The Chartered Institute of
Public Finance & Accountancy

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Report

To:	CIPFA LASAAC
From:	Steven Cain, Technical Manager Hazel Watton, Technical Manager
Date:	9 November 2023
Subject:	Analysis of the Responses to the Consultation on the 2024/25 Code

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Purpose

To report on the responses to the consultation on the Draft 2024/25 Code of Practice on Local Authority Accounting in the United Kingdom and seek approval on the amendments to the 2024/25 Code

1. Introduction

1.1 In total there were 55 responses (listed at Annex A) to the public consultation on the draft 2024/25 *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code). CIPFA/LASAAC consulted on the 2024/25 Code amendments from 21 August to 17 October 2023. This is significantly higher than last year's consultation response rate of 22 responses.

1.2 CIPFA LASAAC can also note the outreach engagement from the webinar held on 11 October, which was attended by more than 90 delegates.

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.

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. IFRS 16 Leases implementation, stable platform for the Code and accounting for infrastructure assets

Limitation of Changes

2.1 With the full mandatory implementation of IFRS 16 CIPFA LASAAC did not present proposals for a stable platform but it limited changes to the Code to those which are necessary

2.2 A substantial majority (39 respondents – 85% who answered this question) agreed with the proposal to limit changes. While agreeing respondents made the following comments:

- Changes to the Code which streamline reporting should be permitted
- CIPFA LASAAC (or CIPFA) to keep local authorities up to date on developments in the accounts and audit sphere, citing potential future developments for infrastructure assets

2.3 2 respondents disagreed with limitation of changes, one of them noting the cross-system statement and suggesting that should be the basis for consultation. That work is of course being progress and is discussed at agenda items 9 and 10 .

2.4 More detailed commentary is provided in Annex B rows 1.1 to 1.8.

CIPFA LASAAC is invited to note the support for limitation of changes to the Code.

Readiness assessment

2.5 41 preparers provided self assessments of the readiness of their authority for mandatory implementation of IFRS 16 as set out below

Confident of being ready for implementation for 2024/25 financial year	6	(15%)
Somewhat confident of being ready for implementation for the 2024/25 financial year	22	(54%)
Unsure of whether the authority will be fully ready for the financial year	9	(22%)
Not confident of the authority being ready for implementation for 2024/25 financial year	3	(7%)
Do not consider the authority will be ready for implementation for the 2024/25 financial year.	1	(2%)

2.6 Based on the above and detailed comments made by respondents

- 70% of respondents are at least somewhat confident, but most of those are <u>only</u> somewhat confident. Much work has been done but there are risks to delivery.
- The position for 22% of respondents who are Unsure appears to be genuinely unsure, mostly with quite a bit of work having been done.
- 9% of respondents were not confident or not ready

2.7 Similar findings have been noted in recent CIPFA webinars, with the majority of attendees self assessing as either somewhat confident or unsure.

CIPFA LASAAC is invited to note the results of the readiness survey.

Further support to support mandatory IFRS 16 implementation for the 2024/25 financial year

2.8 Suggested ways in which CIPFA might support preparers included:

- guidance, templates or toolkits (15 responses)
- training through workshops, webinars and seminars (10 responses)

2.9 Two responses suggested that it is vital that proper dialogue takes place between auditors and CIPFA to ensure that the introduction of IFRS16 does not cause a new audit backlog

2.10 Three responses called for implementation of IFRS 16 to be further delayed, while others suggested that the main problems are other pressures and lack of resources, rather than lack of guidance or support.

2.11 More detail is provided at Annex B rows 3.1 to 3.7

CIPFA LASAAC is invited to note the suggestions for implementation support.

3. Changes to Standards for 2024/25

Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)

3.1 Most of the respondents (84% - 31) supported the applicability of the amendment to IFRS 16. The remainder were neutral or only provided comments.

3.2 One respondent questioned whether substantive material in the Code was necessary.

3.3 One preparer suggested it would be useful if clarification be provided on how capital receipts in such a scenario should be accounted for.

3.4 More detail is provided at Annex B rows 4.1 to 4.3

Amendments to IAS 1 Presentation of Financial Statements

3.5 Most of the respondents (91% - 39) supported the applicability of the amendment to IAS1 while not including material in the main text of the Code. 3 respondents (7%) supported applicability but suggested Code material should be provided. The remainder were neutral or only provided comments.

3.6 One preparer suggested clarifying drafting for another section of the Code that this is relevant to.

3.7 More detail is provided at Annex B rows 5.1 to 5.4

Amendments to IAS 12 International Tax Reform: Pillar Two Model Rules

3.8 There was 100% agreement from respondents who expressed a view.

3.9 3 respondents noted only that the matter in the standard does not apply to their authority

3.10 More detail is provided at Annex B row 6.1

Supplier Finance Arrangements

3.11 Most of the respondents (93% - 38) agreed with the proposal on the grounds that these are extremely unlikely to occur in a local authority context.

3.12 5% of responses noted that their authority does not have any such arrangements.

3.13 An accountancy institute disagreed, noting that the use of such arrangements should be prominently highlighted. The Secretariat is not sure that the respondent understands that the standard is fully applicable.

3.14 More detail is provided at Annex B rows 7.1 to 7.3

Service concession arrangement transition arrangements

3.15 Most of the respondents (77% - 30) agreed with the sense of the proposal for a standard approach to transition in line with the FReM.

3.16 Some respondents disagreed because they disagree with the application of IFRS 16 to service concession liabilities. One respondent disagreed because they consider the approach should not be mandated.

3.17 One respondent was concerned that the drafting of the proposed Code text might be misunderstood. The Secretariat will review this.

3.18 More detail is provided at Annex B rows 8.1 to 8.6

Changes to the Code

3.19 No significant changes are expected to be made to the Code as a result of respondents' comments to the consultation, although per 3.17 above, the Secretariat will review the Exposure Draft text for service concession arrangements.

CIPFA LASAAC's views are sought on the implications for Code drafting for changes to standards.

4. IFRS 17 Insurance Contracts

4.1 The ITC included a separate section on IFRS 17 *Insurance Contracts*. This topic has been subject of four 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.

4.2 The ITC also proposes, as it did in the previous ITC, that mandatory adoption not be required until 2025/26.

4.3 Most of the responses (82% - 28) agreed with the proposed treatment. None disagreed Comments made by the other 6 respondents who opined on this question noted the limited situations in which IFRS 17 would be applicable.

4.4 On the matter of the timing of mandatory implementation, most responses (69% - 24) agreed with the proposal for implementation in 2025/26. One respondent disagreed, while the others were neutral or only made comments.

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

5. CIPFA LASAAC's strategic work plan

Overview of performance and summary financial information

5.1 The Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting undertaken by Sir Tony Redmond recommended in 2020 that a standardised statement of service information and cost be produced to communicate the key messages to service users and council taxpayers.

5.2 CIPFA LASAAC sought stakeholders' views on whether the information proposed within the Invitation to Comment was sufficient to demonstrate key elements of financial performance and financial position to local authority users of the accounts.

5.3 Around two thirds of respondents who answered this section agreed with the proposal to add a new section to the narrative report to meet the requirements of the Redmond Review. However, there were concerns raised about increasing the length of the accounts, potential duplication and adding to existing preparer and auditor burdens.

5.4 Opinions were split over the specifications for the contents of the Overview of Performance and Summary Financial Information sections. Two proposals were particularly unfavourable as respondents felt they were unnecessarily complex or confusing, see Annex B for the issues raised.

CIPFA LASAAC's views are sought on delaying the implementation of the new section to the narrative report pending further consideration on the exact specifications.

Format and structure of the Code

5.5 The Code, though updated regularly and kept under constant review, has not had significant amendments to its structure and format since its inception in 2010/11 (the 2010/11 Code was issued in September 2009) to ensure that users were familiar with its structure and content.

5.6 CIPFA LASAAC sought stakeholders' views on possible issues relating to a Code restructure and format in relation to the following aspects:

- Accessibility.
- Approach to content of IFRS as adapted or interpreted for the public sector.
- Adaptions and interpretations.
- Structure of the Code.
- Statutory Accounting Provisions.

5.7 A majority of all respondents agreed that the Code continue with its current approach which provides detailed text regarding IFRS implementation. Nearly all respondents agreed that the adaptions and interpretations of standards are clearly presented and easily identifiable. There was overwhelming support for the suggested revised structure of the Code.

5.8 Several respondents suggested small improvements that could be made, see Annex B for further information but these included:

- Including a summary table of all financial standards with and adaptions or interpretations for local government.
- Moving the chapters on Group Accounts and Pension Fund to the end.
- Leave the statutory adjustments in the relevant chapters and include a table in the MIRS chapter that summarises all the statutory adjustments.
- Include a table in the Appendix that maps from the previous code structure to the new code structure.

CIPFA LASAAC's views are sought on which suggestions, if any, the Secretariat should pursue whilst reformatting the code.

Sustainability reporting

5.9 In considering how best to support local authorities in any move to sustainability reporting CIPFA LASAAC sought views from stakeholders on how best to introduce sustainability reporting in local government.

5.10 All respondents agreed with CIPFA LASAAC's view that sustainability reporting should be based on best practice. Although respondents recognised the growing importance of sustainability reporting, many were keen not to add to the current burden and suggested adoption on a voluntary basis first.

5.11 Opinion was split over whether sustainability reporting should be included in the narrative report or as a standalone report.

5.12 Most respondents would look to CIPFA and CIPFA LASAAC for further guidance.

CIPFA LASAAC's views are sought on the comments on sustainability reporting in the consultation.

6. Other financial reporting or emerging issues

Local audit and accounting issues

6.1 The situation with delays to local authority audits has declined significantly since the invitation to comment was first released. In figures released by the PSAA on 10 October 2023, only 5 local authorities had audit opinions for the 2022/23 statement of accounts. That put the cumulative position at 918 delayed audit opinions.

6.2 Cross-system developments have meant that CIPFA and CIPFA LASAAC have been asked to consider options for the recovery phase to clear the backlog. Most of the suggestions made by respondents to the consultation have already been identified for consideration and are detailed in paper **CL 10 11 23 Wider more radical suggestions for change** and **CL 09 11 23 Suggestions for non-investment assets and pensions**.

6.3 Some of the other responses are not within CIPFA LASAAC's gift but they are included for completeness. Suggestions from respondents not already under consideration include:

Table 1: Summary of Suggestions

Comment	Summary Response
One Police authority commented that going concern seems to take a disproportionate amount of audit time considering most authorities are not likely to go bankrupt.	In the current environment the going concern note may be more relevant as a forewarning of a S114 notice.
One authority suggested: *"With the exception of the Senior Officers pay note, all other remuneration notes receive little interest from the public. These could be swiftly removed and available via FOI if required."*	Although the Secretariat appreciates the rationale behind this suggestion the remuneration disclosure notes are set out in statute.
The same authority also suggested the removal of the nature of expenditure note as the information is already available in the Revenue Outturn (RO) form.	This note does allow for a comparison between authorities.
One audit firm suggested remove the Expenditure and Funding Analysis notes.	This note attempts to reconcile the CIES to the reported outturn of the authority, although how much is understood by readers of the accounts is unknown.
An Accounting Institute, Representative Body and an Audit firm all suggested that smaller authorities could produce accounts under FRS 101.	This could create even more divergence within local government accounting.

Statutory specifications for local authority financial reporting – Pooled Investments

6.4 In 2018 a new regulation was inserted into the Local Authorities (Capital Finance and Accounting) Regulations 2003 to provide that a local authority must not charge an amount to its revenue account to reflect any fluctuation in the fair value of a local authority's investment in a pooled investment fund. Instead, such amounts must be recorded in a separate account established and usable solely for that purpose. Equivalent provisions were inserted into the Welsh Regulations. Both the English and Welsh Regulations have been extended to 31 March 2025.

6.5 18 respondents would like to see the override made permanent, the main reason cited was that volatility would have a direct impact on the taxpayer and place pressure on service delivery.

6.6 7 respondents support an end to the override as they felt the risks were not transparent in the current situation.

6.7 One respondent suggested that the override remained but only for investments taken out before 1 April 2018 when IFRS 9 came into force.

6.8 The expectation amongst respondents was if the override ended, any balance in the Pooled Investment Funds Adjustment Account would be moved into a usable reserve.

Statutory specifications for local authority financial reporting – Dedicated School Grant

6.9 On 6 November 2020 a statutory instrument, the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020, was laid before Parliament. The regulations provided that where a local authority has a deficit on its school budget, the authority must not charge any such deficit to its revenue account. Instead, the regulations provide that local authorities must charge any such deficit to a separate account, established and usable solely for that purpose. The regulations have now been extended to have effect until 31 March 2026.

6.10 22 Authorities responded to this question, most of them currently have a deficit on their DSG (Dedicated Schools Grant). The consensus was that any solution would take longer than the current extension and needed additional funding from central government.

6.11 There were several comments that the accounts needed to be clearer on the impact of the current override and suggestions included highlighting the impact of the override and current DSG position in the narrative report.

6.12 Although not in the gift of CIPFA LASAAC, it was felt amendment to the statutory override was needed. If surpluses since 1 April 2020 were allowed to be taken to the DSG Adjustment Account, the total DSG position could be seen clearly in the accounts.

CIPFA LASAAC's views are sought on the comments on the statutory overrides.

Recognition of the net defined benefit pensions asset

6.13 A new issue emerged at the end of the 2022/23 financial year when IAS 19 Employee Benefits reports for pensions resulted in surpluses. IAS 19 is clear that the recognition of a net defined pension asset is limited to that which is realisable, and this is also as interpreted by IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

6.14 CIPFA LASAAC sought views from stakeholders if additional specifications are required in the Code. Of the 43 respondents to this question, most felt that the code provisions are appropriate for this issue.

6.15 Many respondents would like specific guidance, especially regarding calculating any asset ceiling. Bulletin 15 is currently in draft and should provide authorities with some assistance.

CIPFA LASAAC's views are sought on amending the Code to further highlight the treatment of Net Pension Assets.

Changes to IPSAS standards which could impact on the Code

6.16 The Code includes interpretations of IFRS based on IPSAS in several sections of the Code. These interpretations largely help reflect the local government context but do not change IFRS. The IPSASB have recently issued the following standards:

- IPSAS 45 Property, Plant, and Equipment
- IPSAS 46 Measurement
- IPSAS 47 Revenue
- IPSAS 48 Transfer Expenses

6.17 CIPFA LASAAC sought stakeholders' views on the impact of the new standards on the Code's provisions. Only 18 of the 55 respondents had any views on the impact of the four new IPSAS on the Code.

6.18 Respondents could see that IPSAS could potentially bring improvements to accounting approach. However, there was a wish that adoption of any standards should offer flexibility or simplicity rather than add complexity.

CIPFA LASAAC's views are sought on the comments on the impact of new IPSAS on the Code.

7. Further Guidance

7.1 As with most years there is a significant response to question 28 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 2: Summary of Comments on Further Guidance

Comment	Summary Response
An audit firm made comments on various paragraphs within the code: 1. Loan commitments at below market interest rates (7.1.3.3) 2. Transfers by absorption (2.5.2.7) 3. Impairment of Assets (4.7.1.3) 4. Subsidiaries – consolidation and measurement (9.1.2.30) 5. Accounting and reporting by pension funds – valuation of financial instruments (6.5.2.5)	The Secretariat will need to review the paragraph of the code to see if further clarification is necessary.
An Audit Institute commented: *"It would be helpful if paragraph 4.1.2.37 of the 23/24 code provided clear direction on the phrase "revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from …. current value', specifically what the term 'differs materially' means in that context."*	Application guidance is being produced. Please see paper **CL 11 11 23 Application Guidance on what "Differs Materially" Means in the Context of the Measurement of Property, Plant and Equipment** for further information.
An authority had the following question about a paragraph in the code: *"We have a question about paragraph 4.1.4.1 of the Code. This paragraph states: "Where authorities conclude that following the requirements of this section of the Code results in accounting entries that are immaterial, authorities need not follow this section of the Code and include the de minimis level within the disclosure of accounting policies (see Section 3.4).". Should this be read to mean that where the accounting entries are immaterial, authorities need not follow section 4.1 AND need not include the de minimis level within the accounting policies, or should it be read to mean that authorities need not follow section 4.1 BUT do need to include the de minimis level within the accounting policies?"*	The Secretariat will need to review the paragraph of the code to see if further clarification is possible.
Another authority had the following request about an appendix of the code: *"In the Accounting Standards Issued not yet Adopted section (Appendix C), a little more detail on the potential impact of each new standard for the following year would be useful. This would aid disclosure decisions for smaller bodies who may not see any impact from the introduction of certain standards."*	The potential impact of new standards will not be known until a review has been undertaken by CIPFA LASAAC. Further details about the impact can be considered when drafting updates to the Code.

Comment	Summary Response
One authority commented: *"Advocate ways in which local authorities can streamline accounts to make them more intelligible to their primary users e.g., meeting the needs of residents to whom we are ultimately accountable to. For example, by reducing the complexity of local authority accounts."*	The Secretariat agrees that the accounts should support the information needs of local authority residents and that they are the primary user. It is particularly difficult to meet their needs as IFRS anticipates that information will be used by an informed user.
Another authority commented on the need for information in the accounts to be able to be used to provide government with information required, rather than providing separate government returns.	This was more likely to be possible when the segmental analysis was based on the SeRCOP Service Expenditure Analysis. Statistical returns often require more granular information than required by the financial statements and this would therefore not allow for 'streamlined' accounts.
Infrastructure Assets was raised by several authorities. Clear guidance on what was included, components and a detailed project plan was requested early enough for practitioners to adopt.	Lee Rowley MP's statement proposed delaying implementation of any solution. CIPFA LASAAC intend to consult stakeholders on plans to delay implementation until the 2027/28 accounts. Please see paper **CL 09 11 23 Suggestions for non-investment assets and pensions** for further information.

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.

8. Next Stages

8.1 In addition to the amendments outlined above a number of other changes to the 2024/25 Code will need to be made:

- Each section will need to be amended to set out whether the Code has changed since the 2023/24 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 2024/25 Code
- Appendix D will need to list each standard which is newly implemented in the 2024/25 Code
- The Foreword will need to reflect the changes in the Code.

8.2 The Secretariat will send CIPFA LASAAC a full tracked change version of the Code for its full approval following the meeting.

Recommendations

CIPFA LASAAC is invited to consider the individual issues brought to its attention above and consider the 2024/25 Code for approval, in principle.