The 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom

Invitation to Comment

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Invitation to Comment

Introduction

1. Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper practices'. This includes, for the purposes of local government legislation, compliance with the terms of the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code), prepared by the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC). The Code is reviewed continuously and is issued annually.

2. Under the oversight of the Financial Reporting Advisory Board, CIPFA/LASAAC is in a position to issue mid-year updates to the Code. However, this will only be done in exceptional circumstances.

3. The edition of the Code that is applicable for a financial year is based on accounting standards in effect on 1 January prior to the start of the financial year. For the 2019/20 Code, this means that European Union (EU) adopted accounting standards with an effective date of 1 January 2019 or earlier will need to be taken into account.

4. This Invitation to Comment (ITC) sets out CIPFA/LASAAC's proposals for developing the new edition of the Code (the 2019/20 Code) to apply to accounting periods commencing on or after 1 April 2019 (Section 2 of this ITC). An Executive Summary (Section 1) which highlights the key areas being consulted on.

The Consultation Process

5. Where CIPFA/LASAAC is interested in specific issues, consultation questions have been included in the ITC. However, CIPFA/LASAAC also welcomes responses to individual questions or areas if these are of specific interest to an interested party and welcomes comments on any aspect of the draft 2019/20 Code. In order to assess comments properly CIPFA/LASAAC would prefer respondents to support comments with clear accounting reasons and, where applicable, preferred alternatives.

6. Responses to this Invitation to Comment will be regarded as on the public record and are required to be published on the CIPFA website unless confidentiality is specifically requested on the response form. If you require your response to be treated as confidential please indicate this clearly on the response itself. Copies of all correspondence and an analysis of responses will be provided to the Financial Reporting Advisory Board.

7. A copy of the Exposure Drafts of the 2019/20 Code in PDF format can be downloaded from the CIPFA website.

8. To assist interested parties in responding to the consultation, a response form (in Word format) is attached. We would be grateful if respondents to the consultation could use this form as this will speed up the analysis.

9. Responses are required by **8 October 2018** and may be sent to:

   The Secretary

   CIPFA/LASAAC Local Authority Accounting Code Board

Standards and Financial Reporting Faculty

CIPFA

77 Mansell Street

London

E1 8AN

Email: code.responses@cipfa.org

(For ease of handling, emailed responses using the Word document form provided are preferred.)

SECTION 1 – Executive Summary

IFRS 16 Leases

10. CIPFA/LASAAC has issued its separate consultation on IFRS 16 *Leases* which runs alongside this consultation. IFRS 16 will be a substantial change in accounting for lessees. It will mean local authorities recognising the right-of-use asset on the balance sheet for the majority of leases with a corresponding lease liability representing the lessee's obligation to make lease payments for the asset. There will also be practical issues as a result of the move.

Other Development Areas for the 2019/20 Code

11. The following provides an overview of the development areas for the 2019/20 *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) on which CIPFA/LASAAC would seek interested parties' views.

12. Table one summarises CIPFA/LASAAC's approach to Narrow Scope Amendments to IFRS:

Table 1: Narrow Scope Amendments to IFRS

Exposure Draft A: Narrow Scope Amendments to IFRS	
A1.	*Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement* The IASB issued IAS 19 *Employee Benefits*: Plan Amendment, Curtailment or Settlement in February 2018. The amendments require that when a plan amendment, curtailment or settlement occurs during a reporting period entities use updated actuarial assumptions to determine current service cost and net interest for the remaining annual reporting period.
A2.	*Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation* The IASB has amended IFRS 9 to allow financial assets with negative compensation prepayment features to be measured at amortised cost or fair value through other comprehensive income. The amendments confirm in the Basis of Conclusions of the standard that most modifications of financial liabilities will result in immediate recognition of a gain or loss.
A3.	*IAS 40 Investment Property: Transfers of Investment Property* The amendment to IAS 40 *Investment Property* provides clarification on transfers to or from the investment property classification.
A4.	*Annual Improvements to IFRS Standards 2014 – 2016 Cycle* The amendments under this set of annual improvements that may apply to local authorities relate to scope changes for the disclosure requirements of interests in other entities and measuring an associate or joint venture at fair value. Further detail on this set of Annual Improvements is provided in Appendix A to this ITC.

A5.	*Amendments to IAS 28 Interest in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures* The amendments clarify that IFRS 9 applies to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.
A6.	*Annual Improvements to IFRS Standards 2015-17* The amendments include clarifications of IFRS in the following areas: ▪ IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements:* Previously held Interest in a Joint Operation ▪ IAS 12 *Income Taxes: I*ncome Tax consequences of Payments on Financial Instruments classified as Equity, and ▪ IAS 23 *Borrowing Costs:* Borrowing Costs Eligible for Capitalisation. Further detail on this set of Annual Improvements is included in Appendix B to this ITC.
A7.	*IFRIC 22 Foreign Currency Transactions and Advance Consideration* IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance.
A8	*IFRIC 23 Uncertainty over Income Tax Treatments* IFRIC 23 clarifies the accounting treatments for uncertainties in income taxes and may apply to local authority Group Accounts.

13. Table two summarises CIPFA/LASAAC's approach to amending the Code for legislative and policy changes:

Table 2: Legislative and Policy Changes

Exposure Draft B: Legislative and Policy Changes	
B1.	*Scottish Local Authorities: Presentation of Transfers to or from Other Statutory Reserves* CIPFA/LASAAC is proposing changes (following an approach by LASAAC) to the Scottish local authority presentation of transfers to or from statutory reserves in the Movement in Reserves Statement and the Expenditure and Funding Analysis. These amendments reflect Scottish local authorities' reporting requirements, the statutory permission to hold 'other statutory usable reserves' (eg an Insurance Fund) and to transfer funds between these reserves and the General Fund.

B2.	*Scottish Local Authorities: Presentation of Statutory Adjustments for the Revaluation Elements of Depreciation* These changes reflect the reporting of statutory adjustments relating to Scottish local authorities, particularly the treatment of the revaluation element of depreciation and impairment charge as outside of the statutory adjustment process (ie the voluntary transaction allowed by IAS 16 *Property, Plant and Equipment* paragraph 41) – with the inclusion of a new line in the Movement in Reserves Statement to treat this as a separate adjustment.
B3.	*Carbon Reduction Commitment Scheme and Landfill Allowances* The changes reflect the closure of the Carbon Reduction Commitment Scheme and the cessation or suspension of the landfill allowance scheme in England and Scotland.
B4.	*Apprenticeship Levy* A new section is introduced to the Code to provide application guidance for the payment of the levy as an expense and a tax, the recognition of the expenditure for levy funded training and grant income for the payments into the Digital Apprenticeship Service Account.
B5.	*References to Legislation* These have been updated as relevant throughout the Code.

14. Table three provides an overview of CIPFA/LASAAC's approach to amending the Code for the *IFRS Conceptual Framework for Financial Reporting*, IASB March 2018:

Table 3: IFRS Conceptual Framework for Financial Reporting

Exposure Draft C: IFRS Conceptual Framework (March 2018)	
C1.	*IFRS Conceptual Framework (March 2018)* Section 2.1 (Concepts) of the Code has been updated for the publication of the new *IFRS Conceptual Framework for Financial Reporting* issued by the IASB in March 2018. Amendments have been made in relation to: ▪ the objectives of the financial statements ▪ the qualitative characteristics of useful financial information ▪ the definitions of the elements of the financial statements ▪ the descriptions for the revised process and criteria for recognition and new provisions on derecognition, and ▪ the new definition of measurement basis. The changes to the Code are unlikely to have substantial implications for

	local authority accounts preparers but will be useful in the assisting them in the understanding of the new major standards introduced to the Code.

15. Table four outlines changes proposed to set out for local authorities and other stakeholders CIPFA/LASAAC's approach to drafting the Code when it considers the need to adapt or interpret IFRS for local authority circumstances, transactions or events. It also sets out the basis on which statutory adjustments are accommodated in the Code.

Table 4: Adaptation/Interpretation and Statutory Adjustments

Exposure Draft D: Adaptation/Interpretation and Statutory Adjustments	
D1.	*Adaptations and Interpretations of International Financial Reporting Standards* Changes to the Code are proposed to describe how adaptations amend IFRS to reflect local government circumstances. Interpretations specify how a local authority is required to apply IFRS but does not amend IFRS.
D2.	*Statutory Adjustments and the Presentation of Local Authority Reserves* New provisions are proposed to describe the processes and presentation for the statutory adjustments in the Code to adjust accounting requirements under IFRS Generally Accepted Accounting Practice to arrive at the statutory requirements for the amounts to be charged to the General Fund.

16. The following table provides a summary of areas on which CIPFA/LASAAC would seek the view of interested parties. The issues arise from its post implementation review of selected areas of the Code, other stakeholder feedback and the IASB Materiality Practice Statement.

Table 5: Post Implementation Review and Other Issues

Post Implementation Review and Other Issues	
E1.	*Group Accounts Presentation and Disclosures* Following comments on increasing commercialisation and the need to ensure that local authority financial statements reflect their interests in other entities. CIPFA/LASAAC is seeking interested parties' views on the prominence of Group Accounts in local authority financial statements and whether the Code's provisions need to be augmented to ensure that the presentation and disclosure of Group Accounts transactions are appropriately signposted.
E2.	*Accounting for Business/Public Sector Combinations* One of the respondents indicated that local authorities are now considering more complex acquisitions and therefore has requested that CIPFA/LASAAC consider its approach in the Code in relation to IFRS 3.

	CIPFA/LASAAC has also reviewed the provisions of IPSAS 40 *Public Sector Combinations* against its reporting requirements in section 2.5 (Local Government Reorganisations and Other Combinations) and has decided not to make any further changes to the Code. CIPFA/LASAAC has decided to bring together these two issues and consider whether the reporting requirements meet the needs of the users of local authority financial statements.
E3.	*Recognition of Income for Third Party Payments for Service Concession Arrangements* Respondents to the call for evidence on this issue requested that CIPFA/LASAAC move from its principles basis in the Code and stipulate a specific treatment for these transactions. There are differing views in GAAP on this treatment. CIPFA/LASAAC is therefore seeking the views of interested parties on what they consider is the treatment which best reflects local government transactions in this area.
E4.	*Reporting of Trading Operations in Local Authority Financial Statements* CIPFA/LASAAC is seeking interested parties views on whether the disclosure requirements for trading operations in paragraph 3.4.4.1 2) of the Code are useful to local authority financial statements. *Note that the questions raised on this issue do not apply to Scottish local authorities.*
E5.	*Consideration of the Application of the IASB Materiality Practice Statement to Local Authority Financial Statements* CIPFA/LASAAC has considered the IASB Materiality Practice Statement and agreed that the guidance will be useful to local authority accounts preparers. However, as a non-mandatory statement CIPFA/LASAAC has decided not to make direct reference to the statement in the Code.
E6.	*Complex Financial Instruments* CIPFA/LASAAC clarified the status of the interpretation of IFRS 9 in the 2018/19 Code on contracts with Lender Option Borrower Option (LOBO) clauses following an approach by a group of auditors in April 2018. CIPFA/LASAAC issued a clarification statement confirming that for 2018/19 the provisions of IFRS 9 apply to the accounting treatment of embedded derivatives in contracts where there are LOBO clauses. CIPFA/LASAAC is seeking the views' of interested parties on whether there are other types of complex financial instruments on which the Code should provide commentary.
E7.	*English Local Authorities: Accounting for Non-domestic Rates for the 100 Percent Rate Retention Pilot Authorities* CIPFA/LASAAC does not consider that the current Code provisions in Section 2.8 (Tax Income (Council Tax Residual Community Charges and Non Domestic Rates) and 3.6 (Collection Fund (England)/ Council Tax Income Account Scotland/ Non Domestic Rate Account Scotland) require

	change for the 100 percent rates retention pilots in England but would seek the views of interested parties on this issue.
E8.	*Further Guidance* CIPFA/LASAAC would be interested to hear interested parties' views on whether there are any areas within the Code, or as a result of policy developments, where additional guidance or improvements could be developed.

Full List of Questions Included in the Consultation

Exposure Draft A: IFRS Amendments

Amendments to IAS 19 *Employee Benefits*: Plan Amendment, Curtailment or Settlement

Q1 Do you agree with the approach to adoption of the Amendments to IAS 19 *Employee Benefits*: Plan Amendment, Curtailment or Settlement? If not, why not? What alternatives do you suggest?

Q2 What do you consider the practical impact of the adoption of the Amendments to IAS 19 *Employee Benefits*: Plan Amendment, Curtailment or Settlement will be for you or your organisation? Please provide details.

Amendments to IFRS 9 *Financial Instruments*: Prepayment Features with Negative Compensation

Q3 Do you agree with the approach to adoption of the Amendments to IFRS 9 *Financial Instruments*: Prepayment Features with Negative Compensation? If not, why not? What alternatives do you suggest? Please also comment on whether this may have any financial impact on local authority transactions.

Q4 Do you agree with CIPFA/LASAAC that the amendments in relation to modifications or exchanges of financial liabilities that do not result in derecognition do not require change to the Code? If not, why not? What alternatives do you suggest? Please also comment on whether this may impact on local authorities accounting policies in this area.

Amendments to IAS 28 *Interests in Associates and Joint Ventures*: Long-term Interests in Associates and Joint Ventures

Q5 Do you agree with the approach to adoption of the Amendments to IAS 28 *Interests in Associates and Joint Ventures*: Long-term Interests in Associates and Joint Ventures? If not, why not? What alternatives do you suggest? Where necessary please provide any commentary in relation to the practical aspects of the changes.

Annual Improvements to IFRS Standards 2015 – 2017 Cycle

Q6	Do you agree with the approach to adoption of the *Annual Improvements to IFRS Standards 2015-2017 Cycle*? If not, why not? What alternatives do you suggest? Please indicate whether the changes relating to IAS 23 *Borrowing Costs*: Borrowing Costs Eligible for Capitalisation will have an impact on the General Fund Balances of local authorities.
IFRIC 23 *Uncertainty over Income Tax Treatments*	
Q7	Do you agree with the approach to the adoption of IFRIC 23 *Uncertainty over Income Tax Treatments*? If not, why not? What alternatives do you suggest?
Exposure Draft B: Legislative and Policy Changes	
Scottish Local Authorities: Presentation of Transfers to or from Other Statutory Reserves	
Q8	Do you agree with the approach to the presentation of transfers to or from other statutory reserves? If not, why not? What alternatives do you suggest?
Scottish Local Authorities: Presentation of Statutory Adjustments for the Revaluation Element of Depreciation	
Q9	Do you agree with the proposed changes for the presentation for the revaluation elements of depreciation? If not why, not? What alternatives do you suggest? Are there significant practical or financial management implementation considerations in allowing a voluntary transfer between the Revaluation Reserve and the General Fund in Scotland? Do you have any views on the applicability of this voluntary transfer to local authorities across the UK where the legislation for the treatment of capital receipts and the legislative framework differs from Scottish local authorities?
Apprenticeship Levy	
Q10	Do you agree with the proposed specification of the treatment of the Apprenticeship Levy? If not, why not? What alternatives do you suggest?
References to Legislation	
Q11	Do you agree with the proposed amendments to reflect the references in the Code to legislation which has been enacted or made since the development of the 2018/19 Code? If not, why not? What alternatives do you suggest? Are there other items of legislation which you consider could usefully be included in the Code?

Exposure Draft C: IFRS Conceptual Framework for Financial Reporting (March 2018)

Q12 Do you agree with the proposals to amend section 2.1 (Concepts) of the Code which reflect the adoption of the *IFRS Conceptual Framework for Financial Reporting* (March 2018)? If not, why not? What alternatives would you suggest?

Exposure Draft D: Adaptation/Interpretation and Statutory Adjustments

Q13 Do you agree with the proposed clarification of adaptations and interpretations of IFRS and the description of the processes for statutory adjustments? If not, why not? What alternatives do you suggest?

Post-implementation Reviews and Other Issues

Group Accounts Presentation and Disclosures

Q14 What are your views on the prominence of the Group Accounts in local authority Statements of Account?

Q15 Do you think that the Code's provisions on the presentation and the disclosures required by local authority group accounts provide adequate signals on the reporting requirements for local authorities? If yes, why? If not, why not? Please provide the reasoning behind your response.

Business/Public Sector Combinations

Q16 Do you consider that the Code needs to include more specific guidance on the adoption of IFRS 3 *Business Combinations*?

Q17 Do you agree that the Code's provisions in section 2.5 (Local Government Reorganisations and Other Combinations) of the Code provide appropriate reporting requirements for local government public sector combinations. If not, why not? What alternatives do you suggest?

Recognition of Income for Third Party Payments for Service Concession Arrangements

Q18 Do you consider that CIPFA/LASAAC should be specific about the treatment of third party income (known in IPSAS 32 *Service Concession Arrangements: Grantor* as the grant of the right to the operator model)? If yes, please set out the treatment you consider best fits with the local government circumstances. If no, why not? Please set out the reasoning for your response.

Reporting of Trading Operations in Local Authority Financial Statements

Q19 Do you consider that the disclosure requirements in paragraph 3.4.4.2 2) for trading operations are useful to the users of local authority financial statements (other than for Scottish local authorities)? If yes, please provide the reasoning for your response. If no, why not? Please set out the reasoning for your response.

IASB Materiality Practice Statement

Q20 Do you agree that the IASB Materiality Practice Statement should not be referred to in the Code? If not, why not? Are there other materiality requirements or guidance that you consider should be included in the Code?

Complex Financial Instruments

Q21 Do you consider that there are complex financial instruments requiring specific provisions in the Code? If yes, please set out the nature of the financial instruments and the accounting requirements you consider need specification in the Code.

English Local Authorities: Accounting for Non-domestic Rates for the 100 Percent Rate Retention Pilot Authorities

Q22 Do you agree that the pilot arrangements for non-domestic rates do not require any changes to the accounting requirements in the Code? If not, why not? What alternatives do you suggest?

Further Guidance

Q23 Are there any areas within the Code where additional guidance or improvements to the Code would be helpful? Please support your answer by giving details of the difficulties being experienced.

SECTION 2 – 2019/20 CODE – DETAILED DISCUSSION

IFRS 16 Leases

17. The proposed implementation of IFRS 16 *Leases* in the Code represents a significant change in UK local government accounting. In acknowledging this, and recognising that the IFRS 16 proposals will be of interest to some stakeholders not normally affected by the Code, the proposals have been issued for comment in CIPFA/LASAAC's separate consultation on IFRS 16 Leases. The IFRS 16 Leases consultation closes on **7 September 2018.**

18. The most significant aspects of the proposals are:

- the current distinction between operating and finance leases will be removed for lessees
- 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 property, and a lease liability representing the lessee's obligation to make lease payments for the asset.

The financial and practical implications of these proposals will be an important consideration for stakeholders.

19. Correction – note that the end section of paragraph 162 in the Invitation to Comment should read:

'*CIPFA/LASAAC proposes mandating the first and fifth of these expedients as it considers that most local authorities will take-up these practical expedients and they are consistent with the approach to short-term leases. The FReM proposals are also to mandate the first, and fifth of these practical expedients and the use of hindsight. However, CIPFA/LASAAC is of the view that local authorities are best placed to determine whether hindsight should be used*.'

20. This consultation document should be regarded as directly related to and interlinked with the IFRS 16 consultation. Respondents to this consultation are therefore fully encouraged to also respond to CIPFA/LASAAC's IFRS 16 Leases 2019/20 Code Consultation.

Exposure Draft ED A – Narrow Scope Amendments to IFRS

A1. Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement

21. The IASB issued IAS 19 *Employee Benefits*: Plan Amendment, Curtailment or Settlement in February 2018. The amendments require that when a plan amendment, curtailment or settlement occurs during a reporting period that entities use updated actuarial assumptions to determine current service cost and net interest for the remaining annual reporting period.

22. Currently the Code's adoption of IAS 19 is such that local authorities are not required to use updated assumptions for such changes but are instead usually required to measure current service cost using actuarial assumptions at the start of the reporting period. Net interest cost is also normally determined by

multiplying the net defined benefit liability by the discount rate both determined at the start of the reporting period.

23. The amendments to IAS 19 require that an entity:

- determines current service cost and net interest for the remainder of the annual reporting period using the assumptions for the remeasurement, and
- determines the net interest for the remainder of the annual reporting period on the basis of the remeasurement of the defined benefit liability.

24. The amendments to IAS 19 also provide clarification on how the plan amendment will affect the asset ceiling. However, this is not likely to be a substantial issue for reporting authorities.

25. The implementation of these amendments may a have significant impact on the estimation processes of local authorities for the measurement of the components of the defined benefit cost to local authorities, for example, when staff transfer to academies and other employers, including LGPS admitted bodies such as arm's length external organisations. It is important to note that the Basis of Conclusions in relation to the amendments to the standard specifically refer to their application when the effect of a plan amendment curtailment or settlement is material. It will therefore be important that local authorities ensure that materiality is given due consideration for such transactions.

26. The amendments to IAS 19 are accounted for prospectively. Implementation of the proposals above in the 2019/20 Code will be dependent on European Union (EU) adoption by 1 January 2019.

Amendments to IAS 19 *Employee Benefits*: Plan Amendment, Curtailment or Settlement

Q1 Do you agree with the approach to adoption of the Amendments to IAS 19 *Employee Benefits*: Plan Amendment, Curtailment or Settlement? If not, why not? What alternatives do you suggest?

Q2 What do you consider the practical impact of the adoption of the Amendments to IAS 19 *Employee Benefits*: Plan Amendment, Curtailment or Settlement will be for you or your organisation? Please provide details.

A2. Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation

27. Under the current IFRS 9 *Financial Instruments* requirements, the solely payments of principal and interest condition is not met if the lender has to make a settlement payment in the event of termination by the borrower. The amendments to IFRS 9: Prepayment Features with Negative Compensation allow entities to measure particular financial assets with prepayment features with so-called negative compensation[1] at amortised cost or at fair value through other

[1] Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest.

comprehensive income if a specified condition is met, instead of at fair value through profit or loss.

28. The amendments to IFRS 9 feature in the application guidance relating to the classification of financial assets. The approach to adoption of the provisions of IFRS 9 in relation to the classification of financial assets would require direct reference to the standard for this application guidance. CIPFA/LASAAC does not see any need to amend the approach to drafting of the Code for this issue but would welcome interested parties' views.

29. Application of these amendments is retrospective. There are specific transitional reporting requirements for the amendments to IFRS 9 in relation to the designation of financial assets and financial liabilities at fair value through profit or loss. The revocations of previous designations and the permission to designate are unlikely to apply to local authorities as a result of the changes. However, CIPFA/LASAAC has included them for the avoidance of doubt.

30. The amendments also feature changes to the Basis of Conclusions of IFRS 9 in paragraph BC4.252. The amendment confirms that most modifications of financial liabilities will result in immediate recognition of a gain or loss. This may therefore impact on local authorities that restructure borrowings. Local authorities have in the past undertaken substantial modifications to their liabilities and therefore CIPFA/LASAAC is seeking the views of interested parties on whether the amendment might impact on local authority transactions. However, the IASB notes in the amended basis of conclusions that this is not amendment to standards because the requirements of IFRS 9 already provide an adequate basis for an entity to account for modifications of exchanges of liabilities that do not require derecognition. CIPFA/LASAAC is therefore not proposing to change the Code but again is seeking interested parties' views on the issue.

31. Implementation of the proposals above in 2019/20 Code will be dependent on EU adoption by 1 January 2019.

Amendments to IFRS 9 *Financial Instruments*: Prepayment Features with Negative Compensation	
Q3	Do you agree with the approach to adoption of the Amendments to IFRS 9 *Financial Instruments*: Prepayment Features with Negative Compensation? If not, why not? What alternatives do you suggest? Please also comment on whether this may have any financial impact on local authority transactions.
Q4	Do you agree with CIPFA/LASAAC that the amendments in relation to modifications or exchanges of financial liabilities that do not result in derecognition do not require change to the Code? If not, why not? What alternatives do you suggest? Please also comment on whether this may impact on local authorities accounting policies in this area.

Other Narrow Scope Amendments to IFRS

A3. IAS 40 *Investment Property*: Transfers of Investment Property

32. In December 2016 the IASB issued an amendment to IAS 40 *Investment Property*: Transfers of Investment Property which provides clarification of paragraph 57. This paragraph deals with transfers to or from the investment

property classification. The amendment provides clarification about when a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. This change will apply to local authorities and may impact on local authority accounting policies.

33. Paragraph 57 is currently only included by cross-reference in the 2018/19 Code. It is proposed that the 2019/20 Code will not include the amendments directly, but will include reference to the transitional provisions in Appendix C to the Code.

34. The amendments to IAS 40 were consulted on in last year's consultation and were supported by the majority of respondents. However, they were not adopted by the EU in time for inclusion in the 2018/19 Code and therefore CIPFA/LASAAC has rolled forward the changes to the 2019/20 Code. The amendments to IAS 40 have been adopted by the EU and therefore will apply in the 2019/20 Code.

A4. Annual Improvements to IFRS Standards 2014 – 2016 Cycle

35. The application of *Annual Improvements to IFRS Standards 2014 – 2016 Cycle* (Annual Improvements) to the Code is outlined in Appendix A to the ITC.

36. CIPFA/LASAAC is of the view that none of the amendments will have a substantial application to local authorities. One of the amendments within the Annual Improvements, the amendments to IFRS 12 *Disclosure of Interests in Other Entities,* clarifies the scope of IFRS 12 with respect to interests in entities within the scope of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Although this amendment does not relate to common transactions for local authorities it has been included in the Code as it is important that the Code includes full details of the scope of the main standards that it adopts.

37. The *Annual Improvements to IFRS Standards 2014 – 2016* Cycle was consulted on in last year's consultation and the approach was supported by the majority of respondents. However, it was not adopted by the EU in time for inclusion in the 2018/19 Code and therefore CIPFA/LASAAC has rolled forward the changes to the 2019/20 Code. The Annual Improvements has now been adopted by the EU and therefore will apply in the 2019/20 Code.

A5. Amendments to IAS 28 Interests in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures

38. The IASB issued IAS *28 Interests in Associates and Joint Ventures*: Long-term Interests in Associates and Joint Ventures. The amendments clarify that IFRS 9 applies to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

39. Consequently IFRS 9 (for example, the impairment requirements) is applied to relevant long-term interests before an entity recognises, under IAS 28, its share of losses of the associate or joint venture and the impairment of its net investment.

40. Paragraph 7.1.2.25 (a) of the 2018/19 Code notes the following scope exclusion in applying financial instrument requirements:

"*Interests in subsidiaries, associates and joint ventures, which are covered by Code chapter nine – Group Accounts. However, in some cases, IFRS 10, IAS 27 or*

IAS 28 require or permit an authority to account for an interest in a subsidiary, associate or joint venture in accordance with some or all of the requirements of IFRS 9."

41. As this is not likely to be a frequent transaction direct reference to the amendment is not required. It is considered that the existing final sentence extracted above adequately addresses the amendment made by IAS 28 in respect of the situations in which IFRS 9 should be applied to interests in associates and joint ventures.

42. Application is retrospective. The amendments' transitional requirements set out that an entity that first applies the retrospective adoption of the amendments after it first applies IFRS 9 (so for local authorities in the 2018/19 financial year) is required to apply the transition requirements in IFRS 9 necessary for applying the requirements set out in the amendments to long-term interests. References to the date of initial application in IFRS 9 are required to be read for that purpose as referring to the beginning of the annual reporting period in which the entity first applies the amendments. The entity is not required to restate prior periods to reflect the application of the amendments. The amendments set out that an entity may restate prior periods only if it is possible without the use of hindsight.

43. The retrospective amendments are referred to in Appendix C. However, this is done by means of cross reference to the transitional requirements in the Standard. CIPFA/LASAAC would seek interested parties' views on this issue.

44. Implementation of the proposals above in 2019/20 is dependent on EU adoption by 1 January 2019.

Amendments to IAS 28 *Interests in Associates and Joint Ventures*: Long-term Interests in Associates and Joint Ventures	
Q5	Do you agree with the approach to adoption of the Amendments to IAS 28 *Interests in Associates and Joint Ventures*: Long-term Interests in Associates and Joint Ventures? If not, why not? What alternatives do you suggest? Where necessary please provide any commentary in relation to the practical aspects of the changes.

A6. Annual Improvements to IFRS Standards 2015 – 2017 Cycle

45. The IASB issued *Annual Improvements to IFRS Standards 2015 – 2017 Cycle* in December 2017. The amendments are summarised in Appendix B to the ITC. Implementation of the proposals above in 2019/20 is dependent on EU adoption by 1 January 2019.

46. One of the areas of this set of Annual Improvements most likely to impact on local authorities is the changes to borrowing cost. The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings. CIPFA/LASAAC would seek the views of interested parties on whether there might be any substantial impacts, particularly relating to General Fund Balances as a result of this proposed change.

Annual Improvements to IFRS Standards 2015 – 2017 Cycle	
Q6	Do you agree with the approach to adoption of the *Annual Improvements to IFRS Standards 2015-2017 Cycle*? If not, why not? What alternatives do you suggest? Please indicate whether the changes relating to IAS 23 *Borrowing Costs*: Borrowing Costs Eligible for Capitalisation will have an impact on the General Fund Balances of local authorities.

A7. IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

47. IFRIC 22 *Foreign Currency Transactions and Advance Consideration* was issued in December 2016. IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance. IAS 21 *The Effects of Changes in Foreign Exchange Rates* does not apply regularly to local authorities although may apply to pension funds. CIPFA/LASAAC considers that it is useful to include reference to IFRIC 22 in Appendix A, paragraph A.1.4 although again it does not consider that the IFRIC will have a wide application in local authorities.

48. The amendments to the Code for IFRIC 22 were consulted on during last year's consultation and were supported by the majority of respondents. However, they were not adopted by the EU in time for inclusion in the 2018/19 Code and therefore CIPFA/LASAAC has rolled forward the changes to the 2019/20 Code. The amendments to IFRIC 22 have now been adopted by the EU and therefore will apply in the 2019/20 Code.

A8. IFRIC 23 *Uncertainty over Income Tax Treatments*

49. IFRIC 23 *Uncertainty over Income Tax Treatments* was issued in June 2017. For some transactions within the scope of IAS 12 *Income Taxes* it may be uncertain how income tax law applies. In that case an entity considers if it is probable that the tax treatment will be accepted. If acceptance is not probable the entity reflects the uncertainty through use of either a 'most likely amount' or an 'expected value' approach. The IFRIC permits either full retrospective restatement or retrospective restatement with the cumulative effect of initially applying the Interpretation recognised at the date of initial application.

50. IAS 12 *Income Taxes* does not apply to local authority single entity financial statements. It may affect the Group Accounts and possibly pension fund accounts. It is proposed that IFRIC 23 is referred to in Appendix A (IFRSs with Limited Application to Local Authorities) paragraph A.1.2 of the Code and in Annex A to Section 6.5 (Accounting and Reporting by Pensions Funds).

51. Implementation of the IFRIC 23 proposals in 2019/20 is dependent on EU adoption by 1 January 2019.

IFRIC 23 *Uncertainty over Income Tax Treatments*	
Q7	Do you agree with the approach to the adoption of IFRIC 23 *Uncertainty over Income Tax Treatments*? If not, why not? What alternatives do you suggest?

Consequential Amendments to the Code on the Adoption of the Narrow Scope Amendments

52. Exposure Draft A includes proposed amendments to Appendix C (Changes in Accounting Policies: Disclosures 2018/19 and 2019/20 Financial Statements) summarising the transitional reporting requirements of the new or amended standards anticipated to be adopted in the 2019/20 Code (although direct reference will also need to be made to the standards themselves) and lists them in Appendix D (New or Amended Standards*).* Inclusion in these Appendices will depend on EU adoption by 1 January 2019.

Exposure Draft B: Legislative and Policy Changes

B1. Scottish Local Authorities: Presentation of Transfers to or from Other Statutory Reserves

53. In Scotland local authorities have the legal ability to hold 'other statutory usable reserves' (eg an Insurance Fund) and to transfer funds between these and the General Fund. The Code adopts the principle of specifying the minimum level of detail for the financial statements, whilst permitting authorities to include more detail where it is appropriate to do so. Scottish local authorities have been able to use this principle to add appropriate lines to the Movements in Reserves Statement and the Expenditure and Funding Analysis

54. CIPFA/LASAAC proposes formalising this approach by allowing an additional line for Scottish authorities in the Movement in Reserves Statement. An additional line is also proposed for the Expenditure and Funding Analysis. These proposals do not have a financial impact on fund balances.

55. The proposed amendments to the Code are in paragraphs 3.4.2.55 and 3.4.2.99 – Exposure Draft B.

Scottish Local Authorities: Presentation of Transfers to or from Other Statutory Reserves	
Q8	Do you agree with the approach to the presentation of transfers to or from other statutory reserves? If not, why not? What alternatives do you suggest?

B2. Scottish Local Authorities: Presentation of Statutory Adjustments for the Revaluation Elements of Depreciation

56. Following an approach by LASAAC, CIPFA/LASAAC has considered the provisions in the Code relating to statutory adjustments for depreciation. CIPFA/LASAAC decided on the introduction of the IFRS-based Code that paragraph 41 of IAS 16 which allows for a voluntary transfer of some of the revaluation surplus to retained earnings as the asset is consumed (ie depreciation is charged), instead of moving the whole revaluation surplus to retained earnings on derecognition, should be included as a statutory adjustment. The Code treated it in this way as it would be one sided to include the gain or loss on disposal as a statutory adjustment and not include the gain on revaluation as a statutory adjustment. This was necessary to ensure that the Capital Adjustment Account shows the

correct capital financing position ie the extent to which an authority has financed its capital transactions on an historical cost basis.

57. It has been identified that in Scotland the revaluation element, or portion, of depreciation charges may be voluntarily offset by a transfer directly between the Revaluation Reserve and the General Fund, instead of being routed through the Capital Adjustment Account and presented as a statutory adjustment.

58. The use in Scotland of this voluntary transfer, instead of applying a statutory adjustment, does not result in any difference to reserve closing balances i.e. where the option is exercised it is purely a presentational change.

59. Use of the voluntary transfer in Scotland may require amendment to existing asset register reports where these are aligned to the presentation requirements of the Movement in Reserves Statement. The voluntary transfer is reflected for the revaluation element of depreciation (paragraphs 4.1.3.1 to 4.1.3.2; HRA in the Scotland paragraph 4.1.3.7). It will also require a separate line in the Movement in Reserves Statement. CIPFA/LASAAC is also interested in the applicability of this voluntary transfer to local authorities across the UK where the legislation for the treatment of capital receipts differs from Scottish local authorities.

Scottish Local Authorities: Presentation of Statutory Adjustments for the Revaluation Elements of Depreciation	
Q9	Do you agree with the proposed changes for the presentation for the revaluation elements of depreciation? If not why, not? What alternatives do you suggest? Are there significant practical or financial management implementation considerations in allowing a voluntary transfer between the Revaluation Reserve and the General Fund in Scotland? Do you have any views on the applicability of this voluntary transfer to local authorities across the UK where the legislation for the treatment of capital receipts and the legislative framework differs from Scottish local authorities?

B3. Carbon Reduction Commitment Scheme and Landfill Allowances

60. The Carbon Reduction Commitment (CRC) Scheme closes from 31 March 2019, with final surrender of allowances expected by October 2019. It is therefore possible that where the cost of purchasing allowances in 2019/20 differs from the obligation recorded in the 31 March 2019 balance sheet gains and losses may arise from the scheme during 2019/20. As at 31 March 2020 however there will be no allowances represented on authority balance sheets.

61. Additionally Landfill Allowance Schemes have either ceased or been suspended in England and Scotland.

62. Consequently it is proposed that Section 2.4 of the Code is amended to remove references to these schemes. The proposals are provided in the Exposure Draft.

B4. Apprenticeship Levy

63. The Apprenticeship Levy is payable by qualifying employers across the UK and provides funding to support apprenticeships. The mechanism and criteria under which employers can apply to use the available funding differs between the different government administrations. CIPFA has issued application guidance under the auspices of the Local Authority Accounting Panel (LAAP) in CIPFA Bulletin 01 Closure of the 2017/18 Financial Statements. This was issued in February 2018.

64. There has been some debate on the accounting treatment in relation to the income received in an authority's Digital Apprenticeship Service Account for English local authorities. The CIPFA Bulletin advises that the income is treated as a government grant whilst it is understood that some stakeholders consider that the income should be treated as a prepayment. Both the Government's Financial Reporting Manual (the FReM) and the Department of Health and Social Care - Group Accounting Manual (the DHSC – GAM) have included application guidance to the same effect as the CIPFA Bulletin.

65. CIPFA/LASAAC has therefore decided that it will follow the approach in the other Manuals and provide application guidance in the Code on the Apprenticeship Levy on the accounting treatment in a new section 2.11 (Apprenticeship Levy). The guidance covers the treatment of the levy as an employee expense (a tax) across the United Kingdom.

66. The new section 2.11 also covers the treatment of the payments into the Digital Apprenticeship Service Account as a grant and stipulates that the expenditure for the levy funded training is recognised as it is incurred. The grant should then be recognised at the same time as the expenditure is incurred (ie when the conditions of the grant are met).

Apprenticeship Levy	
Q10	Do you agree with the proposed specification of the treatment of the Apprenticeship Levy? If not, why not? What alternatives do you suggest?

B5. References to Legislation

67. The following legislation and statutory guidance has been enacted or made since the development of the 2018/19 Code. The table below sets out the legislation in question and the amendments required to the Code which where necessary are included in Exposure Draft B.

Jurisdiction	Legislation	Effective Date
England	Statutory Guidance on Minimum Revenue Provision (revisions and clarifications re MRP calculation). *No Code amendments proposed: the existing references considered to be appropriate.*	1 April 2018 (selected items) and 1 April 2019

Jurisdiction	Legislation	Effective Date
England	Statutory Guidance on Local Government Investments (revisions regarding investment practices and Prudential Code references). *No Code amendments proposed: the existing references considered to be appropriate.*	1 April 2018
Scotland	Finance Circular 1/2018 LGPS Annual Report & Accounts. (replaces FC 6/2015, updated to reference revised legislation). *Proposed amendments to 6.5.1.8 (footnote also removed), 6.5.3.2, 6.5.5.3 to 6.5.5.4, Annex to section 6.5)*	1 April 2017
Scotland	Finance Circular 2/2018: short term accumulating paid absences (replaces FC 3/2010, removes the mitigation for flexi-leave and time off in lieu accruals after a transition period). *Proposed amendment to Appendix B part 2.*	1 April 2017
Scotland	Finance Circular 3/2018: capital grants, contributions, donated assets (replaces FC 6/2011 and provides updated specification for the accounting presentation of these items). *Proposed amendment to Appendix B part 2.*	1 April 2017
Wales	The Accounts and Audit (Wales) (Amendment) Regulations 2018 (this amends WSI 2014/3362 W337, removing the requirement to include LGPS fund accounts in the authority accounts. *Proposed amendments to Code paragraphs 6.5.1.9 and Appendix B. Existing references to the 2014 regulations will still be effective.*	Issued 18 March 2018 (affecting 2017/18 onwards)
Wales	The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2018 (this amends WSI 2003/ 3239 W.319 relating to a number of aspects including securitisation of revenues in credit arrangements; the definition of capital expenditure; use of capital receipts; and back pay following unequal pay).	31 March 2018

Jurisdiction	Legislation	Effective Date
	Existing references to the 2003 Regulations will largely still be effective. However, minor changes will be required to paragraph 7.1.9.3 to reflect the changed treatment for loan capital under the regulations.	

68. The Code proposals are indicated above and are provided in Exposure Draft B.

References to Legislation

Q11 Do you agree with the proposed amendments to reflect the references in the Code to legislation which has been enacted or made since the development of the 2018/19 Code? If not, why not? What alternatives do you suggest? Are there other items of legislation which you consider could usefully be included in the Code?

Exposure Draft C: IFRS Conceptual Framework for Financial Reporting (March 2018)

C1. Updates to the Concepts Section of the Code following the issue of the IFRS Conceptual Framework for Financial Reporting

69. The IASB issued its *IFRS Conceptual Framework for Financial Reporting* in March 2018 (IASB Conceptual Framework). The IFRS-based Code has included relevant areas from the IASB Conceptual Framework since its inception. The areas have broadly focussed on the objectives of the financial statements, the qualitative characteristics of useful financial information, the elements of the financial statements and recognition and measurement. The Code was also updated in 2012/13 in relation to the IASB's partial update of its Conceptual Framework in 2010. These amendments primarily focussed on the objectives of the financial statements and the qualitative characteristics of useful financial information.

70. The IASB has now substantially revised its Conceptual Framework and therefore there needs to be appropriate amendment to the Code. The main areas for change included in section 2.1 of the Code (Concepts) are:

- updates to the provisions of the Code on the objectives of the financial statements to align it to the new Framework, including the detail of the scope of the financial statements, adapting the terminology for local government circumstances

- updates to the qualitative characteristics of useful financial information for the new text in relation to prudence, measurement uncertainty and substance over form

- inclusion of the new definitions of the elements of the financial statements, adapted for local government terminology, but as with the current edition of the Code to include appropriate reference to service potential, reflecting the different economic substance of resource utilisation by public sector service providers

- updates to include the revised process and criteria for recognition and the Framework's new provisions on derecognition
- amendments to include the new definition of measurement basis but further detail is supported by the existing individual sections of the Code.

71. The IASB completed its Conceptual Framework Project in March 2018. Although this is not mandatory until 2020, the IASB encourages early adoption and in any case, the new material in the revised framework has influenced recent standard setting even though it has not had formal status. CIPFA/LASAAC has therefore decided to adopt the changes to the relevant parts of the 2019/20 Code. The changes to the Code are unlikely to have substantial implications for local authority accounts preparers but will be useful in the assisting them in the understanding of the new major standards (ie IFRS 9, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16).

72. CIPFA/LASAAC has also taken the opportunity to explain in this section of the Code how it uses this and other material to develop the Code by interpreting or adapting IFRS (see also paragraphs 74 to 75 below). Note that whilst introducing the new changes CIPFA/LASAAC has also augmented the provisions of this section of the Code to enhance the readability for local government stakeholders – the volume of changes has meant that this Exposure Draft (C) is largely presented without tracked changes.

IFRS Conceptual Framework for Financial Reporting (March 2018)	
Q12	Do you agree with the proposals to amend section 2.1 (Concepts) of the Code which reflect the adoption of the IFRS *Conceptual Framework for Financial Reporting* (March 2018)? If not, why not? What alternatives would you suggest?

Exposure Draft D: Adaptation/Interpretation and Statutory Adjustments

D1. Adaptations and Interpretations of International Financial Reporting Standards

73. CIPFA/LASAAC considers that it would be worthwhile setting out for local authority stakeholders particular aspects that it needs to consider as the standard setter for local government in drafting the Code. It therefore proposes providing a description of adaptations and interpretations adopted by the Code and how the Board applies them to local government circumstances. Additional commentary is also included in section 2.1 in paragraphs 2.1.1.1 and 2.1.1.2 in Exposure Draft C.

74. Exposure Draft D sets out in Chapter One (Introduction) that an adaptation of IFRS is a change to the provisions of a standard to reflect local government circumstances (see paragraph 1.2.9). An interpretation of IFRS does not amend the standard but sets out how the standard should be applied to reflect local government circumstances.

D2. Statutory Adjustments and the Presentation of Local Authority Reserves

75. To assist local authorities with an understanding of the accounting provisions in the Code CIPFA/LASAAC has also included the process for the accommodation of statutory adjustments ie that statutory requirements establish what is chargeable for council tax or housing rents (referred to as to in the Code as what is chargeable to the General Fund) and the Code prescribes the adjustments from the accounting requirements set out in IFRS as adopted by the Code to arrive at the legislative position (see new paragraph 1.2.6 in Exposure Draft D). CIPFA/LASAAC has then taken the opportunity to set out how this impacts on the reserves of the authority in new paragraphs 1.2.13 to 1.2.16. This does not change the accounting requirements for local authorities in relation to these reserves.

Adaptations/Interpretations and Statutory Adjustments	
Q13	Do you agree with the proposed clarification of adaptations and interpretations of IFRS and the description of the processes for statutory adjustments? If not, why not? What alternatives do you suggest?

E. Post-implementation Reviews and Other Issues

76. Interested parties may be aware that CIPFA/LASAAC commenced its post-implementation review at the end of 2017 focussing on three areas of the Code:

- IAS 19 *Employee Benefits*
- the Group Accounts standards[2]
- service concession arrangements.

77. The post implementation review was principally in relation to the impact of substantial changes to these standards that were adopted by the IFRS-based Code since its inception in 2009 but CIPFA/LASAAC was keen to consider any of the Code's provisions for these areas. It issued a general call for evidence on these three areas in December 2017 which ran until the end of April 2018. Overall CIPFA/LASAAC is of the view that there are no substantial issues requiring amendment to the Code arising from the responses to the call for evidence. It has received a number of comments on application which it will consider with CIPFA and LAAP. It would, however, wish to seek interested parties' views on three issues:

- Group Accounts presentation and disclosures
- accounting for business/public sector combinations, and
- recognition of third party income for service concession arrangements.

[2] IFRS *10 Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interest in Other Entities*, IAS 27 *Separate Financial Statements*, IAS 28 Investments *in Associates and Joint Ventures.*

E1. Group Accounts Presentation and Disclosures

78. One of the respondents to the call for evidence commented on the need to consider the Code's provisions on local authorities Group Accounts presentation and disclosures following an increasing commercial trend for more interests in other entities. The respondent acknowledged that for many authorities it remained appropriate that the local authority single entity financial statements were the prominent statements but cited some inconsistency in practice particularly in relation to disclosures. CIPFA/LASAAC would note that the Code anticipates Group Accounts including the presentation of the financial statements and disclosures to be presented in accordance with IFRS as adapted or interpreted by the Code but would seek interested parties views on:

- the prominence of the Group Accounts in local authority financial statements
- whether the Code could be augmented to ensure that the presentation and disclosure of Group Accounts transactions are appropriately signposted (in the Code).

E2. Accounting for Business/Public Sector Combinations

79. One of the respondents to the consultation highlighted that local authorities are increasingly entering into complex transactions in the form of acquisitions. The Code requires that local authorities follow the requirements of IFRS 3 *Business Combinations* largely by cross-reference but requires full adoption of the standard[3]. The respondent raised the issue of whether the Code could give more prominence to accounting for business combinations and CIPFA/LASAAC would seek interested parties' views.

80. At the same time CIPFA/LASAAC has taken the opportunity to review the requirements of IPSAS 40 *Public Sector Combinations* issued by IPSAS in January 2017 against the requirements in section 2.5 (Local Government Reorganisations and Other Combinations) of the Code. The FReM includes separate provisions on this issue as IFRS 3 excludes combinations under common control. The Code's prescriptions follow the approach of the FReM (which did take into account the early deliberations of the IPSASB on public sector combinations) but as they relate to local government transactions.

81. CIPFA/LASAAC is content that its provisions reflect UK local government transactions. However, CIPFA/LASAAC would seek interested parties' views on this issue. It is minded to consider whether the specific disclosures required by the Code remain appropriate, having regard to the effort required by preparers, and the benefit of the information to readers of the financial statements and would welcome comments on this issue.

E3. Recognition of Income for Third Party Payments for Service Concession Arrangements

82. In its call for evidence CIPFA/LASAAC raised the issue of third party payments for service concession arrangements as it had previously considered this issue following its augmentation of the Code's provisions on service concession arrangements in the 2013/14 Code. The Code currently addresses this from a first principles basis. Three respondents to the consultation raised the issue and all of them have requested that CIPFA/LASAAC specify a treatment for third party

3 Note that there is an adaptation of IFRS 3 for combinations of public sector bodies but this is as IFRS 3 excludes combinations under common control - see paragraph 9.1.1.5 of the Code.

payments. CIPFA/LASAAC would note that this has been raised previously in responses to Code consultations.

83. CIPFA/LASAAC has included the current treatment in the Code (ie the first principles basis) as there are differing views in GAAP as to the approach to these transactions. IPSAS 32 *Service Concession Arrangements: Grantor* sets out that the grantor accounts for the liability recognised as the unearned portion of the revenue arising from the exchange of assets between the grantor and the operator known as the 'grant of the right to the operator model'. However, the Accounting Council's advice to the FRC in FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* states that '*The Accounting Council does not advise the application of this model because it appears to result in the recognition as liabilities of amounts that may not meet the definition of a liability'*.

84. One of the respondents noted that the *Statement of Recommended Practice, Accounting for Further and Higher Education* (following the FRS 102 comments on the IPSAS 32 approach) sets out a treatment for student residences projects:

'by instead determining whether the grantor (in this case a university or college) is an agent or a principal under FRS 102 Section 23, whose provisions follow IAS 18 closely. The grantor will be a principal if it must pay the operator for rooms that it requires the operator to lease to students, regardless of the extent to which students actually occupy those rooms.'

85. Local authorities could follow either treatment following the first principles basis in the Code if they consider that this met the substance of their transactions in this area. CIPFA/LASAAC would therefore be grateful if interested parties would consider the two approaches above or propose alternative treatments and set out their views on whether CIPFA/LASAAC can stipulate a treatment which will represent local government circumstances for third party income under service concession arrangements.

Group Accounts Presentation and Disclosures

Q14 What are your views on the prominence of the Group Accounts in local authority Statements of Account?

Q15 Do you think that the Code's provisions on the presentation and the disclosures required by local authority group accounts provide adequate signals on the reporting requirements for local authorities? If yes, why? If not, why not? Please provide the reasoning behind your response.

Business/Public Sector Combinations

Q16 Do you consider that the Code needs to include more specific guidance on the adoption of IFRS 3 *Business Combinations*?

Q17 Do you agree that the Code's provisions in section 2.5 (Local Government Reorganisations and Other Combinations) of the Code provide appropriate reporting requirements for local government public sector combinations. If not, why not? What alternatives do you suggest?

Recognition of Income for Third Party Payments for Service Concession Arrangements

Q18 Do you consider that CIPFA/LASAAC should be specific about the treatment of third party income (known in IPSAS 32 *Service Concession Arrangements: Grantor* as the grant of the right to the operator model)? If yes, please set out the treatment you consider best fits with the local government circumstances. If no, why not? Please set out the reasoning for your response.

E4. Reporting of Trading Operations in Local Authority Financial Statements

86. CIPFA has been approached by a group of London Treasurers relating to thestreamlining local authority financial statements. CIPFA/LASAAC subsequently considered a letter sent to CIPFA containing proposals for change at its November 2017 meeting. At that meeting CIPFA/LASAAC noted that it had considered a number of its proposals as a part of CIPFA and CIPFA/LASAAC's Simplification and Streamlining Working Group's proposals and the Board's own work on the issues raised. It anticipates commencing outreach processes to evaluate the success of the 2016/17 changes introduced to the Code as a result of its *Telling the Story, Improving the Presentation of Local Authority Financial Statements* review.

87. CIPFA/LASAAC did, however, agree to consider the trading operations and agency disclosures for review as a part of the development programme for the 2019/20 Code. Currently, the Code includes in paragraph 3.4.4.1 2) specific disclosures in relation to trading accounts. This disclosure is relevant to Scottish local authorities but CIPFA/LASAAC would welcome consideration of whether interested parties consider that this disclosure is a necessary requirement in the Code for the remaining jurisdictions across the United Kingdom.

Reporting of Trading Operations in Local Authority Financial Statements

Q19 Do you consider that the disclosure requirements in paragraph 3.4.4.2 2) for trading operations are useful to the users of local authority financial statements (other than for Scottish local authorities)? If yes, please provide the reasoning for your response. If no, why not? Please set out the reasoning for your response.

E5. Consideration of the Application of the IASB Materiality Practice Statement to Local Authority Financial Statements

88. The IASB has released a materiality practice statement in response to comments on the lack of information on judging materiality in IFRS. Concerns were raised that irrelevant information was being included in financial statements due to the adoption of a 'checklist' approach.

89. The practice statement is not an accounting standard and does not change the IFRS definition of materiality. It is non-mandatory and provides guidance and examples in the application of materiality. The practice statement is focused on the needs of the primary users of private sector accounts, for example investors and lenders. When using the practice statement local authorities should be aware

that different considerations are likely to be necessary for the users of local authority financial statements. The users of local authority financial statements are discussed in section 2.1 – for ease of reference interested parties may wish to refer to paragraphs 2.1.1.4 to 2.1.1.6 of section 2.1 in Exposure Draft C. It should be noted, however, that these paragraphs have not been subject to substantial change following the update for the new IASB Conceptual Framework.

90. The IASB Practice Statement is one of a number of different sources of guidance on the application of materiality. Others include 'Statement of Common Principles of Materiality of the Corporate Reporting Dialogue', also supported by the IASB.

91. Due to the non-mandatory nature of the statement and the existence of other guidance not referenced by the Code no amendment to the Code is proposed.

IASB Materiality Practice Statement	
Q20	Do you agree that the IASB Materiality Practice Statement should not be referred to in the Code? If not, why not? Are there other materiality requirements or guidance that you consider should be included in the Code?

E6. Complex Financial Instruments

92. In response to a letter from a group of auditors on 4 April 2018 requesting clarification on a number of issues relating to contracts with Lender Option Borrower Option (LOBO) clauses CIPFA/LASAAC clarified the status of the interpretation of IFRS 9 in the 2018/19 Code for those financial instruments. CIPFA/LASAAC issued a clarification statement confirming that for 2018/19 the provisions of IFRS 9 apply to the accounting treatment of embedded derivatives in contracts where there are LOBO clauses.

93. CIPFA/LASAAC is concerned to understand whether there may be other complex financial instruments that CIPFA/LASAAC should consider providing commentary on in the Code.

Complex Financial Instruments	
Q21	Do you consider that there are complex financial instruments requiring specific provisions in the Code? If yes, please set out the nature of the financial instruments and the accounting requirements you consider need specification in the Code.

E7. English Local Authorities: Accounting for Non-domestic Rates for the 100 Percent Rate Retention Pilot Authorities

94. In December 2017 the Local Government Finance Settlement 2018/19 announced a second wave of non-domestic rate retention pilots for 100 per cent rates retention) leading to 150 pilot authorities in total. CIPFA/LASAAC is of the view that the principles established in the Code for accounting for non-domestic rates for English authorities will be able to be applied to the pilot authorities and that there is currently no need to change the Code - see the Code sections 2.8 (Tax Income (Council Tax Residual Community Charges and Non Domestic Rates) and

3.6 (Collection Fund (England)/Council Tax Income Account Scotland/ Non Domestic Rate Account Scotland). CIPFA/LASAAC is seeking interested parties' views on this issue.

English Local Authorities: Accounting for Non-domestic Rates for the 100 Percent Rate Retention Pilot Authorities	
Q22	Do you agree that the pilot arrangements for non-domestic rates do not require any changes to the accounting requirements in the Code? If not, why not? What alternatives do you suggest?

E8. Further Guidance

95. CIPFA/LASAAC would be interested to hear interested parties' views on whether there are any areas within the Code, or as a result of policy developments, where additional guidance or improvements to the Code could be developed. This will help to inform the development programme for future editions of the Code, or where relevant, referral to the Local Authority Accounting Panel.

Further Guidance	
Q23	Are there any areas within the Code where additional guidance or improvements to the Code would be helpful? Please support your answer by giving details of the difficulties being experienced.