Appendix B – Detailed Analysis of Responses and Recommendations

For a copy of the comments made by respondents, on a question by question basis, open the embedded file to the right -→	

A1	**Materiality: Definition of Materiality**
Question 1.	Do you agree with the proposals for implementation of the 'Definition of Material: amendments to IAS 1 and IAS 8'? If not, why not? What alternatives would you suggest?
Reponses	Total (% of responses): 36, 86% Agree (% of views expressed): 34, 94% Disagree (% of views expressed): 2, 6% Ratio of Agree: Disagree: 17.0
Comments	Support: The proposal appears to have general support. It is anticipated to support clearer materiality assessment, and the exclusion of obscuring material.
Risk: **MEDIUM**	Based on dissenting comments it may be anticipated that, in some cases, differences in views regarding materiality will continue. This in particular may apply where materiality assessment is based predominantly on whether a quantitative threshold has been exceeded without specific reference to qualitative aspects. In Q3 one audit body noted a view that suggesting the voluntary inclusion of additional information is inconsistent with streamlining and clarity achievement. (Draft para 2.1.4.14C includes "Additional information may be disclosed where this does not obscure information which is material for users.")
Recommendation Q1	**That the proposals are implemented, subject to incorporating a suggested amendment to 'local authority' rather than 'reporting entity':** **"2.1.2.14 Materiality** – information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific ~~reporting entity~~ local authority. In other words,…."

A1	**Materiality: Disclosure of Assessment**			
Question 2.	Do you agree with the proposed requirement to disclose information concerning the assessment of materiality? If not, why not? What alternatives would you suggest?			
Reponses	Total	Agree	Disagree	Ratio of

	(% of responses) 36 86%	(% of views expressed) 24 67%	(% of views expressed) 12 33%	Agree: Disagree 2.0

Comments	The principle of disclosure appears to be generally supported. Significant dissenting comments indicate concerns about practical implementation. For example: • length of disclosure required • addressing qualitative judgements • differences in requirements between the Code and auditing standards • media criticism • increased use of FOI requests. The potential for reducing clarity for accounts users is also highlighted.
Risk: **HIGH**	That enforced implementation of disclosure results in less clarity, additional lengthy disclosures and increased difficulties for some authorities and auditors in reconciling Code and auditing standards requirements.
Recommendation Q2	**That the proposal is amended to implement the following text:** 3.4.2.88B An authority is encouraged, but is not required, to disclose the basis on which it has assessed materiality for the financial statements, including group financial statements where presented, and the users who were considered in doing so. In determining whether to make this disclosure: • The disclosure relates solely to the authority's assessment of materiality and users • The authority shall determine the extent of any disclosure, including whether to include quantitative criteria.

A1	**Materiality : Other Materiality Comments**
Question 3.	What comments or suggestions do you have concerning other potential specifications in the Code to support and promote the appropriate application of materiality?
Comments	Comments indicate the following considerations arise: • The perception of differences between the Code and auditing standards requirements regarding materiality assessment • The suggestion that materiality determination requires to be more significantly targeted (ie granular) for different aspects of authority accounts (eg PPE, pensions liability, CIES, reserves etc) • The role of the audit process in affecting materiality assessment by authorities

	• Concern that discussion of materiality may be regarded as undermining the perception of the independence of the audit process • The importance of qualitative factors in materiality assessment • The role of guidance rather than Code prescription • The cost of evidencing quantitative materiality assessment (eg establishing an evidence base to prove immateriality) • Some support for Code indication of which disclosures are commonly expected and which may be less common
Risk: **MEDIUM**	Comments suggest that significant further attention will be required regarding the application of materiality for the 21/22 Code and beyond. Action on disclosures for the 20/21 Code may provide an initial basis for discussion and direction.
Recommendation Q3	• **That the determination of amendment to 20/21 disclosure requirements (see section B) should include consideration of the above comments.** • **For the 21/22 Code, CIPFA/LASAAC should initiate stakeholder contact regarding the application of materiality by authorities and auditors to identify potential future Code requirements**

A2	**Disclosure Assessment: FReM Questions**			
Question 4.	Do you agree with the adoption of the proposed FReM disclosure assessment questions in the Code? If not, why not? What alternatives would you suggest?			
Reponses	Total (% of responses)	Agree (% of views expressed)	Disagree (% of views expressed)	Ratio of Agree: Disagree
	35 83%	27 77%	8 23%	3.4
Comments	The underlying principles and practical implementation of the proposals as presented do not appear to provide clarity to stakeholders. This applies regardless of whether support or dissent was expressed. Areas of comment include: • Suggestion that the questions are more relevant for CIPFA/LASAAC in developing the code than directly for preparers • Suggestion that the questions would be more appropriate as guidance rather than Code specification • Lack of clarity on whether the framework questions would apply to disclosures required under accounting standards • A need to provide clarity where a disclosure is a statutory requirement and thus the framework questions do not apply • Application of the cost/benefit assessment – both in terms of practice and evidencing, and the view that this assessment is explicitly not permitted under accounting standards as an exemption from disclosure • Cross- referencing to other sources is noted as not being in alignment with IFRS accounting requirements			

	• A lack of clarity as to whether, or why, the questions should only be applied to new disclosures • Suggestions that materiality should be included as a specific question in the framework • The potential for additional work to arise for authorities in demonstrating and evidencing that the framework questions have been applied as specified in the Code • Reference to 'annual accounts and financial statements' should just be 'annual accounts'
Risk: **HIGH**	While the principle of some framework assessment is supported the precise and practical application of this, and how the proposed questions align with the accounting requirements, is not agreed. This applies regardless of whether respondents were supportive or dissenting. There are consequentially considered to be risks arising from implementation as proposed. Amendment without further consultation and stakeholder engagement may also incur implementation risk. Consideration should also be given as to cross-referencing to WGA requirements since identification of these may also affect the eventual assessment framework. For English authorities the Redmond Review may also affect the extent to which some disclosures should be considered as mandatory compared to others which are subject to the accounting requirements.
Potential Options	Options for discussion include: A. Proceed to implement, potentially clarifying that: • The questions do not apply to statutorily required disclosures (this would require identification of these) • The questions apply to the annual accounts disclosures • The questions do not however allow exemption from accounting disclosures on the basis of cost benefit or publication elsewhere. • This could require identification of those disclosures to which they did apply. • Materiality should be considered • WGA requirements should be considered (and potentially identified in the Code) • The framework questions should apply to all disclosures, not just new disclosures. B. That with stakeholder engagement CIPFA/LASAAC develops a protocol for disclosure assessment, based on the questions and local government circumstances, to assist in identification for 21/22 disclosure requirements. • A protocol is not considered to be pragmatic to develop for 20/21 Code disclosures, however the responses to section B will inform 20/21 disclosure decisions. C. That CIPFA/LASAAC considers that the framework questions are more appropriately a matter for guidance rather than CIPFA/LASAAC consideration.

Recommendation Q4	**That the proposed text is not implemented in the 20/21 Code. With stakeholder engagement CIPFA/LASAAC is recommended to develop a protocol for disclosure assessment, based on the questions and local government circumstances, to assist in identification for 21/22 disclosure requirements.** **That the responses to this question and to section B will inform 20/21 disclosure decisions.**

A2	**Disclosure Assessment : Group Disclosures**
Question 5.	What suggestions for focus and improvement would you make regarding disclosures which may have specific relevance for group entities?
Comments	The following key aspects were noted: • Concern over the cost/benefit of group accounts presentation, particularly noting that group accounts are not considered to be of significant benefit to accounts users • It is suggested that a focus on the numerical aspects and values of group accounts detracts from an understanding of the different statutory and financial regimes of group entities. It is suggested that in many cases group accounts are not materially different from those of the single entity. Qualitative factors are proposed as being more significant. • Suggestions that cross referencing and hyper-links to group entity accounts would be helpful, and may reduce the extent of disclosures required in local government accounts • Suggestions that improved disclosures, both narrative and quantitative, in the single entity accounts would be more helpful and informative to readers than group accounts presentation • More transparency regarding pension guarantees, and other intra group transactions is suggested • The use of a 'dual column' approach, rather than separate group statements, is suggested Additionally the impact on Whole of Government Accounts processes and completion will require assessment.
Risk: MEDIUM	Risks are considered to arise from implementing amendments without more specific proposals for stakeholder engagement. Proceeding to target 21/22 for changes will allow for this engagement.
Recommendation Q5	**That no specific amendments for 20/21 are implemented. For the 21/22 Code the stakeholder feedback from the responses above, the stakeholder survey, the discussion papers, and other engagement activities should be considered.** **That discussion of any amendments to disclosure requirements in 20/21 should recognise the potential impact on group accounts disclosures.**

A2	Disclosure Assessment: Prior Period Disclosures
Question 6.	Do you agree with the adoption of the proposed FReM disclosure assessment questions in the Code? If not, why not? What alternatives would you suggest?
Reponses	<table><tr><td>Total (% of responses) 32 76%</td><td>Agree (% of views expressed) 29 91%</td><td>Disagree (% of views expressed) 3 9%</td><td>Ratio of Agree: Disagree 9.7</td></tr></table>
Comments	The underlying principles and practical implementation of the proposals as presented do not appear to provide clarity to all stakeholders. The following aspects were noted in the comments made: • The Code proposed text does not provide the clarity expressed in the ITC that the allowance relates only to narrative information. • The proposed text does not recognise that more prior period information may be required in some circumstances. • Some respondents considered that particular notes would benefit from non-inclusion of full prior period numerical data. Examples included PP&E note and statutory adjustments. • Dissenters to the proposal noted that there was little benefit in adding the specification if it did not extend to numerical data. • One respondent suggested that the requirements should be adapted to specifically permit non-inclusion of prior period numerical data where it is not material. • A small number of respondents referred to prior period adjustment requirements. Implementation of the proposed text, without amendment, is therefore not considered appropriate, and would involve significant implementation risk. From the above it is suggested that the clarification agenda, and vision achievement, will be most effectively supported by CIPFA/LASAAC decisions regarding the requirements for disclosures in the reporting year (ie by focused on which disclosures are most helpful in and of themselves, rather than focusing on specification concerning specific years). This will, by its nature, directly affect the requirement for a prior year comparative.
Risk: **HIGH**	Responses indicate that stakeholder expectations may differ, and that consequently there is significant implementation risk.
Potential Options	Key options for CIPFA/LASAAC include: A. Withdrawing the proposal altogether. • As noted by dissenters this may be an option with minimal impact in practice. The proposal was however supported by a significant majority and withdrawal may be seen as a retrograde step. • Reliance could be placed on guidance to support application of Materiality Practice Statement 2.

	B. Amending the proposed text to clarify that it does not extend to numerical data and that additional narrative may sometimes be required. • This would be in alignment with some comments, however other respondents may consider it does not fulfil their perception of the original proposal. C. Amending the proposed text to allow a specific adaptation, potentially restricted to specific disclosures, that some prior period numerical data may be omitted where specific criteria are met. • Specific disclosures where consideration may be given for this could include PP&E disclosures. • Supporting a limited and restricted adaptation, subject to discussion with FRAB, may be regarded as progress towards vision statement achievement and reducing complexity for users.
Recommendation Q4	**Dependent on CIPFA/LASAAC direction draft text for options B and C are** **OPTION B:** Clearer specification 3.4.2.27C A local authority makes materiality judgements on the complete set of financial statements, including prior-period information provided in the financial statement[1]. To aid an understanding of the current period financial statements this may require less, or more, prior period information than was included in the previous period financial statements. A local authority may summarise non-numerical prior period narrative and descriptive information[2], subject to the need to retain the information necessary for users to understand the current period financial statements. 1.As indicated in IFRS Practice Statement 2: Making Materiality Judgements (IFRS Foundation, September 2017) paragraph 66, with more explanation in paragraphs 67-71. 2.The requirements of IAS 1 *Presentation of Financial Statements* paragraph 38 anticipate that, subject to the requirements of IFRS standards an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period. **OPTION C:** Potential restricted adaptation to allow exemption from providing detailed prior period information for Property, Plant & Equipment. NEW Additional sub-para: 4.1.4.3 2). "In applying paragraph 4.1.4.3 1) the following adaptation of IAS 16 *Property, Plant and Equipment* applies: • where the prior period information has not been restated and analysis by class of prior-period information is not considered material for users the prior period data for property, plant and equipment required in 4.1.4.3 1) d) and e) may be provided in

	aggregate for property, plant & equipment rather than for each class of property, plant and equipment." *[Note: Other areas where some respondents suggested aggregation of prior-period included: MiRS statement / statutory adjustments details, reserves. These are not currently included. CIPFA/LASAAC may wish to consider whether vision statement achievement would support identification of other areas for adaptation.* *Note: **this would require FRAB consideration**.]*

B2	**CAPITAL DISCLOSURES: QUESTIONS 7,8,9**
Comments	User Needs: Comments related to: • Support for the importance of PPE information for authority accounts • Appropriate application of materiality and professional judgement to avoid obscuring material information is vital • Many respondents noted the level of detail provided in the main PPE table as excessive, generally with a preference to provide a Net Book Value based analysis. • Valuation and IFRS 13 (FV measurement) disclosures being excessive and unhelpful • Importance of clarity of disclosures regarding capital funding, REFCUS items and reconciliation / movement in the CFR and external borrowing. • Questioning of the relevance of current value, and the emphasis on the accuracy of estimation, given that operational assets are not expected to be realised in cash terms and the statutory framework removes many entries from the general fund • Importance of clarity and transparency regarding investments eg revenue generation / invest to save schemes. • Consistency of application of capital grants treatments • Issues with the 5-year rolling programme requirement not being effective at preventing interim valuations • One respondent challenged why HNA (infrastructure asset) is not carried at current value • One respondent suggested heritage assets should not be recoded on the balance sheet Resource Implications: Comments related to: • A significant number of respondents highlighted the importance of focusing resources on the statutory arrangements for capital transactions (including REFCUS, CFR & funding). • Reduced disclosures would assist in saving resources, but underlying accounting records would still be required. • Evidencing non-materiality in order to exclude disclosures can also be onerous. • Flexibility relating to local authority judgements on non-statutory (& non WGA) items was suggested. • In particular the cost-benefit of IFRS 13 disclosures and valuation disclosures was questioned.

	• The cost of valuations, and evidencing the appropriateness of valuations as at the balance sheet date, was noted as a critical issue. • Ensuring alignment with statutory returns / WGA is important Adaptations and interpretations: Comments related to: • Adaptation to support a simpler 'net book value' PPE table was advocated by a number of respondents • Some respondents highlighted CIPFA/LASAAC's role in making appropriate adaptations etc • One respondent suggested potential adaptation of IFRS to minimise or remove the need for statutory adjustments • Code support for broader measures of materiality for property items was suggested • Flexibility relating to local authority judgements on non-statutory disclosures was suggested. • The impact of ISA 540 may mean more focus on assessing the appropriateness of reporting concerning key estimates. • A move towards requiring historic cost measurement for PPE was suggested • An indication of commonly expected disclosures, and those which would be 'by exception', was suggested. • Additional disclosures related to REFCUS, capital funding and CFR items could be considered. • Clearer allowance in the Code for reliance on a 5 year rolling programme, and for use of interim valuations (eg non 31 March valuations) was suggested.
Risk: **HIGH**	A number of risks arise in achieving appropriate balance of disclosures, primarily relating to achieving: • A clear reduction in disclosure length & complexity for 20/21 • Continued alignment to support WGA • Ensuring that resource requirements do not increase • Ensuring that group accounts

Potential Options	The responses highlight a number of key issues. For vision achievement purposes CIPFA/LASAAC will wish to identify actions for 20/21 separately from those for 21/22.
	
	For 20/21 CIPFA/LASAAC may consider:
	
	• Indicating that some disclosures are expected to be summarised, unless by exception there is a clearly evidenced user need for more detail to be provided. This may most specifically relate to:
	  o IFRS 13 Fair Value Measurement disclosures related to surplus assets (see 4.1.4.5, section 2.10)
	  o Valuation disclosures 4.1.4.3 4)
	• Permitting, but not requiring, that authorities may optionally present a simplified 'Net Book Value' based PPE table instead of that required by 4.1.4.3 d) and e) where:
	  o It is considered that user needs will not be disadvantaged by the presentation of a simpler table
	  o It is understood that the underlying accounting records for the full table will be required to enable compliance with WGA requirements

	For 21/22 CIPFA/LASAAC is recommended to consider: • A review of the 5 year rolling programme practical application, including the potential to specify reliance on interim indexation arrangements • The presentation of statutory capital expenditure information (REFCUS, CFR, funding) either as part of a capital expenditure note or as part of a 'use of public resources' section • The potential for clearer Code support for appropriate pragmatic materiality judgements in local government accounts

Recommendation Q7,8,9	**For 20/21 CIPFA/LASAAC may consider:**
	
	A. Indicating that some disclosures are expected to be reported by exception or in summary, unless there is a clearly evidenced user need for more detail to be provided. This may most specifically relate to:
	  ○ 4.1.4.3 4): Disclosure of valuation information (eg date, methods & assumptions etc)
	  ○ 4.1.4.5 – Application of IFRS 13 Fair Value Measurement disclosures related to surplus assets (see 2.10.4.1
	  ○ Section 4.4 (Investment Property) – however the extent of, and public interest in, commercial property investments may affect the assessment of materiality for some authorities
	
	Potential implementation text:
	
	""4.1.4.3 4) "If items of property, plant and equipment are stated at revalued amounts, <u>the following are expected to be reported by exception or in summary, unless there is a clearly evidenced user need for more detail to be provided</u>…."
	
	"4.1.4.5"…. However, as surplus assets are measured at fair value, the disclosures in Section 2.10 will apply to surplus assets, where relevant, and subject to the materiality judgements of the authority. <u>They are expected to be reported by exception or in summary, unless there is a clearly evidenced user need for more detail to be provided."</u>
	
	B. Permitting, but not requiring, that authorities may optionally present a simplified 'Net Book Value' based PPE table instead of that required by 4.1.4.3 d) and e) where:
	  a. The local authority considers that user needs will not be disadvantaged by the presentation of a simpler table
	  b. The local authority is satisfied that the underlying accounting records for the full table are available to enable compliance with WGA requirements and other statutory returns.
	
	NEW: "4.4.4.2B As investment property is measured at fair value, the disclosures in Section 2.10 will apply to surplus assets, where relevant, and subject to the materiality judgements of the authority.

	They are expected to be reported by exception or in summary, unless there is a clearly evidenced user need for more detail to be provided." **The optional PPE table could be specified to provide, for each class of asset:** **Opening Net Book Value** Additions and Donations Depreciation Charge to SDPS for the year Impairment and revaluation losses charged to SDPS Other Revaluation Reserve Changes Reclassifications to other asset categories Derecognitions Other Changes **Net Book Value Change in Year** **Closing Net Book Value** **NOTES:** • Detailed text has not been drafted pending CIPFA/LASAAC consideration and further direction • **CIPFA/LASAAC discussion with FRAB regarding the above would be required.** • Consideration may also be given to the implications for comparability and trend analysis by some accounts users. • Any 'disclosures by exception' identified may still however be potentially relevant for group accounts **For 21/22 CIPFA/LASAAC is recommended to consider:** • A review of the 5 year rolling programme practical application, including the potential to specify reliance on interim indexation arrangements for some asset classes • The presentation of statutory capital expenditure information (REFCUS, CFR, funding) either as part of a capital expenditure note or as part of a 'use of public resources' section • The potential for clearer Code support for appropriate pragmatic materiality judgements in local government accounts

B3	**PENSIONS DISCLOSURES: QUESTIONS 10,11,12**
Comments	User Needs: Comments related to: • The fact that IAS 19 based assumptions do not reflect the actual expected future funding required from the council

	• The fact that pension liability values do not directly affect General Fund balances, being charged to the Pensions Reserve • The potential to use the funding valuation as a basis for annual accounts figures instead of IAS 19 • The lack of relevance of IAS 19 figures, and especially detailed valuation, fund asset analysis, sensitivity analysis and actuarial funding assumption disclosures, to most users of the accounts • The volatility of pensions liabilities • The suggestion that the level of detail provided obscures key information for accounts users • Suggestion that disclosures could be reduced with linkage to the LGPS fund accounts Resource Implications: Comments related to: • The cost of commissioning actuarial reports, and the resource implications of requiring updated reports due to late issues (eg McCloud case) affecting liability assessment. • The staff time in providing information to actuaries to support calculations • Audit costs arising from changes (eg McCloud case) • Preference for staff time and resources to be utilised for other areas of the accounts or other tasks • The importance of alignment with WGA and other statutory returns • The assessment of materiality (eg in relation to McCloud) being driven purely by quantitative figures rather than qualitative considerations or user interests. [see earlier questions regarding application of materiality] Adaptations and interpretations: Comments related to: • A statement from one audit body that "there is merit in adapting IAS 19 to dispense with the annual assessment by actuaries" • A significant number of respondents commented that disclosures should be substantially reduced, especially in relation to detailed valuation, fund asset analysis, sensitivity analysis and actuarial funding assumption disclosures, for most users of the accounts. • A number of respondents also commented that disclosures could be reduced with linkage to the LGPS fund accounts • An audit firm noted that the implementation of ISA 540 may increase the audit focus on "the appropriateness of management reporting concerning key messages" • An audit body supported adaptation and interpretation to reduce disclosures, specifically many narrative elements.
Factors for CIPFA/ LASAAC Review	• Providing an indication of reporting by exception or in summary unless materiality assessment indicates otherwise could support the provision of WGA compliant information, without necessitating additional detail. • Emphasis in guidance may support the application of the principles of IAS 19 disclosures in 6.3.4.42 1)-4) are applied to provide suitable narrative and other disclosures for the needs of accounts users, where the remaining disclosures do not sufficiently achieve this.

	• It should be noted that 6.3.4.42 6) and 7) [opening to closing balance reconciliation for plan assets and PV of the obligation] are required for WGA data completion. Retention in the accounts is proposed to support this. This explicitly involves audit of the relevant data using a materiality level relevant for the authority. • Complete removal of disclosures may be considered, however some of the disclosure requirements which may not normally affect the single entity may potentially be relevant for group accounts (eg where statutory reversals do not apply and/or the scheme involved is not a public sector scheme)
Risk: **HIGH**	A number of risks arise in achieving appropriate balance of disclosures, primarily relating to achieving: • A clear reduction in disclosure length & complexity for 20/21 • Continued alignment to support WGA • Ensuring that resource requirements do not increase • Ensuring that group accounts and/or complex arrangements are disclosed
Recommendation Q10, 11,12	**That for 20/21 the Code identifies that the following disclosures should only be provided by exception or in summary, unless there is a clearly evidenced user need for more detail to be provided (all sub-paragraphs of 6.4.3.42):** ○ 8) disaggregation of fair value of plan assets *[Note: WGA returns require a basic split: Equities / Bonds/ Other – analysis of other requested]* ○ 9) fair value of authority's transferable financial instruments held as plan assets / property plan assets used by the authority ○ 10) the significant actuarial assumptions used *[Note: WGA returns require a basic statement of: rate of increase in salaries / rate of increases in pensions in payment / inflation assumption]* ○ 11) sensitivity analysis of assumptions ○ 12) asset matching strategies used to manage risk Potential implementation text: "6.4.3.42B The disclosures specified in 6.4.3.42 8), 9), 10), 11), and 12) are expected to be reported by exception or in summary, unless there is a clearly evidenced user need for more detail to be provided." **That for 21/22 stakeholder engagement is undertaken regarding WGA disclosure and measurement requirements, noting that pension liabilities are a significant element in WGA accounts.**

B4	FINANCIAL INSTRUMENT DISCLOSURES: QUESTIONS 13,14,15
Comments	User Needs: Comments related to: • Views that the requirements are appropriate as long as they are implemented with user needs and materiality in consideration. An appropriate balance (per 7.3.1.4) of detail should be provided. • Indications that the level of detail provided in accounts is often excessive and not conducive to achieving clarity for users (eg immaterial information is included and/or a 'boiler-plate' approach is adopted) • That existing disclosures do not always identify critical aspects or instruments (eg LOBOs) • That the fair value hierarchy disclosures are not helpful to users • That fair value disclosures (eg for PWLB or PFI liabilities) are not helpful. • That the categories of financial instrument (eg amortised cost, FVOCI, FVPL) do not add value. The term amortised cost may be unclear to some users. • That disclosures relating to FV valuation techniques, FVOCI designations; and extended risk disclosures do not add value to users. • That more specific linkage to WGA requirements would be helpful. • That the financial instrument risks faced by local government bodies are different to those faced by private sector bodies. • That a focus could be placed on the FI risks affecting the authority. • That some financial instruments (eg investments in companies) are undertaken for direct service delivery purposes, not commercial returns, and that this could be more clearly identified in disclosures. • That the requirements relating to 'offsetting' financial assets and liabilities do not apply for local government (although see responses to Q32) • That disclosures could be improved to more clearly relate to the CFR (eg FIs supported by capital borrowing). Resource Implications: Comments related to: • A need to target resources towards disclosures that were most relevant and useful for users • Views that the staff time and expertise required creates challenges • PWLB fair value provision is onerous • Expected credit loss assessment can be onerous, even to support the view that the amount is immaterial • The requirement to split debtors/creditors between FI and non-FI items is time consuming. • Signposting to existing Treasury Management reports could help to reduce detailed disclosures • The role of CIPFA/LASAAC in appropriately adapting or interpreting requirements for local government application • Suggestions that the classification of FIs can be resource intensive • Disclosures may require external support to be purchased (eg from Treasury Managers) • Extensive audit queries are time consuming for audit and authority staff

	• Views that the narrative elements of many FI disclosures are excessive
	
	Adaptations and interpretations: Comments related to:
	
	• Suggestion to replace the following by referencing the requirement to follow the IFRS standards where these situations arise (ie inclusion in 7.3.1.6-7.3.1.7):
	    o Soft loan disclosures relating to reconciliation (7.3.2.3 a), and valuation assumptions (7.3.2.3 d).
	    o 'offsetting' disclosures (7.3.2.8)
	    o disclosures of defaults and breaches (7.3.2.11 and 7.3.2.12)
	    o Valuation disclosure requirements where FV is not based on an active market or observable market data (7.3.2.19)
	    o Information disclosures where the FV of a discretionary participation feature cannot be reliably measured (7.3.2.21)
	    o Asset transfers eg where not derecognised or there is continuing involvement (7.3.4.1)
	
	• Suggestion that IFRS recognition and measurement could be adapted to remove the requirement for statutory adjustments.
	• Views that extensive disclosures should be reduced, for example lengthy risk disclosures which are not required or relevant for users, and valuation descriptions. Specific adaptation and interpretation of risk disclosure requirements was suggested.
	• Suggestion to remove disclosures relating to FV valuation techniques (7.3.2.16-21), listings of investments in equity designated as FVOCI (7.3.2.5-6), nature and extent of risks (7.3.3.1-5).
	• Request for reconsideration of the requirement to treat some items as FVPL on the basis that the statutory override expires in 5 years
	• Removal of requirement to disclose FV for amortised cost / fixed rate loans (eg PWLB)
	• A number of requests that investments for direct service delivery purposes are more explicitly and specifically differentiated from those made for commercial investment returns
	• A suggestion that details relating to FI asset classifications (amortised cost, FVOCI, FVPL) are unnecessary.

Factors for CIPFA/ LASAAC Review	• There is general consensus that the existing application of the current Code requirements is not appropriate for user needs. • Comments indicate that, to some extent, it is the perception of Code 'requirements' rather than recognition of the Code allowance for 'application of judgement' which is a key factor in behaviours • There is a need to ensure that complex and significant FI aspects are reported to support transparency, scrutiny, good governance, risk management awareness and known public interest areas. • There is a need to ensure that Code requirements are also relevant and suitable for group accounts, where group entities

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may have FIs which are more complex than local authorities, involve more risk and which operate within a different statutory framework.

• It may be noted that while local authorities may be perceived to have lower FI risk exposure, this does not mean 'no risk'. BCCI and Icelandic banks are historic examples of liquidity & security risk exposure. LOBOs and use of derivatives are examples of market based FI risks.

• There is therefore a risk in direct elimination of some requirements which would not reflect key or significant FI aspects affecting an authority or group eg use of LOBOs, liquidity and security risks, exposure to market rate changes and use of complex financial instruments.

• WGA requirements include:

o Detailed tables re income, expense, gains & losses
o Fair value disclosures (eg FV of long-term liabilities)

o risk disclosures are generally driven by what an authority has needed to disclose in its accounts (eg it asks 'did you need to disclose Credit Risk as a material risk', similar for liquidity risk and interest rate risk.)

▪ Where a 'yes' answer is given detailed tables are required to be completed

o The form also requires an indication of whether (if total assets or liabilities were > £50m) the following have arisen:
▪ Reclassifications; non-derecognition transfers; collateral held; Impairments (where carrying amount not reduced); defaults; breaches; non-borrowing / creditors etc liabilities > £50m (eg financial guarantees; derivative liabilities)
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<tr><td>Risk:
HIGH</td><td>
A number of risks arise in achieving appropriate balance of disclosures, primarily relating to achieving:
• A clear reduction in disclosure length & complexity for 20/21
• Continued alignment to support WGA
• Ensuring that resource requirements do not increase
• Ensuring that group accounts and/or complex arrangements are disclosed
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<tr><td>Recommendation
Q13, 14,15</td><td>
That for 20/21 the Code identifies that the following disclosures should only be provided by exception or in summary, unless there is a clearly evidenced user need for more detail to be provided. The following are suggested as the primary areas for this to apply, with a particular aim of reducing non-WGA relevant disclosures:

o 7.3.2.3 – Soft Loans – opening & closing reconciliation; nominal value; purpose & type; valuation assumptions
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	- 7.3.3.11-12 – credit risk management practices explanation; inputs, assumptions & estimations - 7.3.3.21 b) description of management of liquidity risk - 7.3.3.22 b) and c) market risk methods & assumptions used for sensitivity analysis, and changes from prior year Example potential implementation text: "7.3.2.3 Where an authority separately discloses the carrying amount of soft loans granted by the authority, the following will be disclosed by exception or in summary, unless there is a clearly evidenced user need for more detail to be provided….." **That for 21/22 liaison with the HMT WGA Team seeks to establish further scope for refinement of numerical requirements appropriate for local government annual accounts.**

B5	**CASH FLOW DISCLOSURES: QUESTIONS 16,17,18**
Comments	User Needs: Comments related to: • A significant number of respondents indicated that current requirements were appropriate • A lower profile and relevance of cash flow statement information for stakeholders was commented on. • A suggestion that the cash flow statement could be removed as a requirement • A suggestion that to reduce the need for the additional disclosures detail lines could be included on the face of the statement • The usefulness of the financing liabilities changes disclosure for accounts users was queried by one respondent • Additional narrative for users may be helpful Resource Implications: Comments related to: • A significant number of respondents indicated that resource implications were not regarded as significant • CIPFA/LASAAC's role in specifying adaptations and interpretations • One respondent indicated that resources could be more appropriately focused to other areas of the statements • Concerns were expressed in the event that additional disclosures may be required Adaptations and interpretations: Comments related to: • A significant number of respondents indicated that no further adaptation or interpretation was necessary • Two respondents indicated that the cash flow statement could be considered for removal as a requirement • One respondent indicated the financing liabilities changes disclosure could be removed, with reference to TM reports

Factors for CIPFA/ LASAAC Review	• WGA returns do not currently require significant cash flow information from either the Cash Flow Statement or the related disclosure notes • It appears that the WGA cash statement is established through more centrally held data and potentially through adjustments for balance sheet movements • The WGA PPE note requires an indication of cash flows on purchases and cash flows from sales, as well as cash holdings in current bank accounts; cash held by the authority; and short term deposits. • The WGA publication itself includes a cash flow statement, with a number of detail lines within each section, and a single additional disclosure providing an analysis of cash and cash equivalents. • In Q32 respondents have raised a suggestion relating to the identification of cash & cash equivalents
Risk: Low	Responses indicate that while views may differ, cash flow statement disclosures are not the highest priority of attention for most users. Some action to reduce or ensure appropriate application may be considered.
Recommendation Q16, 17,18	**That no specific amendments for 20/21 are implemented.**

C2	**IAS 19 Amendments: Plan Curtailments etc**			
Question 19.	Do you agree with the proposal to emphasise the application of materiality and the support for this by providing direction regarding an initial assessment of quantitative materiality?			
Reponses	Total (% of responses)	Agree (% of views expressed)	Disagree (% of views expressed)	Ratio of Agree: Disagree (:1)
	32 76%	29 91%	3 9%	9.7
Comments	Comments in support: • Many responses supported the proposal however a number expressed concern regarding the extent of evidence which may be required • The consequences of audit process challenge to a 'proxy' assessment, particularly the additional delay, costs arising and complexity of disclosures required in the accounts, was highlighted. Dissenting comments: • Two respondents noted that specifically highlighting materiality application in this case could undermine the overall expectation that authorities should apply materiality judgement to all treatments and disclosures			

	• One respondent specifically stated that the application of materiality assessment is an authority responsibility and this judgement should be left with each authority. • One respondent suggested that actuarial reports could be expected to include all the information required by an authority to comply with the code requirements
Factors for CIPFA/ LASAAC Review	• Where an in-year amendment etc is not considered to be material it is not considered that WGA issues arise. • The responses indicate general support for the proposals, however concerns are raised regarding the practices and behaviours that will arise. Some respondents indicated that additional guidance (for both auditors and preparers) may be helpful.
Risk: **MEDIUM**	Implementation behaviours may, especially in the first year, give rise to some discussion and consistency concerns. It is suggested however that failure to implement as proposed will increase the risk of higher resource requirements and work to evidence materiality.
Recommendation Q19	**That the proposal is implemented.**

C3	**IFRS 3 Definition of a Business**			
Question 20.	Do you agree with the proposals that no substantive amendments are required for implementation of 'Definition of a Business: Amendments to IFRS 3'?			
Reponses	Total (% of responses) 30 71%	Agree (% of views expressed) 30 100%	Disagree (% of views expressed) 0 0%	Ratio of Agree: Disagree (:1) N/A
Comments	The proposals were generally supported. One respondent noted that illustrative guidance would be of assistance.			
Risk: **Low**				
Recommendation Q20	**That the proposal is implemented.**			

C4	**Amendments to Conceptual Framework**			
Question 21.	Do you agree with the proposals for implementation of 'Amendments to References to the Conceptual Framework in IFRS Standards'?			
Reponses	Total (% of responses) 30 71%	Agree (% of views expressed) 30 100%	Disagree (% of views expressed) 0 0%	Ratio of Agree: Disagree (:1) N/A

Comments	The proposals were generally supported.
Risk: **Low**	
Recommendation Q21	**That the proposal is implemented.**

C5	**Provisions for UK withdrawal from the EU**
Question 22.	Do you agree with the proposals in the event of UK Withdrawal from the European Union? If not, why not? What alternatives would you suggest?
Reponses	Total (% of responses): 30, 71% · Agree (% of views expressed): 30, 100% · Disagree (% of views expressed): 0, 0% · Ratio of Agree: Disagree (:1): N/A
Comments	The proposals were generally supported with an audit body noting that: "the footnote is inconsistent as it states that after EU withdrawal the Code will 'apply' UK-adopted IFRS. To avoid giving the impression that this represents a change in approach, we suggest that the footnote also uses the words 'based on'".
Risk: **Low**	
Recommendation Q22	**That the proposal is implemented, with the suggested amendment incorporated to refer to 'based on' rather than ' apply'. i.e** "In the event of the UK withdrawing from the remit of the EU-endorsement framework, the Code will ~~apply~~ be based on standards adopted for UK application under the terms of The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 (SI 2019/685).

Total (% of responses)	Agree (% of views expressed)	Disagree (% of views expressed)	Ratio of Agree: Disagree (:1)
30	30	0	N/A
71%	100%	0%	

C6	**IPSAS 41 and 42**
Question 23.	Do you agree with the intention not to amend the 20/21 Code in relation to IPSAS 41 Financial Instruments and IPSAS 42 Social Benefits??
Reponses	

Total (% of responses)	Agree (% of views expressed)	Disagree (% of views expressed)	Ratio of Agree: Disagree (:1)
32	32	0	N/A
76%	100%	0%	

Comments	The proposals were generally supported.
Risk: **Low**	
Recommendation Q23	**That the proposal is implemented.**

C7	**Pension Fund Accounts: Pensions SORP Alignment**
Question 24.	Do you support the proposed amendments to ensure alignment with the Pensions SORP, and the expectation of prior period restatement where material?
Reponses	Total (% of responses): 21 (50%) Agree (% of views expressed): 18 (86%) Disagree (% of views expressed): 3 (14%) Ratio of Agree: Disagree (:1): 6.0
Comments	The proposal is generally supported with some comments that it would be hoped or anticipated that prior period restatement would not be required. Dissenting comments (the same comments from three respondents) indicating : "We are not in favour of the requirement to analyse pooled investment vehicles into various types of subcategories (such as equities, hedge funds, diversified growth funds etc) as it creates a distinction between investments that would all be most easily understood as pooled investment vehicles to the principal users of the accounts."
Factors for CIPFA/ LASAAC Review	The proposals do not introduce additional analysis requirements, rather they replace the existing analysis requirements. The specific nature and potential readership of LGPS accounts, including governments and Scheme Advisory Boards, may affect CIPFA/LASAAC consideration of whether a reduction in detail of investments supports, and is in alignment with, the vision statement.
Risk: **Low**	
Recommendation Q24	**That the proposal is implemented.**

D1	**Legislation Amendments**
Question 25.	Do you support the proposed amendments to ensure alignment with the Pensions SORP, and the expectation of prior period restatement where material?
Reponses	Total Agree Disagree Ratio of

<table>
<tr><td></td><td>(% of responses)
31
74%</td><td>(% of views expressed)
27
87%</td><td>(% of views expressed)
4
13%</td><td>Agree: Disagree (:1)
6.8</td></tr>
<tr><td>Comments</td><td colspan="4">Respondents kindly provided welcome suggestions regarding the proposed draft text:

A. England: 3.4.2.56 [pooled investment funds] “remove the words “or allowed” since the regulation is mandatory not optional.”

B. England: 7.1.9.3B [pooled investment funds] “remove the words “impairment losses and” since the regulation only applies to assets measured at fair value through profit and loss, to which the impairment provisions of IFRS 9 do not apply “

C. Wales 7.1.9.3 [share and loan capital] after “England” add “and Wales” and after Northern Ireland remove “and Wales” to reflect the changes in the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2018.

D. Scotland: The Code should also be amended to reflect the LASAAC mandatory guidance on “IFRS 9 Financial Instruments – Earmarking of gains not available to fund services”.

E. Scotland: 3.4.5.1: 5) The requirement of the statutory guidance is to disclose the amount of capital receipts transferred to the capital grants and receipts unapplied account. This may be different to the amount used to fund qualifying expenditure in any year. We suggest that references to ‘use’ are replaced with ‘transfers’.

F. Scotland 3.4.5.1 5) ii) – The statutory guidance requires separate disclosure of a transfer of capital receipts in a prior financial year. We suggest replacing the words ‘any other stated’ with ‘a prior’.

G. Scotland 3.4.5.1 5), 6) and 7) – These paragraphs refer to ‘transactions’ in the movement in reserves statement. That terminology is not appropriate for the movement in reserves statements. We suggest replacing ‘transactions’ with ‘items’.

H. Scotland 3.4.5.1 7) i There is a typo in this paragraph – ‘equaly’ should be ‘equal’

I. Scotland 3.4.5.1 9) The words in brackets i.e (Scotland only) are superfluous given that the sentence starts with ‘In Scotland’” [3 audit body]

One respondent commented:

J. “I wholly disagree with creating yet another unusable reserve which the Code suggests as “the pooled</td></tr>
</table>

	investment funds adjustment account". Can such changes not be absorbed into the Financial Instruments Revaluation Reserve with appropriate explanation, thus avoiding more clutter?" K. "The proposal at 7.1.9.3B needs to be explicit about where the change in fair value should be reflected in SDPS."
Proposed Action	The corrections and improvements are welcome. Further amendment to 3.4.2.56 to add 'defined' in front of pooled investments funds is proposed to clarify that the statutory definition must be applied. The other amendments are proposed for adoption with the exception of: B. Removal of reference to 'impairment' loss is not suggested for adoption as the inclusion of impairment losses reflects the statutory requirements stated in 30K 4 (a), and in the event of uncertainty legislation takes precedence. D. LASAAC guidance, whether optional or mandatory, has not previously been included in the Code. LASAAC guidance has previously been regarded as providing more specific implementation of the Code requirements for Scotland, without the same status of 'statutory guidance' as issued by the Scottish Ministers. J. The suggestion would appear to be contradictory to the regulations which state an "account established, charged and used solely for the purpose of recognising fair value gains and losses in accordance with this regulation." K. The specification of FVPL entries in the CIES/SDPS is considered later in this report. The paragraph appears clear that transfers between reserves are shown in the MiRS.
Risk: MEDIUM	In the event that legislation has not been reflected appropriately, or has been overlooked, there is reputational risk for CIPFA/LASAAC. In the event of contradiction or absence, legislation normally takes precedence over the Code contents.
Recommendation Q25	**That the proposals are adopted with amendments made in respect of items A, C, E, F, G, H and I as suggested above by ITC respondents or otherwise proposed. Other proposals are recommended to be adopted without further amendment.**

E1	**Service Concession Arrangements – 3rd Party Income**
Question 26, 27.	Do you agree with CIPFA/LASAAC that recognition of a liability related to operator rights to third party revenues is consistent with the

	requirements but that additional specification in the Code is not required?
Reponses	Total (% of responses) 26 62% · Agree (% of views expressed) 24 92% · Disagree (% of views expressed) 2 8% · Ratio of Agree: Disagree (:1) 12.0
Comments	The majority of respondents agreed with the ITC view that recognition of a liability is an appropriate treatment. The following were raised by supporters of the proposal: • "Classifying the balance as a liability raises some concern because there is obligation to transfer economic benefits" [audit firm]. • "It is difficult to see how one approach could accurately reflect the substance of all of the possible income streams" [authority] Two dissenting respondents agreed with the treatment suggested but disagreed with the proposal for no further specification. One [treasury advisor] noted the Code could clarify and align the CFR requirements arising from such arrangements. Another [audit firm] noted that neither the Code nor existing guidance provided clarity. Other comments included: • A view that if the principle suggested was adopted that CIPFA/LASAAC should revise the treatment of grant funding, since currently commitments relating to unapplied grants can only be recognised if there is a possibility of repayment [accounting consultant] • A request for further guidance and worked examples [authority] Comments on known existing alternative treatments included: • No known alternatives being applied (5 respondents, audit body, authorities, treasury advisor, council partnership) • "An alternative is possible with the grantor deciding that it is an agent and so does not record either an asset or a matching credit balance……this is common in further and higher education for student residences whose operators accept demand risk. <u>CIPFA/LASAAC should make clear how the deferred revenue arises under an IFRS 15 analysis and that the resulting balance falls out of the authority capital financing regime because it is not a liability</u>. Finally, this treatment is wider than indicated as it arises for virtually all waste PFIs and some leisure services projects." [10 audit firm] • N/A we hold PFI assets with Third Party income recognition and treat this as a liability in relation to donated assets. [authority]

Considerations for CIPFA/LASAAC	Liability recognition
	
	• The IFRS *conceptual framework* (March 2018) states
	    ○ "A liability is a present obligation of the entity to transfer an economic resource as a result of past events."
	    ○ For a liability to exist, three criteria must all be satisfied: (a) the entity has an obligation; (b) the obligation is to transfer an economic resource; (c) the obligation is a present obligation that exists as a result of past events"
	• IFRS 15 *Revenue from Contracts.......* defines a contract liability as "An entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer."
	• In supporting recognition of a contract liability to reflect the existence of a performance an obligation, IFRS may therefore be considered to accept that a performance obligation can exist for such obligations as the requirement to pass on 3rd party revenues.
	    ○ Arguably an agreement to assign future revenues arising from an existing contract represents a similar performance obligation on the part of the authority.
	• A key point of consideration may therefore be whether there is a liability in existence *before* any 3rd party revenues are generated. IFRIC 12 para 17 indicates that an operator's right to 3rd party revenues is not an unconditional right to cash since the amount is contingent on service provision.
	• Where it is adjudged that a liability does exist before any 3rd party revenues are generated the complexity then primarily arises due to the uncertainty arising in measuring the obligation
	• The principle of equating the initial liability measurement to the fair value of the asset not otherwise paid for, may be regarded as pragmatic being based on the value (measurement) that the operator has placed on the future third party revenues. Whether the value carried should be re-assessed at each balance sheet date, based on expected future revenues, may be open to consideration.
	• Regarding the operator's recognition of a right to 3rd party revenues FRS 102 follows IFRIC 12 stating (34.15) "The operator shall recognise an intangible asset to the extent that it receives a right (a licence) to charge users of the public service." In addressing grantor treatment (34.12E-H) FRS 102 only refers to assessing and recognising a finance lease liability. It does not appear to state the grantor treatment for an operator's right to retain revenue.
	
	Comparison with grant funding treatment
	
	• A respondent has indicated that given that an ongoing liability treatment is regarded as acceptable, this could give grounds for suggesting that a 'deferred income' approach to grant recognition (eg writing off over the life of an asset) might also be considered.
	• At present section 2.3 of the Code generally requires that grant income is recognised when the conditions are met ie generally at a single point in time.
	• If SCA 3rd party income continuity with the existing grant income treatment is supported it could be suggested that the cost of the assignation (value given up) could be recognised

	immediately as a cost charged to the GF and transferred to the GF. In effect there could be an argument that the value of the assigned revenue should not be amortised over time. FE-HE SORP (agent/principal model) • The CIPFA/LASAAC working group considered this as a potential specification, but did not propose it due to concerns over conflict with IFRIC 12 and IPSAS 32 treatments. Prudential Code – recognition of a liability for assigned revenues • It may be argued that an obligation to assign revenues is not an underlying need to borrow or an external debt arrangement ie should not affect the CFR. • The CFR is defined in para 79 of the Prudential Code. • The treatment of liabilities related to SCA 3rd party revenues is not specified in the definition. • The definition however states "In addition, any other items on the local authority's balance sheet that relate to capital expenditure incurred should be included, but excluding the underlying liability – ie the underlying need for the equivalent to borrowing – for lease obligations, deferred purchases and similar arrangements in respect of long-term credit." • Where the above is taken to apply the CFR will not reflect the liability arising from revenue assignation. For example an SCA asset of £200m recognised, but with £50m supported by a liability to transfer revenue, would result in an increase in the CFR of £150m • The assignment of revenues could however affect the net revenue stream available to support council debt, and as such could affect the affordability indicators of the Prudential Code. An authority will need to understand the Prudential Code affordability issues arising from the assignation of 3rd party revenues.
Risk: **HIGH**	Based on the responses received the benefits of further specification in the Code are not considered to support the potential implementation risks arising from further specification.
Recommendation Q26, Q27	**That, as per the proposal in the ITC, no amendment is made to the Code requirements.**

E2	**Service Concession Arrangements – Liability Measurement**			
Question 28.	Do you agree with CIPFA/LASAAC's proposals on applying IFRS 16 Leases liability measurement to service concession arrangements?			
Reponses	Total (% of responses) 29 69%	Agree (% of views expressed) 22 76%	Disagree (% of views expressed) 7 24%	Ratio of Agree: Disagree (:1) 3.1

Comments	A majority of respondents supported the proposal but noted: - Paragraph 4.3.2.25 should allow for both an increase and decrease in the liability - Concerns over the resource requirement implications (6 respondents) - The Code could more directly refer to IFRS 16 rather than reliance on IFRIC 12 'mirror image' treatment. In particular the requirement to separate components of a contract may be relevant. - Consistency with WGA is important - Obtaining information from the operator may be challenging Dissenting respondents indicated: - IFRS 16 specifically does not apply to IFRIC 12 arrangements [IFRS 16 para 3] and that SCAs do not therefore meet the criteria for treatment as embedded leases - Re-measurement of the liability should only occur where contract changes arise, not for cash flow changes which were subject to assessment in establishing the initial liability ("little is to be gained by reassessing the liability for changes in estimates") - Views that SCA arrangements are different to IFRS 16 leases, and that measuring the liability should seek to reflect the purchase of the whole asset (in most scenarios) as equivalent to borrowing. It is suggested that "Part of the PFI unitary charge is separated out and treated like a repayment on a fixed rate loan" and "As this is standard annuity accounting, we consider that the Code can just ask for this, without a reference to IFRS" - Concerns about cost, and that the change would not be commensurate with the benefits to users - Practical issues including: - The non-separable nature of unitary charges means the initial split is based on estimates of the operator's initial financial model. Authorities would have no clear information on which to apply this split as cash flows change. - Proportionate splitting of uplifts to the unitary charge would have to be specified in the Code itself. - The Code is not clear on how the increase in the liability would affect the value or cost of the SCA asset - The implications for the Prudential , CFR and statutory framework are not clear as an increase in the liability is not an increase in the value of the asset - Media and political sensitivity is likely to arise regarding apparent increases in reported PFI liability figures - Based on the above a respondent suggests "a rebuttable presumption that no recalculation would be required where the change is simply actual indexation differing from that assumed in the financial model". It is suggested that without this auditors may expect full recalculation to evidence materiality assessment. - One respondent considered that " unitary charges of many arrangements consist of an indexed and an unindexed element

	with an assumption in the model that the unindexed element relates to the lease element …..It would therefore be erroneous to remeasure the liability in these circumstances when the unitary charge has an indexation element applied to the service element only." Other comments received related to: • Noting that those authorities with several schemes would be more significantly impacted by the resource requirements • Indicating that "the guidance notes will need to be explicit on issues such as estimating the discount rate and accounting for changes in carrying value (if any) from changes in indexation – in an ideal world, the discount rate will fluctuate with changes in indexation and so leave the carrying value unchanged." • Suggestions for further guidance
Factors for CIPFA/ LASAAC Review	Potential increase or decrease in liability: • Potentially changes in either direction may occur Applicability of IFRIC 12 • It is considered that IFRS 16 specifically excludes IFRIC 12 in order to recognise the different nature of SCAs. In particular an IFRIC September 2016 Update noted that a key assessment relates to the control of services; service recipients; and prices; as well as the control of any significant residual interest. • IFRIC 12 therefore may be considered to remain as the extant IFRS requirement for SCAs from an operator perspective • IFRIC 12 paragraphs15 & 16 require an operator to recognise a financial asset for any unconditional rights to cash payments from the grantor Splitting of indexation cash flows • By their nature SCAs were intended to combine cash flows for a number of purposes into a single payment • An objective of the accounting treatment of SCAs is understood to be to provide transparency regarding what the constituent elements of the unitary cash flow are • This therefore requires that the original cash flows, and subsequent changes to the cash flows, are separated into the constituent parts • Where information is available to support the specific identification of indexation changes into the constituent parts it is anticipated that this would be used • In some instances this may mean that no changes to the liability related cash flows are necessary, and thus re-measurement of the liability may not be required • This assessment however would be required on a case by case basis, to reflect the reality of each SCA's terms and conditions • Where however changes to the liability cash flows are either specifically identified, or imputed as a proportion of the indexation increase, the liability would require re-

	measurement (where material). Under IFRS 9 the operator would generally be expected to show a modification gain or loss in P&L for the financial asset based on discounting using the original effective interest rate (IFRS 9 5.4.3). • It would therefore appear to be inconsistent with IFRIC 12 to ignore changes in cash flows which are attributable to the liability. Liability as a 'standard' borrowing arrangement • The current and proposed treatment of SCAs is understood to be intended to reflect changes in the cash flows which are attributable to the liability • This reflects the fact that the purchase and financing element of the cash flows are not necessarily a traditional borrowing arrangement eg cash flow changes attributable to liability repayment may be linked to RPI or CPI rather than either a fixed interest rate, or linked to a variable interest rate benchmark (eg LIBOR) • Therefore a requirement to treat the liability element of SCAs as comparable to normal borrowing may be inappropriate, unless the specific nature of the SCA clearly evidences that normal borrowing arrangement exists. Asset cost changes • The impact of liability re-measurement is, as per IFRS 16, anticipated to affect the cost record of the asset concerned • It is not however anticipated that this will normally affect the valuation based carrying value (subject to not reducing the revaluation reserve to zero so that the historic cost is affected) • Therefore adjustments to the cost records (eg increasing the cost when the liability increases) is anticipated, but with potentially an equivalent (downwards) adjustment in the balance held in the Revaluation Reserve for the asset to compensate for the change. Prudential Framework, CFR and Statutory Implications • Statutory frameworks are generally understood to result in the annual unitary charge for the year being what is ultimately charged to the General Fund. (In Scotland the treatment of lifecycle capital costs may vary this to some extent). • The impact of statutory arrangements is therefore expected to ensure that there is no significant impact on general fund profiles arising, subject to the statutory frameworks maintaining this position. • For the CFR, as with leases under IFRS 16, increases in the liability will be expected to increase the CFR for an authority • It is suggested that the statutory treatments applied to SCAs do not conflict with this. • Since there is no change in the actual underlying cash flows as a result of IFRS 16 liability measurement, it is not considered to affect conclusions about affordability under the prudential code (subject to the statutory frameworks maintaining current policy).

	Applicable discount rate for re-measurement of the liability
	
	• It is anticipated that most lease liability re-measurements will be undertaken using an unchanged discount rate (see IFRS 16 para 42 (b) & 43)
	• It is however possible that a revised discount rate may be required where
	    o Para 40 applies (lease term changes or option to purchase changes); or
	    o Para 42 applies (the lease payment changes arise from a change in a floating interest rate)
	
	Media and political profile of PFI liability increases
	
	• This matter was raised at a relevant authorities working group, especially in relation to WGA reporting and balance sheet impact
	• It is understood that there are currently no plans to defer application in WGA on the basis of such concerns
	
	Costs commensurate with benefits
	
	• Resource implications are clearly a key concern for both supporters and dissenters
	• ~~Implementation of IFRS 16 Leases liability measurement would negate the risk of separate calculations being required for WGA return purposes. Use of a non-IFRS 16 basis in authority accounts would be anticipated to give rise to WGA consistency challenges, and a requirement for a 'dual reporting' framework.~~ (see update in red text below)
	• Pragmatic implementation, for example regarding assessment of materiality, potential use of in-house excel models and estimation techniques (eg in splitting cash flow indexation) is likely to be critical to successful application for local government
	• CIPFA/LASAAC may wish to consider whether the proposed Code specification provides a sufficient basis, combined with any potential guidance for preparers and auditors, to support vision statement achievement
	
	HM Treasury indication of expected practice in central government
	
	• **HM Treasury have indicated that central government's measurement practices for liabilities arising from SCA (PPP/PFI) is not anticipated to change on implementation of IFRS 16 *Leases***
	
	• **The FReM 19/20 (see 7.1.49-65 page 49 on) does not specify how the liability should be measured in detail.** 7.1.58 includes "The rate should not be changed unless the infrastructure element or the whole of the contract is renegotiated." 7.1.60 states "Under either approach, the grantor will recognise a liability for the capital value of the contract. That liability does not include the interest charge and service elements, which are expensed annually to the Statement of Comprehensive Net Expenditure."

Risk: MEDIUM	Given the responses received there is considered to be a very high risk of implementation challenges arising if the proposals progress. This particularly relates to in-house expertise and capacity to operate new or updated PFI liability and unitary charge allocation models, as well as in terms of estimation tolerance / materiality application. It is assumed that the HMT indication of expected practices will be established and supported by FRAB, and accepted by audit. On this basis alignment with central government practices will mitigate the most significant risks noted above. Some implementation risks exist in that the Code may require to separately specify the liability measurement, with new text which has not been consulted on. Implementation risk therefore exists.
Recommendation Q28	**Do not implement the proposal to measure service concession arrangement liabilities using IFRS 16 Leases liability measurement basis** **Include specification in the Code that the requirements of IAS 17 as previously existing, will continue to apply.** Reference to IAS 17 (as an withdrawn standard) should potentially be replaced by specific definition of the requirements. CIPFA/LASAAC may wish to consider the extent to which detailed specification is required in the Code or is more appropriate for guidance. **FRAB confirmation of central government treatment required.**

E3	**HRA Financial Instruments Impairment**			
Question 29.	Should the presentation of Financial Instrument Impairments in the HRA income and expenditure statement be aligned to that in the whole council CIES?			
Reponses	Total (% of responses)	Agree (% of views expressed)	Disagree (% of views expressed)	Ratio of Agree: Disagree (:1)
	21 50%	15 71%	6 29%	2.5
Comments	A majority of respondents supported the proposal however one noted "rent bad debts is not a permitted statutory debit to the HRA in Scotland. If this item is to be shown in the HRA I&E Statement it would have to be removed in the Movement in the HRA Statement". Some clear dissenting views were expressed including: • Views that since the charge is directly related to the HRA it is not appropriate to present it outside the HRA cost of service • A suggestion that "The great majority of an authority's debtors are past due balances for services and not amounts outstanding under credit terms. Impairments of debts are therefore more characteristically cancelations of income previously recognised for services rather than losses on credit facilities….authorities should have discretion over the appropriate place to charge them (to be disclosed as an accounting policy choice). We consider that 3.4.2.38 should be amended to add "to the extent not fairly charged to			

	segments". This would then resolve the problem perceived to apply to the HRA"
Factors for CIPFA/ LASAAC Review	The variety of responses and current treatments indicates some inconsistency in current practices.
Risk: HIGH	Practices have been established; there is no absolute consensus on appropriate presentation; and there have been no indications of material concerns in 18/19 accounts regarding differential treatments. Given the above the benefits of further specification are considered to be insufficient to support amendment.
Recommendation Q29	• **Not amend the Code for 20/21** • **Reconsider HRA financial instruments presentation as and when the Code's financial instrument requirements are reviewed.**

E4	**Financial Instruments – Specification of FVPL entries in CIES**			
Question 30.	Should the presentation of gains/losses, dividends and gains/losses on derecognition of financial instruments classified as fair value through profit or loss within SDPS be more definitively specified in the Code?			
Reponses	Total (% of responses) 17 40%	Agree (% of views expressed) 13 76%	Disagree (% of views expressed) 4 24%	Ratio of Agree: Disagree (:1) 3.25
Comments	The responses indicate general support for clearer specification to support consistency, with some dissent. Responses indicate there may be some inconsistency in current practices.			
Risk: MEDIUM	There is a risk that this may mean a change in presentation for some authorities, potentially indicating prior period adjustment if considered material.			
Recommendation Q30	**Include clearer specification in the Code 20/21 as noted below:** **3.4.2.38** c) Financing and investment income and expenditure (comprising interest payable and similar charges; interest revenue calculated using the effective interest method; net interest on the net defined benefit liability (asset); remeasurements of the net defined benefit liability (asset) for long-term employee benefits recognised in accordance with Section 6.2;; interest income; income, expenditure, and changes in the fair values of investment properties; gains and losses arising from the derecognition of financial assets measured at amortised cost<u>; gains/losses, dividends and gains/losses on derecognition for financial instruments classified as fair value through</u>			

	profit or loss, impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with Section 7.2.9 of the Code; the surplus or deficit of trading operations which are not allocated back to services; and other investment income).

E5.	**Minor Code Updates**
Question 31.	Do you agree with the minor Code update proposals relating to HRA rents classification and REFCUS?
Reponses	Total (% of responses): 25, 60% Agree (% of views expressed): 25, 100% Disagree (% of views expressed): 0, 0% Ratio of Agree: Disagree (:1): N/A
Comments	Responses indicate that the minor amendments should not be controversial. No text amendment or further suggestions were indicated.
Risk: Low	
Recommendation Q31	**That the proposed text amendments are implemented for 20/21.**

E6.	**IFRS 17 Insurance Contracts – Potential Application Scenarios**
Question 32.	Please provide an indication of any local government practices, arrangements or contracts where potentially treatment as an Insurance Contract (under IFRS 17) may arise.
Potential application scenarios	Respondents identified the following for consideration: • Pension guarantees, especially since some are already accounted for under IFRS 4 the current insurance contracts standard • Mutual insurance arrangements – with FRIC (Fire & Rescue Indemnity Company Limited) being a mutual insurance arrangement between 9 fire & rescue authorities cited as a key example. • Economic development support arrangements potentially involving the underwriting of losses or compensation for specific events • Insurance arrangements where the authority is acting as an intermediary eg by arranging insurance for properties and charging tenants for the insurance. • Guarantees provided when schools convert to academy status [Note: A distinction may be required between risks which are retained by the authority; and risks which did not previously exist but are now accepted by the authority]. • Warranties or assurances provided in respect of goods or services [Note: IFRS 15 Revenue from Contracts with Customers may be applicable rather than IFRS 17]

Recommendation Q32	**That ongoing liaison with the HMT working group continues.** **That pragmatic and proportionate implementation, with consideration of resource implications, is regarded as an objective in supporting vision statement achievement.**