Invitation to comment on the 2026/27 Code of Practice on Local Authority Accounting in the United Kingdom

August 2025

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Invitation to comment

1. The consultation process

1 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 the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC). The Code is reviewed continuously and is issued annually.

2 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.

3 This invitation to comment (ITC) sets out proposals for revisions to the 2026/27 Code, which will apply to accounting periods commencing on or after 1 April 2026.

4 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.

5 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.

6 Exposure drafts setting out proposed changes to the Code are also included separately on the relevant CIPFA webpage.

7 In order that they can be considered by CIPFA/LASAAC in time to inform possible implementation, responses are required by **Sunday 12 October 2025.**

8 Please make responses by the online survey: Code of Practice on Local Authority Accounting in the United Kingdom 2026/27: Invitation to comment.

2. Executive summary

9 CIPFA/LASAAC have been gaining momentum with longer-term financial reporting reforms alongside CIPFA through the Better Reporting Group. An update for stakeholders of work being undertaken by the Better Reporting Group has been provided in Section 3.3 of this consultation.

10 Given there are relatively few changes to accounting standards or legislation that will have a significant impact on the 2026/27 Code, CIPFA/LASAAC are using this as an opportunity to share early thinking on financial reporting reforms, gather stakeholder views and better understand any potential areas of concern.

11 An area that has come up in discussions and previous consultations is the expenditure and funding analysis (EFA) and therefore stakeholder views are also being sought on removal of the EFA from local authority financial statements in 2026/27.

12 Another improvement CIPFA/LASAAC are seeking to make is to the structure and format of the Code. This follows the government's intention for the Code to be freely available, as outlined in its consultation Local audit reform: a strategy for overhauling the local audit system in England.

13 CIPFA/LASAAC is also keen to hear stakeholders' views on key reporting areas for local authorities, including whether further guidance is needed for local government reorganisation, and stakeholders' views on sustainability reporting, including authorities' readiness.

Section A

3. CIPFA/LASAAC's strategic plan

3.1 Introduction

14 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 1.

15 CIPFA/LASAAC's strategic plan remains unchanged but work to advance its key priorities has continued to progress. The focus remains on improving the presentation of financial statements and ensuring that accounts clearly communicate their key messages to users. This work is taking place within the broader context of ongoing reforms. While the primary objective remains clarity for users, it is also hoped that any resulting changes will help ease some of the resource pressures faced by local authority accounts preparers and auditors.

16 At this stage, other than removal of the EFA, CIPFA/LASAAC are not proposing to bring forward any of the changes from the ongoing financial reporting reforms programme, with reforms planned to begin from 2027/28. However, this consultation is an opportunity to share early thinking, gather stakeholders' views and better understand any potential concerns. Your input will help shape any future proposals, which would be subject to further consultation before anything is decided.

17 As set out in CIPFA's response to the MHCLG consultation on local audit reform, it is also worthwhile remembering that there are still parts of the standard-setting and regulatory framework that may constrain accounts reform and will need to be taken into account, such as the fact that the Code is based on International Financial Reporting Standards (IFRS), subject to interpretations and adaptations for the UK public sector.

18 In practice, this means developing non-standard (from an IFRS point of view) approaches, either due to statutory arrangements or where the private sector-focused approach in IFRS is not appropriate for specific public sector contexts. Any deviation from IFRS needs to consider whole of government accounts (WGA) implications and the requirement for accounts that provide a true and fair reflection of an authority's financial performance. Both the application of IFRS and the true and fair view requirement are set by central government, with the latter enshrined in law.

19 If the sector wishes to pursue adaptations to IFRS as part of its approach to accounts reform, then it will need to convince FRAB/HM Treasury of the merits. However, given that adaptations carry a potential risk that the financial reporting framework no longer provides a true and fair view, they should only be considered as a last resort.

3.2 Longer-term financial reporting reforms

20 Alongside the annual update of the Code for new accounting standards, the table below is a summary of the longer-term financial reporting reforms included in the strategic work plan:

Longer-term financial reporting reforms	Brief description
Better reporting	This work is currently being carried out by the Better Reporting Group. The group can propose changes to standards or issue guidance. Some of the key themes being explored include the following: a) Users of local authority accounts b) Materiality c) Presentation of statutory items/adjustments d) Non-investment Assets Thematic Review application guidance e) Reducing the burden of LGPS pension reporting f) Updated model accounts guidance g) Group accounts h) Sustainability reporting i) Redmond Review. Note: projects a)–e) are being progressed in 2025.
Infrastructure assets long-term solution	The override has been extended until 1 April 2029 as part of the local audit recovery phase while work is undertaken on a practical long-term solution.
Review of the structure and format of the Code	Review of the structure and format of the Code to align with the needs of practitioners using the Code.

21 Financial reporting reforms are the primary focus in CIPFA/LASAAC's strategic plan, and the board are fully committed to identifying and addressing challenges in local authority financial reporting. To begin with, the Better Reporting Group have been focusing on four projects in 2025 (a)–d) in the table above) where, following stakeholder feedback, it was felt there could be the most significant impact. They will also be starting another significant project – reducing the burden of LGPS pension reporting – later this year. Details of the group's progress are included in Section 3.3 of this ITC. Other important projects such as sustainability reporting are discussed later in Section 7.5 of this ITC, and there are still more projects that provide plenty of opportunity for reform, such as updated model accounts guidance, which is likely to involve considering whether and how far local authority accounts could be standardised.

22 CIPFA/LASAAC anticipate consulting on financial reporting reforms from the 2027/28 Code onwards. This is in addition to the efforts already made by CIPFA/LASAAC to progress reform at pace by implementing the changes following the HM Treasury Thematic Review of Non-investment Asset Valuation in the 2025/26 Code, which is a year earlier than customary practice.

23 Another significant project is the review of the Code's structure and format. Initial discussions indicate that this should not just consider renaming or reorganising current sections, but to have a more fundamental rethink on how the Code is produced and used. CIPFA/LASAAC is seeking further views on this in Section 3.4 of this ITC.

Longer-term financial reporting reforms	
Q1	Do you have any comments or further suggestions for longer-term financial reporting reforms? Please provide reasons for your comments and suggestions.

3.3 The Better Reporting Group

24 CIPFA/LASAAC's strategic plan is focused on longer-term reforms to local authority financial reporting, with the Better Reporting Group as the primary driver for generating innovative improvement ideas. The Better Reporting Group is working on the following projects in 2025:

a) Users of local authority accounts

b) Materiality

c) Presentation of statutory items/adjustments

d) Non-investment Assets Thematic Review application guidance

e) Reducing the burden of LGPS pension reporting.

25 In the 2025/26 Code consultation, CIPFA/LASAAC acknowledged the ongoing discussion regarding the purpose of local authority accounts with a report published in 2023 by the then Levelling Up, Housing and Communities Committee and set out its intention to revisit this discussion in due course. Consequently, the Better Reporting Group has conducted research to identify users of local authority accounts and their information needs and interests. The overall aim is to have a clear position statement on the users of local authority accounts in collaboration with system partners. This statement is intended to provide direction and clarity for longer-term reforms and for practitioners involved in the production and audit of local authority financial statements. The Better Reporting Group have also been discussing issues around materiality, especially where this impacts practitioner and auditor workload.

26 Probably one of the most significant areas acknowledged as adding complexity and impacting users' ability to interpret local authority financial statements is statutory adjustments. Therefore, this has been an area prioritised by the Better Reporting Group and includes considering the purpose of statutory overrides – whether they

are the best way to meet the intended purpose and how they are then presented in the accounts and ultimately understood by users of the accounts.

27 The Better Reporting Group have also been working on the production of application guidance to assist with the implementation of changes from the Non-investment Assets Thematic Review in the 2025/26 Code. The group have been using the Government Financial Reporting Manual (FReM) application guidance as a starting point and ensuring that the document is further tailored to reflect local authority circumstances.

28 Another area being prioritised by the Better Reporting Group in 2025 is reducing the burden of LGPS pension reporting. CIPFA/LASAAC has previously expressed its intention to explore principles-based options for pensions reporting by forming a working group with other relevant authorities to explore the best approach. The aim is for this project to start in autumn 2025.

29 To achieve its goals, the Better Reporting Group will continue to require collaborative efforts from practitioners in the sector. Throughout the programme of work, there will be ongoing calls for volunteers to contribute their specific expertise and ideas as projects emerge.

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

3.4 Format and structure of the Code

31 In response to the Local audit reform: a strategy for overhauling the local audit system in England consultation, the government acknowledged strong support for the Code to be freely available. This would enhance transparency and ensure equal access for all stakeholders, including local authorities, auditors and the public. The government will explore options to make the Code freely available.

32 CIPFA/LASAAC recognises that while the Code is regularly updated and reviewed, its fundamental structure and format have remained largely unchanged since its inception (the 2010/11 Code was issued in September 2009). This consistency has been maintained to ensure users' familiarity. However, the potential change in the Code's funding model presents an opportune moment to review its current structure.

33 CIPFA are exploring digital options for future publications. Digital tools would enhance the user experience, ensure compliance with WCAG 2.1 accessibility guidelines and introduce features such as language translation and text-to-speech functionality. Future digital enhancements may include an AI-assisted search and improved navigation across a publication database.

Objectives

34 During the 2024/25 Code consultation, CIPFA/LASAAC sought views on objectives and possible issues relating to a Code restructure and reformat. CIPFA/LASAAC is now seeking further feedback on the continued validity of these objectives, which state that the Code:

- supports CIPFA/LASAAC's objective to promote high-quality financial reporting, specifically its vision statement and strategic themes, and in accordance with the relevant authority memorandum of understanding (terms of reference)
- ensures that its users can 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 can 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, including the reporting of financial performance
- is structured so that its provisions are readily accessible to its users
- clearly sets out where local government circumstances (and therefore reporting requirements) differ from both the private sector and in some cases the rest of the public sector, so ensuring that the adaptations and interpretations of UK-adopted IFRS are readily understood
- identifies all the reporting requirements for local authorities across the UK (including separate statutory reporting requirements for each of the devolved administrations and England).

35 Based on previous feedback, CIPFA/LASAAC have developed two proposals for the structure and format of future Codes.

	Proposal one	Proposal two
Structure	Chapters correspond to IFRS accounting standards.	Chapters correspond to elements of the accounts.
Content	Text regarding divergences from the accounting standard or to provide further clarity.	Detailed text regarding IFRS accounting treatment and disclosures.
Adaptations and interpretations	A table of all accounting standards with any adaptations or interpretations for local government.	A subsection within each chapter detailing any adaptations and interpretations.
Statutory accounting provisions	All in one place.	Highlighted within each chapter but a table included within a Movement in Reserves Statement chapter.

Structure

36 While there is sound logic to the current structure of the Code, some chapters – particularly 3, 4 and 6 – are long and cover wide areas, making key guidance difficult to locate. This was raised during the 2024/25 consultation, where respondents were in favour of breaking the content into smaller, more manageable chapters.

37 Both proposals address this by significantly increasing the number of chapters, although their organisational approaches differ.

a) Proposal one dedicates a separate chapter to each accounting standard. This structure offers immediate clarity on how each accounting standard applies to local authority accounts.

b) Proposal two is more aligned to the current Code structure and continues to bring together requirements for specific elements of the accounts.

Content

38 The previous consultation revealed a practitioner preference for the Code to retain detailed text regarding IFRS implementation, despite the accounting standards being freely available. Authorities felt having all the information within one document was more user friendly. Proposal two maintains this approach by incorporating wording directly from the underlying standards.

39 Conversely, other audit and accounting institutions favoured a FReM-like approach, emphasising the Code's basis in accounting standards. Proposal one would require users to refer directly to the underlying accounting standards. While this might initially be seen as an inconvenience, it is always best for practitioners to see and use the true, underlying source and is more likely to lead to higher quality implementation of IFRS.

40 Another key benefit of proposal one is its ability to easily highlight any divergences between the Code and the accounting standards, which is a challenge with the current approach. It also eliminates the risk of misrepresenting the intent or substance of IFRS through paraphrasing or when requirements are selectively copied over.

Adaptations and interpretations

41 Adaptations and interpretations are an important element of the Code's provisions. During the previous consultation, respondents felt these were clearly presented in the subsection titled *Adaption, interpretation and application for the public sector context*.

42 Both proposals will continue to clearly present adaptations and interpretations of accounting standards in clear sections. Proposal one also intends to include a table showing, at a glance, which accounting standards have been applied in full, adapted or interpreted for the public sector.

Statutory accounting provisions

43 Statutory accounting provisions are currently included in most sections and chapters of the Code. Many emanate from the same provisions, but all will be reflected in the statutory adjustment line in the Movement in Reserves Statement. Respondents to the previous consultation were split on whether these should remain within chapters or be consolidated in one place.

44 Proposal one will bring all these statutory overrides into one chapter. Users will be able to easily see the number of statutory overrides that affect local authority accounts and the areas impacted.

45 Proposal two will also consolidate all statutory overrides into a single location, such as a dedicated chapter on the Movement in Reserves Statement. However, the impact of any relevant statutory overrides will still be highlighted within each individual chapter as necessary.

46 For an example of how proposal one might appear, please refer to the 2025/26 FReM. Proposal two will continue to resemble the 2025/26 Code format.

47 CIPFA/LASAAC would seek views on both proposals for the structure and format of the Code. The board would be especially interested in any potential issues or concerns and would welcome any suggestions for improving the structure of the Code.

Format and structure of the Code	
Q2	Do you agree that CIPFA/LASAAC's seven objectives for the Code are correct? If not, why not? Please set out the reasons for your response.
Q3	Do you have any comments on the structure and format of the Code in relation to accessibility? Please set out the reasons for your response.
Q4	Do you prefer proposal one or proposal two as a new structure for the Code? Please set out the reasons for your response.
Q5	Are there any other issues relating to the structure and format of the Code? Please set out the reasons for your response.

4. Financial reporting reforms for 2026/27

4.1 Removal of the expenditure and funding analysis (EFA)

48 As part of ongoing reforms to local authority financial statements, CIPFA/LASAAC is seeking views on removing the EFA within local authority financial statements. The EFA currently bridges the statutory accounts and the funding basis. However, feedback suggests it is seen as complex, underutilised and burdensome to produce.

49 The EFA was introduced in 2016/17 following a previous project to develop local authority accounts, which focused on streamlining the accounts and improving their accessibility to users. It was consulted on in the 2015 consultation Telling the story: improving the presentation of local authority financial statements, and the proposals focused on two key strands:

- To allow local authorities to report on the same basis that they are organised by breaking the formal link between the *Service Reporting Code of Practice* (SeRCOP) and the Comprehensive Income and Expenditure Statement (CIES).

- To introduce a new funding analysis that provides a direct reconciliation between the way local authorities are funded and budgeted for and the CIES in a way that is accessible to the lay reader.

50 Proper accounting practices measure the resources that have been generated and consumed in the year, including such things as the use of property (depreciation) and the value of pension benefits earned by employees. Statutory provisions determine how much of the authority's expenditure needs to be met from taxation and rents each year.

51 The EFA takes the net expenditure that is chargeable to taxation and rents and reconciles it to the CIES. The service analysis for both the EFA and the CIES are presented according to how an authority organises itself and manages financial performance, aligning with the requirements in IFRS 8 *Operating Segments*.

52 Although the scope of IFRS 8 is for entities whose debt or equity instruments are traded in a public market, it contains useful principles that the EFA sought to adopt. The EFA was intended to promote accountability and stewardship by providing a more direct link with the annual decision-making process of the authority and its budget, ie the General Fund. It follows the performance framework of the authority and is intended to provide more transparency, including linking with the performance analysis in an authority's narrative report, as set out in Section 3.1 of the Code.

53 However, anecdotal evidence suggests that the EFA may not have fully achieved its intended objectives, and there were some respondents to the 2025/26 Code consultation who felt 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.

54 It is also worthwhile noting that the Better Reporting Group is currently reviewing statutory overrides, including how they are presented in local authority accounts, which will inevitably involve the EFA. Although it is not yet clear what will replace the EFA, a recommendation from the Redmond Review was to have standardised statements of service information and costs, which present a strong basis for discussion.

55 CIPFA/LASAAC invites views from stakeholders on the proposal to remove the EFA in its current form for 2026/27 and to either have no replacement or to put in a suitable replacement if one is developed.

Removal of the expenditure and funding analysis (EFA)	
Q6	Do you agree that the EFA in its current form should be removed from local authority financial statements? If not, why not?
Q7	Do you think that the EFA should be replaced with an alternative statement? Please explain your reasoning and provide details of any alternatives you would suggest.

Q8	Would you support removal of the EFA in the 2026/27 financial year, even if it is not immediately replaced with an alternative statement?
Q9	Given the scope of IFRS 8 is for entities whose debt or equity instruments are traded in a public market, do you foresee any issues regarding compliance with IFRS if the EFA was to be removed? If so, please provide reasons for your view.

4.2 LGPS pension fund accounts (England)

56 In response to the Local audit reform: a strategy for overhauling the local audit system in England consultation, the government indicated that they will look to decouple LGPS pension fund accounts from those of the administering authority. This would align England with Scotland and Wales, who have already decoupled pension fund accounts from administering authorities.

57 CIPFA/LASAAC is interested in the views of pension funds as to any issues and practicalities they will face if pension fund accounts are no longer published as part of the administering authorities accounts. CIPFA/LASAAC would be interested in views in several key areas.

Accountability statements

58 Currently the pension fund accounts form part of the administering authority's statement of accounts and so are covered by the annual governance statement and statement of responsibilities.

59 If pension fund accounts are to be completely separated from local authorities' accounts, then CIPFA/LASAAC would like to seek views on whether the pension fund should be covered by a separate annual governance statement and statement of responsibilities. CIPFA/LASAAC also requests views about which officers and members should sign any pension fund accountability statements.

60 CIPFA/LASAAC is also interested in views about the approval process for pension fund accounts and whether ultimate approval should remain with the administering authorities' audit committee or be placed with another committee or board, such as the local authority pension fund board.

Audit requirements

61 CIPFA/LASAAC would be interested in views from practitioners about the practical implications and issues that could arise in terms of applying the current local audit regime to pension funds after separation of accounts. This would include value for money assessments, inspection and objection rights, the auditor's right to issue public interest reports and statutory recommendations.

Publication timescales

62 Currently pension fund accounts are published twice. They're first included in the administering authorities' statement of accounts, with draft versions due by 31 May and audited versions by 30 September (before backstop dates were introduced). The final audited pension fund accounts are then re-published in the pension fund annual report by 1 December.

63 One of the benefits of decoupling is to reduce the risk of audit delays on administering authority accounts impacting the timely audit of pension fund accounts and the ripple effect of these delays on the audits of other admitted bodies.

64 If pension fund accounts are decoupled from local authorities' statements of accounts, there are two options for publication:

- Option one: the audited pension fund accounts are published separately, before the local authority's audited statement of accounts deadline, and then also included within the later-published annual report.
- Option two: the publication date of the entire pension fund annual report (including the pension fund accounts) is brought forward to align with the local authority's audited statement of accounts deadline.

65 Ideally the pension fund's annual report, including the pension fund accounts, would align with the publication timescales of local authorities' accounts. However, CIPFA/LASAAC would be interested to understand the current barriers that would prevent this from happening.

Pension fund accounts	
Q10	Do you agree that LGPS pension fund accounts should be removed from administering authorities accounts and published separately? If not, why not? Please provide reasons for your view.
Q11	Do you agree that LGPS pension fund accounts should have a separately prepared annual governance statement? If not, why not? Please provide reasons for your view.
Q12	If a separate annual governance statement is required, do you agree that the head of paid service and leader of the council at the administering authority should sign the statement? If not, who should sign the statement? Please provide reasons for your view.
Q13	Do you agree that LGPS pension fund accounts should have a separately prepared statement of responsibilities? If not, why not? Please provide reasons for your view.
Q14	If a separate statement of responsibilities is required, do you agree that the section 151 officer at the administering authority should sign the statement? If not, who should sign the statement? Please provide reasons for your view.
Q15	Should the audit committee of the administering authority approve the pension fund accounts? If not, who should approve the accounts? Please provide reasons for your view.
Q16	Do you have any other comments or suggestions on the application of other aspects of the local audit and accounting regime (such as the value for money assessment, inspection and objection rights and public interest

	reporting) once pension fund accounts have been separated to ensure they operate in a proportionate and effective way?
Q17	Do you agree that the audited pension fund accounts should be published before the local authority's audited statement of accounts deadline (option one above)? If not, why not? Please provide reasons for your view.
Q18	Do you agree that the pensions fund accounts should be published as part of the pension fund annual report before the local authority's audited statement of accounts deadline (option two above)? If not, why not? Please provide reasons for your view.

Section B

5. Changes to accounting standards for 2026/27

5.1 Amendments to the classification and measurement of financial instruments (amendments to IFRS 9 and 7)

66 In May 2024, the International Accounting Standards Board (IASB) issued *Amendments to the Classification and Measurement of Financial Instruments*, which amended IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures.* These amendments were in response to feedback received as part of the post-implementation review of these standards.

67 The amendments are effective from accounting periods beginning on or after 1 January 2026 and the IASB have amended requirements relating to:

- settling financial liabilities using an electronic payment system
- assessing contractual cash flow characteristics of financial assets, including those with environmental, social and governance (ESG)-linked features.

The IASB also amended disclosure requirements relating to investments in equity instruments designated at fair value through other comprehensive income and added disclosure requirements for financial instruments with contingent features that do not relate directly to basic lending risks and costs.

68 CIPFA/LASAAC have reviewed the Code in relation to these amendments, which has resulted in changes to Chapter 7, which can be seen in Exposure Draft 1.

69 CIPFA/LASAAC is of the view that no amendments in relation to assessing the contractual cash flow characteristics of financial assets are required, as Section 7.1.5 in the Code already refers for guidance to the range of paragraphs in IFRS 9 that have been impacted by the changes.

Amendments to the classification and measurement of financial instruments (amendments to IFRS 9 and 7)	
Q19	Do you agree with CIPFA/LASAAC's view that amendments to the classification and measurement of financial instruments (amendments to IFRS 9 and 7) should be implemented in the Code as outlined above? If not, why not? What alternatives do you suggest?

5.2 Contracts referencing nature-dependent electricity (amendments to IFRS 9 and 7)

70 The IASB issued targeted amendments to enable better reporting of the financial effects of nature-dependent electricity contracts, which are often structured as power purchase agreements (PPAs). These amendments are effective from accounting periods beginning on or after 1 January 2026.

71 Nature-dependent electricity contracts help organisations to secure their electricity supply from sources such as wind and solar power. The amount of electricity generated under these contracts can vary based on uncontrollable factors such as weather conditions and can result in unused electricity being sold.

72 The fluctuations in volume created difficulties in determining how they should be accounted for, and to better reflect these contracts in the financial statements, the IASB has made targeted amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*. The amendments include:

- clarifying the application of the 'own use' requirements
- permitting hedge accounting if these contracts are used as hedging instruments
- adding new disclosure requirements to enable users to understand the effect of these contracts on an organisation's financial performance and cash flows.

73 Overall, the amendments assist with mitigating volatility that might otherwise have been introduced to the surplus or deficit. By clarifying the 'own use' exemption, the amendments ensure that agreements where an authority is expected to be a net purchaser over the contract period are not accounted for as derivatives measured at fair value through profit or loss. For agreements that do not qualify for the 'own use' exemption such as virtual power purchase agreements (VPPAs), which do not involve physical delivery, the amendments also provide guidance to support the application of hedge accounting, which can help to offset volatility if it does arise.

74 CIPFA/LASAAC understands some authorities have already entered into power purchase agreements and they have the potential to be become more commonplace. CIPFA/LASAAC has subsequently reviewed the Code in relation to these amendments, which has resulted in changes to Chapter 7, which can be seen in Exposure Draft 1.

75 CIPFA/LASAAC is of the view that further material in relation to hedge accounting is not required, as Section 7.1.8 in the Code already refers to the requirement to follow IFRS 9 and IFRS 7.

Amendments to contracts referencing nature-dependent electricity (amendments to IFRS 9 and 7)	
Q20	Do you agree with CIPFA/LASAAC's view that amendments to contracts referencing nature-dependent electricity (amendments to IFRS 9 and 7) should be implemented in the Code as outlined above? If not, why not? What alternatives do you suggest?
Q21	Has your authority entered into, or is it considering entering into, a power purchase agreement (PPA) or virtual power purchase agreement (VPPA)?

5.3 Annual improvements to IFRS accounting standards – Volume 11

76 In July 2024, the IASB issued *Annual Improvements to IFRS Accounting Standards – Volume 11.* These amendments are effective from accounting periods beginning on or after 1 January 2026 and clarify the requirements for the following:

Amended standard	Description of amendments
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	Clarifications for hedge accounting by a first-time adopter to ensure consistency with IFRS 9 requirements. Not applicable for local authorities, as they already apply IFRS standards and therefore no amendment is required in the Code.
IFRS 7 *Financial Instruments: Disclosures*	Gain or loss on derecognition (paragraph B38) – replaced outdated references to IFRS 13 *Fair Value Measurement.* Other amendments to implementation guidance wording to provide greater consistency and clarity. No amendments to the Code material required.
IFRS 9 *Financial Instruments*	Replaces the term "transaction price" with "the amount determined by applying IFRS 15" in paragraph 5.1.3 to ensure consistency with IFRS 15. Code amendment inserted at paragraph 7.1.6.3 in Exposure Draft 1. Amendments also clarify that lessees should apply paragraph 3.3.3 of IFRS 9 when a lease liability is extinguished, ensuring appropriate recognition of resulting gains or losses in the Comprehensive Income and Expenditure Statement.

Amended standard	Description of amendments
	No amendments to the Code material required, as Code paragraph 7.1.2.25 b) requires authorities to follow the derecognition provisions in IFRS 9.
IFRS 10 *Consolidated Financial Statements*	Amended paragraph B74 to use less conclusive language and to clarify that the relationship described in paragraph B74 is just one example of a circumstance in which judgement is required to determine whether a party is acting as a de facto agent. No amendments to the Code material required.
IAS 7 *Statement of Cash Flows*	Replaces the term “cost method” with “at cost” in paragraph 37, reflecting the removal of the “cost method” definition from IFRS standards in May 2008, when it issued *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate.* No amendments to the Code material required.

Annual improvements to IFRS accounting standards – Volume 11	
Q22	Do you agree with the proposals for implementation of these amendments to standards as outlined above? If not, why not? What alternatives do you suggest?

5.4 Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (amendments to heritage assets)

77 In March 2024, the Financial Reporting Council (FRC) published amendments to FRS 102 resulting from its periodic review. This included further guidance on how to determine whether an asset meets the definition of a heritage asset and the requirements for leases of heritage assets.

78 CIPFA/LASAAC are not proposing any changes to the Code, as the revised FRS 102 heritage material and Code material remain consistent. However, CIPFA/LASAAC would like to take the opportunity to make practitioners aware of these changes, given Section 4.10 in the Code specifies that authorities should account for heritage assets in accordance with FRS 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland*.

Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (amendments to heritage assets)	
Q23	Do you agree with CIPFA/LASAAC's view that amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (amendments to heritage assets) do not require amendments to the Code? If not, why not? What alternatives do you suggest?

6. Changes to IPSAS standards for 2026/27

6.1 Introduction

79 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.

80 The International Public Sector Accounting Standards Board (IPSASB) have issued three standards, which are effective from 1 January 2026. CIPFA/LASAAC would seek stakeholders' views on the impact of the new standards on the Code's provisions.

6.2 IPSAS 47 *Revenue* and IPSAS 48 *Transfer Expenses*

81 Previously the Code adapted the definition of revenue from IPSAS 9 *Revenue from Exchange Transactions* specifically to exclude the reference to 'ordinary activities.'

82 The Code also adopted IPSAS 23 *Revenue from Non-Exchange Transactions* to provide additional guidance on accounting for:

- debt forgiveness and assumption of liabilities
- breaches or contraventions of laws or regulations (eg, fines and penalties)
- transfers given voluntarily to a local authority (eg, bequests and donations, including goods in kind and services in kind)
- other non-exchange transactions such as business rates supplements and Community Infrastructure Levy.

83 Furthermore, the Code used IPSAS 23 to provide additional guidance on adaptations to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* for the public sector context. Key adaptions include:

- extending the scope of IAS 20 to include grants and contributions from non-government organisations
- requiring grants and contributions income to be immediately recognised, unless any conditions have not been met

- crediting the donated assets account for donated assets (ie the transfer of assets at nil consideration or less than fair value) where any conditions are outstanding

- not permitting the option of deducting the grant from the carrying amount of the asset(s).

84 IPSAS 9 and IPSAS 23, along with IPSAS 11 *Construction Contracts*, have now been superseded by IPSAS 47 *Revenue*.

85 IPSAS 47 is a broader standard than its predecessors and covers all revenue. The standard introduces two accounting models based on whether the transfer transaction arises from a binding arrangement – an arrangement that confers enforceable (through legal or equivalent means) rights and obligations on the parties. This significantly differs from the exchange/non-exchange distinction previously introduced by IPSAS 9 and IPSAS 23.

86 The FReM already adapts IFRS 15 *Revenue from Contracts with Customers* and IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. These existing adaptations closely resemble the Code's previous adaptations using IPSAS 9 and IPSAS 23. Therefore, CIPFA/LASAAC proposes to adapt IFRS 15 and IAS 20 in line with the FReM rather than seek additional guidance from IPSAS 47.

87 IPSAS 48 *Transfer Expenses* provides accounting guidance for expenses arising from a transaction, other than taxes, in which an entity provides goods, services or assets to another entity without directly receiving any goods, services or assets in return. An example would be issuing a grant.

88 IPSAS 48 introduces two accounting models based on whether the transfer transaction arises from a binding arrangement, as defined in IPSAS 47.

89 Since CIPFA/LASAAC is not looking to incorporate binding arrangements into the Code, it views further material on transfer expenses as unnecessary.

IPSAS 47 *Revenue* and IPSAS 48 *Transfer Expenses*	
Q24	Do you agree with CIPFA/LASAAC's approach to the adaptation of IFRS 15 and IAS 20 in the Code? If not, why not? What alternatives do you suggest?

6.3 IPSAS 49 *Retirement Benefit Plans*

90 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*.

91 IPSAS 49 introduces definitions and requirements that differ from the private sector definitions and requirements in IAS 26. The main differences are as follows:

a) A simplified definition for defined benefit plans.

b) An expanded definition of net assets is available to include both hybrid plans and defined contribution plans.

c) Clarification that actuarial present value of promised retirement benefits must be calculated based on projected salaries, not current salaries, and that plan assets are measured at fair value.

d) The removal of the option to present retirement benefit obligations in the notes or reference to an external document.

e) Expanded the requirement to present retirement benefit obligations to defined contribution plans.

f) Added the requirement that a cash flow statement should be prepared using the direct method.

92 When Section 6.5 of the Code was written, there was no pre-existing public sector adaption of IAS 26. CIPFA/LASAAC has reviewed its initial interpretations and adaptations of IAS 26 in light of the introduction of IPSAS 49. This review confirmed that IPSAS 49 is largely consistent with the prior Code requirements.

93 CIPFA/LASAAC proposes not to include the addition of a cash flow statement. Under FRS 102, other pension fund accounts in the UK do not include a cash flow statement. Although a cash flow statement could provide useful information, the board felt that the additional burden this would place on preparers and auditors would outweigh any benefits.

IPSAS 49 *Retirement Benefit Plans*	
Q25	Do you agree with CIPFA/LASAAC's approach to the implementation of IPSAS 49 *Retirement Benefit Plans* in the Code? If not, why not? What alternatives do you suggest?

Section C

7. Other financial reporting or emerging issues

7.1 Introduction

94 This section of the Code consultation features 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 2026/27)

95 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:

a) Improved comparability in the Comprehensive Income and Expenditure Statement (CIES).
b) Enhanced transparency of management defined performance measures.
c) 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. However, 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.

96 While these two new standards are likely to substantially alter companies' presentation of their financial statements, it's unlikely that these new IFRS 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.

97 CIPFA/LASAAC included these in last year's Code consultation and again seeks stakeholders' views on the impact of the new standards on the Code's provisions.

Changes to IFRS standards that could impact on the Code	
Q26	Do you have views on the impact of the new IFRS 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 2026/27)

98 IPSASB have issued the following standards, which are effective from 1 January 2027.

- ***Concessionary leases and other arrangements conveying rights over assets* (Amendments to IPSAS 43, 47 and 48)**: Concessionary leases are leases at below-market terms. The amendments require lessees to measure right-of-use assets at the present value of payments for the lease at market rates based on the current use of the underlying asset. There is no change for lessors. The amendment also provides guidance on sale and leaseback transactions at below-market terms and introduces right-of-use assets in kind, which are assets received without consideration.

- **IPSAS 50 *Exploration for and evaluation of mineral resources***: This standard provides guidance on accounting for exploration and evaluation expenditures, including the recognition of exploration and evaluation assets. The standard aligns with IFRS 6 *Exploration for and Evaluation of Mineral Resources* and the only departures are limited to terminology.

- ***Stripping costs in the production phase of a surface mine* (Amendments to IPSAS 12)**: This amendment introduces Appendix A to IPSAS 12 *Inventories*. It provides interpretive guidance on accounting for waste removal costs that are incurred in surface mining activities during the production phase of the mine. The appendix aligns with IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* and the only departures are limited to terminology.

99 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.

100 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	
Q27	Do you have views on the impact of the 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 Local government reorganisation

101 On 16 December 2024, the government set out its vision for simpler local government structures in the English Devolution White Paper. Following publication of the paper the Minister of State for Local Government and English Devolution Jim McMahon wrote to all councils in remaining two-tier areas and neighbouring small unitaries to set out plans for a joint programme of devolution and local government reorganisation.

102 Subsequently the government received expressions of interest, which resulted in a list of places that had chosen to join the government's devolution priority programme. At the same time, McMahon issued a statutory invitation to all councils in two-tier areas and small neighbouring unitary authorities to develop proposals for unitary local government, bringing together lower-tier and upper-tier local government services in new unitary councils to deliver local government reorganisation.

103 Local government reorganisation has significant financial implications; these changes will necessitate a clear and consistent application of accounting standards to ensure transparency, comparability and accountability. There is already existing specific material on accounting for local government reorganisation in Section 2.5 of the Code, and it is accompanied by guidance in the Code Guidance Notes. However, CIPFA/LASAAC is seeking stakeholders' views regarding the provision of further guidance.

Local government reorganisation	
Q28	Are there any areas of accounting for local government reorganisation where additional guidance or improvements to existing guidance would be helpful? Please support your answer by providing details and reasons for your suggestions.

7.5 Sustainability reporting

104 CIPFA/LASAAC is considering how best to support local authorities in any move to sustainability reporting and whether to take this forward for UK local government. Stakeholders will be aware of the importance of reporting the impact of sustainability on organisations and that there are significant national and international developments.

105 Stakeholders may be aware that HM Treasury has implemented the Task Force on Climate-related Financial Disclosures (TCFD) in the central government context on a phased approach over the past three years, with the third and final phase of the TCFD-aligned disclosure application guidance to be applied to the 2025/26 accounts.

106 Given the conclusion of TCFD implementation and changes elsewhere in the sustainability reporting landscape, HM Treasury launched a thematic review to assess the existing sustainability reporting frameworks and consider whether to update their approach to setting reporting requirements. They concluded that there is a case for going further than their existing sustainability reporting guidance (SRG) and will convene further meetings to gain views from representatives across the public sector.

107 Stakeholders may also be aware that IPSASB is developing the world's first climate-related disclosure standard for governments around the world, with support from The World Bank. The draft of this sustainability reporting standard was issued for public comment, with the consultation closing at the end of February 2025. Included below are responses to this consultation from HM Treasury and the joint response from CIPFA and ICAEW.

- HM Treasury response to IPSASB Sustainability Reporting Standards Climate Exposure Draft
- CIPFA and ICAEW joint response to IPSASB Sustainability Reporting Standards Climate Exposure Draft

108 CIPFA developed an initial guide on this area, Public sector sustainability reporting: time to step it up, issued in April 2023. It also has a dedicated webpage on the topic: Sustainability reporting in the public sector.

109 CIPFA/LASAAC is of the view that local government sustainability reporting should follow best practice internationally and in the UK public sector but is of the view that in several areas it is not yet well developed and that the capacity to deliver this in local authorities needs to be better understood. Therefore, CIPFA/LASAAC is not proposing to implement sustainability reporting in 2026/27 but is instead seeking stakeholders' views on commencing implementation from 2027/28.

110 Other useful sustainability reporting links are included below:

- UK Sustainability Reporting Standards - GOV.UK
- Task Force on Climate-Related Financial Disclosures (TCFD)
- IFRS – International Sustainability Standards Board
- Global Reporting Initiative (GRI)

Sustainability reporting	
Q29	What do you consider is the best approach to the introduction of sustainability reporting in local government? For instance, which standards should be followed, guidance required and timing, eg a phased approach. Please set out the reasons for your response.
Q30	Do you agree with implementing sustainability reporting from 2027/28? If not, why not? Please provide reasons for your view.
Q31	Where do you consider your authority is in terms of readiness for sustainability reporting? a) **Confident** in being ready for implementation as soon as possible. b) **Somewhat confident** in being ready for implementation in one or two years' time. c) **Unsure** when the authority will be fully ready for implementation. d) **Not confident** the authority will be ready for implementation any time soon.

8. Further guidance

111 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, either 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 more guidance might be required, be referred to the relevant forum.

112 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	
Q32	Are there any areas in the Code where additional guidance or improvements 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 to 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:

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