The Chartered Institute of
Public Finance & Accountancy

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Report

To:	CIPFA LASAAC
From:	Ben Matthews, Technical Advisor Hazel Watton, Technical Manager
Date:	5 March 2025
Subject:	Analysis of the Responses to the Consultation on the 2025/26 Code

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Purpose

To report on the responses to the consultation on the Draft 2025/26 Code of Practice on Local Authority Accounting in the United Kingdom and seek approval on the amendments to the 2025/26 Code

1. Introduction

1.1 In total there were 46 responses (listed at Annex A) to the public consultation on the draft 2025/26 Code of Practice on Local Authority Accounting in the United Kingdom (the Code). CIPFA/LASAAC consulted on the 2025/26 Code amendments from 5 December 2024 to 14 February 2025. This is slightly lower than last year's consultation response rate of 55 responses and can be attributed to the time of year.

1.2 CIPFA LASAAC can also note the outreach engagement from the webinar held on 22 January 2025, which was attended by just over 100 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. Longer-term reforms and change in approach to the measurement of Operational Property, Plant and Equipment in line with the HM Treasury Thematic Review

Longer-term reforms (Question one)

2.1 A majority of respondents (69% - 31) agreed with advancing the agenda in the context of longer-term reforms. However, half of those that made comments had concerns about the impact of changes on preparers and auditors as well as practical considerations.

2.2 More detailed commentary is provided in Annex B rows 1.1 to 1.4.

CIPFA LASAAC is invited to note the support for advancing the agenda in the context of longer-term reforms.

Approach to Changes for Operational Property, Plant and Equipment – Maintaining the use of Existing Use Value (EUV) (Question two)

2.3 A substantial majority (33 respondents – 72% who answered this question) agreed with the proposal. While agreeing respondents noted that practitioners and valuers are already familiar with EUV, it is well understood and changing it seemed unnecessary.

2.4 There were also 8 respondents – 17% who were partially supportive of the proposal.

2.5 One respondent disagreed and instead supported the introduction of current operational value (COV). However, another respondent held a different view in support of Existing Use Value. Highlighting the difficulty of navigating differing opinions when setting standards.

2.6 More detailed commentary is provided in Annex B rows 2.1 to 2.3.

CIPFA LASAAC is invited to note the support for the ITC proposal to maintain EUV in the Code.

Depreciated replacement cost for specialised assets and/or assets where there is no market – in future could consideration of alternative sites be removed, but should modern equivalent asset (MEA) then still be retained for the area of the site? (Questions three to four)

2.7 A substantial majority (35 respondents – 76% who answered this question) supported a future move to value operational property, plant and equipment based on their current site and not consider alternative sites. While agreeing respondents noted that alternative sites are generally inappropriate and rarely used and several respondents noted this would reduce workloads.

2.8 However, a couple of respondents highlighted that moving away from considering alternative sites would be contrary to existing RICS guidance and this would need to be considered before making any changes.

2.9 Respondents were not as certain on whether the modern equivalent asset approach should still be applied to the area of the site though and it was not always entirely clear that they had understood the proposal. For example, several respondents queried what the alternative would be. However, on the whole respondents appeared to be supportive of maintaining the MEA approach.

2.10 More detailed commentary is provided in Annex B rows 3.1 to 4.3.

CIPFA LASAAC is invited to note the support to potentially remove consideration of alternative sites for DRC valuations in future, but maintain the MEA approach and to communicate feedback to HM Treasury.

Frequency of valuations for operational property, plant and equipment and the use of indices to maintain the currency of valuations – including what happens when no index is available and when there are indicators of impairment. (Questions five to seven)

2.11 The majority of respondents agreed with the proposals:

- To withdraw the IAS 16 requirement for revaluations to be made with sufficient regularity. Instead replacing this with a quinquennial revaluation or a five-year rolling basis, supported by indexation in intervening years.
- That authorities should use the 'best available' indices and in the extremely rare circumstance that no index is available, authorities should not be required to revalue those assets more frequently than every three years.
- That under the adaptation to IAS 16, full revaluation outside the five yearly cycle will only be required where there are indicators of impairment under IAS 36.

2.12 While agreeing there were approximately a quarter of respondents who indicated that the proposals would lead to a reduction in workload.

2.13 However, there were several respondents who felt this would increase their workload as they are not currently experiencing difficulties with valuations.

2.14 Respondents expressed the need for guidance and a few of these queried the role of valuers and finance staff in the process of applying indexation to assets in between formal valuations. There were also concerns if valuers would agree to carry out indexation.

2.15 Question seven asked if full valuations would only be required where there are indicators of impairment. However, responses highlighted the need for clarification on other potential triggers for undertaking a full valuation, which most likely can be covered in guidance. The different circumstances queried by respondents are set out in Annex B row 7.1.

2.16 Several respondents also had concerns regarding audit which mirrors feedback received in the short-term measurers consultation in 2024 which considered implementing indexation in 2023-24 and 2024-25.

2.17 Audit concerns were the main driver behind many respondents also suggesting prescribed indices with probably the most accurate numbers of respondents in favour to be found in response to question eight and hence will be discussed in more detail later in the report.

2.18 One respondent also proposed a tweak to the proposals set out in the exposure draft for when no index is available, to align with the requirements of the 2025-26 FReM which was issued after the ITC. The Secretariat agrees with the proposal to align with the FReM which states that in rare circumstances where an index is not available, entities shall revalue the given asset using a quinquennial revaluation supplemented by a desktop revaluation in year three. The original proposal in the ITC for these circumstances were for valuations not to be required more frequently than every three years.

2.19 More detailed commentary is provided in Annex B rows 5.1 to 7.3.

CIPFA LASAAC is invited to note the support for the proposals and views are sought on the proposed amendment to the Code for when no index is available.

Guidance to assist with any changes to the valuation of operational property, plant and equipment. (Questions eight to ten)

2.20 As noted in paragraph 2.17 of this report, respondents expressed concerns on agreeing indices between preparers and auditors which was the main driver behind nearly half of respondents suggesting indices should be prescribed. However, a fifth of respondents suggested guidance rather than prescribed indices.

2.21 The Secretariat acknowledges guidance will be key to the successful implementation of the changes and there has already been considerable work in this area in the application guidance produced by the VOA for HMT. This can be used as a starting point for guidance for local authority preparers and auditors. However, standardisation and prescription are inherently challenging because they do not accommodate the variety of situations that may be encountered. Therefore, guidance on how to approach indexation is likely the most effective way to address these concerns.

2.22 Half of respondents noted that March would be feasible for the provision of indices. Several of these respondents also noted that this is dependent on the deadline for draft accounts remaining at 30 June. However, there were approximately a quarter of respondents that noted indices not being available until March would cause them difficulties.

2.23 Approximately a quarter of respondents acknowledged in some way the challenge of obtaining indices that reflect asset values as at 31 March in a timely manner, given the data lag in the provision of indices. There were also concerns regarding the cost of purchasing indices for local authorities. However, it is presumed most local authorities will already have access to existing indices available in the market and if any indices are to be created then funding of those indices would likely be a decision for MHCLG.

2.24 There was valuable feedback from respondents on suggestions for guidance which can be found in the comments at Annex B question 10 and these recommendations will be communicated to the Better Reporting Group who are working on the development of application guidance.

2.25 However, there is one particular area of guidance that requires immediate direction from the Board. Several respondents commented that application guidance should set out the accounting treatment and status of indexation, including disclosures required. This is also something that the Better Reporting Group have recently raised when they have started work on application guidance. One respondent also noted that changes could impact fixed asset register systems, which should be considered in any guidance.

2.26 More detailed commentary is provided in Annex B rows 8.1 to 10.4

CIPFA LASAAC's views are sought on guidance for indexation, including the status of indexation and the subsequent accounting treatment.

Social Housing Assets (question 11)

2.27 There was clear support to make no changes to how social housing assets are valued. There were just over a quarter of respondents who selected don't know/ unsure, which upon further analysis is because nearly all of these respondents do not hold social housing assets and 28 respondents – 61% who answered in support.

2.28 However, there were two Councils who suggested updated guidance would be helpful, particularly to consider if adjustment/discount factors need to be updated and this should be communicated to the Ministry of Housing, Communities and Local Government (MHCLG).

2.29 There was also an alternative view for the measurement of social housing assets, which is for these assets to be valued on a depreciated replacement cost or discounted cash flow basis.

2.30 More detailed commentary is provided in Annex B rows 11.1 to 11.3

CIPFA LASAAC is invited to note the support for the proposals to make no changes to how social housing assets are valued.

Intangible assets (question 12)

2.31 There was overwhelming support for the withdrawal of the option to measure intangible assets using the revaluation model with over three quarters of respondents supporting this proposal.

2.32 However, two Councils did have some concerns which are included in the more detailed commentary which is provided in Annex B rows 12.1 to 12.2.

CIPFA LASAAC is invited to note the support for the proposal to withdraw the option to measure intangible assets using the revaluation model.

Transitional arrangements (questions 13 to 15)

2.33 The majority (30 respondents – 65% who answered this question) agreed with the proposal to implement changes in 2025-26. While agreeing many respondents commented that the timeline offered sufficient time, with some suggesting that implementing the changes sooner would be beneficial. Approximately a fifth of respondents noted in their support that this would be dependent on the timely issue of guidance to assist with implementation.

2.34 However, there were also some concerns raised by a few respondents regarding workload and other pressures in the sector due to the Local Audit Backstops and Local Government Reorganisation. Although, one Council felt that these issues meant it was increasingly important that changes and wider reforms were progressed at pace.

2.35 Another Council raised the practical impact this would have on local authorities commissioning valuation services and the need for confirmation to be communicated as soon as possible.

2.36 There were also some helpful suggestions regarding significant operational challenges practitioners were anticipating during implementation of the proposed changes, which have already been picked up throughout the previous questions and highlighted already in this report.

2.37 However, one Council had concerns regarding valuer capacity and an individual expressed concern the valuer market would reduce as a result of the changes, which could cause supply issues if standards reverted back to require yearly valuations in the future. They also expressed concern regarding valuer redundancies due to the reduced workload.

2.38 The local audit backstops in England were also raised by an audit firm, which the Secretariat suggests will need to be considered by authorities and auditors on a case-by-case basis. It is also worthwhile noting that the changes could assist building back assurance on property, plant and equipment on a phased approach.

2.39 Overall, the proposals appear to benefit the majority of respondents. However, if the changes are implemented feedback and monitoring will be crucial to review and take appropriate action regarding any unintended consequences.

2.40 There was also a suggestion to include transitional disclosures for intangible assets, which the Secretariat agrees would be helpful to preparers.

2.41 More detailed commentary is provided in Annex B rows 13.1 to 15.1.

CIPFA LASAAC is invited to note the support for the proposals for transitional arrangements and views are sought on including a disclosure for intangible assets.

3. Changes to Standards for 2025/26

IFRS 17 Insurance Contracts (questions 16 to 17)

3.1 IFRS 17 has been consulted on in five previous consultations, each of which has raised new issues, while not challenging the view that the Code should not change its approach from that currently used for IFRS 4 Insurance Contracts.

3.2 About half of the responses (49% - 21) agreed with the proposed treatment, a further 44% (19) either had no opinion or were unsure because IFRS 17 would have no impact on their organisation.

3.3 Just over half of the responses (51% - 22) agreed with the proposed timing, a further 45% (19) either had no opinion or were unsure because IFRS 17 would have no impact on their organisation.

3.4 One audit firm suggested an amendment to paragraph A1.9 to clarify which transactions are out of scope.

3.5 More detailed commentary is provided in Annex B rows 16.1 to 17.2.

Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates (Lack of Exchangeability) (question 18)

3.6 The requirements of the amendment to IAS 21 seem unlikely to apply to local authorities so no change to the Code is proposed. Adoption of the amended standard would be signalled in Appendices C and D of the Code.

3.7 Just over half of the responses (58% - 25) agreed with the proposal, the remaining 42% (18) either had no opinion or were unsure because IAS 21 would have no impact on their organisation.

3.8 More detailed commentary is provided in Annex B row 18.1.

Changes to the Code

3.9 No significant changes are expected to be made to the Code as a result of respondents' comments to the consultation, although per 3.3 above, the Secretariat has proposed revised wording in Annex B.

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

4. Legislative changes

Fair value gains and losses on pooled investments (England and Wales) (question 19)

4.1 In 2018 the Local Authorities (Capital Finance and Accounting) Regulations 2003 were amended to mandate that a local authority must record any fluctuation in the fair value of a local authority's investment in a pooled investment fund in a separate account, the pooled investment funds adjustment account. This statutory override is due to expire on 31 March 2025 and any changes to the Code will need to reflect MHCLG's final decision on the override.

4.2 Of the 30 responses to this question, 10 were strongly in favour of either extending the override or making the override permanent.

4.3 Eight respondents replied that they did not have any pooled investments, some citing the uncertainty around the override as the reason.

4.4 Four of those with pooled investments have already set up an earmarked reserve to smooth the effect of gains and losses on the general fund.

4.5 More detailed commentary is provided in Annex B rows 19.1 to 19.4.

Extension of the Temporary Solution for infrastructure assets (questions 20 to 22)

4.6 CIPFA LASAAC consulted on two key areas:

- extending the statutory prescriptions that allow for the carrying amount of the derecognised component to be treated as nil when replacement expenditure occurs, and
- maintaining the temporary relief on the reporting of gross cost and accumulated depreciation within the Code.

4.7 Most of the responses (96% - 43) agreed with maintaining the temporary solution while a long-term solution is found. 5 respondents felt that the override should become permanent.

4.8 A significant number of responses (66% - 26) reluctantly agreed that a one off exercise would need to be undertaken to obtain deemed cost, although the responses indicated that deemed historical cost was still preferable to depreciated replacement cost.

4.9 More detailed commentary is provided in Annex B rows 20.1 to 22.3 g).

Changes to the Code

4.10 After the 25/26 Code consultation was published, MHCLG published Provisional local government finance settlement 2025 to 2026 consultation: summary of responses in which it clearly signalled its intention not to extend the IFRS 9 override. The 25/26 Code will need to reflect the statutory position including any lapsed legislation or new legislation.

4.11 The statutory overrides in Scotland and England & Wales have not yet been extended for infrastructure assets. The 25/26 Code will need to reflect the statutory position including any lapsed legislation or new legislation.

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

5. CIPFA LASAAC's strategic plan

Improvement projects (question 23)

5.1 CIPFA LASAAC agreed that it would contribute to the 'reform' process by exploring medium- and long-term changes that might be made to the Code in relation to non-investment assets and pension reporting.

5.2 24 respondents from a broad range of organisations, supported the priorities for CIPFA LASAAC as listed in the ITC.

5.3 More detailed commentary is provided in Annex B rows 23.1 to 23.4.

Other items and invitation for views on improving local authority financial reporting (question 24)

5.4 CIPFA LASAAC requested suggestions for improving local authority financial statements and the reports which accompany them.

5.5 Nearly a quarter of all respondents felt that simplification was the key to easing burdens and improving readability. Four suggested standardised accounts would aid comparability, whilst others advocated for an increased use of local government specific adaptions and interpretations for financial standards to achieve improvements.

5.6 The need for post implementation reviews of IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* were raised, with three councils commenting that it feels like local government is trying to fit into private sector rules.

5.7 Over questions 23-25 there are 12 (26%) different respondents supporting the removal of the Expenditure and Funding Analysis (EFA). The EFA was brought in to reconcile the CIES to the reported outturn of the authority, as well as the primary source of meeting the reporting requirements of IFRS 8 *Operating Segments*. However, anecdotal evidence suggests that the EFA has not fully achieved its intended objectives.

5.8 Removing the EFA and associated notes would ease some of the burden currently on preparers and auditors, especially while assurance is rebuilt over disclaimed local authority accounts.

5.9 More detailed commentary is provided in Annex B rows 24.1 to 24.12.

CIPFA LASAAC's views are sought on removing the Expenditure and Funding Analysis (EFA) and associated notes from the 2025/26 Code.

6. Other financial reporting or emerging issues

Changes to IFRS standards which could impact on the Code (beyond 2025/26) (question 25)

6.1 The IASB have issued the following standards which are effective from 1 January 2027.

- IFRS 18 Presentation and Disclosure in Financial Statements
- IFRS 19 Subsidiaries without Public Accountability

6.2 Of the 21 respondents who left comments, over half felt the two new standards were unlikely to have a significant impact on local authorities.

6.3 Five respondents welcomed the improved comparability and enhanced transparency anticipated from IFRS 18. However, one audit firm cautioned that the Code's application of IFRS 19 requirements should be limited to the direct impact on local authorities.

6.4 More detailed commentary is provided in Annex B rows 25.1 to 25.5.

Changes to IPSAS standards which could impact on the Code (beyond 2025/26) (question 26)

6.5 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 47 Revenue
- IPSAS 48 Transfer expenses
- IPSAS 49 Retirement benefit plans

6.6 Of the 18 respondents that left comments, eight welcomed the public sector specific clarifications IPSAS should bring.

6.7 Seven respondents felt that further consideration was required before a decision to implement could be made.

6.8 More detailed commentary is provided in Annex B rows 26.1 to 26.4.

CIPFA LASAAC is invited to note no significant issues were raised by respondents.

7. Further Guidance (question 27)

7.1 Regarding Question 27, which asked about areas where additional guidance within the Code would be beneficial, 48% of respondents (22) offered suggestions.

7.2 A selection of comments have been included in Table 1. More detailed commentary is provided in Annex B rows 27.1 to 27.5 d).

Table 1: Summary of Comments on Further Guidance

	Comment	**Summary Response**
1	Three councils suggested that creating a framework for applying IFRS changes in future would be helpful.	CIPFA LASAAC may wish to consider this suggestion as part of the upcoming effectiveness review.
2	There were eight requests for updated or additional guidance in the following areas: a) Application of IFRS 16 for police authorities. b) Accounting for a net pension asset. c) Integration Authorities (such as Integration Joint Boards (IJBs)). d) Materiality. e) Sustainability Reporting f) Group accounting	Guidance was included within CIPFA Bulletin 15 Reporting of pensions surpluses and IFRIC 14. CIPFA have already published some initial guidance in the publication "Public sector sustainability reporting: time to step it up." The rest of the requests have been noted.
4	Four respondents asked for updated guidance on model accounts that supports a standard approach and consistent format of notes.	CIPFA is working to improve consistency across its publications and bring older guidance up to date.

	Comment	Summary Response
5	An audit firm had specific comments on wording within the Code in four areas: a) Loan commitments at below market rates b) Transfers by absorption c) Statutory disclosure requirements – remuneration d) Disclosures for defined benefit pension funds	The Secretariat will need to review the paragraph of the code to see if further clarification is necessary for a) and b). The Secretariat has proposed revised wording for c) in Annex B. The secretariat is undertaking a thorough review of the Code to ensure all references are correct.

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 2025/26 Code will need to be made:

- Each section will need to be amended to set out whether the Code has changed since the 2024/25 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 2025/26 Code
- Appendix D will need to list each standard which is newly implemented in the 2025/26 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 2025/26 Code for approval, in principle.