted that the government's Financial Reporting Manual includes an overarching principle requiring an overview for the lay reader in its strategic report and considered that this approach would be helpful. CIPFA/LASAAC was of the view

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<sup>2</sup> The Accounts and Audit Regulations 2015, Regulation 8 (2)

that as a principles based approach it did not want to provide a more detailed structure for the Narrative Report.

14. CIPFA/LASAAC would note that the statutory reporting requirements for Scottish local authorities to provide a management commentary remain unchanged by the new provisions in the Code.

#### Going Concern Basis of Accounting/Reporting

15. The majority of respondents concurred with the general approach in the Code ie that a local authority cannot report on any other basis than a going concern basis as it cannot decide to liquidate itself or to cease operating as local authorities throughout the UK are only created or discontinued by statutory prescription.
16. While agreeing with the going concern basis of reporting, a respondent considered that local authorities still need to consider whether there is any material uncertainty that the body itself cannot continue as a going concern for at least 12 months after the balance sheet date (see IAS 1 *Presentation of Financial Statements*, paragraph 25). CIPFA/LASAAC does not concur following the rationale set out in the Invitation to Comment (ITC) ie that because local authorities could not be discontinued without statutory prescription "*the statutory framework means that there can be no material uncertainties related to events or conditions that can cast significant doubt upon their ability to continue to report on a going concern basis*".
17. CIPFA/LASAAC considered, however, that there were a small number of bodies that follow the Code that could be discontinued without statutory prescription and these bodies should follow the reporting requirements of IAS 1 paragraph 25. The 2017/18 Code, paragraph 3.4.2.23, reflects the differences in approach for those bodies that can only be discontinued as a result of statutory prescription and those that cannot.
18. CIPFA/LASAAC would note that while it considered that the position outlined in the Code and above was technically accurate, it was clear that taking into account the resource positions faced by some local authorities there was substantial value in providing clear information on financial sustainability and resilience in the Narrative Report and providing relevant information on liquidity risks under the Code's provisions on IFRS 7 *Financial Instruments, Disclosures*.

#### Accounting Policies – Telling the Story of Local Authority Financial Statements

19. The majority of respondents supported the approach in the Code ie to reduce the contents of the list of accounting policies in section 3.4 (Presentation of Financial Statements) of the Code and move them to an annex to the section. They agreed with the views set out in the ITC that this would encourage local authorities to reflect only those accounting policies that are significant to the authority and represent their local circumstances.
20. A number of respondents indicated that the reduced list of disclosures risked excluding an accounting policy which might be significant to an individual authority. CIPFA/LASAAC concurred with this view and removed the list from section 3.4 in its entirety.
21. CIPFA/LASAAC would highlight that the individual sections of the Code set out the accounting policies which are relevant to local authorities and has added appropriate commentary on this issue at the beginning of paragraph 3.4.2.87. CIPFA/LASAAC has also added reference to paragraph 121 from IAS 1 which makes it clear that there may also be other accounting policies which may need to be included in accordance with section 3.3 and IAS 8 *Accounting Policies, Changes in Accounting*

*Estimates and Errors.* This is to ensure that accounts preparers understand the range of accounting policies that might need to be considered.

22. In order to reinforce the objective that local authorities should only reflect those accounting policies that are significant to the authority and represent their local circumstances CIPFA/LASAAC decided not to include the sentence in 3.4.2.87, which originated from IAS 1, that stated “*Additionally, an authority should ensure that the accounting policies reflect those normally expected by the users of local authority financial statements*”. It considered that this sentence was open to misinterpretation which would be at odds with the Board’s objective. Local authorities could still refer to IAS 1 for this commentary.
23. CIPFA/LASAAC would note that each section of the Code, where relevant, would now include the clarification that an accounting policy is required where these accounting policies are significant to the authority’s financial statements.

#### Investment Transaction Costs – Accounting and Reporting by Pension Funds

24. A group of respondents were of the view that this proposal was not consistent with the publication issued by CIPFA in July 2016, *Accounting for Local Government Pension Scheme Management Expenses* (CIPFA guidance). They considered that it might cause confusion between the different reporting requirements. They were also of the view that the Code should follow the requirements of this guidance.
25. The Code refers to accounts preparers having ‘due regard’ for the CIPFA guidance. The publication includes transactions costs as part of its sub-classifications. Therefore, generally, this publication is not inconsistent with the proposal to require reporting of transaction costs.
26. Another respondent was directly at odds with this group of respondents. It disagreed that there should be any form of transaction cost or investment management expenses disclosure (recommended or mandatory). It was also of the view that the aims of the CIPFA guidance on Local Government Pension Scheme management expenses to achieve transparency and consistency in the identification of such costs have not yet been achieved.
27. Given that:
  - the disclosure requirements in the Code were a sub-set of those in the CIPFA guidance *Accounting for Local Government Pension Scheme Management Expenses*
  - CIPFA/LASAAC’s rationale for including this disclosure was based on concern about the transparency of pension fund management expenses generally, and
  - the only recommendation in international or UK Generally Accepted Accounting Practice is the recommended disclosure in the 2015 Pensions SORP

CIPFA/LASAAC confirmed its approach to the reporting of transaction costs as set out in the ITC. The disclosure on investment transaction costs has therefore been included in the 2017/18 Code.

#### Review of the Structure of Chapter One (Introduction) of the Code

28. The majority of respondents supported the review of chapter one (Introduction), which has been restructured to reflect the requirements of each jurisdiction. A small number of changes were made following the consultation process to more clearly

reflect the requirements of the Accounts and Audit Regulations 2015 and Scottish statutory reporting requirements.

### Narrow Scope Amendments: IAS 7 Statement of Cash Flows (Disclosure Initiative) and IAS 12 Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses)

29. IAS 7 *Statement of Cash Flows (Disclosure Initiative)*<sup>3</sup> and IAS 12 *Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses)*<sup>4</sup> were not adopted by the European Union in time for inclusion in the 2017/18 Code and as a result the 2017/18 Code does not include the relevant provisions for these narrow scope amendments. These narrow scope amendments will therefore be taken forward in the development programme for the 2018/19 Code.

### Legislative Amendments

30. The 2017/18 Code includes the relevant amendments for the Housing Revenue Account (Accounting Practices) Directions 2016 and the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016. The 2017/18 Code also reflects the statutory guidance on the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016.

### Other Minor and Drafting Amendments

#### Community Infrastructure Levy

31. CIPFA/LASAAC has made clarifications to paragraph 2.2.3.8 of the Code where Community Infrastructure Levy (CIL) charges to be applied to fund capital expenditure have been received prior to the commencement of the development, to align the treatment of the levy with the treatment of grants and other contributions in section 2.3 of the Code.
32. CIPFA/LASAAC also clarified the treatment of revenue expenditure under CIL, as amendments to the Community Infrastructure Levy Regulations 2010 have expanded the definition of what the levy may be spent on, which for example includes maintenance of relevant infrastructure.
33. These two changes are clarifications only and do not change the Code's accounting policies on CIL.

#### Pension fund investment risk disclosure

34. CIPFA/LASAAC also introduced an interpretation in relation to the approach to the disclosure on pension fund investment risk concentrations at paragraph 6.5.5.1 m).

#### Other amendments

35. Transitional reporting requirements for the:
- measurement of the Highways Network Asset
  - transaction costs for pension fund investments, and
  - the investment risk disclosure for pension fund investments

have been confirmed in the Code and in Appendix C.

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<sup>3</sup> Issued on 29 January 2016

<sup>4</sup> Issued on 19 January 2016

Measurement of the Highways Network Asset in the 2017/18 Code

36. On 10 March 2017 CIPFA/LASAAC issued its [Statement from CIPFA/LASAAC Local Authority Code Board on the Measurement of the Highways Network Asset](#).

**CIPFA/LASAAC**  
**April 2017**

## **APPENDIX**

### **Useful References**

Consultation on the 2017/18 *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code): [www.cipfa.org/policy-and-guidance/consultations-archive/201718-code-of-practice-on-local-authority-accounting-in-the-united-kingdom-invitation-to-comment](http://www.cipfa.org/policy-and-guidance/consultations-archive/201718-code-of-practice-on-local-authority-accounting-in-the-united-kingdom-invitation-to-comment)

Please note that the guidance and clarification offered by this Technical Information Note should not be taken as an authoritative interpretation of the law and should not be considered as constituting a definition of proper accounting practice.

This Technical Information Note is intended to assist practitioners with the application of the requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code). The Technical Information Note is intended to clarify the requirements of the Code, but is not prescriptive and does not have the formal status of the Code. All reasonable care is exercised in preparing the Technical Information Note. However, accounts preparers should always refer to the primary sources before relying on this advice and check any interpretation of published guidance with their own professional advisors and their own circumstances.