Invitation to comment on the 2025/26 Code of Practice on Local Authority Accounting in the United Kingdom

December 2024

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Invitation to comment

Executive summary

1. CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC) has considered how best to develop the Code against the backdrop of the measures introduced by the government to address the backlog in the local audit system in England. It explored two different approaches with the primary aim of ensuring high quality financial reporting in local authority financial statements for all jurisdictions.

2. In recent years CIPFA/LASAAC chose to maintain a stable platform and not make any changes to the Code except to reflect updates in standards and legislative changes. Under the current circumstances the Board determined it should examine the suggestion that the Code continue to provide a stable platform, limiting amendments where possible, while the local audit system in England goes through a reset and build back process.

3. While providing a stable platform was seen as having some benefits during the period of build back following backstop dates, there is also the opportunity to press ahead with longer-term reforms to support local authorities across all jurisdictions. In particular to make good on the commitment by the Board to consider a more proportionate approach to the valuation of non-investment assets by implementing changes from the HM Treasury Thematic Review in 2025/26 rather than in 2026/27.

4. Following a thorough deliberation of both options, the Board has determined that advancing longer-term reforms for all jurisdictions is paramount. Furthermore, that starting now would:

    - support the local audit system in England during the build back period, and
    - smooth the impact on practitioners in light of the Board's ambition to continue to reform local authority financial reporting.

    Consequently, the proposals outlined in this year's invitation to comment (ITC) should be considered with these objectives in mind.

1. Introduction

5. Local authorities in the United Kingdom are required to keep their accounts in accordance with ‘proper practices’. This includes, for the purposes of local government legislation, compliance with the terms of the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code), prepared by CIPFA/LASAAC. The Code is reviewed continuously and is issued annually.

6. Under the oversight and advice of the Financial Reporting Advisory Board (FRAB), CIPFA/LASAAC can issue in-year updates to the Code. This is only done in exceptional circumstances.

7. This ITC sets out proposals for revisions to the 2025/26 Code that will apply to accounting periods commencing on or after 1 April 2025 (Section A of this ITC). This includes the proposed approach to implementing HM Treasury’s Thematic Review and a discussion about CIPFA/LASAAC’s strategic plan (Section B).

2. The consultation process

8. Specific consultation questions have been included in the ITC. CIPFA/LASAAC also welcomes general comments on the Code. To assess comments properly, CIPFA/LASAAC would prefer respondents to support comments with clear accounting reasons and, where applicable, explanations of practical effects.

9. Responses to this invitation to comment will be regarded as on the public record and may be published on the CIPFA website. Copies of all correspondence and an analysis of responses may be provided to FRAB.

10. An exposure draft setting out proposed changes to the Code is also included separately on the relevant CIPFA webpage.

11. In order that they can be considered by CIPFA/LASAAC in time to inform possible implementation, responses are required by **14 February 2025**.

12. Please make responses via the online survey: Code of Practice on Local Authority Accounting in the United Kingdom 2025/26: Invitation to comment.

Section A

3. Longer-term reforms and change in approach to the measurement of operational property, plant and equipment in line with the HM Treasury Thematic Review

3.1 Longer-term reforms

13. Following discussions and careful consideration, CIPFA/LASAAC propose for the 2025/26 Code that it should advance the agenda in the context of longer-term reforms in line with its strategic plan. The plans are to press ahead and prioritise this work alongside CIPFA through the Better Reporting Group.

14. The aim is to initiate the process and start building momentum 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. This approach is expected to result in considerable time savings for valuers, preparers and auditors while maintaining high quality financial reporting.

Focus on longer-term reforms	
Q1	Do you agree with the approach of advancing the agenda in the context of longer-term reforms and implementing changes from the Thematic Review in 2025/26? If not, why not? Please provide your views on why this might be the case.

3.2 Introduction to change in approach to the measurement of operational property, plant and equipment

15. In the February 2024 consultation on short-term, England-only measures to aid the recovery of local authority reporting and audit, CIPFA/LASAAC set out their intention to review the Code having regard to the HM Treasury Thematic Review as part of measures to help local authorities in the longer term.

16. The purpose of the HM Treasury Thematic Review was to assess the current regime of valuation for non-investment assets across the public sector and to identify and evaluate the case, options and timing for any revisions to the existing approach. The review considered the strengths and areas for improvement of the current regime, and potential developments going forwards. HM Treasury, in consultation with FRAB, concluded there was merit in exploring changes to the current regime and issued consultations in March 2023 and December 2023.

3.3 Approach to changes for operational property, plant and equipment

17. HM Treasury's original consultation proposal was to reassess distinct asset classes for financial reporting purposes, and the application of a separate measurement basis for each class of assets.

18. The initial approach in the proposals was largely to focus on the difference between specialised and non-specialised assets. This has moved and the new position is to focus on using IPSAS 46 *Measurement* as a source of the principles for establishing measurement bases.

19. IPSAS 46 was issued along with IPSAS 45 *Property, Plant and Equipment* (the IPSAS equivalent of IAS 16). For each class of property, plant and equipment, IPSAS 45 requires entities to either use the historical cost model or the current value model. Under the current value model, it requires entities to measure assets at either fair value or current operational value (COV), the measurement decision for choosing either fair value or current operational value depending on whether an entity is holding the asset for its financial or operational capacity. The choice must be applied consistently.

20. The approach to the measurement model in IPSAS 45 and IPSAS 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 that are not surplus assets or classified as held for sale are held for their operational capacity.

21. HM Treasury investigated whether introducing COV as a measurement basis would be appropriate for assets held for operational capacity or whether it would be more appropriate to retain the existing EUV measurement basis for these assets. This was discussed in HM Treasury's December 2023 consultation and the proposal was to maintain the EUV measurement basis, and not adopt COV.

22. CIPFA/LASAAC is of the view that COV as the measurement basis for all operational assets is largely consistent with the current UK approach of Existing Use Value (EUV). Therefore, the Board proposes that the EUV measurement basis should also be retained in the Code.

Approach to changes for operational property, plant and equipment	
Q2	Do you agree with the proposal to maintain the use of EUV? If not, why not? Please provide reasons for your view.

3.4 Depreciated replacement cost for specialised assets and/or assets where there is no market

23. EUV and COV require the entity to reflect the amount it would pay at the measurement date for the remaining service potential for the existing asset. Where a market does not exist both IPSAS 46 and the Code require that this measurement is based on the costs to develop the asset using available price information to measure the remaining service potential.

24. Significant proportions of local authority assets are measured at DRC. There are commentaries that DRC is not fully understood or applied consistently. Like EUV,

DRC seeks to measure the cost of the replacement of the remaining service potential of the asset.

25. DRC is defined in the Code as a method of valuation that provides the current cost of replacing an asset with its modern equivalent asset, less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation. This approach includes considering an alternative site, which would normally hinge on the locational requirements of the service that is being provided.

26. Paragraph 56 of the Basis for Conclusions in IPSAS 46 addresses the use of alternative sites as follows:

> …the IPSASB agreed that a valuation based on an alternative site would not achieve the objective of current operational value because it would not provide a value of the existing asset in its existing use. This is 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. Relocating the asset to another location is a separate, future policy decision that should not be taken into consideration when measuring the asset. Current operational value valuations should be based on delivering the entity's goods and/ or services from the existing location.

27. The HM Treasury Thematic Review is therefore exploring if assets should be valued based on their current site and not consider alternative sites. There is also a difference in that COV permits the use of identical replacement as well as Modern Equivalent Assets. A key element of the current discussion is whether the modern equivalent approach should still be applied to the area of the current site, if the requirement to consider alternative sites is removed. CIPFA/LASAAC is keen to hear from stakeholders. However, this will not be implemented in 2025/26.

28. Authorities should continue to use the 'instant build' approach at the valuation date and the exposure draft clarifies that DRC is a measurement technique as it exists under the EUV basis of measurement.

Specialised assets - the use of depreciated replacement cost in local authority measurement	
Q3	Would you support a future move to value operational property, plant and equipment based on their current site and not consider alternative sites? If not, why not? Please provide reasons for your view.
Q4	If operational property, plant and equipment is valued based on their current site. Should the modern equivalent approach still be applied to the area of the site? If not, why not? Please provide reasons for your view.

3.5 Frequency of valuations for operational property, plant and equipment and the use of indices to maintain the currency of valuations

29. The Thematic Review also considered continuing to apply current values, as per the current measurement base, but to introduce an adaptation to IFRS prescribing that revaluations must only be undertaken once every five years or on a five-year rolling basis, thus avoiding the need for more regular revaluations. This would be an adapted revaluation model.

30. The Code currently specifies in accordance with IAS 16 that where assets are revalued, revaluations must be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period. CIPFA/LASAAC is therefore seeking views on including an adaptation in the Code that withdraws this requirement.

31. In the interests of a whole system position and to seek the most proportionate approach to the measurement of operational property, plant and equipment CIPFA/LASAAC proposes mandating authorities can choose from a quinquennial revaluation or a five-year rolling basis for formal valuations, supported by annual indexation in the intervening years.

32. Authorities will be required to use the ‘best available’ indices. However, in the extremely rare circumstance that no index is available, the Code will not require assets to be revalued more frequently than every three years. Furthermore, out of cycle valuations will not be required unless there is an indication of impairment when applying IAS 36, which may require an asset to be fully revalued.

33. The requirements of IAS 36 *Impairment of Assets* are unchanged. Entities will still need to review their asset base for impairment indicators as required by IAS 36. If there are indicators of impairment, the entity would need to calculate the recoverable amount of that asset, which may mean undertaking a full professional revaluation of that asset that has displayed an indicator it may be impaired.

34. Generally, CIPFA and CIPFA/LASAAC have not previously supported revaluation approaches based on the use of indices to support the currency of valuations and the Code currently does not allow for these to be included in the remeasurement process.

35. CIPFA/LASAAC agrees with views that when indexation is used the measurements in the Balance Sheet no longer represent a formal valuation by a valuer. It also concurs that the use of indices is conceptually difficult, that the Code and CIPFA have regularly advised against their use because of the inherent difficulties in choosing the correct index, and that they may still not appropriately reflect the value inherent in the asset. This is particularly the case for market-based valuations.

36. However, HM Treasury and CIPFA/LASAAC working groups have considered whether the specification of quinquennial revaluations might be supported by their use as changing values for changes in price might strengthen the carrying values in local authority balance sheets and reduce the need for more frequent valuations.

37. CIPFA/LASAAC acknowledges that the existing Code requirements for ‘sufficiently regular’ valuation result in authorities and auditors having to conduct significant

amounts of work, either on formal valuations produced annually, or evidencing that the carrying amount of assets not valued each year doesn't differ materially from the current value at the end of the reporting period. Therefore, it is hoped the proposals allow authorities and auditors to address concerns about material uncertainties in asset valuations between formal valuation points with greater proportionality, ultimately resulting in considerable time savings.

38. CIPFA/LASAAC understand that indices are already used in practice by both preparers and auditors. If this is the case, then providing appropriate specifications in the Code will help ensure consistency and serve as a clear reference point. Furthermore, the Board hopes this will also facilitate a more efficient measurement process for authorities not currently using indexation.

39. It is likely that the use of indices will work straightforwardly for assets that are measured using DRC as there is already the BCIS all-in Tender Price Index. There is currently a lack of readily available indices for assets that are measured at a market based existing use value. CIPFA and others are exploring the development of indices from market information.

40. The proposals in the exposure draft indicate that any indices used should be relevant to the type of asset measured using industry standards and that CIPFA will issue guidance on the indices to be used, to which local authorities must have due regard.

41. There are other practicalities to consider for implementing indexation including the need to account for regional differences, obtaining auditor assurance and when indices will be issued. CIPFA/LASAAC is therefore seeking views on the practical considerations for indexation, for inclusion in application guidance that will be issued to support practitioners.

42. Social housing assets also fall under the remit of CIPFA/LASAAC and are required to be valued using the existing use value – social housing (EUV- SH) basis. However, it is understood 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, CIPFA/LASAAC proposes no change to the valuation frequency or for indexation to be used for social housing assets.

Frequency of valuations for operational property, plant and equipment and the use of indexation	
Q5	Do you agree with the suggestion that, for non-investment assets that are not social housing, the Code should withdraw the IAS 16 requirement for revaluations to be made with sufficient regularity that ensures the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period. Instead replacing this with a quinquennial revaluation or a five-year rolling basis, supported by indexation in the intervening years? If not, why not? Please provide reasons for your view.
Q6	Do you agree 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? If not, why not? Please provide reasons for your view.
Q7	Do you agree 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? If not, why not? Please provide reasons for your view.
Q8	Do you agree that CIPFA should issue guidance on indices to be used to which local authorities must have due regard? If not, why not? Please provide reasons for your view.
Q9	Indices will need to reflect conditions as at 31 March as best possible. Therefore, it's likely that indices would be available to practitioners around March each year. Would this approach be feasible for practitioners? If not, why not? Please provide reasons for your view.
Q10	Do you have any comments on practical considerations for indexation and what should be included in application guidance issued to practitioners for the use of indices to assist with implementation?
Q11	Do you agree with the proposal to make no changes to how social housing assets are valued using the EUV-SH basis, since the beacon approach appears to be working effectively? If not, why not? Please provide your views on why this might be the case.

3.6 Intangible assets

43. A further output from the HM Treasury Thematic Review is to withdraw the option to measure intangible assets using the revaluation model. Instead, the requirement will be for measurement using historic cost.

44. IAS 38 allows an intangible asset to be carried at a revalued amount only where its fair value can be measured by reference to an active market. While the Code acknowledges it is unlikely to apply to the single entity financial statements of local authorities, the Code currently follows the IAS 38 approach to measurement.

45. The HM Treasury Thematic Review explored whether the valuation basis for intangible assets should be historical cost or whether intangible assets should be recognised as assets held for operational capacity and be measured at current value. However, for tangible assets where a market equivalent might be available, or a value based on an alternative existing location is available, this would not be an option for intangible assets.

46. HM Treasury concluded that there would be more judgement required in determining the EUV than there is with the historical cost model because of the lack of an observable market for most intangible assets. There is also the risk of additional cost in the development of a DRC valuation for intangible assets. HM Treasury determined that it would be most appropriate to keep intangible assets as

their own asset class and measure at historical cost. This is because it allows application of a relevant and practicably achievable accounting policy and enables the public sector to apply the optimum cost/benefit measurement for each type of asset class, depending on the nature and intended use of the asset.

47. CIPFA/LASAAC agrees and proposes to withdraw the option to measure intangible assets using the revaluation model.

Intangible assets	
Q12	Do you agree with the proposal to withdraw the option to measure intangible assets using the revaluation model? If not, why not? Please provide reasons for your view.

3.7 Transitional arrangements

48. CIPFA/LASAAC set out their intention to review the Code having regard to the HM Treasury Thematic Review as part of measures to help local authorities in the longer term and therefore proposes an effective date of implementation of 2025/26.

49. IAS 8 paragraph 19 requires changes in accounting policies to be applied retrospectively unless the relevant IFRS standard includes specific transitional provisions or retrospective restatement is impracticable (IAS 8 paragraph 23).

50. However, following HM Treasury's Thematic Review, an adaptation to IAS 8 was agreed when applying the changes to the valuation of non-investment assets, including intangible assets. From 2025/26 and throughout the transition period (the first full revaluation cycle), authorities will not be required to follow the requirements of IAS 8 following the 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.

51. CIPFA/LASAAC proposes following this approach in the Code, where the reasons were set out in HM Treasury's December 2023 consultation. The transitional requirements have been set out in the exposure draft.

Transitional arrangements	
Q13	Do you agree with the proposed effective date of financial year 2025/26 for the changes? If so, why? If not, do you have a suggestion for an alternative effective date? If so, why?
Q14	Are there any significant operational challenges you consider might be encountered during the implementation of this proposed approach to the valuation of non-investment assets?
Q15	Do you agree with the approach to transition as set out in the exposure draft? If not, why not? Please provide reasons for your view.

4. Changes to standards for 2025/26

4.1 IFRS 17 *Insurance Contracts*

52. IFRS 17 *Insurance Contracts* will supersede IFRS 4 *Insurance Contracts*. IFRS 4 is one of the small number of IFRSs that are only expected to apply to local authorities in limited circumstances. The Code does not include detailed accounting requirements for such standards, which are simply listed in Appendix A (IFRSs with limited application to local authorities) with a brief explanation.

53. Following some amendments, IFRS 17 had a revised effective date of 1 January 2023. It has been UK-adopted and therefore can be implemented in the Code. CIPFA/LASAAC understands that due to the impact this might have on some bodies, mandatory implementation in the public sector has previously been deferred to the 2025/26 year, with early adoption permitted subject to consideration on a case-by-case basis.

54. The International Accounting Standards Board (IASB) is clear that IFRS 17, like IFRS 4, is designed for insurance companies. In its fact sheet it indicates:

> IFRS 17 applies to insurance contracts. Although this means that IFRS 17 affects any company that writes insurance contracts, such contracts are generally not written by companies outside of the insurance industry. (IASB, May 2017)

55. CIPFA/LASAAC has included a summary of the key aspects of the standard in Figure 1 below.

Figure 1: The key aspects of IFRS 17 *Insurance Contracts*

The 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.

56. 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*. Additional guidance outside the Code may be appropriate, including guidance on how the scope exclusions in IFRS 17 allow other standards to be applied to transactions that would otherwise be accounted for under IFRS 17.

57. Nevertheless, CIPFA/LASAAC is keen to hear from stakeholders, to consider whether there are issues that need to be addressed in the Code or in related guidance.

IFRS 17 *Insurance Contracts*	
Q16	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?
Q17	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?

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

58. IASB issued *Amendments to IAS 21 Lack of Exchangeability* in August 2023. The amendments 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.

59. The requirements the amendment sets out seem unlikely to apply to local authorities. Therefore, no change to the Code is proposed, but adoption of the amended standard would be signalled in Appendices C and D of the Code.

Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates* (Lack of Exchangeability)	
Q18	Do you agree with the proposed approach not to require changes to the Code for *Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates* (Lack of Exchangeability)? If not, why not? What alternatives do you suggest?

5. Legislative changes

5.1 Introduction

60. CIPFA/LASAAC would wish to highlight the following legislation which will influence the 2025/26 Code.

5.2 Accounts publication deadlines (England)

61. The Accounts and Audit Regulations 2015 will be amended such that the deadline for the publication of the draft accounts will move to 30 June for financial years 2024/25 to 2027/28.

62. Furthermore, between 8 February and 7 March 2024 the then Department for Levelling-Up Housing and Communities (DLUHC) consulted on amending the Accounts and Audit Regulations 2015 as part of measures to tackle the backlog of unaudited local body accounts in England.

63. The proposals consulted upon included setting a statutory backstop date to clear the backlog of unaudited accounts up-to-and-including financial year 2022/23. They also included setting backstop dates for financial years 2023/24 to 2027/28 to enable the local audit system to recover. The current government has recently issued its position and set out its intention for the below backstop dates for financial years 2022/23 to 2027/28.

- 2022/23: 13 December 2024
- 2023/24: 28 February 2025
- 2024/25: 27 February 2026
- 2025/26: 31 January 2027
- 2026/27: 30 November 2027
- 2027/28: 30 November 2028

64. This change will be reflected in the 2025/26 Code and other years where relevant.

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

65. 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.

66. This regulation applies to accounts prepared for financial years in respect of the period beginning with 1 April 2018 and extended the override for an additional two-year period until 31 March 2025. Therefore, subject to any further consultative processes, this would need to be reflected in the Code. Equivalent provisions were inserted into the Welsh regulations.

67. CIPFA/LASAAC understands that the Ministry of Housing, Communities and Local Government (MHCLG) are currently reviewing this override. Any changes to the Code will need to reflect MHCLG's decision.

Fair value gains and losses on pooled investments (England and Wales)	
Q19	CIPFA/LASAAC would seek local authority views on their current approach to investments in pooled investments and what their future approach might be for these investments if the override was not in place? Please set out the reasons for your response.

5.4 Extension of the temporary solution for infrastructure assets

68. Stakeholders will be aware that CIPFA/LASAAC issued its Urgent consultation on temporary changes to the code to resolve infrastructure assets reporting issues in

May 2022 and a temporary solution is in place until 31 March 2025. The temporary solution includes:

- Update to the Code and Specifications for Future Codes for Infrastructure Assets
- Statutory prescriptions in England, Scotland and Wales:
  - The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 SI 1232/2022
  - Local government finance circular 8/2024 – accounting for infrastructure assets: temporary statutory override
  - The Local Authorities (Capital Finance and Accounting (Wales) (Amendment) Regulations 2022 SI 1254/2022 (W.255)
- CIPFA Bulletin 12 – Accounting for Infrastructure Assets – Temporary Solution.

69. At its single-issue meeting on infrastructure assets reporting to discuss the longer-term solution on 27 April 2023 CIPFA/LASAAC agreed to proceed with a measurement solution based on Depreciated Replacement Cost (DRC). This was to be subject to the outcomes of HM Treasury Thematic Review of Non-investment Asset Valuation for financial reporting purposes and a full consultation on the final proposals (note that consultation proposals included measurement at DRC for highways networked assets). CIPFA/LASAAC decided that the date for implementation would not be before 1 April 2025.

70. However, stakeholders may be aware that Lee Rowley, previously Parliamentary Under-Secretary of State for Local Government and Building Safety sent a letter to the Chair of Levelling Up, Housing and Communities Committee as a part of his evidence to the Committee inquiry into Financial Reporting and Audit in Local Authorities. This letter indicates that CIPFA [LASAAC] has already made a temporary adjustment to the Code on the measurement and reporting requirements for local authority infrastructure assets, which runs alongside amendments to regulation made previously by DLUHC in December 2022.

71. The letter also set out the view the longer-term solution will take longer than the current temporary measures (both legislative and Code based) allow. Previously DLUHC were planning to seek to extend the changes made to legislation. CIPFA/LASAAC understands that the Ministry of Housing, Communities and Local Government (MHCLG) are currently reviewing this override. Any changes to the Code will need to reflect MHCLG's decision.

72. CIPFA and CIPFA/LASAAC's separate task and finish group on infrastructure assets have started the debate to improve the reporting of infrastructure assets, both to improve the information deficits and enable derecognition of components when replacement expenditure has taken place. However, stakeholders may be aware that the previous approach in the period from 2014–2017 took a significant lead-in period to develop.

73. CIPFA has also undertaken a survey of stakeholders with regards infrastructure assets. There were over 70 responses to that consultation. Over 50 responses were critical of DRC or were of the view that it wasn't practically achievable. Of the more

positive authorities, some were of the view 1 April 2025 would be difficult to achieve. Some authorities note that even helpful simplifications may have long lead times.

74. The Task and Finish Group has started the discussions on this but is of the view that it would take some time to develop appropriate methodologies which would be cost effective.

75. CIPFA/LASAAC would therefore propose maintaining the temporary solution which requires statutory support in those jurisdictions where infrastructure assets are held on local authority balance sheets (England, Scotland and Wales). CIPFA/LASAAC would suggest extending the statutory prescriptions which allow for the treatment of the network approach to the derecognition of components when replacement expenditure takes place, ie the carrying amount of the derecognised part is treated as a nil amount. The Code will maintain the temporary relief on the reporting of gross cost and accumulated depreciation in tandem with the temporary solution.

76. It should be noted that the information deficits CIPFA and CIPFA/LASAAC understand exist for many local authorities mean that to accord with the requirements of IAS 16 (either at a revalued amount or historical cost) require that an exercise takes place such that there is a one-off revaluation exercise (at DRC) and that is treated as a deemed cost on the transition date of a permanent solution.

77. It is possible that once there is a move to DRC maintenance, this measurement basis is as cost effective as a move to (deemed) historical cost. This is because there are established difficulties in measuring the amounts to be derecognised under historical cost, particularly for networked assets (though such issues may exist for all assets held in the long term). This might be easier at DRC because gross replacement cost will be able to be estimated on a current value basis. This will need to be investigated in more detail.

78. Until the longer-term reporting requirements for infrastructure assets are in place it is essential that local authorities consider the information systems and inventories of infrastructure assets and what potential improvements can be made to ensure that asset information is complete. CIPFA/LASAAC is therefore of the view that the prescriptions of CIPFA Bulletin 12 – Accounting for Infrastructure Assets – Temporary Solution should be considered carefully and applied by local authorities to do this.

Reporting infrastructure assets	
Q20	Do you agree with CIPFA/LASAAC that the temporary solution for reporting of infrastructure assets should be maintained? This requires statutory support in those jurisdictions where infrastructure assets are held on local authority balance sheets (England, Scotland and Wales). If not, why not? Please provide reasons for your view.
Q21	Do you agree that that implementation of financial reporting in accordance with IAS 16 will require at least a one-off exercise to measure infrastructure assets at depreciated replacement cost? If not, why not? Please provide reasons for your view.

Q22	Do you have any views on simplifications that might apply to the measurement of DRC? Please provide an explanation of any simplifications that might be used and a reason for your proposals.

Section B

6. CIPFA/LASAAC's strategic plan

6.1 Introduction

79. Stakeholders may be aware that CIPFA/LASAAC like all standard setters has a programme of continuous improvement in line with its vision statement in Annex A.

80. CIPFA/LASAAC has continued to refine its strategic plan with an intended focus on improving the presentation of local authority financial statements and ensuring that local authority accounts clearly present their key messages to users. Previously, CIPFA/LASAAC's work on its strategic plan was set against the stable platform discussed in Section A of this ITC. However, the updated strategic plan aims to advance the agenda in the context of longer-term reforms. While the primary objective is to clearly present key messages to users, it is hoped that any changes will also help address resource challenges faced by accounts preparers and/or local auditors.

6.2 Improvement projects

81. Alongside the annual update of the Code for new accounting standards, the table below is a summary of the improvement projects included in the strategic work plan.

Figure 2: Improvement projects in the strategic work plan

Improvement projects	Brief description
Better Reporting	This work is currently being carried out by the Better Reporting Group. The group will have the ability to propose changes to standards and guidance, with some of the key themes to be explored including: • IFRS 16 *Leases* disclosures completed • presentation of statutory items/adjustments • reducing the burden of LGPS pension reporting • fixed assets • updated model accounts guidance • group accounts • sustainability reporting • the Redmond Review • materiality.

	*Note this not a comprehensive list of what the Better Reporting Group will be covering, as this is still being determined.
HM Treasury Thematic Review of Non-investment Asset Valuation for financial reporting purposes	In the February 2024 consultation on short-term, England-only measures to aid the recovery of local authority reporting and audit, CIPFA/LASAAC set out their intention to review the Code having regard to the HM Treasury Thematic Review as part of measures to help local authorities in the longer term. Therefore, CIPFA/LASAAC intends to implement the changes from the thematic review at the same time as the financial reporting manual (FReM) in 2025-26.
Infrastructure assets long-term solution	CIPFA/LASAAC proposes the override be extended as part of the local audit recovery phase, while work is undertaken on a practical long-term solution.
Review of structure and format of the Code	Review of structure and format of the Code to align with the needs of practitioners using the Code.

82. In the February 2024 consultation on short-term, England-only measures to aid the recovery of local authority reporting and audit, CIPFA/LASAAC noted that it 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. The Board noted that it already planned to review the Code having regard to the HM Treasury Thematic Review and that the development of more proportionate reporting generally (and on pensions in particular) is a long-standing concern of the Board. This is therefore reflected in the strategic plan.

Improvement projects	
Q23	Do you have any suggestions on which items should be prioritised in CIPFA/LASAAC's strategic plan? Please provide reasons for your suggestions.

6.3 The Better Reporting Group

83. CIPFA/LASAAC's strategic plan is focussed on longer-term reforms to local authority financial reporting with the Better Reporting Group being the primary driver for generating innovative improvement ideas. Currently, the Better Reporting Group is in the early stages of commencing its work, concentrating on developing a programme of work that prioritises areas within the accounts that could have the most significant impact.

84. The group will have the flexibility to explore new ideas and the ability to propose changes to standards and guidance. To achieve its goals, the Better Reporting Group will require collaborative efforts from practitioners in the sector. Throughout

the programme of work, there will be calls for volunteers to contribute their specific expertise and ideas as projects emerge.

If you would like more information on the Better Reporting Group or would like to make any suggestions, please contact policy.technical@cipfa.org.

6.4 Other items and invitation for views on improving local authority financial reporting

85. CIPFA/LASAAC's strategic plan also includes reviewing the structure and format of the Code. The 2024/25 Code ITC sought stakeholder feedback on these aspects. While there was strong support for the current approach, which provides detailed text regarding IFRS implementation, there is clearly an opportunity for further development on the structure of the Code. This important aspect of the Code's future development will be carefully considered and once plans have been determined, they will be communicated to the sector.

86. It is worthwhile noting that CIPFA/LASAAC's strategic work plan has postponed post-implementation reviews of applied standards such as IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. It has done this to prioritise its work to support the implementation of IFRS 16 and current standards. It has also prioritised its support for the cross system local audit work looking at longer-term reforms and would seek stakeholders' views on other avenues to improve local authority financial reporting, ensuring that the users of the accounts receive the best information possible.

Other changes to local authority financial statements and the reports that accompany them	
Q24	Do you have any suggestions for improving local authority financial statements and the reports that accompany them? Please provide reasons for your suggestions.

Section C

7. Other financial reporting or emerging issues

7.1 Introduction

87. Last year CIPFA/LASAAC introduced a new section to the Code consultation featuring issues that impact on local authority financial reporting or are emerging financial reporting issues.

7.2 Changes to IFRS standards that could impact on the Code (beyond 2025/26)

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

- **IFRS 18 *Presentation and Disclosure in Financial Statements:*** This standard replaces IAS 1 *Presentation of Financial Statements,* although it carries forward many requirements from IAS 1 unchanged.

  IFRS 18 introduces three sets of new requirements to improve reporting of financial performance and provide a better basis for analysis and comparison of organisations:

  1. Improved comparability in the Comprehensive Income and Expenditure Statement
  2. Enhanced transparency of management defined performance measures
  3. More useful grouping of information in the financial statements.

- **IFRS 19 *Subsidiaries without Public Accountability: Disclosures:*** Subsidiaries using the *IFRS for SMEs* Accounting Standard or national accounting standards for their own financial statements often keep two sets of accounting records because the requirements in these standards differ from those in IFRS Accounting Standards for which they are required to report to the parent. Whereas this standard permits eligible subsidiaries to use IFRS Accounting Standards with reduced disclosures.

  Subsidiaries are eligible to apply IFRS 19 if they do not have public accountability and their parent company applies IFRS Accounting Standards in their consolidated financial statements. A subsidiary does not have public accountability if it does not have equities or debt listed on a stock exchange and does not hold assets in a fiduciary capacity for a broad group of outsiders.

89. While these two new standards are likely to substantially alter companies' presentation of their financial statements, it's unlikely that these new IFRSs will have a significant impact on the current requirements of the Code. However, CIPFA/LASAAC will review these standards and their alignment with the current Code requirements.

90. CIPFA/LASAAC would seek stakeholders' views on the impact of the new standards on the Code's provisions.

Changes to IFRS standards that could impact on the Code	
Q25	Do you have views on the impact of the new IFRSs on the specifications of the Code? Please set out the reasons for your response.

7.3 Changes to IPSAS standards that could impact on the Code (beyond 2025/26)

91. The Code includes interpretations of IFRS based on IPSAS in several sections of the Code. The terms of reference for relevant authorities allows for this where IFRS does not adequately accommodate public sector specific local government transactions. These interpretations largely help reflect the local government context but do not change IFRS.

92. IPSASB have issued the following standards which are effective from 1 January 2026.

- **IPSAS 47 *Revenue*:** This standard presents two accounting models based on the existence (or otherwise) of a binding arrangement. Broadly speaking, binding arrangements allow an IFRS 15 *Revenue from Contracts with Customers* five-step model approach to be applied to exchange transactions and some non-exchange transactions. A different model is used where there is no binding arrangement. IPSAS 47 supersedes IPSAS 9 *Revenue from Exchange* Transactions, IPSAS 11 *Construction Contracts* and IPSAS 23 *Revenue from Non-Exchange Transactions*.

- **IPSAS 48 *Transfer Expenses*:** This standard provides accounting guidance for transfer expenses (including government grants).

- **IPSAS 49 *Retirement Benefit Plans:*** This standard establishes comprehensive accounting and reporting requirements for the financial statements of retirement benefit plans, with participants comprising current and former public sector employees and other eligible members. IPSAS 49 was adapted from IAS 26 *Accounting and Reporting by Retirement Benefit Plans*.

93. CIPFA/LASAAC will review all these standards and related changes to the IPSASB Conceptual Framework to consider whether they will assist with the interpretation of the public sector context for local government.

94. There will need to be a significant review of the drafting of the Code, which currently makes many references to IPSASs that will be superseded. Particular consideration will need to be given to Section 2.3 of the Code (Government and Non-Government Grants), which relies on IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* particularly for recognition and presentation specification. CIPFA/LASAAC will also review the material referencing IPSAS 42 *Social Benefits* in paragraph 8.2.1.12. The new IPSAS 47 may provide a clearer basis for some transactions that have a combination of exchange and non-exchange characteristics, and the new IPSAS 48 may help articulate the Code requirements for grants paid. It is not clear at this stage whether the new standards will prompt consideration of substantive changes to Code requirements.

95. CIPFA/LASAAC would seek stakeholders' views on the impact of the new standards on the Code's provisions.

Changes to IPSAS standards that could impact on the Code	
Q26	Do you have views on the impact of new IPSAS on the specifications of the Code as they augment the interpretations of the local government context? Please set out the reasons for your response.

7.4 Purpose of local authority accounts – Financial Reporting and Audit in Local Authorities inquiry

96. In November 2023 the Levelling Up, Housing and Communities Committee published its first report on the inquiry into financial reporting and audit in local authorities. The terms of reference for the inquiry covered four topics: the users and uses of local authority accounts and audit; the understandability and accessibility of local authority accounts and audit; making local authority accounts meet the needs of users better; and addressing findings in audits and sharing best practice.

97. One of the committee's conclusions was that there is currently no shared view of the purposes of local authority accounts and who should be using them. Recommendations in the report were to ensure that the purposes of local authority accounts are clearly set out, accessible to all relevant stakeholders and that the production, content and format of local authority accounts are aligned with the agreed purposes. The committee believed there were five core purposes of local authority accounts which are as follows:

- **A credible public record:** to provide a credible public financial record that can be relied upon, and which can be used as a point of comparison for other financial information to assess its credibility and accuracy.

- **Accountability for spending:** to enable council taxpayers, businesses, central government, and other sources of funding to understand what money the local authority has received (including council tax, government grants and borrowing) and how the authority has used its resources, so they can hold the authority to account for its spending decisions.

- **Value for money:** to enable residents, service users, and councillors to understand the value for money offered by the authority's spending, so that they can scrutinise the economy, efficiency, effectiveness, and equity of services or programmes.

- **Information to run local authorities:** to enable councillors and officers inside the authority to understand the financial activity, financial position, financial sustainability and resilience of the authority, so they can make informed decisions and run that authority efficiently and effectively.

- **Public reporting of actual and potential issues:** to enable the public, oversight bodies and central government to understand the financial situation and any actual or potential financial issues affecting the authority, so they can make informed decisions about what actions to take.

98. CIPFA/LASAAC acknowledges this is an ongoing discussion and intends to revisit it in due course. This will not affect the 2025/26 Code.

8. Further guidance

99. CIPFA/LASAAC would be interested to hear respondents' views on whether there are any areas within the Code where additional guidance or improvements could helpfully be provided due to difficulties in application or as a result of policy developments. This will help inform the development programme for future editions of the Code, or where relevant and where more guidance might be required, be referred to the relevant forum.

100. CIPFA/LASAAC would also wish to remind stakeholders that comments or suggestions regarding the Code can be submitted to cipfalasaac@cipfa.org at any time. Please note that this is not an advice or enquiries service.

Other areas where additional guidance might be required	
Q27	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.

Annex 1 – CIPFA/LASAAC's vision statement and key aims

Vision statement

UK local authority annual accounts should be widely recognised as an exemplar for clear reporting of the financial performance and position of complex public sector bodies. Users of accounts should be able to access the information they want to help them understand the finances of an authority and to take practical and informed decisions.

Vision implementation

To deliver the above vision, CIPFA/LASAAC has three strategic themes:

- Ensuring that the annual accounts clearly articulate their key messages regarding their financial performance and position.
- Engaging with stakeholders to raise awareness and understanding.
- Reviewing its operations to ensure it is able to deliver its vision.