The Chartered Institute of
Public Finance & Accountancy

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Report

To:	CIPFA LASAAC
From:	CIPFA Secretariat
Date:	6 November 2024
Subject:	Development of the Consultation on the 2025/26 Code

Purpose

The purpose of this report is to consider draft 2025/26 Code consultation papers (Invitation to Comment and Exposure Drafts) and develop an agreed draft for approval.

1. Introduction

1.1 This report presents an initial draft of the consultation papers Invitation to Comment (ITC) and Exposure Drafts (EDs) for the 2025/26 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:

- Considering development of the Code in the context of longer-term reforms
- HM Treasury Thematic Review implementation
- The purpose of Local Authority accounts – Financial Reporting and Audit in Local Authorities inquiry
- Changes to standards for 2025/26
- Legislative changes
- CIPFA LASAAC's strategic plan
- The Better Reporting Group
- Other financial reporting or emerging issues
- 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. Longer-term reforms and HM Treasury Thematic Review implementation

2.1 In recent years the Board chose to maintain a stable platform and not make any changes to the Code except to reflect updates in standards and legislative changes. However, the Board have publicly announced their plans to explore medium and long-term changes to the Code in particular focussing on non-investment assets and pension reporting. This included stating the Board's intention to reflect material based on the HM Treasury Thematic Review in the Code of Practice for Local Authority Accounting for 2025/26.

2.2 At its 13 June 2024 meeting CIPFA LASAAC received a report on the anticipated content of the 2025/26 Code and determined under the current circumstances it should at least examine the suggestion that the Code provide a stable platform, limiting amendments to the Code where possible, whilst the local audit system in England recovers.

2.3 Since the June meeting there have been further developments regarding the recovery of the local audit system in England, including the introduction of statutory backstop dates and a revised Code of Audit Practice 2024 laid by government on behalf of the Comptroller and Auditor General (C&AG). However, it's widely acknowledged the recovery period will involve authorities publishing 'modified' opinions on scale that is unprecedented, and the build-back process is going to take time.

2.4 Therefore, whilst pausing Code development is one of the options being considered, there is also the opportunity to press ahead with longer-term reforms to support local authorities across all jurisdictions, with a more proportionate approach to the valuation of non-investment assets by implementing changes from the HM Treasury Thematic Review. The Secretariat have included both drafting options in the ITC for the Board to decide.

2.5 Both options in the ITC acknowledge that CIPFA LASAAC will be prioritising longer-term reforms alongside CIPFA through the Better Reporting Group. However, option one in the ITC is framed around the Board considering changes from the HM Treasury Thematic Review, but ultimately favouring maintaining a stable platform and postponing changes until a future year to be determined by the Board.

2.6 Option two in the ITC is framed around the Board advancing the agenda in the context of longer-term reforms, in line with its strategic plan. The plans include pressing ahead and initiating the process by implementing the changes from the HM Treasury Thematic Review, which are intended to enable a more proportionate approach to the accounting requirements for non-investment assets, primarily by utilising indexation between formal valuations. It's hoped this could start building momentum on longer-term reforms and follows an earlier discussion after the consultation on short term measures in the Code, when the Board provided support/preliminary agreement to consider using indexation in 2024/25, subject to further approval once indices and the process for indexation was determined.

2.7 The HM Treasury Thematic Review focusses on using IPSAS 46 Measurement as a source of the principles for establishing measurement bases. IPSAS 46 was issued along with IPSAS 45 Property, Plant and Equipment (the IPSAS equivalent of IAS 16). The approach to the current value measurement model in IPSASs 45 and 46 is very similar to the approach to investment and non-investment assets in the Code. Investment properties, assets held for sale and surplus assets are all measured for their financial capacity. The property, plant and equipment items which are not surplus assets or classified as held for sale are held for their operational capacity and measured at current operational value (COV).

2.8 The features of COV are largely consistent with the current UK approach of Existing Use Value (EUV). The Secretariat suggests that the EUV measurement is retained in the Code and that the Code notes that this is consistent with the principles in IPSASs 45 and 46 (including that assets used to support services are measured for their operational capacity).

2.9 Whilst this largely maintains the status quo for the measurement of operational property, plant and equipment in the UK public sector, IPSAS 46 does now provide a public sector specific standard which is widely recognised, and the Code can demonstrate alignment with. However, IPSAS 46 includes a modification to Depreciated Replacement Cost (DRC) which is to value operational property, plant and equipment based on their current site and not consider alternative sites. Although, the modern equivalent approach may be applied to the area of the site. IPSASB came to this decision because delivering the service from another location is unlikely to be in the public interest, given the location where the asset is currently situated was selected for service delivery needs. This is seen as an improvement on current practice and there are discussions about this being adopted in the FReM. The secretariat suggest that the Code should follow these discussions and adopt the same approach for consistency purposes.

2.10 The Thematic Review proposals include three adaptations to International Financial Reporting Standards (IFRS). The most significant change is likely to be, withdrawing the requirement for revaluations to be made with sufficient regularity to ensure that the carrying amount does not differ materially from the current value at the end of the reporting period. Instead, mandating entities choose from either a quinquennial revaluation or a five-year rolling basis for formal valuations, supported by annual indexation in intervening years. The Secretariat suggest that the Code should take the same approach.

2.11 The ITC includes questions that often come up when discussing the use of indexation, such as if guidance should be issued by CIPFA which local authorities must have due regard. Indexation advice for CIPFA and Local Authorities appears to be something the Valuation Office Agency (VOA) would be willing to consider assisting with, although further discussions would be needed on exactly what this would look like and the timings, if the Board decide to proceed. Draft application guidance on the changes in the FReM, is being produced for preparers and valuers. An initial version of this guidance was taken to FRAB in June 2024. This guidance provides a useful example of the type of guidance HMT are planning to issue, however it's important to note it is currently being updated and refined.

2.12 The second adaptation to IFRS is to withdraw the option to measure intangible assets using the revaluation model. Instead, the requirement will be for measurement using historic cost only. The HM Treasury Thematic Review did explore current value, however it concluded that there would be more judgement required in determining the EUV because of the lack of an observable market for most intangible assets and there is the risk of additional cost in development of a DRC valuation for intangible assets. Whereas historical cost allows application of a relevant and practicably achievable accounting policy and enables the public sector to apply the optimum cost/benefit measurement. The Secretariat suggest that the Code should take the same approach.

2.13 The third and final adaptation to IFRS being proposed is regarding the transitional arrangements when applying the changes to the valuation of non-investment assets, including intangible assets. If the Board decide to proceed with implementation in 2025/26, the transitional arrangements will start from 2025/26 and remain throughout the transition period (the first full revaluation cycle). Authorities will not be required to follow the requirements of IAS 8 following a change in accounting policy. Instead changes to the valuation of non-investment assets will be applied prospectively, with no restatement of prior year figures, supported by clear disclosure throughout transition.

2.14 No changes are being proposed to Social Housing Assets. The Secretariat understands that the Beacon approach is commonly applied to these assets and since it appears to be working effectively, providing useful information with a level of expediency, the ITC proposes no changes to the valuation frequency or for indexation to be used for these assets.

CIPFA LASAAC's views are sought on the approach in the ITC in the context of longer-term reforms and invited to debate which drafting option of the ITC to proceed with.

Option 1: To maintain a stable platform and postpone implementation of changes from the Thematic Review. If so, please suggest a proposed implementation date.

Option 2: To advance the agenda in the context of longer-term reforms by implementing changes from the Thematic Review in 2025/26.

3. The purpose of Local Authority accounts – Financial Reporting and Audit in Local Authorities inquiry

3.1 In November 2023 the Levelling Up, Housing and Communities Committee published its first report[1] on the inquiry into Financial Reporting and Audit in Local Authorities. The previous government responded to the inquiry, believing the Code was the appropriate vehicle for articulating these purposes and agreeing there was merit in the Department issuing a policy statement. Therefore, the ITC seeks stakeholders' views on amending Section 1.8 Purpose of the statement of accounts in a future version of the Code to include the five core purposes from the Committee's report. Please see below each purpose which is expanded upon in more detail in the ITC:

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[1] Financial Reporting and Audit in Local Authorities (parliament.uk)

- A credible public record
- Accountability for spending
- Value for Money
- Information to run local authorities
- Public reporting of actual and potential issues

3.2 Whilst seeking views in this year's ITC, it's likely that there will need to be more time for reviewing feedback and discussions with the new government before making any changes to the Code. Therefore, this isn't likely to impact the 2025/26 Code but be something to consider for future versions of the Code. However, it will still be a useful exercise and start the discussion, which could also be relayed to the Better Reporting Group to support work on longer-term reforms.

CIPFA LASAAC's views are sought on the approach in the ITC on the purpose of Local Authority Accounts following the Financial Reporting and Audit in Local Authorities inquiry.

4. Changes to Standards

4.1 The ITC outlines the potential impact of the following standards on local government reporting:

- IFRS 17 *Insurance Contracts*
- Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates (Lack of Exchangeability)*

4.2 The ITC suggests that the standards should be implemented in the Code and does not suggest any adaptations or interpretations.

4.3 The ITC proposes introducing IFRS 17 *Insurance Contracts* in line with the rest of the public sector in 2025/26. The ITC summarises previous positions and that this topic has been included in five previous consultations. It concludes that the approach in the Code should not change from that currently used for 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.

4.4 In line with previous years, 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.

4.5 The amendments to IAS 21 require an entity to apply a consistent approach to assessing whether a currency is exchangeable into another currency and, when it is not, how to determine the exchange rate to use and the disclosures to provide. These requirements seem unlikely to apply to local authorities and therefore the ITC proposes no change to the Code but adoption of the amended standard would be signalled in appendices C and D of the Code.

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

5. Legislative changes

5.1 The ITC highlights the following legislation which will influence the 2025/26 Code:

- Accounts publication deadlines (England)
- Fair value gains and losses on pooled investments (England and Wales)
- Temporary solution for infrastructure assets

5.2 The fair value gains and losses on pooled investments override (England and Wales) and the infrastructure assets legislation are both currently due to expire on 31 March 2025. The Secretariat understands the Ministry of Housing, Communities and Local Government (MHCLG) are currently reviewing these.

5.3 The ITC proposes maintaining the temporary solution for infrastructure assets, including the temporary relief in the Code for the reporting of gross cost and accumulated depreciation, which would require the support of all GB jurisdictions.

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

6. CIPFA LASAAC's Strategic Plan and the Better Reporting Group

6.1 The strategic plan has been updated following discussions at the June meeting. Most notably updating the projects to be considered by the Better Reporting Group. An update on the Better Reporting Group is provided at Item 11 in this agenda pack.

6.2 The ITC only considers the improvement projects in the strategic plan and asks if respondents have any suggestions on which items should be prioritised in the strategic plan and for improving local authority financial statements, including the reports which accompany them.

CIPFA LASAAC's views are sought on the approach in the ITC on the Strategic Plan and the Better Reporting Group.

7. Other Financial Reporting or Emerging Issues

7.1 The ITC also includes a look ahead to standards which could impact the Code beyond 2025/26. They are listed here:

- IFRS 18 *Presentation and Disclosure in Financial Statements*
- IFRS 19 *Subsidiaries without Public Accountability: Disclosures*
- IPSAS 47 *Revenue*
- IPSAS 48 *Transfer expenses*
- IPSAS 49 *Retirement benefit plans*

7.2 The ITC notes that CIPFA LASAAC will review these standards and their alignment with the current Code requirements. Although it acknowledges they are not likely to have a significant impact on the current requirements on the Code, other than significant review of the drafting of the Code where references that have been superseded by the latest standards.

CIPFA LASAAC's views are sought on the approach in the ITC on other financial reporting or emerging issues.

8. Next Stages

8.1 At this meeting the Board would usually be discussing the responses to the consultation. However, the timetable for the Code consultation is considerably later this year due to a couple of reasons, including the previous short-term Code measures consultation and the associated delays after the election process for the new government, alongside consideration of pausing Code development.

8.2 The revised timetable included at Annex B concludes with the 2025/26 Code forecast to be published in June 2025. However, the revised timetable is extremely tight, requiring prompt decisions and responses from all stakeholders if publication is to be achieved for June 2025.

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

- the Secretariat will amend the draft following review and comments from the Board,

- ITC and Exposure Drafts to be submitted by 14 November 2024 to FRAB for its advice. For the FRAB meeting being held on 21 November.
- ITC and Exposure Drafts to be submitted to PFMB for approval for issue
- publication of 2025/26 Code consultation 28 November
- consultation to close 7 February 2025.

Recommendations

The Board is invited to consider and review the initial drafts of the ITC and Exposure Drafts, including whether there are any additional topics that should be included, and subsequently provide approval to proceed to the next stage.

Annex B – Table showing the 'normal timetable' and 'proposed adjusted timetable'

Process	Stakeholders	Normal timetable	Proposed adjusted timetable
Look ahead	CIPFA LASAAC and FRAB	March meeting	June meeting
Draft ITC and ED	CIPFA LASAAC and FRAB	June meeting	6 November meeting
Approvals and Consultation issued	CIPFA LASAAC, FRAB, PFMB and LASAAC	Mid July	28 November
At least an 8 week consultation period (although usually runs a bit longer)	Local Authorities, Audit Firms, Accountancy institutes etc	Mid July - October	28 November – 7 February
Consultation analysis, amendments and approval of the Code	CIPFA LASAAC and FRAB	November meeting	March meeting
Final version of the Code sent for approval	PFMB, LASAAC and FRAB	December/January	March
Publication process (approximately 8 weeks)	CIPFA publications team/ FRAB chair for final signature to be added	Issued 1 April	Issued 1 June