The Chartered Institute of Public Finance & Accountancy

CIPFA BULLETIN 01

Closure of the 2017/18 Financial Statements

February 2018

The Local Authority Accounting Panel issues CIPFA Bulletins to assist practitioners with the application of the requirements of the Code of Practice on Local Authority Accounting, SeRCOP and Prudential Code, and to provide advice on emerging or urgent accounting issues. Bulletins provide influential guidance that is intended to be best practice, but are not prescriptive and do not have the formal status of the Code, SeRCOP or Prudential Code.

Please address any queries to CIPFA Technical Enquiry Service for CIPFA members and students
technical.enquiry@cipfa.org

The Chartered Institute of Public Finance and Accountancy
Registered with the Charity Commissioners of England and Wales Number 231060
Registered with the Office of the Scottish Charity Regulator No SCO37963

INTRODUCTION

1. This bulletin covers the closure of accounts for the 2017/18 year and provides further guidance and clarification to complement the 2017/18 *Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for Practitioners* (Code Guidance Notes). It addresses, where relevant, frequently asked questions and other issues that have arisen since the publication of the 2017/18 Code Guidance Notes.

2. The bulletin focuses on those areas that are expected to be relevant for most authorities. It is not intended to replace authorities' processes for identifying issues, but to support them.

3. In addition, the bulletin addresses matters that will generally be applicable to authorities across the UK. However, some sections are country specific and are indicated as such.

CHANGES TO THE CLOSURE TIMETABLE FOR LOCAL AUTHORITIES IN ENGLAND

4. Local authorities in England will be aware that the Accounts and Audit Regulations 2015 (the Regulations) bring forward the timetable for the closure of the accounts in respect of 2017/18 and subsequent financial years.

5. Prior to the period for the exercise of public rights which must include the first 10 working days of June, a local authority in England is required to publish the unaudited statement of accounts. In practical terms this is by 31 May 2018. The Regulations also require that local authorities in England publish their audited statement of accounts by 31 July 2018 (including on the authority's website) although there are provisions where the audit has not been completed by this date.

6. CIPFA recommends that local authorities confirm the new publication dates with all their key stakeholders (including the relevant committees) and that they engage as early as possible with their external auditors about their new accounts closure timetables.

ADDITIONAL GUIDANCE AND CLARIFICATION IN RESPONSE TO FAQS

How to Account for the Apprenticeship Levy

7. The Apprenticeship Levy was introduced from 1 April 2017. CIPFA has received a number of enquires in relation to its accounting treatment.

8. CIPFA is of the view that the payment of the levy is an employee expense and should be recognised as such in accordance with the requirements of section 6.2 (Benefits Payable During Employment) of the Code. The Apprenticeship Levy will be payable through Pay As You Earn (PAYE) and will be payable alongside income tax and national insurance and can be accounted for in a similar manner.

9. CIPFA is also of the view that for English authorities the amounts credited to income received in an authority's Digital Apprenticeship Service Account should be accounted for as a government grant in accordance with section 2.3 (Government and Non-Government Grants). The funding arrangements in other UK nations differ.

OTHER ISSUES AFFECTING THE 2017/18 CLOSURE OF ACCOUNTS

Accounting Standards that Have Been Issued but Have Not Yet Been Adopted

10. Paragraph 3.3.2.13 of the 2017/18 Code requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code. Paragraph 3.3.4.3 requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year.

11. The standards that may be relevant for additional disclosures that will be required in the 2017/18 and 2018/19 financial statements in respect of accounting changes that are introduced in the 2018/19 Code (ie that are relevant to the requirements of paragraph 3.3.4.3) are:

    - IFRS 9 *Financial Instruments*
    - IFRS 15 *Revenue from Contracts with Customers* including amendments to IFRS 15 *Clarifications to IFRS 15 Revenue from Contracts with Customers*
    - amendments to IAS 12 *Income Taxes*: Recognition of Deferred Tax Assets for Unrealised Losses
    - amendments to IAS 7 *Statement of Cash Flows*: Disclosure Initiative.

12. If any of the above amendments are expected to have a material impact on information in the financial statements, authorities should refer to Appendix C in the 2018/19 Code in relation to their own disclosures regarding the amendments to the above mentioned standards.

13. The transitional reporting requirements for IFRS 9 and IFRS 15 have been adopted such that the preceding year is not restated. Appendix C in the Code confirms that there is no requirement to provide financial information relating to the impact of IFRS 9 for the 2017/18 year in the 2017/18 financial statements. Note, however, paragraph D53 of Module 3 of the Code Guidance Notes provides guidance on reporting requirements for the application of paragraph C2.2 e) i) of the 2018/19 Code and 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* ie the need to report known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the authority's financial statements in the period of initial application.

14. CIPFA would also note that there are substantial transitional arrangements for IFRS 9 and IFRS 15 and these have been included in Chapter 7 (Financial Instruments) and Section 2.7 (Revenue from Contracts with Service Recipients) in the 2018/19 Code.

15. The other narrow scope amendments and IFRIC included in the consultation on the 2018/19 Code listed below:

    - IAS 40 *Investment Property*: Transfers of Investment Property
    - *Annual Improvements to IFRS Standards 2014-2016 Cycle*, and
    - IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

were not adopted by the EU in time for inclusion in the 2018/19 Code and therefore they have been rolled forward into the development programme for the 2019/20 Code.

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

16. The transitional arrangements for the treatment of depreciation of housing dwellings introduced in the *Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012* (Item 8 Determination) ceased on 31 March 2017.

17. A new Item 8 Determination was issued by the then Department for Communities and Local Government (DCLG) on 24 January 2017. The new Determination applies for 2017/18 and for subsequent financial years. It is notable that the changes were not introduced in time for inclusion in the 2017/18 Code. However, they will still impact on local authority financial statements in England.

18. The new Item 8 Determination sets out provisions for the treatment of impairment and depreciation in the Housing Revenue Accounts of local authorities in England from 1 April 2017. The new Item 8 Determination:

- continues to allow impairment charges and revaluation losses on dwelling assets to be reversed out of the Housing Revenue Account (HRA) post the transitional period (ie from 1 April 2017)
- permits impairment charges and revaluation losses on non-dwelling assets to be reversed out of the HRA, but only prospectively from 1 April 2017
- confirms that from 2017/18 depreciation should be charged to the HRA in accordance with proper practices, and
- permits revaluation gains which reverse a previous impairment and revaluation losses to be adjusted against the HRA Balance.

19. Local authority accounts preparers will be aware that the transitional adjustment provided for in the previous Item 8 Determination[1], which permitted the difference between a notional Major Repairs Allowance (MRA) and depreciation for dwellings (where dwellings depreciation is greater than the MRA) to be charged to the Major Repairs Reserve (MRR), will no longer apply.

20. While the impact of the new Item 8 Determination is not reflected in the 2017/18 Code (but is included in the 2018/19 Code) the 2017/18 Code Guidance Notes include new guidance in Module 4, ie paragraphs D49 to D51 and the illustration in paragraph D52 (to remove Journal 2 in the illustration) to reflect these changes and demonstrate the impact that the Determination will have on the financial statements of English local authorities.

Going Concern Basis of Accounting

21. The provisions in the Code on the going concern accounting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, it would not therefore be appropriate for their financial statements to be prepared on anything other than a going concern basis.

1 *Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012*

22. CIPFA/LASAAC has augmented the Code's provisions in Section 3.4 (Presentation of Financial Statements) of the 2017/18 Code to confirm the going concern basis of accounting for local authorities. This augmentation is reflected in the Code Guidance Notes (See Module 3 Section A, and Module 2 Section A).

23. The requirements to use the going concern basis of accounting mean that authorities do not apply paragraph 25 of IAS 1 *Presentation of Financial Statements* mandating management to make an assessment of the authority's ability to continue as a going concern. However, this reporting requirement is separate from the need for local authorities to report on the impact of financial pressures in the Narrative Report and the relevant liquidity reporting requirements under the Code's adoption of IFRS 7 *Financial Instruments: Disclosures*.

Other Changes Introduced by the 2017/18 Code

24. In addition to the clarifications in respect of going concern, the 2017/18 Code introduces changes in the following areas (the list below sets out where the relevant guidance is available):

- Narrative Reporting (Module 3, Section B reflects the new principles based framework for the production of the Narrative Report)
- Accounting Policies – Telling the Story of Local Authority Financial Statements (see Module 3, Section I)
- Accounting and Reporting by Pension Funds (Module 6, Section E, has been updated to reflect the 2017/18 Code's requirements for the new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure), and
- Restructure of chapter one (Introduction) of the Code (Module 1).

25. The 2017/18 Code Guidance Notes include additional clarification in relation to the Expenditure and Funding Analysis – to provide additional guidance to assist accounts preparers in the preparation of the note. The Code Guidance Notes also include amendments in relation to the Dedicated Schools Grant (DSG) to include the latest on the disclosure requirements for DSG which have been developed with the Department for Education (DfE).

Accounting for Adjustments to Non-Domestic Rates for English Authorities

26. Additional adjustments as a result of the Valuation Office Agency (VOA) revaluation came into effect from 1 April 2017 for 2017/18 for non-domestic rates for English authorities.

27. The top-up and tariff equalisation mechanism in the business rates retention scheme was adjusted for 2017/18 to ensure that authorities were no better or worse off as a result of the revaluation of rateable values that took effect from 1 April 2017.

28. During the 2017/18 financial year the amounts local authorities have received as top-up or paid in tariffs were based on draft revaluation data as at September 2016 (and not the actual revaluation information as at 1 April 2017). On receipt of the confirmed revaluation data for the 2017 revaluation the Ministry of Housing, Communities and Local Government (MHCLG) has adjusted the top-up and tariff amounts to reflect what they should have been had the 1 April 2017 information been available at the time of setting the 2017/18 top-up and tariff figures.

29. The adjustment between the top-up and tariff information calculated using the September 2016 data and the April 2017 data will be settled in cash terms, to or from local government in the 2018/19 financial year. However, these top-up and tariff figures relate to 2017/18 and therefore need to be accrued into the 2017/18 financial statements. The adjusted top-up and tariff information has been provided to authorities in the final Local Government Finance Settlement figures and therefore local authorities will have the relevant information to make the accruals to their top-up and tariff information.

30. In addition Section 31[2] grant will be receivable or payable by local government on the top-up or tariff adjustment accrued amount, which will be on the same basis as the original Section 31 calculation for the grant (which is the adjustment amount times 7/466). The additional Section 31 grant amounts will also need to be accrued to the 2017/18 financial statements.

31. These changes have also resulted in adjustments to the levy rates which have been calculated using the amended business rates baseline. Authorities will therefore need to ensure that the calculation of any levy accrued is calculated using the final levy rate for 2017/18 as notified in the 2018/19 Local Government Finance Settlement and not the initial rate in the 2017/18 figures. Authorities will also need to ensure that retained rates income includes the final adjusted top-up and tariff position.

Amendments to the Accounts and Audit (Wales) Regulations 2014

32. The Accounts and Audit (Wales) Regulations 2014 (the Welsh Regulations) have been amended by SI 2018 No 91[3]. The amendments to the Regulations come into force on 18 March 2018 and apply to financial years ending on or after 31 March 2018 ie from the 2017/18 financial year.

33. The amendments to the Welsh Regulations:

- have removed the requirement for a local authority to publish the notice of public rights and the notice of the conclusion of audit in newspapers and instead allow display of the notices on its website and in at least one conspicuous place, and

- require that the pension fund accounts are not included in the statement of accounts of county or county borough councils that administer pension funds.

34. The requirement to not include the pension fund accounts in the statement of accounts for the administering authority would appear to mean that the date for publication of pension fund accounts is as prescribed under Regulation 57 of the Local Government Pension Scheme Regulations 2013 (which requires the pension fund annual report to be published on or before 1 December following the relevant year of account). Welsh administering authorities may wish to discuss the audit timetable for the pension fund accounts with their auditors.

35. The Welsh Regulations have also brought forward the accounts closure and publication timetables for Welsh local authorities (larger bodies as defined in the Regulations). The Welsh Government has amended the Regulations to allow sufficient time to prepare for these changes so that the revised timetable is implemented for the financial year ending on 31 March 2019 for fire and rescue authorities, national park authorities, police and crime commissioners and chief constables. For county or county borough councils the revised timetable is

---

2 Section 31 of the Local Government Act 2003

3 The Accounts and Audit (Wales) (Amendment) Regulations 2018

implemented for the financial year ending on 31 March 2021. The revised timetables are set out in the table below. The Regulations also allow for joint committees or committees of county borough councils to follow the timetable of the county borough councils.

Timetables for Accounts Closure for Welsh Local Authorities

Financial Year	Requirements Under Regulation 10 as Amended	County Borough Councils	Fire and Rescue, National Park Authorities, Police and Crime Commissioners and Chief Constables
2017/18	Accounts Prepared	30 June 2018	30 June 2018
	Accounts Published	30 September 2018	30 September 2018
2018/19 & 2019/20	Accounts Prepared	15 June 2019 and 2020	31 May 2019 and 2020
	Accounts Published	15 September 2019 and 2020	31 July 2019 and 2020
2020/21	Accounts Prepared	31 May 2021	31 May 2021
	Accounts Published	31 July 2021	31 July 2021

MAJOR CHANGES TO THE 2018/19 CODE

Telling the Story, Improving the Presentation of Local Authority Financial Statements

36. CIPFA/LASAAC has undertaken an early review of the *Telling the Story, Improving the Presentation of Local Authority Financial Statements* (Telling the Story) changes to the 2016/17 Code. This was accompanied by a small number of commentaries received as a part of the 2018/19 Code consultation. As a result CIPFA/LASAAC has made a number of changes to the 2018/19 Code. These include:

- Confirmation that the service analysis section of the Comprehensive Income and Expenditure Statement no longer provides the IFRS 8 *Operating Segments* reporting requirements, though the service analysis will be consistent with the Expenditure and Funding Analysis note. The Expenditure and Funding Analysis will provide the segmental reporting requirements.

- A number of clarifications to improve the segmental reporting requirements of the Code, including a commentary that extra columns can be added to the Expenditure and Funding Analysis if this was needed to ensure that local authorities clearly demonstrate the relationship of their segmental analysis, the General Fund and the service analysis presented in the Comprehensive Income and Expenditure Statement.

37. CIPFA/LASAAC is also keen to include outreach activity to assess whether the Telling the Story changes have achieved their objectives. As a first stage of the outreach activity, if you have any comments or suggestions please send them to financial.reporting@cipfa.org by 28 April 2018.

IFRS 9 *Financial Instruments*

38. Previous LAAP Bulletins[4] have discussed the impact of IFRS 9 on local authority financial statements and there has been substantial debate recently on the impact, particularly for collective investment vehicles, on General Fund Balances. The CIPFA/LASAAC Statement on the Adoption of IFRS 9 Financial Instruments was issued in November 2017. Subsequently, after further concerns were raised, CIPFA/LASAAC confirmed the position in the 2018/19 Code. Although the provisions do not apply until the 2018/19 financial year they have the potential to have a real financial effect from 1 April 2018.

39. Applying to all corporate and public financial reporting, IFRS 9 has made important changes to the accounting for local authority investments which includes collective investment vehicles. The new standard will introduce a new model for financial assets including new classifications.

40. In order to support local authorities in the implementation of IFRS 9, CIPFA under the guidance of LAAP has issued *IFRS 9 Financial Instruments: An Early Guide for Local Authority Practitioners* (the Early Guide to IFRS 9). Guidance on classification of financial assets is included in paragraphs A42 to A78.

41. It is likely that many collective investment vehicles would be classified to fair value through profit or loss (FVPL) from 1 April 2018, so that the fair value gains and losses will be chargeable to the Surplus or Deficit on the Provision of Services as they arise. The issue that has been raised is whether collective investment vehicles qualify for the election under IFRS 9 for movements in fair value of 'investments in an equity instrument' to be chargeable to reserves; that is chargeable to fair value through other comprehensive income (FVOCI). To do so, the investment would need to meet the definition of an equity instrument in the Code in accordance with its adoption of IAS 32 *Financial Instruments: Presentation*.

42. This will be a decision for the authority and accounts preparers will need to consider all the relevant and contractual information and whether the instrument is 'puttable' (ie the holder has the right to demand repurchase or repayment of the principal).

43. If the instrument is puttable, CIPFA agrees with the view of the International Accounting Standards Board[5] (and subsequently confirmed by the IFRS Interpretations Committee[6]) that a financial instrument that has all the features and meets the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D (a puttable financial instrument) of IAS 32 is not eligible for the presentation election in IFRS 9 to charge these movements to reserves (in a local authority's case the Financial Instruments Revaluation Reserve) ie to designate the financial asset to FVOCI.

44. CIPFA/LASAAC has therefore acknowledged that in accordance with the aims of the standard fair value gains and losses should be reported transparently and fairly, that is consistently with all other accounting entities in the UK and overseas (applying IFRS). This is separate from the issue of statutory mitigation. CIPFA is supporting the discussions with government and devolved administrations in relation to this issue.

---

4 **LAAP 105 Closure of the 2016/17 Accounts**

5 In paragraph 5.21 of the IFRS 9 Basis of Conclusions

6 IFRS Interpretations Committee Agenda Decision September 2017

45. The issue of the use of the election for movements in fair value of 'investments in an equity instrument' to be chargeable to reserves is covered in paragraphs A59 to A73 of the Early Guide to IFRS 9.

46. One of the other main features of IFRS 9 is the change in the impairment loss model for financial assets from one based on incurred losses to one based on expected (credit) losses. This new forward looking approach is likely to result in an increase in the allowances required as at 1 April 2018. As allowances are based on the risk of default and the approach to investments in local authorities is to opt for security and high quality financial instruments CIPFA outreach activities[7] have indicated that for many financial assets the impact should be modest. Particular attention will need to be paid to material balances or loans to third parties against which there has been no default but there are significant possibilities that there may be in the future. Paragraphs B37 to B81 of the Early Guide to IFRS 9 include guidance on the application of the new expected credit loss model.

IFRS 15 *Revenue from Contracts with Customers*

47. The 2018/19 Code also adopts IFRS 15 in section 2.7. IFRS 15 will require local authorities to recognise revenue in such a way that it represents the transfer of promised goods or services to the service recipient (customer) in an amount that reflects the consideration to which the authority expects to be entitled in exchange for those goods or services. CIPFA is of the view that generally this should not have a substantial effect for local authorities with relatively predictable income streams but it may have an impact on authorities where the consideration is variable and/or when income is recognised over time.

48. CIPFA would also note that the disclosure framework under IFRS 15 is substantially increased. It is intended to allow an understanding of the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers and includes the disaggregation of revenue, information on performance objectives, the significant judgements made and contract balances. CIPFA would encourage local authority accounts preparers to focus on the materiality of the income that is recognised to ensure that the key messages in local authority financial statements are not obscured.

PROSPECTIVE CHANGES TO FUTURE CODES

IFRS 16 *Leases*

49. The effective date of IFRS 16 *Leases* is 1 January 2019. Therefore (subject to CIPFA/LASAAC decisions) the standard is anticipated to be adopted in the 2019/20 Code.

50. IFRS 16 removes the existing classifications of operating and finance leases under IAS 17 *Leases* for lessees. It requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing the lessee's obligation to make lease payments for the asset.

51. The consultation papers and the Exposure Draft have been drafted by CIPFA/LASAAC with the assistance of its sub group. However, both CIPFA and CIPFA/LASAAC are

---

7 The Treasury and Capital Management Panel issued a **Questionnaire on the Impact of Classification of Financial Assets and the New Impairment Requirements under IFRS 9 Financial Instruments** and the **Code of Practice on Local Authority Accounting in the United Kingdom 2018/19: Invitation to Comment** sought views on the impact of IFRS 9 on General Fund Balances.

considering new ways of assessing how the standard will impact on local authorities. CIPFA/LASAAC will issue the consultation as soon as possible and notification of the issue of the consultation will be via Treasurers Societies, the Networks and CIPFA social media or via the CIPFA/LASAAC pages of the CIPFA website. This consideration will also include the assessment of the practical effects of implementation. The consultation papers, for example, include a readiness assessment questionnaire to assist CIPFA/LASAAC with an understanding of the impact (and could also be usefully used by local authorities to assess the issues that need to be considered).

52. Some of the impact on local authorities in relation to the capital financing implications has been clarified for English authorities in the new Minimum Revenue Provision Guidance. Paragraph 43 extends the recommended treatment of finance leases to leases where the right of use asset is recognised on the balance sheet (when that accounting policy becomes applicable to local authorities) to extend the current approach for finance leases. The effect of the statutory guidance is such that the recommended approach for the MRP for leases where a right of use asset is recognised will be a top-up so that the aggregate charge to revenue for the lease will effectively be the annual lease payment. CIPFA is committed to working with both local authorities and the devolved administrations to ensure the effective adoption of IFRS 16 for local authorities.

53. Until the consultation mentioned in paragraph 51 is opened more on CIPFA/LASAAC's views on its approach to adoption of IFRS 16 can be found in its initial consultation on the standard (which was included in the consultation on the 2018/19 Code in Appendix C to the ITC – IFRS 16 *Leases*).

OTHER ISSUES WHICH MAY IMPACT ON THE FINANCIAL STATEMENTS

Ministry of Housing, Communities and Local Government Consultation on the Prudential Framework for English Authorities

54. The (then) DCLG consulted in November 2017 on proposals for changes to Statutory Guidance on Local Government Investments and the Statutory Guidance on Minimum Revenue Provision (MRP). On 2 February 2018 the Summary of Consultation Responses and Government Response to this consultation was published by the MHCLG.

55. The updated Statutory Guidance on Minimum Revenue Provision includes a number of clarifications on determining a prudent level of MRP in respect of capital expenditure financed by borrowing or credit arrangements and is applicable from 1 April 2019 although early adoption is encouraged. This is with the exception of those changes relating to the section 'Changing Methods for Calculating MRP', which apply from accounting periods starting on or after 1 April 2018. The updated guidance also includes the clarification that the MRP cannot be negative. The Treasury and Capital Management Panel will produce its full analysis on the updates to the guidance in its revision of the publication *Practitioner's Guide to Capital Finance in Local Government (2012 Edition)*.

56. The Statutory Guidance on Local Government Investments has also been updated. The guidance was amended in response to changing practices for local authority investments, for example for investment in economic regeneration and following the recent changes in CIPFA's updated *Prudential Code for Capital Finance in Local Authorities* (2017 Edition). Again the Treasury and Capital Management Panel will produce its analysis of the statutory guidance in its revisions to the publication *Treasury Management in the Public Services: Guidance Notes for Local Authorities Including Police Authorities and Fire Authorities*.

OTHER USEFUL GUIDANCE AND COMMENTARY ISSUED BY CIPFA

CIPFA/LASAAC Feedback Statement on the 2017/18 Code

CIPFA/LASAAC has also issued a **feedback statement** on the amendments to the Code following the consultation process.

Treasury and Capital Management Panel Statement on the Production of Capital Strategies

The Treasury and Capital Management Panel has issued a Statement on the **Production of Capital Strategies**. This explains how the requirement of the Prudential Code (2017 Edition) to produce a capital strategy will be applied in the 2018/19 financial year.

Treasury and Capital Management Panel Statement on Treasury Management Indicators

The Treasury and Capital Management Panel has issued a **Statement on Treasury Management Indicators** for the 2018/19 financial year.

LAAP 105 Closure of the 2016/17 Accounts