

Technical Information Note: 15 (01)

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) – Informal Commentary on the Amendments to the 2015/16 Code following Consultation

Introduction

1. This publication is an informal commentary from CIPFA/LASAAC updating practitioners on the amendments to the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) following the consultation process in July and October 2014. This process included the issue of a main Invitation to Comment (ITC) and extracted Exposure Drafts of the proposed amendments to the Code (these documents are available on the archived consultation pages of the CIPFA Website)¹. **This informal commentary does not form any part of the 2015/16 Code.**
2. Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper practices'. This is defined, for the purposes of local government legislation, as meaning compliance with the terms of the Code, prepared by the CIPFA/LASAAC Local Authority Code Board (CIPFA/LASAAC). The Code is reviewed continuously and is normally updated annually.
3. The main areas for amendments to the Code for the 2015/16 include:
 - (a) IFRS 13 Fair Value Measurement and the Measurement of Property, Plant and Equipment;
 - (b) Narrow scope amendments to IFRSs;
 - (c) IFRIC 21 Levies;
 - (d) Changes to UK GAAP
 - (e) Other minor and drafting amendments; and
 - (f) Legislative changes.

¹ See link: <http://www.cipfa.org/policy-and-guidance/consultations-archive/201516-code-of-practice-invitation-to-comment>

IFRS 13 Fair Value Measurement and the Measurement of Property, Plant and Equipment

4. The Exposure Drafts on the 2015/16 Code included the full adoption of IFRS 13 in the Code². However, the 2015/16 Code does include specific provisions and the adaptation to the measurement requirements of IAS 16 Property, Plant and Equipment which are described in more detail below (see paragraphs 5 to 7) effectively takes operational property, plant and equipment outside the scope of the IFRS 13.

Approach to the adoption of IFRS 13 and the Measurement of Property, Plant and Equipment

5. In the Exposure Draft for the 2015/16 Code CIPFA/LASAAC proposed that in order to support the measurement objectives for local authority financial statements in the Code, property, plant and equipment used to support service delivery must be measured for its service potential at current value ie at an existing use value measurement. Where no market is in existence or where assets are specialised a Depreciated Replacement Cost (DRC) measurement would be needed in accordance with current measurement techniques.
6. This approach maintains much of the previous adaptation of IAS 16 *Property, Plant and Equipment* and the measurement requirements under the Code for these assets would not be subject to change. Therefore for property, plant and equipment providing the services of the authority these assets are not measured at fair value and are therefore outside of the scope of IFRS 13. There are no direct adaptations proposed to the adoption of IFRS 13 in the Code. Only surplus assets³ (which are not operational) will be measured at fair value.
7. In order to support this conceptual approach CIPFA/LASAAC decided to clarify the measurement bases used for the relevant classes of property, plant and equipment. All assets shown at their revalued amount will therefore reflect the economic environment prevailing for the service or function the asset is supporting at the reporting date. Section 4.1 of the Code defines this overarching concept as current value.
8. The majority of respondents to the consultation were very supportive of the overall approach to the adoption of IFRS 13 and the consequential conceptual approach to the measurement of property, plant and equipment was not subject to substantial change. There has been some augmentation to the drafting of the relevant provisions.

Surplus Assets (Property, Plant and Equipment)

9. A small number of respondents suggested that a decision making process should be added for assets that might be "temporarily" surplus. However, CIPFA/LASAAC was content with the current classification of Surplus Assets in the Code and considered that local authorities were used to taking appropriate decisions on classification.

IFRS 13 Fair Value Measurement Disclosures

10. A number of respondents raised the issue of the potential for the disclosures under IFRS 13 to be onerous and a risk that this might add to the detail within local

² An overview of the IFRS 13 Fair Value Measurement was included in the Appendices to the ITC this is available at <http://www.cipfa.org/-/media/Files/Policy%20and%20Guidance/Consultations/201516%20Sorp%20Consultation/ITC%20Appendix%20A.pdf>

³ Within the property, plant and equipment class of assets.

authority financial statements. CIPFA/LASAAC debated the impact on the disclosures in depth and considered that this was an issue where the principle of materiality would apply. It therefore added a specific paragraph on materiality to the IFRS 13 section on disclosures at 2.10.4 of the 2015/16 Code and augmented the Code's general provisions on materiality (see paragraph 24 below).

IAS 16 Property, Plant and Equipment Disclosures

11. The Code consultation considered the augmentation of the IAS 16 disclosures of property, plant and equipment to include the objectives of IFRS 13 disclosures ie to enable users to assess the inputs used for the measurements and the impact this might have on the financial statements of local authorities. However, following some of the key messages of the *Simplifying and Streamlining the Presentation of Local Authority Financial Statements* project and comments by some of the respondents CIPFA/LASAAC decided instead to require that local authority accounting policies on IAS 16 include relevant detail in relation to the valuation techniques used in measuring property, plant and equipment under current value

Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)

12. The amendments to IAS 19 *Employee Benefits (Defined Benefit Plans: Employee Contributions)* did not legally come into force until 12 January 2015 and this was after the effective date for adoption of new or amended standards in the 2015/16 Code ie 1 January 2015. The proposed amendments are therefore not included in the Code. However, as noted in the ITC on the 2015/16 Code CIPFA/LASAAC considers that the second option for the treatment of employee contributions in the amendments to the standard is consistent with the accounting treatment already used by local authorities.

Annual Improvements to IFRSs 2010 – 2012 Cycle

13. The amendments to the standards included in the Annual Improvements to IFRSs 2010 – 2012 Cycle did not come legally in to force until 12 January 2015 and this was after the effective date for adoption of new or amended standards in the 2015/16 Code ie 1 January 2015. The proposed amendments are therefore not included in the 2015/16 Code. The relevant amendments that were applicable to local authorities were those that related to:
 - IFRS 3 *Business Combinations* – Accounting for contingent consideration in a business combination;
 - IFRS 8 *Operating Segments* – Aggregation of operating segments;
 - IFRS 8 *Operating Segments* – Reconciliation of the total of the reportable segments' assets to the entity's assets;
 - IFRS 13 *Fair Value Measurement* – Short-term receivables and payables;
 - IAS 16 *Property, Plant and Equipment* – Revaluation method—proportionate restatement of accumulated depreciation;
 - IAS 24 *Related Party Disclosures* – Key management personnel; and
 - IAS 38 *Intangible Assets* – Revaluation method—proportionate restatement of accumulated amortisation.

Annual Improvement to IFRSs 2011 – 2013 Cycle

14. These amendments to IFRS were adopted by the European Union and therefore apply to the 2015/16 Code. However, there are no direct amendments to the Code as the transactions to which these amendments apply are not significant issues or frequent transactions for local authorities (see Appendix C to the ITC on the 2015/16 Code)⁴.

IFRIC 21 *Levies (ie levies imposed by governments)*⁵

15. In accordance with the consultation proposals section 8.2 of the Code includes appropriate reference to the application of IFRIC 21 *Levies (ie levies imposed by governments)* in the 2015/16 Code.

Changes to UK GAAP and Accounting for Value Added Tax, Heritage Assets and Pension Funds

16. There have been no substantial changes to the Code's requirements for Accounting for Value Added Tax, Heritage Assets and Pension Funds since the Exposure Draft of the Code.

Accounting for Schools in Local Authorities in England and Wales

17. There have been a number of minor augmentations of Appendix E to the 2015/16 Code following the changes in the Update to the 2014/15 Code. The Update of the 2014/15 Code included the addition of transitional arrangements. It is available to download: [Update to the 2014/15 Code](#). CIPFA/LASAAC has also issued Technical Issues Note 14 (01) [Informal Commentary and Clarification of the Relationship between Schools as Entities and the Recognition of Non-current Assets used by Schools](#).

Changes to Legislation

18. The 2015/16 Code has been updated for references to the Local Authority Accounts (Scotland) Regulations 2014. The most substantial of these changes were to chapter one (Introduction), chapter three (Financial Statements), chapter six (Employee Benefits) and Appendix B (Sources and Legislation).
19. The 2015/16 Code has also been updated for references to the Accounts and Audit (Wales) Regulations 2014. The most substantial of these changes are to chapter one (Introduction), chapter three (Financial Statements), and Appendix B (Sources and Legislation).
20. The new Self Financing regime for housing authorities in Wales also continues to progress. The Code has been updated with appropriate references to the Housing (Wales) Act 2014 (see footnote 11 on paragraph 3.5.3.1, d)).

Other Amendments

Frequency of Valuations of Property, Plant and Equipment

21. A number of respondents used the consultation to raise the issue of the frequency of valuations of local authority property, plant and equipment. This issue was raised by an audit body that supported the CIPFA view, a professional accounting firm and by a number of authorities that were concerned about differences of interpretation.

⁴ See link: <http://www.cipfa.org/-/media/Files/Policy%20and%20Guidance/Consultations/201516%20Sorp%20Consultation/ITC%20Appendix%20C.pdf>

⁵ "Government" refers to government, government agencies and similar bodies whether local, national or international.

CIPFA's view on the frequency of valuation issue has been included in the Technical Alert issued in March 2014, see link: <http://www.cipfa.org/-/media/Files/Policy%20and%20Guidance/Panels/Local%20Authority%20Accounting%20Panel/Technical%20Alert%20Frequency%20of%20Valuations%20for%20property%20plant%20and%20equipment.pdf>.

22. CIPFA's view on this issue has been augmented in the 2014/15 Code Guidance Notes. CIPFA does not consider that a short period in IAS 16 is drafted in such a way that a short period is expected to be within the reporting year. If the IASB had wanted to describe it as such it would have used the words "reporting period" instead of "short period". In addition, a rolling basis would not need to be referred to if the valuations had to take place within a financial year.
23. CIPFA/LASAAC decided that to avoid different interpretations of a "short period" and for the avoidance of doubt that the Code should interpret what a short period is for materially accurate valuations of property, plant and equipment ie that assets are measured once every five years provided the current value of the class of assets is materially accurate. However, this is not a change to the reporting requirements of the Code. A new interpretation has been included in the 2015/16 Code at paragraph 4.1.2.38.

Materiality

24. Following its early consideration of the issues raised in relation to the *Simplifying and Streamlining the Presentation of Local Authority Financial Statements* project CIPFA/LASAAC decided that it wanted to set out clearly in the Code what its views on materiality were and therefore the 2015/16 Code introduction includes a new section (1.6) on materiality that confirms the Code only requires local authority financial statements to disclose information which is material.

Disclosures to Support the Movement in Reserves Statement

25. As a part of the *Simplifying and Streamlining the Presentation of Local Authority Financial Statements* project CIPFA/LASAAC undertook a review of local authority financial statements. Two areas where substantial detail is provided in the disclosures are those which support the line adjustments between the accounting basis and the funding basis under regulations and transfers to or from earmarked reserves or other statutory reserves Scotland. CIPFA/LASAAC has therefore added clarification to encourage authorities to strike a balance between burdening financial statements with excessive detail that may not assist users of financial statements and to seek the appropriate level of aggregation for these disclosures in disclosure 3.4.2.40.

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.