CIPFA The Chartered Institute of Public Finance & Accountancy

report

Paper CL 11 03-19

Board	CIPFA/LASAAC
Venue	CIPFA Edinburgh, 160 Dundee Street, EH11 1DQ
Date	5 March 2019
Author	CIPFA Technical Managers as Secretariat
Subject	Code Development - 20/21 and Later

Purpose

To approve the issues that need to be considered for inclusion in the 2020/21 Code of Practice on Local Authority Accounting in the United Kingdom, and those affecting later years

1 Legislative Developments

England / Scotland / Wales / Northern Ireland - EU Withdrawal Legislation

1.1 Potentially legislation relating to EU Withdrawal arrangements may require consideration in the Code 20/21 (see also policy developments below).

England – Legislative Developments

1.2 The implementation of The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2018 (SI 2018/1207) requires to be reflected, particularly the statutory reserve required in respect of Pooled Investment Funds.

Wales - Legislative Developments

1.3 The Welsh Government are understood to be considering a similar regulation to the recent English regulation for mitigating the impact of fair value movements on pooled investment funds. The amendment regulations may be introduced in 19/20, however 20/21 introduction is possible.

Recommendation: CIPFA/LASAAC is requested to notify the secretariat of legislative developments that will affect the 20/21 Code.

2 Post Implementation Review Items

2.1 As a consequence of responses to post implementation reviews, CIPFA/LASAAC previously noted the intention to include the following items in the 20/21 Code consultation.

2.2 Pension Guarantees: It should be noted that NAO guidance for auditors in England (AGN 06/2018 paragraph 73 on) has indicated that pensions guarantees may, dependent on details, fall to be treated as a:

- Provision or contingent liability (IAS 37)
- Financial instrument / derivative (IFRS 9)
- Insurance Contract (IFRS 4)

The secretariat plan to report to the Board on options, including the extent to which application guidance relating to existing Code requirements may address the matter.

2.3 Service Concession Arrangements: As per the earlier paper on IFRS 16 Leases, the 20/21 Code consultation will need to include consideration of liability measurement as well as third party income assignment. Early determination by CIPFA/LASAAC of the lease liability measurement may be requested. The secretariat propose that a CIPFA/LASAAC working group is established to take this issue forward.

Recommendation: CIPFA/LASAAC is requested to approve, or amend, the proposal to:

- **The secretariat to investigate and report on pensions guarantees treatment**
- **Establish a working group for Service Concession Arrangements**

3 Policy and Other Developments

3.1 The Code 20/21 consultation process is anticipated to include relevant strategic plan items, or requests for information, relating to the achievement of the Board's vision statement.

EU Withdrawal

3.2 The impact of EU withdrawal on the accounting standards framework in the UK will require consideration.

3.3 If the UK exits from the European Union, it cannot directly use the EU adoption process. Current planning however is for the UK to follow the EU model, but based on UK factors and circumstances.

3.4 A draft statutory instrument [The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019] has been laid. Part 2 addresses 'Adoption of international accounting standards'.

3.5 The draft instrument includes the following provisions:

- Transition from current 'international standards' (EU adopted IFRS) to UK 'international standards' (UK adopted IFRS), on exit date
- Power of Secretary of State to adopt subsequent IFRS / amendments to IFRS and criteria and the process they must follow
- Power of Secretary of State to delegate the above power to adopt IFRSs

3.6 It is currently anticipated that the power will be delegated to lie in the remit of the FRC.

England - Policy Developments

3.7 The NAO is currently developing a new Code of Audit Practice. The secretariat plan to liaise with the NAO regarding any mutual issues identified.

3.8 The secretariat plan to liaise with governments and other stakeholders to ensure that relevant policy items are included in the ITC.

Recommendation: CIPFA/LASAAC is requested to approve, or amend, the proposal to:

- **Include strategic plan items in the 20/21 Code consultation**
- **Identify policy matters for inclusion in the code 20/21 consultation**

4 Financial Reporting Developments

Items already considered by C/L during 2019-20 (see Appendix 1)

4.1 Some IFRS standards and amendments were not implemented in the 2019-20 Code because they were not endorsed by 1 January 2019. Secretariat proposes that, with one exception, the 2019-20 development work is used in the 2020-21 Code, in line with comments in Appendix 1.

4.2 The exception relates to IAS 19 – Plan Amendment, Curtailment or Settlement. CIPFA/LASAAC will be aware that the secretariat requested additional, post consultation feedback from actuaries on potential implementation. Responses have now been very grateful and helpfully received. Key elements include:

a) Significant increase in actuarial work and therefore cost

b) Extended timescales for accounts closure

c) Larger authorities more likely to have frequent staff transfers

d) Many changes will not be material (one firm cited staff transfers are usually < 1% of employer's assets and liabilities) and would add little value to the data provided

e) Providing detailed evidence regarding the result of the transfer (impact in terms of changing all the figures) would not provide an appropriate cost-benefit balance

f) A proportionate approach is advocated

g) 'Restarting' calculations in the year should be avoided in most cases

h) Any investment by firms in significant new systems for LGPS measurements would be passed on to clients

4.3 The secretariat propose establishing a working group including actuaries, audit bodies, audit firms, and local authority stakeholders to develop proposals for inclusion in the 20/21 ITC.

LGPS Pensions SORP updates

4.4 A number of 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 third party. Details were reported to CIPFA/LASAAC on 29 November 2018 (paper CL 20 11 18). The table below provides a summary:

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
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.

Secretariat plan to develop amendments to the Code in line with the Pension SORP requirements. Relevant stakeholder engagement in drafting is anticipated.

New and amended IFRS effective in 2020-21 (See Appendix 2)

4.5 IFRS changes which are effective for the first time during in 2020-21 comprise three narrow scope amendments:

- IAS 1 and IAS 8 – amendments regarding the definition of material
- IFRS 3 amendments to clarify the definition of a business
- Amendments to references to the Conceptual Framework in the Standards

Secretariat plan to develop minor amendments to the Code in line with Appendix 2.

New IFRS not yet effective, or not yet EU endorsed (See Appendix 3)

4.6 There are two IFRS standards which have been issued, but where EU endorsement is not expected during 2020-21. For IFRS 14 *Regulatory Deferral Accounts* no amendments to the Code are proposed. The applicability of IFRS 17 *Insurance Contracts* to local government will require to be assessed. Co-operation and collaboration with HM Treasury on public sector application issues is planned.

IFRS standards and amendments under development (see Appendix 4)

4.7 There are three IFRS standards maintenance projects which are at an advanced stage, and where the next step will be to issue IFRS amendments. Secretariat plan to review the amendments once they are issued, but implementation in the 2020-21 Code is not anticipated.

IPSAS standards issued (see Appendix 5)

4.8 Two new IPSAS have been issued recently. IPSAS 41, Financial Instruments and IPSAS 42, Social Benefits. Secretariat plan to develop minor amendments to the Code in line with Appendix 5

Issue raised during 2019-20 Code consultation: Index Linked Bonds

4.9 As noted at the November 2018 meeting, some respondents to the ITC suggested that assistance should be provided in connection with accounting for Index Linked Bonds using IFRS 9. Secretariat will review this and consider whether this should be addressed either through Code material, or through other guidance. The view of the secretariat is that this matter relates to application of IFRS 9, and should not be progressed through the Code.

Recommendation: CIPFA/LASAAC is requested to approve, or amend, the proposed secretariat approach to reflecting financial reporting developments in the 2020-21 Code.

5 Forward Work Plan

5.1 The following table indicates the anticipated forward work plan of key projects.

Item	***Target Code Year***
Capital Accounting	Code 22/23
Group Accounts	Code 22/23
Charities Consolidation	Code 22/23
IFRS 13 Fair Value Measurement (Review)	Code 23/24
IFRS 9 Financial Instruments (Review)	Code 23/24
IFRS 15 Revenue From Contracts with Customers (Review)	Code 23/24
IPSAS 23 update - revenue – non exchange transactions (IPSAS 23 update)	Code 23/24
IPSASB – Revenue non exchange expenses (IPSASB project)	Code 24/25
IPSASB Heritage Asset (IPSASB Project)	Code 25/26

Recommendation: CIPFA/LASAAC is requested to approve, or amend, the proposals for the forward work plan.

New IFRS effective during 2019-20 not implemented in the 2019-20 Code

Pronouncement	**Comments on relevance**	**Proposed approach**
IFRS 16 *Leases*	Fully relevant. Text developed for 2019-20 Code but deferred to maintain consistency with WGA requirements.	Subject to CIPFA/LASAAC determination, publish early for application in 2020-21.

IFRS amendments effective during 2019-20 not implemented in the 2019-20 Code

Pronouncement	**Comments on relevance**	**Proposed approach**
IAS 12 amendment - income tax consequences of dividends (Annual Improvements 2015–2017 Cycle) *	Endorsement expected Q1 2019. Relevant. Consulted on in ITC for 2019-20 Code	Adopt in 2020-21 Code, subject to EU endorsement
Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement *	Endorsement expected Q1 2019 Relevant. Consulted on in ITC for 2019-20 Code	Incorporate in 2020-21 Code, subject to EU endorsement Working group and stakeholder engagement planned in drafting proposals.
IAS 23 amendments regarding borrowing costs eligible for capitalisation (Annual Improvements 2015–2017 Cycle) *	Endorsement expected Q1 2019 Relevant. Consulted on in ITC for 2019-20 Code	Adopt in 2020-21 Code, subject to EU endorsement
IAS 28 amendments regarding long-term investments in associates and joint ventures *	<u>Endorsed February 2019</u> Relevant. Consulted on in ITC for 2019-20 Code	Adopt in 2020-21 Code

APPENDIX 2

New and amended IFRS effective during 2020-21 (subject to EU endorsement)

Pronouncement	Comments on relevance	Proposed approach
IAS 1 and IAS 8 – amendments regarding the definition of material	Endorsement expected 2019 Fully relevant. The revised definition is aligned with the non-mandatory Practice Statement on materiality. It additionally explains that information is material if 'obscuring' that information could affect decisions. The revised definition is framed in terms of the effect on primary users rather than users generally, so Secretariat will review whether this is consistent with the Code interpretations in respect of users, and provide additional drafting if necessary	Review and if necessary revise definition in 2020-21 Code. Review other related text.
IFRS 3 amendments to clarify the definition of a business	Endorsement expected 2019 Fully relevant in theory for group accounts, but in practice unlikely to be relevant. The existing Code text does not engage with this issue directly, but suggest this is reviewed to confirm. Otherwise, the code should simply note the adoption of this amendment.	Review existing Code text to confirm not relevant.
Amendments to references to the Conceptual Framework in the Standards	Endorsement expected 2019 Fully relevant but in practice it refers to text within standards which is not generally reflected in the Code. The 2019-20 Code contains safeguarding text which refers generically to references to the Conceptual Framework within standards. This will be reviewed, and removed or amended if considered unnecessary after this amendment is passed.	Review existing Code text to confirm best approach.

APPENDIX 3

New IFRS not yet effective, or not yet EU endorsed

Pronouncement	**Comments on relevance**	**Proposed approach**
IFRS 14 *Regulatory Deferral Accounts*	Not EU adopted and not on the EFRAG agenda until further revision is carried out to produce a substantive IASB standard. Not particularly relevant to public sector because the relevant reporting is with regulated bodies which are outside the public sector. The current standard mainly allows IFRS adopters who have local standards to apply these. The standard is not consistent with the IFRS conceptual framework.	No action planned
IFRS 17 *Insurance Contracts*	Not EU adopted, and not expected to be adopted unless amended. IASB are progressing amendments which may secure adoption. This is not anticipated to have a wide impact for local government, however the potential for the standard to apply will require assessment. Co-operation and collaboration with a HM Treasury working group is anticipated.	Review position for 2021-22 Code

APPENDIX 4

IFRS standards and amendments under development

Project	**Next stage**	**Comments on relevance**	**Proposed approach**
Classification of Liabilities as Current or Non-current (Amendments to IAS 1 Presentation of Financial Statements)	IFRS amendment	Potentially relevant but possibly not of sufficient relevance to warrant text in the Code.	Review when issued.
Availability of a Refund (Amendments to IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)	IFRS amendment	Potentially relevant May require text in 2021-22 Code. IAS 19 Working group to be informed	Review when issued.
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	IFRS amendment	This looks into accounting for any proceeds from selling items produced while bringing PPE to the operating condition. Potentially relevant but probably not of sufficient relevance to warrant text in the Code.	Review when issued.

APPENDIX 5

IPSAS standards issued

Pronouncement	**Effective Date**	**Comments on relevance**	**Proposed approach**
IPSAS 41, Financial Instruments	01.01.2022	Relevant. Main Code treatment is based on IFRS 9, with which IPSAS 41 is consistent. Treatment for soft loans is informed by IPSAS considerations.	References to financial instruments IPSAS to be updated.
IPSAS 42, Social Benefits	01.01.2022	Relevant IPSAS 42 is not mandatory, and in any case, reinforces the acceptability of the 'due and payable' approach used in the UK. Other than signposting the new IPSAS, no changes are necessary to accommodate the new standard. However, when reviewing this, the drafting relating to social benefits was not fully clear. The current text implies that the Code has no accounting policies for accruing social benefits, when it would be more accurate to explain that the accounting policy is extremely simple	Minor revision to drafting on social benefits.