

# Report

**To:** CIPFA LASAAC

**From:** Steven Cain, CIPFA Secretariat

**Date:** 7 June 2023

**Subject:** Development of the Consultation on the 2024/25 Code

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## Purpose

**The purpose of this report is to consider an initial draft of the consultation papers (Invitation to Comment and Exposure Drafts) to develop the 2024/25 Code**

### 1. Introduction

- 1.1 This report presents an initial draft of the consultation papers (Invitation to Comment (ITC) and Exposure Drafts (EDs) for the 2024/25 Code. These are attached to this report for CIPFA LASAAC to consider and debate.
- 1.2 The ITC and, where relevant, EDs present the proposed approach to Code development and covers:
- IFRS 16 *Leases* implementation
  - a stable platform for the Code / limitation of changes
  - accounting for infrastructure assets
  - changes to standards for 2024/25
  - legislative changes
  - IFRS 17 *Insurance Contracts*
  - CIPFA LASAAC's strategic plan, and
  - further guidance.

The last section is normally included in the ITC to see whether there are any areas where further guidance or amendments to the Code might be required.

### 2. IFRS 16 *Leases* implementation, Stable Platform for the Code, and Accounting for Infrastructure Assets

- 2.1 CIPFA LASAAC took the decision in April 2022 to defer IFRS 16 adoption in the Code. Deferral until 2024/25 was agreed by FRAB on the basis that voluntary implementation was permitted in 2022/23 and 2023/24. CIPFA LASAAC does not envisage further deferral.
- 2.2 CIPFA LASAAC has already consulted on implementation of IFRS 16 for previous editions of the Code. This will not require significant changes to the anticipated provisions included in the 2023/24 Code in its Appendix F, which covers both leases and the measurement of service concession arrangement (PPP/PFI) liabilities in accordance with the provisions of IFRS 16.

- 2.3 The draft ITC does not consult in detail on the matter of overall IFRS 16 implementation. Some consultation related to IFRS 16 will be carried out in relation to recent changes resulting from *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)* as explained in section 3 below.
- 2.4 The 2023/24 ITC provided for a stable platform, making no changes to the Code other than more minor amendments to standards and to legislative changes. Given the context of IFRS 16 implementation and issues around accounting for infrastructure assets it no longer seems appropriate to frame this as a stable platform, but limitation of changes is appropriate in the light of other pressures. Limited aspects of the CIPFA LASAAC strategic workplan are progressed in relation to Narrative Reporting, but on a voluntary basis for 2024/25.
- 2.5 The draft ITC notes the decision on accounting for infrastructure assets taken at the single-issue meeting on 27 April 2023 where CIPFA LASAAC agreed to proceed with a measurement solution based on Depreciated Replacement Cost, subject to consideration of the outcomes of HM Treasury Thematic Review. The date for implementation will not be before 1 April 2025.

**CIPFA LASAAC's views are sought on the approach in the ITC on IFRS 16 implementation, limitation of changes to the Code, and accounting for infrastructure assets.**

**3. Changes to Standards**

- 3.1 Section 4 of the report takes the normal approach in Code consultation papers to the adoption of accounting standards or amendments to accounting standards. The ITC outlines the potential impact of the amended standards on local government reporting for the following:
- Narrow-scope amendments to IFRS 16: *Lease Liability in a Sale and Leaseback* (UK endorsed)
  - IAS 1 *Presentation of Financial Statements Narrow Scope Amendments 2020 and 2022* (not yet UK endorsed, but endorsement is expected in 2023)
- 3.2 The ITC suggests that the amended standards should be implemented in the Code and does not suggest any adaptations or interpretations.
- 3.3 The amendments to IFRS 16 address the subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 *Revenue from Contracts with Customers* to be accounted for as a sale. The amendments avoid the situation where a seller-lessee could recognise a gain on the right-of-use asset solely because of remeasurement. Although not a frequent transaction for local authorities, sale and leasebacks do occur and the ITC proposes additional clarifying text.
- 3.4 The Narrow Scope Amendments to IAS 1 clarify the difference between current and non-current liabilities. The treatment of the current IAS 1 requirements in section 7.3.6 of the Code is focused on specific circumstances where a local authority might breach a condition of a loan and therefore be required to make immediate repayment. The material in the Code seems clear and seems to cover all relevant circumstances both under the extant IAS 1 and after amendment.
- 3.5 No change to the Code is therefore proposed, but subject to UK endorsement processes, adoption of the amended standard would be signalled in Appendices C and D.
- 3.6 Separately, the Narrow Scope Amendments to IAS 1 propose disclosure of the extent to which non-current liabilities might be at risk of being reclassified as current. CIPFA secretariat suggest that, given the more limited context within which non-current liabilities might need to be reclassified it is not appropriate to require this disclosure in the disclosure requirements set out at paragraph 3.4.4.1 of the Code. However, it is proposed that this is consulted upon in the ITC.

**CIPFA LASAAC's views are sought on the approach in the ITC and Exposure Drafts for changes to standards.**

#### **4. Legislative changes**

- 4.1 The ITC does not include any proposals for Code amendments due to legislative change. While there have been legislative changes, these have the effect of extending time limited support for the current approach in the Code for Dedicated Schools Grant and for Pooled Investments.

**CIPFA LASAAC's views are sought on the approach in the ITC on legislative changes.**

#### **5. IFRS 17 Insurance Contracts**

- 5.1 The ITC includes a separate section on IFRS 17 *Insurance Contracts*. The ITC continues the approach under the stable platform, and does not introduce this change until the rest of the public sector implements the standard in 2025/26.

- 5.2 This section summarises previous positions and that this topic has been subject of four previous consultations. It argues that the approach in the Code should not change from that currently used for IFRS 4 *Insurance Contracts* ie that this is a standard that is included in Appendix A ie it has limited application in local authorities.

- 5.3 The ITC mainly provides stakeholders with the opportunity to provide further comments or to determine whether there are more arrangements in local government which might be construed as insurance contracts which are required (rather than permitted) to be accounted for under IFRS 17.

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

#### **6. Next Stages**

- 6.1 The following stages will be required to issue the consultation documents:

- the Secretariat will amend the early draft following review and comments from the Board,
- ITC and Exposure Drafts to be submitted to 29 June 2023 to FRAB for its advice
- ITC and Exposure Drafts to be submitted to PFMB for approval for issue
- publication of 2024/25 Code consultation mid July 2023
- consultation to close approximately 6 October 2023.

#### **Recommendations**

**The Board is invited to consider and review the initial drafts of the ITC and Exposure Drafts and whether there are any additional topics that should be included, and comment on the next stages.**