Report

To:	CIPFA LASAAC
From:	Sarah Sheen, CIPFA Standard Setting Manager
Date:	9 November 2022
Subject:	Analysis of the Responses to the Consultation on the 2023/24 Code

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Purpose

To report on the responses to the consultation on the Draft 2023/24 Code of Practice on Local Authority Accounting in the United Kingdom and seek approval on the amendments to the 2023/24 Code

1. Introduction

1.1 In total there were 20 responses (listed at Annex A) to the public consultation on the draft 2023/24 *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code). CIPFA/LASAAC consulted on the 2023/24 Code amendments from 4 August to 14 October 2022. This is lower than last year's consultation response rate of 25 responses. This response rate may have been affected by the significant response rates to the two other consultations held this year where there were 216 and 83 respectively. The Secretariat is of the view that there is evidence that its stakeholders are engaged with Code processes. The consultation response rate may have also been affected by promise of a stable platform and the relatively uncontentious nature to the changes to the 2023/24 Code.

1.2 CIPFA LASAAC can also take assurance on the outreach engagement from the webinar held on 15 September 2022, which was attended by well over 200 delegates. An article on local authority financial reporting which referred to the Code consultation was also included in the Local Government Chronicle.

1.3 The Secretariat followed the same publication approaches as in previous years including emailing Treasurers Societies and with news items sent by CIPFA Finance Advisory Network Service subscribers, newsletters etc. The Secretariat also informed the relevant bodies as required under CIPFA/LASAAC's Terms of Reference and used social media to advertise the consultation.

1.4 The responses received are summarised in the remainder of this report with more detailed analysis in Annex B, section by section, followed by the Secretariat's comments and suggestions. Issues of principle are considered in the main body of the report. The statistical analysis of all the responses and individual comments are included in Annex B. The Code

Drafts as opposed to Exposure Drafts are circulated alongside this report. The questions on the Strategic Plan are included in a separate report at agenda item 9.

1.5 Copies of the responses received will be made available to Board members electronically on request. For the avoidance of doubt the body of the report does not refer to the individuals or entities.

2. Analysis of Consultation Responses

Stable platform

2.1 CIPFA LASAAC will be aware that it took the extremely difficult decision in April to defer IFRS 16 *Leases*. This was a pragmatic approach to avoid adding to the reporting/resource burden for both local authority accounts preparers and (local) auditors because of the already severe delays in the publication of audited financial statements. CIPFA LASAAC will be aware that this was not a unanimous decision but one which was marginally approved by the majority of Board members. To maintain the advantages of this decision the Code consultation was based on a stable platform and sought views from stakeholders.

2.2 An overwhelming majority (90% 18 respondents) agreed with the stable platform, indicating that this was welcomed against the local audit background, and would allow some authorities to take forward the implementation of IFRS 16. While agreeing respondents raised the following issues:

- this should not prohibit enhancements to the Code – see section 6 of this report
- local authorities should adopt climate change reporting – the Secretariat agrees that climate change reporting is vital, but this would not represent a stable platform (see also the comments in Row 1.2a) in Annex B); and the report at agenda item 9)
- a respondent was of the view the Code is due a critical review of disclosures including for example those in IAS 19 (note the group that looked at streamlining did not prioritise the removal of IAS 19 disclosures but prioritised Group Accounts and IFRS 16 – see Annex B to agenda item 9). Additionally recent indications from FRAB regarding high quality financial reporting would probably mean that a removal of any of the disclosures would have a very high bar as a test and would be unlikely to be successful.
- some of the suggestions in the recent emergency consultation could be considered – note that most of these would not represent a stable platform and were either rejected by CIPFA LASAAC or not within its gift.
- commentary on the resourcing issues in the local audit regime.

More detailed commentary is provided in Annex B rows 1.1 to 1.2.

CIPFA LASAAC is invited to note the support for a stable platform in the consultation responses.

3. Amendments to Standards

Definition of Accounting Estimates, Amendments IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

3.1 Most of the respondents (85% - 17) supported the approach in the consultation paper and Exposure Draft to the introduction to the Code for *Definition of Accounting Estimates,* *Amendments IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.* The respondents indicated:

- the changes provide clarity to assist local authorities in distinguishing between accounting policies and accounting estimates
- they expected the amendments will represent (incredibly) helpful guidance for local authorities in determining whether changes are to be treated as changes in estimates, changes in policies, or errors.

More detail is provided in Annex B rows 2.1 to 2.5.

3.2 One respondent noted that the Exposure Draft paragraph 3.3.2.16 explains that the accounting code sometimes uses the term 'estimate' where it is not referring to an accounting estimate. The respondent suggested that understanding would be enhanced if relevant references to 'estimate' throughout the accounting code were replaced with 'accounting estimate', where applicable, to ensure consistent differentiation. The Secretariat does not concur. The IASB has not changed standards in a similar way and there is a risk that examples might be missed which would lead to confusion. The Secretariat suggests instead that this is explained in some detail in the Code Guidance Notes with appropriate illustrations to demonstrate what this might mean.

Disclosure of Accounting Policies, Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2, Making Materiality Judgements

3.3 The majority of respondents (75% - 15) indicated that Disclosure of Accounting Policies, Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements* should be implemented in the Code as outlined in the consultation paper.

3.4 Most comments focussed on mechanisms to improve understanding including exemplification of what the new Code requirements might mean including suggestions of reference to Practice Statement 2. The Code Guidance Notes will consider various examples to help illustrate the requirements, it will also consider the additional guidance in Practice Statement 2. If necessary, it will cross refer to this statement as the Code Guidance Notes can add the necessary context to Practice Statement 2, but the Code Guidance Notes should be able to provide the equivalent local government guidance.

3.5 One respondent who partly agreed noted that this might mean that there would be fewer accounting policies than the user of the accounts would wish to see and asked a number of detailed questions which can be responded to in guidance (see Annex B row 3.6).

Amendments to IAS 12 Income Taxes, Deferred Tax relating to Assets and Liabilities arising from a Single Transaction

3.6 The majority of respondents (80% - 16) supported the Deferred Tax relating to Assets and Liabilities arising from a Single Transaction, Amendments to IAS 12 *Income Taxes*. The approach in the consultation was not to amend the Code as this was only likely to apply to local authority group accounts.

3.7 An audit firm remarked on the increase in local authorities entering into Group Accounts transactions and suggested that the Code should indicate that this standard has changed and include such transactions in either chapter 9 of the Code or in Module 9 of the Code Guidance Notes which relate to Group Accounts. Other respondents indicated a need to provide additional guidance on these transactions.

3.8 The Secretariat would note that the Code lists all the amended standards (even where there are no direct changes to the provisions of the Code) in both its Appendices A and D. Any amendments to Chapter 9 in such a way would need to be subject to consultation. It is possible that such a listing could be included in the Code Guidance Notes.

Reference to the Conceptual Framework, Amendments to IFRS 3 Business Combinations

3.9 The majority of respondents (85% -17) agreed with the approach in the consultation paper with regard to Reference to the Conceptual Framework, Amendments to IFRS *3 Business Combinations*, setting out sometimes in detail that they agreed with the views expressed in the Code.

Changes to the Code

3.10 No significant changes have been made to the Code Draft as a result of respondents' comments to the consultation.

CIPFA LASAAC's views are sought on the approach in extracted Code Drafts for changes to standards.

4. Legislative changes

4.1 The ITC suggested that there will need to be amendments to the Code for the following legislative issues.

a. Amendments in England to the Accounts and Audit Regulations 2015 for the changes to financial reporting deadlines. The amendments to the Regulations have been issued.

b. The impact of the time-limited legislative specifications in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (and equivalent Welsh Regulations) with respect to the changes for Fair Value Gains and Losses on Pooled Investments (England and Wales) – note the specifications theoretically expire at the end of 2022/23. DLUHC has consulted on the proposed changes, but the outcome of the consultation is not yet known. Changes are also anticipated to the Welsh Regulations.

c. The impact for the end of the time limited specifications in legislation for a separate reserve to manage deficits for the Dedicated Schools Grant – again this legislation theoretically expires at the end of 2022/23. Government has undertaken a consultative exercise, any changes to the Regulations have not yet been issued.

4.2 The 2022/23 Code was able to reflect the changes to the Accounts and Audit Regulations 2015 as factual changes and therefore no further amendments will be necessary. Depending on the timing of the issue of the changes to the Capital Finance Regulations commentary (usually by way of footnotes) will need to be included in the Code to anticipate the amendments to the Regulations.

4.3 The responses to question 6 largely did not focus on the anticipated changes to the Code but on the affects of the legislation (only few of which will require consideration of accounting treatment). This is reflected in the consultation rate and although the majority of respondents agreed, (55% - 11) this is a much lower response rate than the earlier questions. Annex A includes a summary of these comments.

4.4 Those that might relate to future accounting treatment include that Scottish legislation has been not included in the Code or consultation including:

- Local Government Finance Circular 09 /2022 - Statutory Override - Accounting for Infrastructure Assets – it will be important to be clear in the 2023/24 Code about the relationship of the Update to the Code on infrastructure assets and the Bulletin

- Local government finance circular 10/2022 - Finance Leases and Service Concession arrangements – this should only need to be referred to in Appendix B of the Code and possibly section 4.3.
- The Low Emissions Zones (Scotland) Regulations 2021 – the separate account required by these regulations might best be added to paragraph 3.4.4.1.

4.5 An audit firm mentioned that the Code should advise on what should happen when (if) these overrides end. The Secretariat does not concur – ideally this should be specified in legislation, as this is a matter of legal interpretation. This is best treated in guidance.

CIPFA LASAAC's views are sought on the suggested approach to the Code Draft for legislative issues.

Although not a matter for the Code Draft CIPFA LASAAC Members may wish to consider the issues raised in Annex B.

5. IFRS 17 Insurance Contracts

5.1 The ITC included a separate section on IFRS 17 *Insurance Contracts*. This section summarised previous positions and that this topic has been subject of three previous consultations. It argued that the approach in the Code should not change from that in IFRS 4 *Insurance Contracts i*e that this is a standard that is included in Appendix A ie it has limited application in local authorities.

5.2 The ITC also considered that even though it is likely to have limited application in local authority accounts it is likely to still be useful to follow the stable platform approach and not introduce this change until the rest of the public sector do so ie in 2025/26.

5.3 The majority of respondents (65% - 13) agreed with the approach outlined in the consultation documents to the implementation of IFRS 17. However, the following comments were made:

- An audit firm supported the proposals not to include material in the Code, noting their 2022/23 response that Code Guidance Notes can explain which arrangements are captured by IFRS 17 – the Secretariat would seek CIPFA LASAAC's views on this issue.
- A local authority disagreed with the proposals not to include material in the Code, noting the application of IFRS 4 to some pension guarantees – it is suggested that the circumstances under which IFRS 17 applies are limited, and the Society of London Treasurers provided reasoning indicating that some arrangements currently accounted for under IFRS 4 should follow IFRS 9. Further work is needed on this issue, particularly as pension guarantees take different forms.
- A fire authority that approved and was a part of a mutual arrangement queried the fact that each of the fire authorities in the mutual stands as guarantor in the fall back position where the mutual is not able to service its liabilities to service insurance claims. Further research is needed in this area.

5.4 The majority of respondents (70% - 14) agreed with the approach outlined in the consultation documents to the timing of the implementation of IFRS 17. One local authority which supported the proposal noted that CIPFA LASAAC should have regard to the number of new standards being introduced after the stable platform and one authority disagreed. The Secretariat is of the view that there are limitations to the stable platform and the standard is already deferred from IFRS implementation dates.

CIPFA LASAAC's views are sought on the approach in the ITC to the implementation of IFRS 17 in the Code.

6. Further Guidance

6.1 As with most years there is a significant response to question 14 which asks whether there are there any areas within the Code where additional guidance or improvements to the Code would be helpful. Some of the responses are not within CIPFA LASAAC's gift but they are included for completeness. They include:

Table 1: Summary of Comments on Further Guidance

Comment	Summary Response
Two authorities discussed bringing the accounting requirements into one source document including guidance. One authority indicated that they wished that guidance to be complete ie to minimise direct reference to source standards. Another indicated that it would be useful to also include source standards.	The electronic platform will be able to bring together different publications and CIPFA is actively considering this though it unlikely to be able to include IFRS. There have been pressures for the Code to require more cross-reference to IFRS in the Code so **CIPFA LASAAC's views are sought on this issue.**
A number of local authorities commented on the pressures on the local audit framework.	The Secretariat considers that this is notable and would highlight that this was a considerable area of comment at the CIPFA LASAAC Webinar on the consultation on the 2023/24 Code on 15 September 2022.
An authority wanted more guidance on IAS 19.	The Secretariat is not clear why this is the case.
Clarity was requested on infrastructure assets.	This will be assisted by the Update to the Code (which at the time of drafting is being considered for approval by LASAAC) and the CIPFA Bulletin on the temporary solution.
Government returns should be based on the statement of accounts.	In principle this is a good idea though not within CIPFA LASAAC's gift. However, this was made much more difficult when CIPFA LASAAC took the decision not to base the segmental analysis on the service expenditure analysis in the Service Reporting Code of Practice (SeRCOP).
An authority mentioned the need to prioritise the needs of the primary users of the accounts ie service users and council taxpayers.	The Secretariat would concur with this objective and the Financial Reporting Hub will need to consider this.
An authority mentioned the impact of the inspection process and the need for this to be linked to specific aspects of the Accounts	The Secretariat understands the objective of this respondent. However, CIPFA would support the notion of democratic accountability offered to the local authority electorate under the

Comment	Summary Response
	inspection process. This is not within the gift of CIPFA LASAAC.
An authority referred to issues of materiality particularly with respect to the impact of capital finance items as opposed to revenue items.	The Code does not provide guidance on thresholds and materiality is a subjective concept based on the needs of the users of the accounts. It is hoped that this issue might be supported by the proposals in the Public Audit Forum Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom consultation.
An audit body suggested that more of the IAS 16 *Property, Plant and Equipment* provisions should be included in the Code.	These provisions were carefully considered by CIPFA LASAAC as a part of its post implementation review of IAS 16 and other standards in the 2013/14 Code and as an update to the 2012/13 Code to allow for a proportionate response to the measurement of the standard.
An auditor raised concerns relating to three issues in the Code **i) the recognition conditions for grants** **ii) the IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* provisions in the Code with regard to discount rates and the comparison of the approach in the FReM** **iii) Group Accounts transactions regarding the implementation of statutory reversals.**	The Secretariat would suggest: i) initially the guidance on grant recognition is reviewed and additional commentary is included in the Year End Bulletin – if necessary, this can be subject to review in the 2024/25 Code ii) the Code Annex does not specify that the Code does not follow the FReM adaptations for the discount rates in IAS 37. iii) initially the Group Accounts Module in the Code Guidance Notes is reviewed, if necessary – additional provisions can be considered in the 2024/25 Code.
An authority and an individual challenged the basis of accounting in the Code including charges for pension funds in accordance with IAS 19 *Employee Benefits*, property, plant and equipment measurement and the accounting across a number of standards where this differs significantly to what is charged to council tax under statutory provisions.	It is unlikely that any accounting basis other than the retrograde step to cash accounting would support such a move and represent high quality financial reporting in line with CIPFA LASAAC's strategic objectives and FRAB's recent advice. The measurement of property valuations at current value predated the move to IFRS and has been in place since 1994 and has not come under significant challenge until 2017/18. CIPFA and CIPFA LASAAC and the rest of the public sector have consistently argued for a current value measurement, including the

Comment	Summary Response
	significant debates on the move to IFRS 13 *Fair Value Measurement*. We have argued that property, measurement at historical cost does not represent a useful measurement for public sector assets as it provides no information to the operational basis of the authority and the value and condition of the asset, therefore not supporting stewardship or intergenerational equity for the users of the accounts. However, the Secretariat notes the HM Treasury Thematic Review of operational property, plant and equipment.

CIPFA LASAAC's views are sought on the suggested approach to the Code Draft for all the suggestions on further guidance as set out in the table above and Annex B.

7. Next Stages

7.1 In addition to the amendments outlined above a number of other changes to the 2023/24 Code will need to be made:

- Each section will need to be amended to set out whether the Code has changed since the 2022/23 Code.
- All the relevant dates will need to change.
- Appendix A will need to be updated for the transitional reporting requirements for each amended standard introduced in the 2023/24 Code
- Appendix D will need to list each standard which is newly implemented in the 2023/24 Code
- Appendix F will need to be updated to accommodate new transitional arrangements for local authorities voluntarily adopting IFRS 16 *Leases* for the first time and to ensure that those local authorities that have adopted IFRS 16 as of 1 April 2022 clearly understand the provisions they need to follow.
- The Foreword will need to reflect the changes in the Code.

7.2 In addition to this consideration is being given to the provisions in the Code to the treatment of the recalculations of the service concession (PFI/PPP) liability to accord with the treatment anticipated across the rest of the public sector. Further amendments may also be required to social benefits provisions in the Code again to accord with the treatment in the FReM.

7.3 The Secretariat will send CIPFA LASAAC a full tracked change version of the Code for its full approval following this meeting though it may not include the changes outlined in paragraph 7.2 until after the FRAB meeting.

Recommendations

CIPFA/LASAAC is invited to consider the individual issues brought to its attention above and consider the 2023/24 Code for approval, in principle.