CIPFA/LASAAC feedback statement on the 2023/24 Code

1. Introduction

1.1. This publication is a feedback statement from the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC) updating accounts preparers and other interested parties on the amendments to the 2023/24 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) following the consultation on proposed changes to the Code in August to October 2022.

1.2. This feedback statement should be considered alongside the consultation papers on the Code, including the invitation to comment (ITC) and four exposure drafts. (The consultation documents are available on the archived consultation pages of the CIPFA website.)

1.3. Based on its earlier consultations, CIPFA/LASAAC established interpretations and transitional arrangements as well as more general material on IFRS 16 implementation which were set out in Appendix F of the 2020/21 and subsequent Codes. In April 2022 CIPFA/LASAAC agreed to defer the mandatory adoption of IFRS 16 *Leases* until 1 April 2024. Local authorities were permitted to voluntarily adopt the standard as of 1 April 2022 or 1 April 2023.

1.4. This feedback statement does not form any part of the 2023/24 Code.

1.5. Local authorities in the UK are required to keep their accounts in accordance with 'proper practices'. This is defined, for the purposes of local government legislation, as meaning compliance with the terms of the Code, prepared by CIPFA/LASAAC. The Code is reviewed continuously and is normally updated annually. The Code confirms that in the unusual event that other statutory provisions require departures from the Code, then the statutory provisions must be followed.

1.6. In meeting its terms of reference CIPFA/LASAAC is committed to supporting high quality financial reporting in local authority financial statements.

1.7. CIPFA/LASAAC is taking a comprehensive approach to enhancing financial reporting within local authorities. By providing clear and relevant financial information, local authorities can enhance public trust, make informed decisions and optimise resource allocation. The Better Reporting Group will play a pivotal role in identifying potential improvements to financial reporting through the Code. This dedicated group will conduct in-depth analysis and develop practicable recommendations.

1.8. CIPFA/LASAAC received 20 responses to the consultation. This is lower than the previous year's consultation response rate of 25 responses. This response rate may have been affected by two additional consultations held during the year. The tables below show the distributions of responses:

Geographical distribution of organisations responding to the 2023/24 Code consultation	
English – 12	Other – 5
Scottish – 3	

Types of organisations responding to the 2023/24 Code consultation	
Accountancy institute	County council
Audit firm	Fire and rescue authority
Audit institution	Individual
Borough council	Representative bodies
City council	Unitary council
Consultants	

2. IFRS 16 *Leases* deferral, stable platform for the Code and accounting for infrastructure assets

2.1. CIPFA/LASAAC noted their decision to defer implementation of IFRS 16 *Leases* until 1 April 2024 although they strongly encouraged local authorities to voluntary adopt the standard. Local authorities were permitted to adopt the standard as of 1 April 2022 or 1 April 2023.

2.2. CIPFA/LASAAC also noted their decision to progress a temporary pragmatic solution for infrastructure asset accounting, to help resolve the reporting issues that have arisen for these assets.

2.3. To be consistent with its decision to delay the mandatory implementation of IFRS 16, CIPFA/LASAAC proposed that the Code present as stable a platform as possible to avoid additional resource pressures on the local audit framework.

A1 Stable platform

Question		Agree	Disagree	Neutral or just offered comment
Q1	Do you agree with the approach to the changes to the Code, ie to maintain a stable platform in the 2023/24 Code? If not, why not? Please provide your views on why this might be the case.	18 (90%)	0 (0%)	2 (10%)

2.4. 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.

2.5. An audit body noted that this should not prohibit enhancements to the Code’s provisions.

2.6. CIPFA/LASAAC agreed to maintain a stable platform.

3. Definition of accounting estimates, amendments to IAS 8

B1 Accounting policies, changes in accounting estimates and errors

3.1. The consultation detailed that changes have been made to IAS 8 such that:

- the ‘change in accounting estimates’ definition is replaced with a definition of accounting estimates; the new definition describes accounting estimates as “monetary amounts in financial statements that are subject to measurement uncertainty”
- accounting estimates are developed if accounting policies require items to be measured in a way which involves measurement uncertainty
- a change in accounting estimate that results from new information or new developments is not a correction of an error. The effects of a change in input or a measurement technique are changes in estimates provided they do not result from the correction of a prior period error.

3.2. CIPFA/LASAAC is of the view that these changes are useful to local government accounts preparers and should be included in the 2023/24 Code without adaptation or interpretation.

Question		Agree	Disagree	Neutral or just offered comment
Q2	Do you agree with CIPFA/LASAAC’s view that the changes included in the Definition of accounting estimates, amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* should be implemented in the Code as outlined in the ITC? If not, why not? What alternatives do you suggest?	17 (85%)	0 (0%)	3 (15%)

3.3. Most of the respondents (85% – 17 respondents) supported the approach in the consultation paper and Exposure Draft.

3.4. The respondents indicated the changes provide clarity to assist local authorities in distinguishing between accounting policies and accounting estimates. Respondents expected the amendments will represent helpful guidance for local authorities in determining whether changes are to be treated as changes in estimates, changes in policies or errors.

3.5. One respondent noted that the Exposure Draft paragraph 3.3.2.16 explains that the 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 Code were replaced with ‘accounting estimate’, where applicable, to ensure consistent differentiation.

3.6. CIPFA/LASAAC agreed to implement the changes in Exposure Draft 1. The drafting in relation to ‘estimates’ was reviewed but no significant changes were made.

B2 Disclosure of accounting policies, amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*

3.7. The consultation outlined the following amendments and clarifications that have been made to IAS 1:

- a requirement to disclose an entity's material accounting policy information instead of its significant accounting policies
- clarification that accounting policy information may be material because of its nature, even if the related amounts are immaterial
- clarification that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements
- confirmation that if an entity discloses immaterial accounting policy information, such information must not obscure material accounting policy information.

3.8. CIPFA/LASAAC is of the view that these amendments to IAS 1 will assist local authority accounts preparers in disclosing the material accounting policies and that they should be implemented in the Code without adaptation or interpretation.

Question		**Agree**	**Disagree**	**Neutral or just offered comment**
Q3	Do you agree with CIPFA/LASAAC's view 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 above? If not, why not? What alternatives do you suggest?	15 (75%)	0 (0%)	5 (25%)

3.9. The majority of respondents (75% – 15 respondents) indicated that the changes should be implemented in the Code as outlined in the consultation paper.

3.10. Most comments focused on mechanisms to improve understanding including exemplification of what the new Code requirements might mean with suggestions of reference to Practice Statement 2.

3.11. 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.

3.12. CIPFA/LASAAC agreed to implement the changes in Exposure Draft 2.

B3 Deferred tax relating to assets and liabilities arising from a single transaction, amendments to IAS 12 *Income Taxes*

3.13. The consultation explained that amendments to IAS 12 clarify that the exemption from recognising the deferred taxes does not apply to transactions where an asset and a liability are recognised at the same time resulting in equal amounts of taxable and deductible temporary differences.

3.14. The approach in the consultation was not to amend the Code as this was only likely to apply to local authority group accounts.

Question		Agree	Disagree	Neutral or just offered comment
Q4	Do you agree with CIPFA/LASAAC's view that Deferred tax relating to assets and liabilities arising from a single transaction, amendments to IAS 12 *Income Taxes* should be implemented in the Code as outlined in the ITC? If not, why not? What alternatives do you suggest?	16 (80%)	1 (5%)	3 (15%)

3.15. The majority of respondents (80% – 16 respondents) supported the proposed approach.

3.16. 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.

3.17. Other respondents indicated a need to provide additional guidance on these transactions.

3.18. CIPFA/LASAAC agreed to retain the proposed Code approach, but that guidance for group accounts could be progressed through the Code Guidance Notes.

B4 Reference to the Conceptual Framework, amendments to IFRS 3 *Business Combinations*

3.19. The consultation highlighted updates to IFRS 3 included the following changes:

- a requirement added to IFRS 3 so that, for transactions and other events within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, an acquirer applies IAS 37 or IFRIC 21 to identify the liabilities it has assumed in a business combination (instead of the Conceptual Framework)

- an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

3.20. These amendments to IFRS 3 are not likely to significantly affect local authority transactions and will not require direct amendment to the Code but will need to be implemented in the 2023/24 Code (and included in the listing at Appendix D).

Question		Agree	Disagree	Neutral or just offered comment
Q5	Do you agree with CIPFA/LASAAC's view that Reference to the Conceptual Framework – amendments to IFRS 3 *Business Combinations* should be implemented in the Code as outlined above? If not, why not? What alternatives do you suggest?	17 (85%)	0 (0%)	3 (15%)

3.21. The majority of respondents (85% –17 respondents) agreed with the approach in the consultation paper.

3.22. CIPFA/LASAAC agreed to progress this through the Code Guidance Notes.

4. Legislative changes

C1 Legislative changes

4.1. The Accounts and Audit Regulations 2015 had been amended so that the deadline for the publication of the audited accounts moved to 30 September for 2022/23 and 2023/24 financial years. This change was made to the 2022/23 Code and would also be reflected in the 2023/24 Code.

4.2. 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) theoretically expired at the end of 2022/23. The Department for Levelling Up, Housing and Communities (DLUHC) (now Ministry of Housing, Communities and Local Government (MHCLG)) consulted on proposed changes, but the outcome of the consultation was not yet known. Changes were also anticipated to the Welsh Regulations. CIPFA/LASAAC proposed to update the Code in line with the outcomes of the DLUHC consultation.

4.3. The time limited specifications in legislation for a separate reserve to manage deficits for the Dedicated Schools Grant theoretically expired at the end of 2022/23. Government undertook a consultative exercise, but any changes to the Regulations were not yet been known. CIPFA/LASAAC proposed to update the Code in line with the outcomes of the DLUHC consultation. In the event that the override were to end, CIPFA would work with DLUHC (now MHCLG) and the Department for Education (DfE) to set out the accounting treatment.

Question		Agree	Disagree	Neutral or just offered comment
Q6	Do you agree with CIPFA/LASAAC's approach to legislative changes? If not, why not? What alternatives do you suggest?	11 (55%)	3 (15%)	6 (30%)

4.4. The responses largely did not focus on the anticipated changes to the Code but on the effects of the legislation (only some of which will require consideration of accounting treatment).

4.5. An audit firm suggested that the Code should advise on what should happen when (if) these overrides end.

4.6. CIPFA/LASAAC agreed to update the Code to reflect the outcomes of relevant government consultations on extensions to the statutory overrides.

5. IFRS 17 *Insurance Contracts*

D1 IFRS 17 *Insurance Contracts*

5.1. Key aspects of IFRS 17 are as follows:

- An insurance contract is one in which the issuer accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

- Significant insurance risk is a risk, other than a financial risk, transferred from the holder of the contract to the issuer (ie from the policyholder to the insurer). Significant insurance risk is measured only by reference to the scale of the potential compensation. The probability of the event occurring is not considered: even an extremely unlikely event can be a 'significant insurance risk' and require reporting to follow IFRS 17.

- IFRS 17 may apply to contracts that are not specifically titled as insurance contracts and/or are not considered to be primarily concerned with 'insurance'.

- Several scope exclusions are specified where other standards are considered to be applicable.

5.2. CIPFA/LASAAC proposed to designate IFRS 17 as one of the small number of IFRSs that are only expected to apply to local authorities in limited circumstances, with no material included in the body of the Code. To maintain a stable platform CIPFA/LASAAC will follow the approach for the rest of the public sector and implement IFRS 17 in the 2025/26 Code.

Question		Agree	Disagree	Neutral or just offered comment
Q7	Do you agree with CIPFA/LASAAC's approach to the implementation of IFRS 17 *Insurance Contracts* in the Code? If not, why not? What alternatives do you suggest?	13 (65%)	2 (10%)	5 (25%)
Q8	Do you agree with the timing of the implementation of IFRS 17 *Insurance Contracts* in the Code, ie in the 2025/26 Code? If not, why not? What alternatives do you suggest?	14 (70%)	1 (5%)	5 (25%)

5.3. The majority of respondents (65% – 13 respondents) agreed with the approach outlined in the consultation documents to the implementation of IFRS 17.

5.4. A local authority disagreed with the proposals not to include material in the Code, noting the application of IFRS 4 to some pension guarantees. In contrast the Society of London Treasurers provided reasoning indicating that pension guarantees arrangements currently accounted for under IFRS 4 should follow IFRS 9 and would continue to do so.

5.5. A fire authority that was a part of a mutual arrangement queried whether it needed to account for its role as guarantor in the fall back position if the mutual is not able to fund its liabilities to service insurance claims.

5.6. The majority of respondents (70% – 14 respondents) 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.

5.7. CIPFA/LASAAC agreed to review the responses including the new issue around mutuals among fire authorities when considering further consultation, but it was anticipated that these matters would be addressed through CIPFA guidance rather than the Code.

6. CIPFA/LASAAC's strategic plan

E1 CIPFA's Financial Reporting Hub (FRHub)

6.1. The FRHub was a standing working group of CIPFA's Accounting and Financial Reporting Forum and supported by treasurers' representatives. The FRHub had a focus on improving the presentation of local authority financial statements.

6.2. The FRHub has since been replaced by the Better Reporting Group (BRG) who are a permanent working group of CIPFA/LASAAC. The BRG have a focus on the improvement of local authority and related wider public sector financial reporting for users of the accounts.

Question		Response
Q9	Do you have any comments on the topics that CIPFA/LASAAC's strategic plan should prioritise including the topics to be considered by the FRHub? Please set out the rationale for your response.	
Q10	Do you have any suggestions for how CIPFA/LASAAC and the FRHub might be able to assist local authority accounts preparers in communicating the key messages in the financial statements to the users of the accounts, including the provision of summary financial information?	

6.3. Several authorities and an audit body indicated that they preferred the provision of summary financial information in the narrative report, however, one authority indicated that if the accounts were streamlined this would remove the need for a standardised statement.

6.4. An accounting institute was keen that FRHub provided guidance on how local authorities will present current risks such as the cost of living crisis, inflation and the conflict in Ukraine in the reports that accompany the financial statements.

6.5. An auditor repeated its comments in responses to previous consultations that the Comprehensive Income and Expenditure Statement (CIES) should analyse expenditure on a nature of expenses basis and prioritise income. The 2016/17 *Telling the Story Review* considered this and was very clear that the top half of the CIES should focus on service expenditure in line with how local authorities provide their services. The same firm indicated that the expenditure and funding analysis (EFA) should be moved to the narrative report. CIPFA/LASAAC debated this issue in detail (in producing the changes to the 2016/17 Code) and decided against this because the EFA also provides the segmental analysis under IFRS 8 *Operating Segments*.

6.6. An auditor also noted that the narrative report should not focus on outturn reports but on performance reported in the CIES and the Code should specify key performance indicators.

6.7. CIPFA/LASAAC noted the various responses and agreed to take them forward through the FRHub.

E2 Sustainability reporting

6.8. CIPFA/LASAAC is of the view that sustainability reporting is going to become increasingly important to the local government sector, and it is vital that local authority financial statements present the impact of the environment and sustainability on local authority financial performance, financial position and cash flows in their financial statements.

6.9. The impacts of environmental and sustainability reporting are already covered in standards terms by the provisions of the Code and therefore no changes are explicitly required to the Code. However, as it is such an important issue requiring significant changes in practice, CIPFA/LASAAC considers that it needs to be added to its strategic plan and would seek stakeholders' views on this issue.

Question		Response
Q11	Do you agree that sustainability reporting should be added to CIPFA/LASAAC's strategic plan? If not, why not? What alternatives would you suggest?	
Q12	Do you have any suggestions for how CIPFA/LASAAC or CIPFA should support local authorities with reporting the impact of the environment or sustainability reporting in the local authority financial statements or accompanying reports (eg the narrative report)? Please set out the rationale for your response.	

6.10. The consultation responses indicated that there is broad support for CIPFA/LASAAC to consider sustainability reporting in its strategic plan. They also provided the following comments:

- encouragement to CIPFA/LASAAC to develop guidance aligned to that of the International Public Sector Accounting Standards Board (IPSASB)
- an audit firm indicated that CIPFA/LASAAC should not delay in moving forward on this issue
- a number of authorities commented on the resource burden on the introduction of sustainability reporting especially for complex entities like local authorities
- an authority and a firm suggested that the Code should be consistent with the financial reporting manual (FreM)
- an authority challenged whether the statement of accounts was the best medium for sustainability reporting.

6.11. The consultation responses included numerous useful suggestions for how CIPFA/LASAAC or CIPFA should support local authorities with reporting the impact of the environment or sustainability, including:

- further encouragement to work with IPSASB and consider the work of the International Sustainability Standards Board (ISSB)
- indications that the FRHub would be best placed to take forward much of the work
- local authorities should be supported in ensuring that local authority financial statements include the impact of the environment and climate change
- consideration of approach to the Financial Reporting Council's thematic review of sustainability reporting for local authority circumstances
- mandatory sustainability reporting (possibly for larger authorities and those that have declared climate emergencies)
- the potential for disclosure checklists and templates
- guidance for valuers on the impact of the climate in their valuations

- guidance on carbon offsetting activities.

6.12. CIPFA/LASAAC agreed to include sustainability reporting within the strategic plan and expand the boards terms of reference to include sustainability reporting.

E3 Changes to the structure/format of the Code

6.13. The Consultation noted that 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. CIPFA/LASAAC noted that the ways in which information is communicated to the public sector more generally has gone under significant change since then.

6.14. CIPFA/LASAAC's preliminary objectives for the review were that it would be keen to ensure that the Code:

- promotes CIPFA/LASAAC's objective to promote high-quality financial reporting and specifically its vision statement and strategic themes (see Annex A)
- ensures that its users are able to understand how local authorities can achieve the reporting of a true and fair view of its financial position, performance and cash flows
- supports local authorities in ensuring that they are able to communicate the key messages of the financial statements to local authority users of the financial statements
- is the principal source of local government financial and narrative reporting
- is structured so that its provisions are readily accessible to its users
- clearly sets out where local government circumstances and therefore reporting differ from both the private sector and in some cases the rest of the public sector, so ensuring that the adaptations and interpretations are readily understood
- identifies all of the reporting requirements for local authorities across the UK (including separate statutory reporting requirements for each of the devolved administrations and England).

Question		**Response**
Q13	Do you have any comments on CIPFA/LASAAC's preliminary objectives for reviewing the structure or format of the Code? Please set out the rationale for your response.	

6.15. There was overall support for CIPFA/LASAAC's plans with the following additional comments:

- the Code should focus on decluttering the accounts

- there was encouragement to support local authorities, local auditors and central government and include IPSASB pronouncements

- that the Code could be clearer about the specific provisions in IFRS standards that the Code adapts or interprets.

6.16. An auditor was of the view the prevalence of local authorities having interests in other entities meant more emphasis should be put on this in the Code.

6.17. CIPFA/LASAAC noted all the various responses and will take them forward as the project progresses.

7. Further guidance

F1 Other areas where additional guidance might be required

Question		Response
Q14	Are there any areas within the Code where additional guidance or improvements to the Code would be helpful? Please support your answer by giving details of the amendments you would suggest.	

7.1. A number of local authorities commented on the pressures on the local audit framework. This was a considerable area of comment at the CIPFA/LASAAC webinar on the consultation on the 2023/24 Code on 15 September 2022.

7.2. Authorities provided numerous other comments including:

- Accounting requirements and guidance should be consolidated into one source document.

- Both the Code and the guidance notes should include extracts from source standards.

- There could be more guidance on IAS 19, particularly how the disclosure in authorities' accounts links with the disclosures made by the pension funds.

- Further detailed guidance should be provided on infrastructure assets accounting.

- The information from the accounts should be used as the basis for providing central government with information required, rather than requiring separate government returns.

- The Code and related guidance should propose ways in which local authorities can streamline accounts to make them more intelligible to their primary users.

- The inspection of accounts process set out in the Accounts and Audit Regulations 2015 should be reviewed to strengthen what should or can be inspected; it should have a clear link to specific items in the accounts.

- Materiality levels are a significant issue, particularly with respect to the impact of capital finance items as opposed to revenue items.

- More of the IAS 16 *Property, Plant and Equipment* provisions should be included in the Code, especially paragraph 34.

- One authority challenged the basis of accounting in the Code where this differs significantly to what is charged to council tax under statutory provisions across a number of standards, including pensions and property, plant and equipment.

7.3. An auditor raised concerns relating to three issues in the Code:

- the recognition conditions for grants

- 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

- group accounts transactions regarding the implementation of statutory reversals.

7.4. CIPFA/LASAAC noted but did not support a suggestion that reporting be moved to a basis which reflects taxation implications.

7.5. CIPFA/LASAAC agreed to progress discussion around separate publication of pension fund statements.