

report

Paper CL 08 11 18

Board	CIPFA/LASAAC
Venue	CIPFA, Mansell Street, London
Date	6 November 2018
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Subject	Analysis of the Code Consultation Responses for the 2019/20 Code

Purpose

To report on the responses to the consultation on the Draft 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom and seek approval of the 2019/20 Code.

1 Introduction

- 1.1 In total there were 35 responses (listed at Appendix A) to the public consultation on the draft 2019/20 *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code). CIPFA/LASAAC consulted on the 2019/20 Code amendments from 18 July to 8 October 2018. Note that two of the respondents did provide responses for a number of local authorities. This is substantially lower than last year's consultation response rate of 49 responses and the separate consultation on IFRS 16 *Leases*. The Secretariat is of the view that the substantial response to the IFRS 16 consultation may have led to this reduced response rate. However, the Secretariat would note that this still remains reasonable compared to other standard setter response rates.
- 1.2 The Secretariat followed the same publication approaches as in previous years including articles in *Public Finance and Spreadsheet*, writing to the Treasurers Societies and the CIPFA Finance Advisory Network Service subscribers, newsletters etc. The Secretariat also informed the relevant bodies as required under CIPFA/LASAAC's Terms of Reference and used social media to advertise the consultation.
- 1.3 The responses received are summarised in the remainder of this report with more detailed analysis in Appendix B, section by section, followed by the Secretariat's comments and suggestions. Issues of principle are considered in the main body of the report. The statistical analysis of all the responses and individual comments are included in Appendix B. Minor corrections or other minor issues are not included in this analysis but may be included in amendments to the Exposure Drafts of the Code (now referred to as Code Drafts).
- 1.4 Copies of the responses received will be made available to Board members electronically on request. The names of the confidential interested parties responding to the consultation will need to remain confidential. For the avoidance of doubt the body of the report does not refer to the individuals or entities.

2 Analysis of Consultation Responses

- 2.1 Overall respondents positively supported CIPFA/LASAAC's proposals in the consultation papers. The papers also considered conceptual issues on a number of development themes and therefore not all of the issues arising in this paper will mean changes to the 2019/20 Code.

3 Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement

- 3.1 The majority of respondents agreed with the proposed approach in the consultation papers. This section will consider together questions 1 and 2 in the consultation papers.
- 3.2 An actuary and a number of the actuary's clients were very concerned about the impact of the amendments to the standard to local authorities in the Local Government Pension Scheme (LGPS).
- 3.3 The actuary is of the view that:

'we believe that the change is unnecessary and may, in some circumstances, be entirely impractical'.
- 3.4 The comments focussed on the impact of the transfers of staff to academies might have on the remeasurement process and noted the frequency of these transactions. In response to the practical issues that arise a supporting authority referred to such transactions happening on a monthly basis and noted that the impact of each transaction was likely to be immaterial. The actuary and a number of authorities indicated that substantially there were no benefits for authorities and detailed the practical impacts (see Appendix B row 2.1).
- 3.5 The Secretariat would note that the IASB was clear on the advantages of the move for the users of the financial statements. These were cited by at least one respondent.
- 3.6 The consultation papers and the amendment to the standard refer to the need to remeasure material changes but the actuary considers it will be very difficult to determine materiality.
- 3.7 There appear to be no technical circumstances that would require an adaptation or interpretation. However, the fundamental nature of the practical concerns raised by the actuary does also raise some substantial issues for the adoption of the amendments to the standard in the Code, and if there are substantial cost benefit issues they could be addressed under the Memorandum of Understanding between the Relevant Authorities (see Appendix B row 1.2).
- 3.8 The Secretariat is, however, of the view that before resorting to an adaptation the Board would need more evidence as these comments have only been provided by one actuary. It should also be noted that the amendments to the standard were supported by the majority of respondents. The Secretariat has therefore approached the other local authority actuaries requesting them to comment on the questions in the consultation paper. The Secretariat will update the Board when the relevant information is provided.

- 3.9 The Secretariat considers that there might be an option in the drafting of the amendments to the Code to make it clear that remeasurements must only take place for amendments to plan assets or settlements or curtailments that will have a material impact on the financial statements. The Secretariat is of the view that this option could still be explored despite the actuary's comments on materiality and has added a sentence to the end of paragraph 6.4.3.5 to demonstrate this.
- 3.10 The Secretariat considers that there appear to be two choices dependent on the evidence from the actuaries:
- include an adaptation which does not adopt the amendment; however, the difficulty that arises is that this would ignore material plan amendments, curtailments and settlements which might take place (ie which do not arise on the transfer of staff to academies)
 - amend the Code and make it a requirement that the remeasurements are only made for material transactions.

CIPFA/LASAAC's views are sought on these choices. Currently the Secretariat has followed the second option to demonstrate a possible drafting approach.

- 3.11 CIPFA/LASAAC is also invited to consider the other practical issues arising from the adoption of the amendments to the standard and the Secretariat's response in rows 2.2 to 2.4 of Appendix B.

4 Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation

Prepayment Features with Negative Compensation

- 4.1 The majority of respondents indicated that they agreed with the approach to the adoption of the amendments. There were no dissenting views. A number of respondents indicated that they were of the view that local authorities did not substantially enter into these transactions. However, a Treasury Management Advisor indicated that he was of the view that

'..we understand that some local authorities hold financial assets that can be repaid early at a discount, for example on-lending of PWLB loans on identical terms...'

This could therefore give rise to the relevant transaction.

- 4.2 The Treasury Management Advisor recommended that to ensure consistent treatment for the classification issues raised by the amendment CIPFA/LASAAC allows early adoption of these sets of amendments ie so that they can apply to the 2018/19 year. The Secretariat concurs and has therefore added a new paragraph to the transitional reporting arrangements (see paragraph 7.1.5.11).

CIPFA/LASAAC's views are sought on whether it is content with the approach in the Code Draft (see CD A) and whether it is content to permit early adoption of the amendments to IFRS 9 in the Code.

Modification or Exchange of a Financial Liability that does not Result in Derecognition

- 4.3 The majority of respondents agreed to the approach in the Code in relation to the probable changes in accounting policy in relation to modification or exchanges of financial liabilities that do not result in a derecognition, brought about by a commentary included in the basis of conclusions to the standard's amendments. A number of respondents and a Treasury Management Advisor took a similar view to the Secretariat that these transactions were not frequent for local authorities.
- 4.4 A second Treasury Management Advisor was of the view that there were still a number of authorities (the advisor indicated that six of its clients were in this position) with pre 2007 transactions of this type and the total value of the liabilities were of the order of £250 million. The Secretariat therefore has established a task and finish sub group of LAAP as this is largely an application issue rather than one for the Code. The author of the CIPFA Early Guide to IFRS 9 has drafted the text of a CIPFA Bulletin to set out the change in accounting practice and the impact of the changes. An early draft of this Bulletin is attached at Appendix D.
- 4.5 A number of issues arise from this change in accounting practice announced in the basis of conclusions of the amendments to IFRS 9:
- as there is a change in accounting practice do the main Code provisions on the exchanges of financial liabilities need to be updated?
 - as this is not a change in accounting standard at what point do the changes impact on local authority financial statements?
 - what are the transitional arrangements for the changes in accounting practice
 - what are the implications for local authorities with such transactions?
- 4.6 These issues are considered below.

Changes to the Code's Provisions in Relation to Modifications or Exchanges or Financial Liabilities that do not Result in Derecognition

- 4.7 The Secretariat is of the view included in CIPFA/LASAAC's consultation papers that as the provisions of IFRS 9 have not changed in this area, then any change risks adapting or interpreting the Code. The updated accounting practices will be able to be communicated more quickly by means of the CIPFA Bulletin. The Secretariat would therefore recommend maintaining the original position in the consultation papers and not amending the Code.

As these Changes have not Amended IFRS but were Introduced by an Amendment in the Basis of Conclusions of a Standard When Do They Apply?

- 4.8 The Secretariat is of the view that the changes set out the IASB's interpretation of the relevant provisions of IFRS 9 and therefore the change in accounting practice is likely to apply as of 1 April 2018, unless CIPFA/LASAAC takes an alternative decision. A number of respondents to the consultation appear to agree with this position.

What are the Transitional Arrangements for the Changes in Accounting Practice?

- 4.9 As these changes to accounting practice apply on adoption of IFRS 9, it could be that these amendments would be picked up by the normal application of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. However, as these changes have been confirmed quite late by accounting standards (and to be consistent with the other reporting arrangements for the adoption of IFRS 9) the Secretariat would recommend that the IFRS 9 cumulative catch-up approach to retrospective restatement be applied. The impact of the changes in accounting policy would therefore be reported by means of an adjustment to reserves with no restatement of preceding year information. CIPFA/LASAAC's views are sought on whether this would be best communicated by additionally reporting this change in an Update to the 2018/19 Code.

What are the Implications of the New Accounting Practices on Local Authorities?

- 4.10 The accounting implications are set out in the draft CIPFA Bulletin. This will mean a change in the reported amortised cost for local authorities in question. The resultant gain or loss would need to be recognised immediately in the 2018/19 financial statements. The view of the CIPFA Bulletin is these gains and losses are technical adjustments that it would be difficult to recognise as General Fund Balances. The Secretariat has already brought this issue to the attention of the government and the devolved administrations. Some respondents to the consultation are of the view that it is not the case that existing statutory adjustments will apply. However, it is not clear as yet as to whether there are strong views. It is also not clear at this juncture the regional application of these issues. The Bulletin also currently includes two different treatments of premiums and CIPFA/LASAAC's views are sought on the two options.

5 Annual Improvements to IFRS Standards 2015 – 2017 Cycle

- 5.1 A substantial majority of respondents (59%) agreed to the Code's approach to the adoption of the amendments to the standards introduced by the *Annual Improvements to IFRS Standards 2015 -2017 Cycle*. One of the respondents considered that the Code should signpost these changes. Such signposting was introduced by Appendix D which lists the new standards to be adopted by the Code. To assist with signposting the Secretariat has outlined the individual amendments introduced by this set of Annual Improvements.
- 5.2 The Secretariat would note that a representative body raised an issue which it considers is best dealt with in application guidance (see Appendix B row 5.3).
- 5.3 The Secretariat would note that these amendments have not yet been adopted by the European Union (EU) but currently are anticipated to be adopted by the 1 January 2019 date for inclusion in the Code.

CIPFA/LASAAC is invited to agree the approach to the adoption of the *Annual Improvements to IFRS Standards 2015 -2017 Cycle*.

6 IFRIC 23 Uncertainty over Income Tax Treatments

- 6.1 The majority of respondents agreed with the approach to the adoption of IFRIC 23 *Uncertainty over Income Tax Treatments*. There were no dissenting views. The

Secretariat would note that IFRIC 23 has been adopted by the EU and therefore can be adopted in the 2019/20 Code.

CIPFA/LASAAC is invited to agree the approach to IFRIC 23.

7 Scottish Local Authorities: Presentation of Transfers to or from Other Statutory Reserves

7.1 There was not a substantial response to this consultation question; only four respondents expressed a view. No substantial issues were raised.

CIPFA/LASAAC is invited to agree the approach to Scottish Local Authorities: Presentation of Transfers to or from Other Statutory Reserves

8 Scottish Local Authorities: Presentation of Statutory Adjustments for the Revaluation Element of Depreciation

8.1 Again there was not a substantial response for this question. A firm raised the issue that the text of the amendment was not consistent with the text in IAS 16 *Property, Plant and Equipment* paragraph 41. The Secretariat has therefore redrafted the relevant paragraph to more closely align with paragraph 41.

8.2 As this is not a statutory adjustment the Secretariat has moved the text of the paragraph to the revaluation provisions in section 4.1. The firm also requested confirmation as to whether this approach was voluntary. The Secretariat would note that the consultation papers proposed a voluntary approach to this amendment. LASAAC may decide to mandate this approach for Scottish local authorities.

8.3 Only one audit body suggested that the position could be extended across the UK. However, no other respondents raised this issue. The Secretary would note that the statutory position in relation to capital accounting is different across the UK on this issue and therefore has maintained this change as a Scottish issue in accordance with the proposals.

CIPFA/LASAAC is invited to agree the approach to Scottish Local Authorities: Presentation of Transfers to or from Other Statutory Reserves

9 Apprenticeship Levy

9.1 The majority of respondents (69%) agreed with the approach to the Apprenticeship Levy as outlined in the consultation papers.

9.2 A number of the dissenting views appeared to be in relation to the fact that there were no cash transactions. The Secretariat is of the view, however, that this does not negate the accounting approach recommended by the Code.

9.3 An audit body indicated that this was a departure from the normal process in the Code ie normally application guidance (even application guidance from accounting standards) was not included in the Code. The Secretariat concurs with this view.

9.4 A firm indicated that it was of the view that there should be a different accounting treatment and therefore if an Update of the 2018/19 Code provisions were issued

then these provisions should be included with that. The Secretariat does not concur that application guidance should be issued in an Update to the 2018/19 Code.

- 9.5 A representative body and a firm referred to application issues. More detail is provided in Appendix B rows 10.3 and 10.6.

CIPFA/LASAAC is invited to consider the points raised above and confirm its approach to the Apprenticeship Levy.

10 References to Legislation

- 10.1 The majority of respondents agreed with the approach to the references to legislation. There were no dissenting views.

CIPFA/LASAAC is invited to agree the approach to references to legislation.

- 10.2 It is anticipated that amendments to the Local Authorities (Capital Finance and Accounting) Regulations 2003 will cover the IFRS 9 statutory overrides. CIPFA/LASAAC is invited to consider whether it wishes to issue an Update to the 2018/19 Code.

11 IFRS Conceptual Framework for Financial Reporting (March 2018) Framework

- 11.1 An overwhelming majority of respondents to the consultation (97%) either made no comment or supported the proposals for Chapter Two.

Users of financial statements

- 11.2 A respondent from an audit body suggested that there was an apparent inconsistency between the financial statements being produced for service recipients and the requirement for readers to have knowledge of the authority's business and economic circumstances. The Secretariat has added a footnote to clarify that the requirement for readers to be knowledgeable still applies. (More detail is provided at Appendix (B) row 12.2).

Measurement

- 11.3 A respondent from a local authority expressed disagreement with the proposals. They suggest that the material on measurement based on the 2018 conceptual framework was unclear and proposed various amendments. The Secretariat agree that one of the sentences from the conceptual framework is unclear and unhelpfully refers to terms which have not yet been defined; deleting this sentence improves clarity without adverse effect. Reviewing the respondent's other proposed amendments highlighted a number of issues in the pre-2018/19 drafting that may be confusing, particularly in the light of the increased focus on measurement bases. The Secretariat has made amendments to the Code Draft to simplify and clarify in line with the respondent's comments. (More detail is provided at Appendix (B) row 12.3).

CIPFA/LASAAC is invited to agree the approach to the Conceptual Framework

12 Adaptations/Interpretations and Statutory Adjustments

- 12.1 The majority of respondents agreed with the approach to adaptations and interpretations. An audit body considered that it may be useful to link the two. The Secretariat is not clear on the proposal but is wary that this may create more confusion and has not made any further changes.

CIPFA/LASAAC is invited to agree the approach to commentary in the Code on adaptations/interpretations and statutory adjustments.

- 12.2 On the change to the Memorandum of Understanding between the Relevant Authorities it appeared that the Manuals under the MoU would only refer to adaptations and therefore in 2013/14 most of the references to 'interpretation' were removed and these were replaced by the term 'adaptations'. This hasn't been the case and indeed the Code has introduced a small number of interpretations. Following the clarification of the terms 'adaptation' and 'interpretation' the Secretariat suggests that it is now necessary to reinstate the previous references to interpretations at the beginning of each section of the Code.

CIPFA/LASAAC is invited to agree this approach.

13 Post Implementation Reviews and Other Issues

Group Accounts - Prominence

- 13.1 The majority of respondents over 20 (primarily local authorities) were of the view that the current approach in the Code allowed local authority circumstances to be properly reflected. Local authority respondents largely indicated as the council tax setting body that the single entity financial statements should still be paramount and these statements were the most relevant to the users of local authority financial statements. The Code allowed Group transactions to be properly represented in that context.
- 13.2 Two of the detailed commentaries by local authorities are included in Appendix B row 14.1A. They illustrate local authorities' views that the Code allows local authorities to appropriately reflect transactions and reflect local circumstances. This is perhaps best demonstrated by comments by police bodies that are able to produce Group Accounts as this best represents the financial circumstances and relationship for the Police and Crime Commissioners and the Chief Constables as corporates sole and the Police Fund is best assessed from the Group Accounts perspective between these two bodies.
- 13.3 A small number of entities mainly represented by firms indicated that there were issues with local authority Group Accounts - one firm set out issues relating to presentation and disclosure in both questions 14 and 15 (see rows 14.2 and 15.3 of Appendix B). The Secretariat is of the view that these are application issues and not (yet) an issue for the Code.
- 13.4 A second firm suggested including commentary in the Code on positioning. However, it is of the view that this may impact on streamlining and suggested a columnar approach to group presentation. An audit body also suggested consideration of a columnar approach. The Secretariat does not recommend this as the depth of local authority response to this question is that:

- users should be able to understand the primary sovereign nature of local authorities as a part of the council tax setting process – local authorities are not like other public sector organisations in this regard
- where Group Accounts become more prominent local authorities have the ability to reflect those circumstances.

13.5 The responses to the second question on Group Accounts (question 15) indicated that most respondents were of the view that the Code provided appropriate signals in relation to Group Accounts disclosures. As noted above audit firms indicated that more signals could be given.

13.6 The Secretariat is of the view that currently most of the issues appear to be issues of application. The Secretariat would highlight that CIPFA's principal publication on Group Accounts is due to be updated next year and application issues can be considered in the update of that publication. The Secretariat would recommend that CIPFA/LASAAC does not make any changes to the Code at this juncture but includes this on the work programme for a follow up review in (say) year three of CIPFA/LASAAC's five year work programme. The issues raised can also be considered within any future streamlining project.

CIPFA/LASAAC is invited to consider its approach to the development programme for Group Accounts.

Public Sector/Business Combinations

13.7 The largest response rate (which indicated a preference) to the question of whether more guidance might be needed on the application of IFRS 3 *Business Combinations* indicated that 29 per cent (10) respondents did not consider that additional provisions needed to be included in the Code. This was whilst 23 per cent considered that additional guidance was needed. Rows 16.2 and 16.3 show balanced differing views from the audit firms with one considering extra guidance was needed and the other firm and some local authorities considering that the Code did not need further guidance. The largest response rate, however, was from respondents not commenting on this issue.

13.8 The Secretariat is therefore of the view that a clear case has not been made to augment the guidance on IFRS 3 in the Code and would therefore recommend that no further changes are made to the Code at this juncture but that CIPFA/LASAAC hold this issue for long-term review.

CIPFA/LASAAC is invited to consider its approach to the adoption of IFRS 3 in the Code.

Local Government Reorganisations and Other Combinations

13.9 The majority of respondents (expressing a preference) indicated that they were of the view that no further changes be made to the Code in this area. There was not substantial detailed commentary but CIPFA/LASAAC is invited to note the comments in rows 17.2 to 17.4 of Appendix B. The Secretariat can see no compelling argument to amend the Code.

CIPFA/LASAAC is invited to consider its approach to local government reorganisations and other combinations.

Recognition of Income for Third Party Payments for Service Concession Arrangements

- 13.10 The majority of respondents expressing a view on this issue considered that it would be useful to specify a treatment for the recognition of income for third party payments for service concession arrangements. It would appear that the majority of respondents providing commentaries considered that the approach in IPSAS 32 *Service Concession Arrangements: Grantor* should be used (ie a deferred income approach). This included a firm that produced a detailed paper on the issue and a Treasury Management Advisor (with supporting local authorities). The Secretariat would note that this is at odds with the position in UK GAAP.
- 13.11 As was recommended in paper 07 11-18 (a) the Secretariat is of the view that a sub group be established next year to consider service concession arrangement accounting. The Secretariat would recommend that the accounting requirements for service concession arrangements as a whole be reviewed with a focus on the measurement of the service concession arrangement liability and the recognition of income for third party payments.
- 13.12 The Secretariat would recommend that a group be established with local authorities that have service concession arrangements and experts in the field. The sub group should also consider the approach taken by UK GAAP on the recognition of third party payments.

CIPFA/LASAAC is invited to consider the comments above and whether it agrees with the establishment of a sub group on accounting for service concession arrangements.

Streamlining – Trading Operations Disclosure

- 13.13 The response to question 19 was finely balanced with a larger number of respondents finding the information on trading operations useful. A number of respondents did not. It is therefore difficult to recommend the removal of the disclosure if respondents consider the information useful.
- 13.14 The Secretariat has based its recommendations on two responses. The response of a firm indicated (as did the consultation documentation) that as this disclosure was not required by either IFRS or statutory provision it should not be included in the Code. Additionally, the representative body commented:
- 'any initiative to reduce the burden on preparers is welcome. Where authorities felt that trading operations were significant they would still have discretion to make disclosures'*
- 13.15 The Secretariat would therefore recommend that CIPFA/LASAAC removes this disclosure for local authorities in England, Northern Ireland and Wales. As noted by the representative body if this transaction is material or significant to a local authority it can and should include the relevant disclosures consistent with IFRS.

CIPFA/LASAAC is invited to consider whether it wishes to remove the trading operations disclosure for local authorities in England, Northern Ireland and Wales.

IASB Materiality Practice Statement

- 13.16 The majority of respondents agreed with the approach outlined in the consultation papers that the IASB Materiality Practice Statement should not be referred to in the Code and therefore the Secretariat has not made those amendments. A small number of authorities considered that the Code should include it by means of cross reference. The Secretariat is of the view that this may cause confusion particularly as the Practice Statement is written from the perspective of private sector entities.
- 13.17 The Secretariat would also highlight those comments which indicated that CIPFA could consider issuing a form of application guidance based on the principles included in the Practice Statement. The Secretariat would note that the Streamlining guidance currently being drafted does this. The Secretariat will keep this issue under review.

CIPFA/LASAAC is invited to confirm the position in the ITC that the Code will not refer to the IASB Materiality Practice Statement.

Complex Financial Instruments

- 13.18 The largest number of respondents indicated that there were no complex instruments which require specific focus in the Code. A firm and other respondents were of the view that the financial instruments standards covered by the Code provided sufficient guidance.
- 13.19 One firm particularly requested that the interpretation on contracts with Lender Option Borrower Option (LOBO) clauses should be rearticulated in respect of the call options to which it refers and the contracts to which it applies. The Secretariat takes the point but is of the view that this is addressed by the clarification statement issued by CIPFA/LASAAC. It is also concerned that by attempting to define these complex concepts that there is a possibility that more confusion may arise. However, it would welcome CIPFA/LASAAC's views on this issue.

CIPFA/LASAAC is invited to comment on whether it considers the interpretation in relation to contracts with LOBO clauses should be rearticulated.

- 13.20 The same firm was of the view that more guidance should be issued on particular examples of contracts with LOBO clauses. The Secretariat would note that the Local Authority Accounting Panel considered this issue in detail in a single issue meeting on the subject and decided not to issue detailed application guidance.

CIPFA/LASAAC is invited to note the comments above.

- 13.21 A Treasury Management Advisor and a number of authorities were of the view that index linked bonds needed to be considered by CIPFA/LASAAC. The Secretariat is not clear what particular aspect requires special treatment in the Code. The Secretariat would note that differing treatment may not necessarily mean that the accounting treatment is incorrect. The application of paragraph B5.4.5 is a complex area. The Secretariat would caveat that this is likely to be an issue of application rather than for specific provision in the Code.

CIPFA/LASAAC is invited to consider whether it wishes to include accounting for index linked bonds in the development programme for the Code next year.

English Local Authorities: Accounting for Non-domestic Rates for the 100 Percent Rate Retention Pilot Authorities

13.22 A substantial majority of respondents agreed with the proposals in the consultation documents with a number indicating that the percentages for the relevant shares would change but the accounting principles/requirements would remain the same.

13.23 One authority raised an issue in relation to the business rate pooling - see row 22.2 in Appendix B. However, the Secretariat is of the view that this is not as a result of the provisions in the Code. The Secretariat will consider whether application guidance on business rate pooling will resolve this issue and will keep CIPFA/LASAAC updated.

CIPFA/LASAAC is invited to agree that it will not make any amendments to its provisions on business rate for the 100 per cent rate retention pilot authorities.

14 Further Areas Question

14.1 The responses to the question inviting interested parties to consider whether there are any areas of the Code where its provisions may be augmented are listed in Appendix C. The Secretariat would note that most of these issues are either issues of application or issues which could be usefully be considered under different projects of CIPFA/LASAAC's work programme.

CIPFA/LASAAC is invited to comment on the Secretariat's analysis of these issues.

14.2 The Secretariat would also highlight a comment included annually by a firm either in its covering letter or in the response to this question that the Code should follow the approach of the FReM and only include the provisions where there are formal adaptations or interpretations. CIPFA/LASAAC has been clear that it does not want to adopt this approach, although the Away Day did agree a review of the numbering and some of the formatting of the Code. This latter issue is included in the first draft of the five year work programme.

CIPFA/LASAAC's is reconfirm this position.

15 Draft 2019/20 Code

15.1 In addition to the amendments outlined above a number of other changes to the 2019/20 Code will need to be made:

- The amendments to the Code that were not EU adopted in time for inclusion in the 2018/19 Code ie Amendments to IAS 40 *Investment Property: Transfers of Investment Property*, and *Annual Improvements to IFRS Standards 2014-2016 Cycle* have now been adopted by the EU and have been included in the Code Draft.

- IPSAS 41 *Financial Instruments* has been issued by IPSASB (the IPSASB equivalent of IFRS 9). The Secretariat is of the view that references to IPSAS 41 will need to replace IPSAS 29 *Financial Instruments: Recognition and Measurement* in Chapter Seven (Financial Instruments) of the Code.
- At the end of each section, areas which have been updated substantially will be noted whilst those which have not changed will be described as such.
- A number of minor amendments identified as a result of the consultation process or final review will be corrected by the Secretariat.

CIPFA/LASAAC is invited to note the comments

Recommendation

CIPFA/LASAAC is invited to consider the individual issues brought to its attention above and consider the 2019/20 Code for approval.

List of Respondents

Bridgend County Borough Council	Calderdale Metropolitan Borough Council	Cleveland Police and Crime Commissioner and Chief Constable
Daventry District Council	East Ayrshire Council	Essex County Council
Gwynydd County Borough Council	Hampshire County Council	Greater Manchester Fire and Rescue Service
Greater Manchester Combined Authority	Kent County Council	Kettering Borough Council
Leeds City Council	London Borough of Hillingdon	London Borough of Sutton
Manchester City Council	Neath Port Talbot County Borough Council	North Somerset Council
Oxfordshire County Council	Orbis*	Plymouth City Council
Royal Borough of Kingston Upon Thames	Sheffield City Council / Sheffield City Region Combined Authority	South Lanarkshire Council
Southampton City Council	Torfaen County Borough Council	Wakefield Council
Society of District Council Treasurers	Audit Scotland	BDO LLP
Hymans Robertson LLP	Ernst & Young LLP	Grant Thornton UK LLP
Arlingclose Limited	Link Asset Services Limited	
Orbis for (Brighton and Hove County Council, East Sussex County Council and Surrey County Council) and on behalf of the East Sussex Fire Authority		

SUMMARY OF CONSULTATION RESPONSES

Note – a group of interested parties best described as professional accounting firms that audit local authorities is abbreviated in this Appendix to “firm” or “firms”

Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement

Question	Agree	Disagree	No Comment
1 Do you agree with the approach to adoption of the Amendments to IAS 19 <i>Employee Benefits: Plan Amendment, Curtailment or Settlement</i> ? If not, why not? What alternatives do you suggest?	18 (51%)	7 (20%)	10 (29%)

Question
2 What do you consider the practical impact of the adoption of the Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement will be for you or your organisation? Please provide details.

	Issue	Secretariat Response
	Question 1– Agree with the Approach to the Adoption of the IAS 19 Amendments?	
1.1	The majority of respondents support the approach outlined in the Exposure Draft in relation to these amendments. A small number of local authority respondents commented it would represent a better measurement. A firm commented: <i>‘we believe using updated assumptions to determine current service cost and net interest for the remainder of an annual reporting period following a change will provide more useful information to users of the financial statements.’</i>	The Secretariat has no further comments.
1.2	Most dissenting respondents either referred to a response by an actuary or provided a similar response to the	The Secretariat would note that the IASB in the basis of conclusions is clear that:

	Issue	Secretariat Response
	<p>actuary that provided its comments to the IASB's consultation. The actuary is of the view that:</p> <p><i>'we believe that the change is unnecessary and may, in some circumstances, be entirely impractical'.</i></p> <p>The actuary continued that:</p> <p><i>'The proposal could make budgeting more difficult, or could lead to sponsors "gaming" the system'</i></p> <p>and most importantly commented:</p> <p><i>'There is a more material issue arising in the Local Government Pension Scheme in the UK, which is a funded defined benefit plan typically operated by local authorities. It is not unusual for a given authority to oversee a multiple number of curtailment events in a given year, for instance due to outsourcings or academy school conversions. The proposals as drafted would appear to require the re-measurement of net interest cost and current service cost after each and every one of these events.'</i></p>	<p><i>'it is inappropriate to ignore the updated assumptions ... In the Board's view, using updated assumptions to determine current service cost and net interest for the remainder of the annual reporting period provides more useful information to users of financial statements and enhances the understandability of financial statements.'</i></p> <p>The Secretariat is of the view that overall there are no particular local government circumstances which would technically require an adaptation or interpretation. However, as CIPFA/LASAAC is aware the Memorandum of Understanding between the Relevant Authorities does include as an indicator for adaptation:</p> <p><i>'Practical difficulties with implementation in the public sector or cost/benefit considerations'.</i></p> <p>CIPFA/LASAAC is invited to consider the practical issues below to assess whether they are such that an adaptation might be required because of the practical difficulties that arise.</p>
1.3	<p>An authority commented:</p> <p><i>'Doing so is also unlikely to be helpful to the users of the accounts; adds to the cost and time to undertake the calculations, and lengthens the disclosure due to the additional assumptions being disclosed particularly if there are multiple events during the year at different dates. The current proposals may add unnecessary complexity to both the calculation of IAS 19 figures and their disclosure. For example, many local authorities transfer staff to academy schools on a monthly basis. At the</i></p>	<p>The Secretariat would request that CIPFA/LASAAC notes this commentary on the cost of application. The Secretariat would note that an option might be to require that the Code only makes the remeasurements for material changes to schemes' liabilities.</p> <p>See below.</p>

	Issue	Secretariat Response
	<p><i>extreme, if each transfer is material at authority level, the proposed changes to IAS 19 would require re-measurement of P&L items on a monthly basis, using a different set of financial assumptions for each month, and disclosure of up to 12 sets of assumptions in the pensions note, yet overall liabilities transferring could be no more than 1% of the employer's liabilities. A proportionate and pragmatic approach should be encouraged and therefore if these proposals are to be adopted we would like to see some guidance permitting local authorities to not apply the requirement of (existing) 6.4.3.14, or the new proposals, if doing so would not have a material impact on the amounts recognised.'</i></p>	
	<p>Question 2 – Practical Impacts</p>	
2.1	<p>Most of the practical issues are covered by the actuary's response which was also provided either in full or in part by a small number of authorities:</p> <p><i>'We feel that in the majority of circumstances the adoption would be entirely impractical to implement. The following practical aspects would be impacted:</i></p> <ul style="list-style-type: none"> ▪ <i>significant increase in the complexity of the IAS19 process and calculations we would have to carry out for local authorities.</i> ▪ <i>each local authority report effectively being produced in a batch of 1 (removing the benefits of economies of scale within our typical LGPS reporting exercises)</i> ▪ <i>significantly increased actuarial fees to handle the added complexity of the calculations and reporting</i> ▪ <i>a new reporting framework may have to be agreed upon (by who?) to capture the level of detail local authorities show in their accounts on the methodology and assumptions used for each known date a material amendment, curtailment or settlement occurred</i> ▪ <i>extended timescales for the production of IAS19 reports.</i> 	

	Issue	Secretariat Response
		<p><i>'If the change was incorporated into the CIPFA 19/20 Code, we simply feel there is no tangible gain for local authorities. The change goes against the grain of public sector best value accounting (fast and cost effective IAS19 reporting for the taxpayer).</i></p> <p><i>'Finally, we do note the comment under point 25 regarding materially considerations. However, there are also further practical considerations in this regard.</i></p> <ul style="list-style-type: none"> ▪ <i>How would a local authority and its auditor determine materiality? In our experience local authorities and (in particular) their auditors take different views on certain accounting aspects, so that (for instance) what is considered immaterial in one case is regarded as material in another; the unpredictability and unevenness of the likely reactions to this change would in itself add cost and delay to the pension accounting process.</i> ▪ <i>We are finding it difficult to construct scenarios where an amendment, curtailment or settlement (i.e. an academy conversions) could be considered material enough to the local authority to justify the additional reporting costs required to comply strictly with the IAS19 standard.</i> <p><i>'As a result of the above and in the absence of explicit guidance from CIPFA, we currently have no intention of adopting this change within our annual local authority IAS19 exercises, and instead will state that we assume the settlements occurring during the year would be considered immaterial for this purpose. We believe our local authority clients would not welcome the alternative additional complexities or the additional costs of reporting.</i></p> <p><i>'Please note we will be sharing our above consultation response with our local authority clients as some have asked us for our views on these IAS19 amendment questions.'</i></p>
2.1R		<p>The Secretariat invites CIPFA/LASAAC to note this response. The Secretariat would note that it would be for the authority to set its own materiality based on the specifications of the Code. The Secretariat has sought the views of other actuaries to give more consideration to the practical issues that arise.</p> <p>The Secretariat is of the view that there appear to be two choices dependent on the evidence from the actuaries:</p> <ol style="list-style-type: none"> 1) include an adaptation to not amend the Code for such transactions, however, the difficulty that arises is that this would ignore material plan amendments, curtailments and settlements. 2) amend the Code and make it a requirement that the remeasurements are only made for material transactions.

	Issue	Secretariat Response
	CIPFA/LASAAC's views are sought on these choices. Currently the Secretariat has followed the second option to demonstrate a possible drafting approach.	
2.2	Other respondents also noted the costs of the change, particularly the costs of the work of actuaries. Two authorities sought the views on how the estimation processes would work as they supplied data for months 1 to 10 with the actuaries forecasting the remaining information.	The Secretariat is of the view that the estimates would need to take into account material changes in circumstances, in this case the amendments, curtailments and settlements in question for the remaining two months. No further amendments to the Code Draft.
2.3	A firm responded that it was of the view that CIPFA/LASAAC should provide application guidance on materiality as this is a complex area.	The Secretariat is of the view that the Code should not include application guidance on materiality for one issue even where it is complex. No further amendments to the Code Draft.
2.4	Another authority sought views on the impact of restructuring as it was a part of the Northamptonshire area.	The Secretariat would note that this would be an issue to be considered with government on the finalisation of local government reorganisation of an area. No further amendments to the Code Draft.

Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation

Question	Agree	Disagree	No Comment
3 Do you agree with the approach to adoption of the Amendments to IFRS 9 <i>Financial Instruments: Prepayment Features with Negative Compensation</i> ? If not, why not? What alternatives do you suggest? Please also comment on whether this may have any financial impact on local authority transactions.	23 (66%)	0 (0)	12 (34%)
4 Do you agree with CIPFA/LASAAC that the amendments in relation to	15	7	13

modifications or exchanges of financial liabilities that do not result in derecognition do not require change to the Code? If not, why not? What alternatives do you suggest? Please also comment on whether this may impact on local authorities accounting policies in this area.	(43%)	(20%)	(37%)
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	Issue	Secretariat Response
	Question 3– Approach to IFRS 9 – Prepayment Features with Negative Compensation	
3.1	The approach was supported by the majority of respondents to the Code consultation.	No further commentary.
3.2	A small number of respondents indicated that they were of the view that this was not a common transaction for local authorities. A Treasury Management Advisor indicated that it did not have any clients with relevant transactions.	The Code had been drafted from the perspective that this was not a common transaction for local authorities.
3.3	<p>A small number of respondents supported by their Treasury Management Advisor indicated that such transactions did exist for local authorities. The Treasury Management Advisor responded:</p> <p><i>'Since the Code does not give detailed guidance on the meaning of "solely payments of principal and interest", this amendment need not result in a Code change. However, we understand that some local authorities hold financial assets that can be repaid early at a discount, for example on-lending of PWLB loans on identical terms. Therefore, we recommend that CIPFA/LASAAC permits or mandates early adoption of this amendment for 2018/19; if not these assets will be held at fair value through profit and</i></p>	<p>The Secretariat is not aware how frequent a transaction this might be for local authorities but is of the view that the Code should be able to follow the adoption requirements for IFRS 9 amendments and allow early adoption of these amendments. Relevant amendments have been included in a new paragraph 7.1.5.11.</p>

	Issue	Secretariat Response
	<p><i>loss for one year only which will cause unnecessary volatility in the accounts.'</i></p> <p>A small number of local authority respondents indicated that they supported early adoption.</p>	
	Question 4 - Approach to IFRS 9 – Modification or Exchange of a Financial Liability	
4.1	The majority of respondents supported the approach in the Code indicating that this was not a regular transaction. This included one of the Treasury Management Advisors	No further comment. The Secretariat was of the view that there were unlikely to be substantial transaction of this type. However, see commentaries below.
4.2	<p>A number of respondents (supported by their Treasury Management Advisor) were of the view that this was a change in accounting practice and that this should be clarified in the Code. The same Treasury Management Advisor confirmed that at least 6 authorities have transactions where this will represent a change in accounting policy and the transactions total £250million. The Treasury Management Advisor commented that:</p> <p><i>'We therefore believe that paragraph 7.1.4.6 should be amended to clarify that a modification gain or loss is taken to the Surplus or Deficit on the Provision of Services, with guidance on how the gain or loss is measured. Transition guidance will also be required, including whether this affects 2018/19 or not.'</i></p>	<p>The Secretariat is of the view that this will be a change in accounting policy/practice for these local authorities. This is likely to mean a change in the amortised cost of these transactions. The Secretariat is not of the view that this will require a change in the main provisions of the Code as IFRS 9 has not in itself changed. However, the Secretariat is of the view that the change in treatment should be signalled in the 2019/20 Code with the treatment itself being covered by application guidance. It proposes a new transitional paragraph should be added at 7.1.5.12.</p> <p>It is possible that this should be covered by an update to the 2018/19 Code (see further comments below).</p> <p>The Secretariat would note that there may be arguments supported by at least one authority that this would be covered by existing statutory provisions for discounts and premiums for English and Welsh authorities. The case is less clear for local authorities in Scotland. It is also not clear whether there are transactions of this type in Scottish local authorities.</p> <p>CIPFA will issue a Bulletin confirming the treatment under the amendments.</p>

	Issue	Secretariat Response
		An early edition is attached to this paper – see Appendix D.
4.3	<p>Two firms provided differing views on the issue. One commented:</p> <p><i>'As noted in paragraph 30 of the ITC, the addition of the paragraph in the Basis for Conclusions of IFRS 9 in relation to modifications is not an amendment to the standard. Upon adoption of IFRS 9 on 1 April 2018 we would expect all local authorities to recognise gains or losses on modifications of financial liabilities immediately through the CIES.</i></p> <p><i>'Therefore, whilst we recognise that for most local authorities this will be a change on adoption of IFRS 9, it is not a change for the 2019/20 financial year.</i></p> <p><i>'We do not consider that any additional commentary is required in the Code in relation to this matter.'</i></p>	<p>The Secretariat would agree that substantial commentary is not needed in the 2019/20 Code. However, it will be useful to confirm the transitional arrangements on the adoption of the standard which the Secretariat proposes should align with the other transitional approaches to the adoption of the standard ie retrospective cumulative catch-up approach to restatement.</p>
4.4	<p>The other firm commented:</p> <p><i>'This represents a significant change to the common practice of accounting for such modifications or exchanges under IAS 39. As explained above, common practice in IAS 39 was such that no gain or loss was typically recognised in profit and loss and instead the adjustment to the carrying amount of modified or renegotiated financial liability is amortised over the remaining term by recalculating the effective interest rate.</i></p> <p><i>'Under IFRS 9 B3.3.6, fees would, however, be amortised. This could lead to questions in practice in terms of distinguishing between fees compared</i></p>	<p>The Secretariat agrees that there is likely to be a change in practice – and has proposed transitional arrangements in the 2019/20 Code when the amendments are introduced. The Secretariat agrees that it is likely that the changes apply to the adoption of IFRS 9 despite the changes being introduced separately.</p> <p>The Secretariat is of the view that the change can be confirmed in application guidance issued by CIPFA and does not concur that the Code's main provisions need to change. The Secretariat is interested on whether a separate Update to the 2018/19 Code would need to be issued. It may be useful to reiterate the provisions in paragraph 7.1.5.12 in a separate Code Update for the avoidance of doubt. The Secretariat has made the government and the devolved</p>

	Issue	Secretariat Response
	<p><i>to other changes in contractual cash flows.</i></p> <p><i>'In our view, as the above position was clearly seeking to clarify existing requirements, this aspect is mandatorily effective on IFRS 9 application and therefore we think CIPFA/LASAAC should also consider this being an update to the 2018/19 Code also.</i></p> <p><i>'The gain or loss to general fund is not likely to be subject to a statutory override and therefore local authorities would need to approach MHCLG for further consideration if the gains or losses are significant.'</i></p>	<p>administrations aware of the impact of this change in standard.</p>

Amendments to IAS 28 Interests in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures

Question	Agree	Disagree	No Comment
<p>5 Do you agree with the approach to adoption of the Amendments to IAS 28 <i>Interests in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures</i>? If not, why not? What alternatives do you suggest? Where necessary please provide any commentary in relation to the practical aspects of the changes.</p>	<p>20 (59%)</p>	<p>2 (6%)</p>	<p>12 (35%)</p>

	Issue	Secretariat Response
	<i>Question 5 – Amendments to IAS 28 Interests in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures</i>	
5.1	The approach to the adoption of this standard was supported by the majority of respondents. Not many respondents	No further comment.

	Issue	Secretariat Response
	provided substantial supporting commentary.	
5.2	<p>A firm commented:</p> <p><i>'In our view, this amendment should be signposted from the Code to the standard to highlight the issue to users. Users then know to refer directly to the standard where applicable. We understand that CIPFA/LASAAC do not think this is likely to be a frequent transaction. However, if relevant, the amendment is significant as it means holdings in debt-type instruments issued by an associate or joint venture and which form part of the holder's net investment in the associate or joint venture, will be subject to IFRS 9's impairment requirements.'</i></p>	<p>All new amendments to standards are specifically highlighted in Appendix D so that this issue is explicitly covered. Note that it was this firm that proposed that Appendix D should be introduced to the Code.</p> <p>No further amendments proposed.</p>
5.3	<p>A representative body stated:</p> <p><i>'This appears to be a helpful clarification of existing guidance in the underlying standard; although there is catch all scope exclusion comment, maybe it would be helpful to indicate the main instances where IFRS 9 would apply.'</i></p>	<p>The Secretariat recognises the point but is of the view that this is best dealt with in application guidance.</p> <p>No further changes to the Code Draft.</p>

Annual Improvements to IFRS Standards 2015 – 2017 Cycle

Question	Agree	Disagree	No Comment
<p>6 Do you agree with the approach to adoption of the <i>Annual Improvements to IFRS Standards 2015-2017 Cycle</i>? If not, why not? What alternatives do you suggest? Please indicate whether the changes relating to IAS 23 <i>Borrowing Costs: Borrowing Costs Eligible for Capitalisation</i> will have an impact on the General Fund Balances of local authorities.</p>	<p>19 (54%)</p>	<p>1 (3%)</p>	<p>15 (43%)</p>

	Issue	Secretariat Response
	Question 6 – Annual Improvements to IFRS Standards 2015 – 2017 Cycle	
6.1	The majority of respondents supported the approach outlined in the ITC. Only a small number provided significant commentary.	No further action.
6.2	Two firms and an authority indicated that very few authorities capitalise borrowing costs (or that they were in the minority) and therefore the changes in relation to borrowing costs would be minimal.	No further action.
6.3	One firm commented <i>'In our view, the amendments to IFRS 3, IFRS 11 and IAS 23 should either be included in the Code or signposted from the Code to the standard to highlight the amendments to users.'</i>	See response in row 5.2 above. Note that the Secretariat will itemise the standards applicable to local authorities in the amendments. See Draft Appendix D.

IFRIC 23 Uncertainty over Income Tax Treatments

Question	Agree	Disagree	No Comment
7 Do you agree with the approach to the adoption of IFRIC 23 <i>Uncertainty over Income Tax Treatments</i> ? If not, why not? What alternatives do you suggest?	20 (57%)	0 (0)	15 (43%)

	Issue	Secretariat Response
	Question 7 – IFRIC 23 Uncertainty over Income Tax Treatments	
7.1	The majority of respondents supported the approach in the ITC but few respondents reported any significant comments. A small number of respondents indicated that they agreed with the ITC that these amendments	No further action.

	Issue	Secretariat Response
	only apply to Group Accounts and the pension fund.	

Scottish Local Authorities: Presentation of Transfers to or from Other Statutory Reserves

Question	Agree	Disagree	No Comment
8 Do you agree with the approach to the presentation of transfers to or from other statutory reserves? If not, why not? What alternatives do you suggest?	4 (11%)	0 (0)	31 (89%)

	Issue	Secretariat Response
	<i>Question 8 – Scottish Local Authorities: Presentation of Transfers to or from Other Statutory Reserves</i>	
8.1	The Secretary would note that the responses to this question were largely only provided by either Scottish local authorities or Scottish local authority auditors. A Scottish audit body commented that this formalises the approach it had been recommending and: <i>'It is not expected to result in a change in practice for local authorities.'</i>	No further action.
8.2	A small number of authorities indicated that they wished to understand the difference between the Scottish position and the English position.	No further action.

Scottish Local Authorities: Presentation of Statutory Adjustments for the Revaluation Element of Depreciation

Question	Agree	Disagree	No Comment

9	Do you agree with the approach to the adoption of IFRIC 23 <i>Uncertainty over Income Tax Treatments</i> ? If not, why not? What alternatives do you suggest?	4 (11%)	0 (0)	31 (89%)
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	Issue	Secretariat Response
	Question 9 – Scottish Local Authorities: Presentation of Statutory Adjustments for the Revaluation Element of Depreciation	
9.1	There were very few comments on this proposal.	No further action.
9.2	<p>A firm commented:</p> <p><i>'...we note that the proposed wording in the exposure draft at 4.1.3.1 refers to 'voluntarily transferring the same amount of an existing revaluation reserve balance'. This is not in line with our understanding of current practice or IAS 16.41 which refers to transferring the difference between the depreciation based on the revalued amount and depreciation based on original cost.'</i></p> <p><i>'We also note that this amendment is voluntary and we understand that this is likely to be because IAS 16.41 also allows the transferring of the whole of the surplus in the revaluation reserve when the asset is derecognised and says 'some of the surplus may be transferred as the asset is used.'</i></p> <p><i>However, the transferring of the surplus in the revaluation reserve on derecognition of the asset to the general fund has not been addressed in the Code for Scotland. Currently the Code requires at para 4.1.3.13 'If the asset derecognised was carried at a revalued amount an additional entry is required; the balance on the Revaluation Reserve in respect of the asset derecognised is written off to the Capital Adjustment Account and</i></p>	<p>The Secretariat agrees that the wording of paragraph 4.1.3.1 should be aligned with the wording of IAS 16 paragraph 41 and has made some amendments to the wording of that paragraph. However, as this is not a statutory adjustment the Secretariat has moved the text of this paragraph to 4.1.2.48</p> <p>The Secretariat does not concur that paragraph 4.1.3.13 needs to be changed as this refers to the remaining balance which would need to be transferred whether or not this transfer takes place or the transfer is via the statutory adjustment in England, Wales and Northern Ireland.</p>

	Issue	Secretariat Response
	<i>reported in the Movement in Reserves Statement'</i>	
9.3	<p>The same firm continued:</p> <p><i>'Para 4.1.3.3 in the exposure draft then refers to both voluntary transfers and transfers between the revaluation reserve and capital adjustment account. Therefore it is unclear if Scottish authorities can do either of these practices or is it either of the practices as outlined in IAS 16.41. Without clarity, the accounting treatment will be inconsistent.'</i></p> <p><i>'The accounting for these amendments occur in the Movement in Reserves Statement and do not appear to have an impact on the closing individual reserves position and therefore we do not see this as an issue for English authorities. The depreciation adjustment between the revaluation reserve and capital adjustment account is usually clearly disclosed in the note to the revaluation reserve. As noted in the consultation, Scotland and England are subject to different capital legislative framework. '</i></p>	<p>The consultation was clear that the proposals allowed for a voluntary transfer so the Code Draft has retained the approach and the accounting policy choice. It will be a matter for LASAAC if it wishes to mandate this policy choice.</p> <p>The Secretariat concurs that the voluntary option would not work for the statutory position in England and Wales.</p>
9.4	<p>The Scottish audit body commented:</p> <p><i>'This is consistent with the principle that anything desirable that is permitted by accounting standards should be done under those standards, with statutory mitigation reserved for cases when it is necessary to override a standard.'</i></p> <p><i>'Although we do not have the necessary detailed knowledge of the statutory frameworks across the UK to comment definitively, we recommend the</i></p>	<p>The Secretariat would note that this respondent and a local authority indicated that the position should be consistent throughout the UK. As is noted above the statutory position is different between the England and Wales and in Scotland and as there were only two respondents suggesting that there should be consistency across the UK then the Secretariat does not recommend at this juncture that this option is used across the UK.</p>

	Issue	Secretariat Response
	<i>principle be applied outwith Scotland if it is permitted.'</i>	

Apprenticeship Levy

Question	Agree	Disagree	No Comment
10 Do you agree with the proposed specification of the treatment of the Apprenticeship Levy? If not, why not? What alternatives do you suggest?	24 (69%)	6 (17%)	5 (14%)

	Issue	Secretariat Response
	Question 10 – Apprenticeship Levy	
10.1	The majority of respondents supported the approach in the consultation papers. A small number of respondents noted that the transaction was not material for them. An authority commented: <i>'The proposal is supported and now clarifies the previous differing interpretations; we welcome the clarification of this issue.'</i>	No further action.
10.2	One authority was of the view that the transactions were not cash transactions and therefore should not be recognised in the financial statements and enquired what the accounting entries would be. A small number of other respondents including the representative body indicated that this was not consistent with section 2.3. Another authority indicated that it was a tenuous link to do this.	The Secretariat would note a transaction including a grant need not be a cash transaction to be recognised in the financial statements. The local authorities are in receipt of the benefits of the grant and incur the expense although the Code Draft recognises that these are not cash transactions. The Secretary has produced journal entries for the transactions but it is unusual to provide accounting transactions at this detailed level even in application guidance. In addition this might

	Issue	Secretariat Response
		<p>restrict the choices of local authorities.</p> <p>No further action.</p>
10.3	<p>A firm commented</p> <p><i>'our Firm's view remains that this a levy and, as such, IFRS would require that:</i></p> <ul style="list-style-type: none"> ▪ <i>When the levy is paid into the Digital Apprenticeship Services Account (DAS) employers that expect to use funds in the DAS should recognise a prepayment for future training services, employers that do not should recognise an expense. For those initially recognising a prepayment the expense would be recognised when the training is received.</i> ▪ <i>As the Government will also contribute to the costs of apprenticeships through a 10% 'top-up' of funds these contributions should be recognised as government grant income.'</i> 	<p>The Secretariat would note the comments but is not clear how an asset in the form of a prepayment would arise for local authorities so does not recognise the alternative treatments.</p> <p>The Secretariat is of the view that the prescription in paragraph 2.11.2.2 covers the government contribution which would in any event be otherwise covered by the provisions in section 2.3 of the Code.</p> <p>No further action.</p>
10.4	<p>The same firm commented that it recognised that the Code could confirm the treatment and also:</p> <p><i>'we would note that this matter also relates to 2018/19 transactions therefore if an update to the 2018/19 Code is issued consideration should be given to the inclusion of any final decision within that..'</i></p>	<p>The Secretariat does not consider that application guidance would warrant a Code Update.</p> <p>No further action.</p>
10.5	<p>An audit body commented:</p> <p><i>'There is an accepted convention that the Code is mandatory; it does not provide application guidance. That is the role of the separate Code guidance</i></p>	<p>The Secretariat concurs with this position that the Code should not include application guidance and if it does so it should only do so in the most exceptional cases.</p>

	Issue	Secretariat Response
	<i>notes. Even application guidance contained in standards is not replicated within the Code for that reason. The inclusion of application guidance on this levy would create a precedence that may not be helpful for issues in the future.'</i>	CIPFA/LASAAC is invited to consider this comment.
10.6	A representative body commented: <i>'It is proposed that 2.11.2.4 is enhanced to explain why the full balance in the DAS account would not be recognised.'</i>	The Secretariat is of the view that this is already explained ie the grant should be recognised in accordance with the principles of section 2.3 of the Code and when the authority controls the income. No further action.

References to Legislation

Question	Agree	Disagree	No Comment
11 Do you agree with the proposed amendments to reflect the references in the Code to legislation which has been enacted or made since the development of the 2018/19 Code? If not, why not? What alternatives do you suggest? Are there other items of legislation which you consider could usefully be included in the Code?	27 (77%)	0 (0)	8 (23%)

	Issue	Secretariat Response
	Question 11 – References to Legislation	
11.1	Very few respondents provided significant commentary on this question. A Welsh local authority and a firm mentioned the statutory guidance on the Minimum Revenue Provisions which was subject to consultation in August 2018 and a firm mentioned the anticipated changes to the Local	The Secretariat would note that if it is possible these two statutory items could be included in the 2019/20 Code. However, currently no changes to the Code Draft are proposed.

	Issue	Secretariat Response
	Authorities (Capital Finance and Accounting) Regulations in respect of the anticipated statutory override for IFRS 9.	

Code Draft C: IFRS Conceptual Framework for Financial Reporting (March 2018)

Question	Agree	Disagree	No Comment
12 Do you agree with the proposals to amend section 2.1 (Concepts) of the Code which reflect the adoption of the <i>IFRS Conceptual Framework for Financial Reporting (March 2018)</i> ? If not, why not? What alternatives would you suggest?	28 (80%)	1 (3%)	6 (17%)

	Issue	Secretariat Response
	Question 12– Exposure Draft C: IFRS Conceptual Framework for Financial Reporting (March 2018)	
12.1	The majority of respondents supported the proposed amendments.	No further comments. No further changes to the Code Draft.
12.2	An audit body noted that: <i>'- paragraph 2.1.2.4 disappplies para 1.10 of the IASB Conceptual Framework, which sets out the users of financial statements, and sets out an expectation that they are reasonably knowledgeable</i> <i>'- paragraph 2.1.2.5 states that financial statements are for service recipients.</i> <i>'- paragraph 2.1.2.22 states that the financial statements are prepared for</i>	This is an understandable but unintended reading. The Code Draft now includes a footnote to paragraph 2.1.2.22 which explains that although local authority financial statements should aim to meet the needs of a wider range of users than those described in the IASB Conceptual Framework, there is still an expectation that readers will have reasonable knowledge of the local authority's business and economic activities.

	Issue	Secretariat Response
	<p><i>users with a reasonable knowledge of business and economic activities.'</i></p> <p>They suggest that the above are incompatible, given that some service recipients may not have reasonable knowledge.</p>	<p>CIPFA/LASAAC is invited to consider this approach.</p>

Exposure Draft D: Adaptation/Interpretation and Statutory Adjustments

Question	Agree	Disagree	No Comment
13 Do you agree with the proposed clarification of adaptations and interpretations of IFRS and the description of the processes for statutory adjustments? If not, why not? What alternatives do you suggest?	26 (74%)	2 (6%)	7 (20%)

	Issue	Secretariat Response
	Question 13 – Exposure Draft D: Adaptation/Interpretation and Statutory Adjustments	
13.1	<p>The majority of respondents did not provide significant comments on this issue. A small number of authorities considered that the clarification was useful with two respondents particularly commenting:</p> <p><i>'With the fast changes in the financial environment, it is helpful for old conventions to be updated to reflect current and ever changing concepts and conventions.'</i></p>	<p>No further action.</p>
13.2	<p>An audit body commented:</p> <p><i>'However it might be helpful to add to the definition of 'adaptation' the restrictions on amending a standard,</i></p>	<p>The Secretariat is not quite clear on the point being made and is wary of confusing readers of the Code by</p>

	Issue	Secretariat Response
	<i>i.e. at what point is it necessary in principle for a statutory adjustment rather than an adaptation.'</i>	bringing together adaptations and statutory adjustments. No further action currently.

Post Implementation Reviews and Other Issues

Group Accounts

Question	
14	What are your views on the prominence of the Group Accounts in local authority Statements of Account?

	Issue	Secretariat Response
	Question 13 – Prominence of Group Accounts	
14.1	<p>Only one respondent from over 20 responses and the representative body from local authorities considered that group accounts needed greater prominence, although that respondent did not consider that further changes need to be made to the Code.</p> <p>There were three types of response from local authorities:</p> <ul style="list-style-type: none"> ▪ Local authorities consider that the single entity accounts should be the most prominent. ▪ A small number considered that less prominence should be given to the group accounts. ▪ Local authorities were of the view that prominence was dictated by circumstances and the Code allowed sufficient flexibility to allow for this. 	No further action.

	Issue	Secretariat Response
	Two examples of these commentaries are provided in the row below:	
14.1A	<p>One authority stated:</p> <p><i>'Our view is that the single entity statements should remain the primary statements for local authorities. We believe that this most accurately represents the position as regards the primary stakeholders (i.e. council tax payers and housing tenants), reflects the legislative position, and is also more understandable.'</i></p> <p><i>'Despite an increase in commercial activity, we feel that it is likely to remain the case that there will only be a minority of authorities for whom the extent of such activity could justify any different approach. We feel that the current Code requirements are flexible enough for authorities to give Group accounts the level of prominence which is appropriate for their particular circumstances, and the requirements are therefore sufficient at the present time.'</i></p> <p>A second authority commented:</p> <p><i>'Whilst the format and content of the Group Accounts is specified in the Code, Local Authorities already have some discretion around how they present their group accounts (e.g. either before, after or alongside their single entity accounts). This means that authorities are able to determine for themselves what prominence to attach to their Group Accounts, relevant to their local circumstances and considerations of materiality etc. It is our view that this flexibility should remain.'</i></p> <p>A police body indicated that group accounts should be prominent – note this reflects the nature of the police body financial statements where the group accounts best represents the circumstances of those entities.</p>	
14.2	<p>A firm commented on application issues including:</p> <ul style="list-style-type: none"> ▪ exclusion of notes to group accounts on the basis that the excluded notes are not materially different to the single entity note which leads to understandability issues relating to the group accounts. ▪ exclusion of immaterial subsidiaries from group accounts ▪ late preparation of group accounts 	<p>The Secretariat is of the view that the first two issues are matters of application and may also have an overlap with the streamlining projects. The third is an issue for management and not the Code. For the final issue in England and Wales none of the statutory overrides apply to local authority subsidiaries. Though the definition of capital receipts does apply to some local authority companies (Mayoral Development Corporations). However, the last two issues are not issues for the Code.</p>

	Issue	Secretariat Response
	<ul style="list-style-type: none"> ▪ confusion as to whether statutory overrides that apply to local authorities can also be applied to local authority subsidiaries. <p>A further firm noted that the Group Accounts should be given more prominence.</p>	<p>The Secretariat is of the view that none of these issues requires Code amendment and would refer the first two issues to the streamlining projects.</p> <p>The Secretariat would recommend that Group Accounts other than the items referred to above should be reviewed at the year three of CIPFA/LASAAC's five year work plan.</p>
14.3	<p>A firm commented:</p> <p><i>'We recommend CIPFA/LASAAC consider an addition to the Code for authorities to consider the positioning of group accounts where they have significant group arrangements.'</i></p> <p><i>However, in the interest of streamlining the accounts and making the single entity accounts and group accounts of equal prominence, we would advocate the use of the columnar approach where the single entity and group accounts are presented alongside each other as presented in the commercial world. We believe that this presentation would also be more useful to a reader of the accounts and would also mean that the supporting disclosures would address both the single entity and group accounts disclosure requirements. Currently, where group accounts are separate, there is a lot of cross reference back to the single entity accounts as accounting policies and notes are not produced in the group statements where there is no material difference to the single entity accounts.</i></p>	<p>The Secretariat would highlight the commentaries above from a substantial number of the local authority respondents. It would also note that authorities are already of the view that they can present their Group Accounts to the prominence they consider necessary for the users of their financial statements. The Secretariat therefore recommends no change at this juncture other than to keep this under review from a Streamlining perspective.</p> <p>The Secretariat does not consider following the responses above that it would be appropriate to recommend a columnar approach presentation should be at the discretion of the authority.</p>

Question	Yes	No	No Comment
15 Do you think that the Code's provisions on the presentation and the disclosures required by local authority group accounts provide adequate signals on the reporting requirements for local authorities? If yes, why? If not, why not? Please provide the reasoning behind your response.	15 (43%)	7 (20%)	13 (37%)

	Issue	Secretariat Response
	Question 15 – Code's Provisions on Group Accounts	
15.1	<p>The largest number of respondents are of the view that the Code provides adequate signals with regard to local authority Group Accounts. Most of the local authority commentators agreed that the Code provided the right level of prescription for the Group Accounts, with one authority commenting.</p> <p><i>'In our view, the current Code provisions enable local authorities to exercise judgement on what disclosures to include within the Group Accounts. This enables authorities to only include disclosures in the Group Accounts where the information is materially different from that included in the single entity accounts. Hence, we believe that the Code's provisions already provide adequate signals on the reporting requirements for local authorities.'</i></p>	No further action for the Code.
15.2	Two firms commented that more guidance could be provided on local authority disclosures.	<p>This is an issue for application guidance.</p> <p>No further action for the Code.</p>
15.3	<p>A further firm noted problems with</p> <ul style="list-style-type: none"> ▪ accounting policies not covering the Group Accounts reporting issues 	These appear to be issues of application and therefore for guidance and not for changes to the Code.

	Issue	Secretariat Response
	<ul style="list-style-type: none"> ▪ cross referencing to the single entity financial statements ▪ Code compliance with the group position. 	No further action for the Code.
15.4	An audit body indicated that consideration should be given to mandating the columnar approach to group presentation.	<p>The Secretariat would note that this proposal is at odds with the majority of local authority respondents to question 14.</p> <p>Although Group Accounts should reflect the interests in other entities the local authority single entity financial statements are still paramount to local authorities and are most useful to council tax payers. These financial statements are the basis of financial performance from a taxation and capital financing position. Note that although the Prudential Code was reviewed from a commercial perspective the main indicators are based on information in the single entity balance sheet.</p> <p>The Secretariat would recommend that CIPFA considers this issue from an application guidance perspective and this should be subsequently considered for further review in the five year work plan.</p>

Business/Public Sector Combinations

Question	Yes	No	No Comment
16 Do you consider that the Code needs to include more specific guidance on the adoption of IFRS 3 <i>Business Combinations</i> ?	8 (23%)	10 (29%)	17 (49%)

	Issue	Secretariat Response
	Question 16– Business/Public Sector Combinations	
16.1	The majority of respondents did not comment on this issue.	No further action.
16.2	Some local authorities considered that it might be useful to include more guidance. A firm also indicated that: <i>'Local authorities are undertaking increasingly complex transactions, for example PFI refinancing, bringing services back in house, acquisition of shopping centres, acquisition of challenger banks etc. This brings with it issues associated with business combinations. IFRS 3 Business Combinations is not a standard that has been widely considered by practitioners and therefore we ask CIPFA/LASAAC to consider giving it more prominence in the Code and to produce associated guidance.'</i>	None of the respondents particularly set out the circumstances where local authorities might need to refer to the provisions of IFRS 3 and where the Code may need to include more provisions to guide local authorities. The larger number of respondents is of the view that the Code takes the correct position on this issue. See also the comments of another firm below. The Secretariat considers that it would be useful for CIPFA/LASAAC to keep this position under review.
16.3	Another firm commented: <i>'We consider the current guidance on this to be clear. The treatment for reorganisations and combinations is clearly set out and for true "acquisitions" the requirements of IFRS 3 can be applied without the need for adaptation as set out in the Code.'</i>	See commentary in row 16.2 above.

Question	Agree	Disagree	No Comment
17 Do you agree that the Code's provisions in section 2.5 (Local Government Reorganisations and Other Combinations) of the Code provide appropriate reporting requirements for local government public sector combinations. If not, why not? What alternatives do you suggest?	14 (40%)	5 (14%)	16 (46%)

	Issue	Secretariat Response
	Question 17– Approach to Local Government Reorganisations and Other Combinations	
17.1	The larger number of respondents are of the view that the Code’s provisions in section 2.5 are appropriate. A respondent indicated that where transfers had taken place the Code’s provisions were sufficient.	No further changes to the Code Draft.
17.2	A small number of respondents indicated that more examples could be usefully provided.	The Code Guidance Notes already provides examples. No further changes to the Code Draft.
17.3	One firm is of the view that the Code is at odds with paragraph 4.2.9 of the FReM ie for transfers outside of local government.	The firm is wrong. The Code’s provisions are aligned with the FReM’s for local government circumstances. No further changes to the Code Draft.
17.4	A small number of respondents indicated that the Code’s provisions should indicate where they have differed from IPSAS 40 <i>Public Sector Combinations</i> .	This section of the Code does not refer to IPSAS 40 and it might therefore be confusing to set out the differences between the two. No further changes to the Code Draft.

Recognition of Income for Third Party Payments for Service Concession Arrangements

Question	Yes, Specific Treatment	No Specific Treatment	No Comment
18 Do you consider that CIPFA/LASAAC should be specific about the treatment of third party income (known in IPSAS 32 Service Concession Arrangements: Grantor as the grant of the right to the operator model)? If yes, please set out the treatment you consider best fits with the	10 (28%)	8 (23%)	17 (49%)

local government circumstances. If no, why not? Please set out the reasoning for your response.			
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	Issue	Secretariat Response
	<i>Question 18– Recognition of Income for Third Party Payments for Service Concession Arrangements</i>	
18.1	The largest responding group to this question in the consultation did not provide commentary.	No further action.
18.2	The responses to the question are finally balanced with 29 per cent of respondents indicating that the Code should consider stipulating further treatment and 23 per cent indicating that no specific treatment should be provided.	The Secretariat would note that this issue is finely balanced and this is supported by the respondents to the consultation. No further amendments to the Code.
18.3	A firm produced a detailed paper indicating that the deferred income approach (under IPSAS 32 Service Concession Arrangements: Grantor) should be specified. A second firm noting the differences between standard setters also indicated that the deferred income approach should be used. A further firm considered that further analysis would be required. A Treasury Management Advisor with a number of supporting authorities appeared also to be recommending the deferred income approach.	The Secretariat notes these responses but would highlight that this would appear to be at odds with the views provided by the then Accounting Council. The Secretariat would highlight its proposals under the agenda item on IFRS 16 that the accounting provisions in the Code for service concession arrangements are considered in a separate sub group.

Reporting of Trading Operations in Local Authority Financial Statements

Question	Yes Useful	Not Useful	No Comment
19 Do you consider that the disclosure requirements in paragraph 3.4.4.2 2) for trading operations are useful to the users of local authority financial statements	10 (29%)	8 (23%)	17 (49%)

(other than for Scottish local authorities)? If yes, please provide the reasoning for your response. If no, why not? Please set out the reasoning for your response.			
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	Issue	Secretariat Response
	Question 19 – Reporting of Trading Operations in Local Authority Financial Statements	
19.1	Again the largest number of respondents did not provide a response on this issue.	No further action.
19.2	As is demonstrated in the statistics above the opinion of respondents is finely divided on whether this information is useful or not with the larger number of respondents indicating that this disclosure is useful. One of the respondents indicating that it was useful noted that this was an area that their members found interesting. A firm and an audit body also commented that this information is useful.	The Secretariat would note that this decision is finely balanced and it is difficult to recommend removal of this disclosure when the views are (just) that it provides useful information.
19.3	A number of respondents that indicated that the disclosure was not useful said that these disclosures add to the complexity and detail in the financial statements with one commenting that the disclosures could have been removed when the reporting on best value and performance changed.	The Secretariat invites CIPFA/LASAAC to note this point.
19.4	A firm indicated that the Code should not include disclosures not required by an accounting standard or by legislation. It also noted that it: <i>'...suggest CIPFA/LASAAC consider undertaking a wider consultation about the purpose of financial reporting. This could explore further paragraphs 2.1.2.5 and 2.1.2.6 in respect of who</i>	The consultation did approach this particular disclosure from this perspective. CIPFA/LASAAC has already consulted on who the users of the accounts are in its previous Telling the Story review project though the Secretariat recognises the work that the Board initiated at its Away Day on the users of the financial statements.

	Issue	Secretariat Response
	<i>the users of the accounts are and what information do they need...'</i>	This latter issue should be referred to the relevant projects identified at the CIPFA/LASAAC Away Day.
19.5	A representative body commented: <i>'Although the requirements of 3.4.4.1 para 2 are not onerous any initiative to reduce the burden on preparers is welcome. Where authorities felt that trading operations were significant they would still have discretion to make disclosures.'</i>	The Secretariat has used this comment to support its finely balanced recommendation that the Code should remove this disclosure requirement. The disclosure is retained for Scottish local authorities. Remove the disclosure requirement for England, Northern Ireland and Wales.

IASB Materiality Practice Statement

Question	Agree	Disagree	No Comment
20 Do you agree that the IASB Materiality Practice Statement should not be referred to in the Code? If not, why not? Are there other materiality requirements or guidance that you consider should be included in the Code?	22 (63%)	5 (14%)	8 (23%)

	Issue	Secretariat Response
	Question 20 – IASB Materiality Practice Statement	
20.1	The majority of respondents agreed that the IASB Materiality Practice Statement should not be referred to in the Code. Some respondents indicated that the Code included sufficient provisions on materiality. Other respondents were concerned that the nature of the guidance ie that it is prepared for private sector entities	No further amendments to the Code Drafts

	Issue	Secretariat Response
	indicated that it might be of limited use to local authorities.	
20.2	Some respondents indicated that cross-reference to the guidance in the Practice Statement might be useful.	The Secretariat is not clear on the advantages of this proposal. No further amendments to the Code.
20.3	Two authorities whilst accepting that this was not an issue for the Code indicated that they would welcome a discussion of the difference in approaches of the accounting standards (and the Code's interpretation) of materiality and auditor's use of materiality. One of the authority's considered that this may need to be a discussion between CIPFA, the National Audit Office and the Regulators.	The practical guide to streamlining has considered the relationship with the accounting guidance on materiality and the auditor's approach to materiality to assist local authorities and understanding the relationship. The Secretariat would, however, seek CIPFA/LASAAC's views on this issue. No further amendments to the Code.
20.4	A number of the firms and the audit body considered that some reference to and interpretation of the Practice Statement would be useful in application guidance produced by CIPFA.	One of the members of the working group on the practical guide to streamlining has included guidance which interprets the substantial provisions of the Practice Statement for local authorities. No further amendments to the Code.

Complex Financial Instruments

Question	Yes	No Complex Financial Instruments	No Comment
21 Do you consider that there are complex financial instruments requiring specific provisions in the Code? If yes, please set out the nature of the financial instruments and the accounting requirements you consider need specification in the Code	8 (23%)	15 (43%)	12 (34%)

	Issue	Secretariat Response
	Question 21 – Complex Financial Instruments	
21.1	The largest number of respondents were of the view that there were no complex financial instruments requiring specific consideration in the Code.	No further action.
21.2	A Treasury Management Advisor and a number of supporting authorities indicated that bonds: <i>'(both issued and held by local authorities) as we are aware of a range of treatments in practice. In particular some market participants consider these to be floating rate instruments within the meaning of IFRS 9 B5.4.5 even when the interest rate is fixed.'</i>	The Secretariat is not clear what particular aspect requires special consideration in the Code. The Secretariat would note that differing treatment may not necessarily mean that the accounting treatment is incorrect. The application of paragraph B5.4.5 is a complex area. The Secretariat would recommend that this issue is considered in the development programme for the Code next year.
21.3	A firm commented: <i>'In our view practitioners should be directed to IFRS 9 in relation to the treatment of complex financial instruments. IFRS 9 is comprehensive and should contain all the relevant guidance required.</i> <i>'Inclusion of specific provisions in relation to particular instruments would be dangerous in our view as the terms of such instruments tend to vary on a case by case basis.</i> <i>'It may be appropriate to provide some worked examples in the Code Guidance Notes where scenarios can be detailed and appropriate caveats given.'</i>	The Secretariat concurs with these comments. No further amendments to the Code.
21.4	A second firm commented: (note this same firm included and emphasised the annual comments on the approach to drafting the Code which have been considered and	The Secretariat considers that the clarification statement has covered the issue of the interpretation. Further edits to the interpretation may give rise to more confusion.

	Issue	Secretariat Response
	<p>rejected by CIPFA/LASAAC on an annual basis)</p> <p><i>'The interpretation included in the 2018/19 Code that requires 'call options embedded in a LOBO shall not be separately accounted for' is not sufficiently clear. In our view, the call option in the LOBO scenario should be defined and it should be made clear if it relates to all types of LOBOs or just a standard fixed LOBO. The Code should also cover the accounting for the borrower prepayment options. We note that borrower prepayment options may also be included in other loan instruments and so are not specific to LOBOs. We also recommend that CIPFA consider clearer signposting for users of the Code to address the underlying accounting standard where relevant. It should be clear to the user of the Code that they need to follow IFRS 9 and that the Code does not seek to change anything.</i></p>	<p>It would be difficult to more precisely define what the call option is and may risk further misinterpretation. It would also be difficult to define the standard fixed rate Lender Option Borrower Option (LOBO) contracts.</p> <p>CIPFA/LASAAC's views are sought on this issue.</p> <p>The Code is clear that other than where a standard is adapted or interpreted that its provisions should be followed.</p> <p>No further amendments to the Code.</p>
21.5	<p>The same firm indicated:</p> <p><i>'What would be useful is some illustrative examples of some of the typical arrangements with a clear articulation of how IFRS 9 ought to be applied to those instruments.'</i></p>	<p>The Local Authority Accounting Panel considered this issue in a meeting dedicated to contracts with Lender Option Borrower Option clauses and decided after substantial debate not to provide application guidance on these contracts.'</p> <p>No further amendments to the Code.</p>
21.6	<p>Another Treasury Management Advisor commented:</p> <p><i>'We do not consider that there are any complex financial instruments that cannot be dealt with appropriately under the previous or revised financial instrument standards. Any LA holding financial liabilities have measured these at amortised cost and we would</i></p>	<p>CIPFA/LASAAC is invited to note this comment.</p>

	Issue	Secretariat Response
	<i>envisage that this would continue under IFRS9.'</i>	

English Local Authorities: Accounting for Non-domestic Rates for the 100 Percent Rate Retention Pilot Authorities

Question	Agree	Disagree	No Comment
22 Do you agree that the pilot arrangements for non-domestic rates do not require any changes to the accounting requirements in the Code? If not, why not? What alternatives do you suggest?	18 (51%)	1 (3%)	16 (46%)

	Issue	Secretariat Response
	<i>Question 22– English Local Authorities: Accounting for Non-domestic Rates for the 100 Percent Rate Retention Pilot Authorities</i>	
22.1	A substantial majority of respondents agreed with the proposals in the consultation documents, with a number indicating that the percentages for the relevant shares would change but the accounting principles/requirements would remain the same.	No further changes to the Code Drafts.
22.2	An authority commented: <i>'There is a potential issue where an Authority is part of a pool and where growth is greater than anticipated in pool sharing arrangements. In such cases, the pool would require an accrual for the increased growth payable to it. However, the Council's share of the corresponding business rates growth income could not be recognised under statutory regulations until a future year. There would</i>	There have been no substantial changes to the pooling arrangements which should reflect the governance arrangements for the pool. This is not an issue for Code prescription. The Secretariat will consider whether any separate guidance can be produced on this issue. No further changes to the Code Drafts.

	Issue	Secretariat Response
	<i>therefore, perversely, be an in year hit on the General Funds of those Authorities experiencing higher levels of business rate income growth (and correspondingly a beneficial impact on the accounts of those experiencing less growth). Such costs/benefits would only be neutralised in future years under statutory recognition. It would be useful if the Code addressed accounting issues around business rate pools.'</i>	
22.3	A small number of authorities considered that there would need to be some additional guidance either in the form of a Bulletin or training.	<p>CIPFA provides regular training on issues relating to the Collection Fund and will consider whether any additional commentary needs to be provided in application guidance issued by CIPFA.</p> <p>No further changes to the Code Drafts.</p>

Areas for Further Guidance

	Comment	Secretariat's response and/or proposed amendment
1	A local authority commented: <i>'Some further guidance for district councils on disclosures for their share of the pension funds.'</i>	The Secretariat is not clear what this issue is but would assume that this is an issue for application guidance. No further action but see row 9 below.
2	An authority reiterated its concern on materiality and the auditors' definition of materiality outlined in row 20.3.	See row 20.3 Appendix B. Note that item 10 seeks the views of the Board on whether it wishes to consider any projects on materiality.
3	A firm raised the issue that local authorities are increasingly purchasing properties and are having trouble with the classification of investment property where regeneration is a secondary objective to holding the asset. It commented: <i>'This has resulted in classification of the asset as PPE due to the use of the word 'solely'. We consider that it would be useful to consider, and provide further guidance on, when such property should be PPE and when it should be Investment Property as in some cases it appears that classification as investment property maybe a fairer and conceptually better presentation.'</i>	The Secretary is of the view that this should largely be an issue for application guidance but will also review the wording of the Code as a part of the development programme for the 2020/21 Code. Add to the development programme for the 2020/21 Code.
4	A firm commented. <i>'Where there is a contractual arrangement that a local authority provides a pension guarantee to a pension scheme or to an entity that has taken on the actuarial and investment risk our view is that local authorities should be making a judgement, based on their understanding of the arrangement and risks attached to the overall LGPS deficit, as to whether this should be accounted for as a derivative financial liability (IFRS 9) or an insurance contract (IFRS 4). Either accounting for them as a derivative financial</i>	This is an issue for application of the Code's provisions and not for specification in the Code. The Secretariat is of the view that this may not be either of these choices. The Secretariat is also of the view that there may be other treatments which may also depend on the details of the authority's commitments (contractual or otherwise). It is not possible and could be erroneous to specify a specific treatment in the Code. The Secretariat considers that this is an issue for application guidance and not for the Code.

	Comment	Secretariat's response and/or proposed amendment
	<p><i>liability (IFRS 9) or an insurance contract (IFRS 4) would bring the liability onto the balance sheet and the corresponding debit would impact the CIES and the general fund balance. We ask CIPFA/LASAAC to consider this issue and provide guidance for practitioners.'</i></p>	
5	<p>The same firm commented in relation to going concern.</p> <p><i>'Paragraph 3.4.2.23 of the 2018/19 Code sets out that 'local authorities that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting; that is, the financial statements shall be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future'. Therefore the basis for preparation of the accounts is clear.</i></p> <p><i>Under the auditing standards, auditors have a requirement under ISA 570 to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.</i></p> <p><i>ISA 570 notes (para 4) that since the going concern basis of accounting is a fundamental principle in the preparation of financial statements management has a responsibility to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so. This is the case with the CIPFA Code. '</i></p> <p><i>In view of the increasingly challenging financial environment we suggest that the Code clarifies disclosure requirements in relation to going</i></p>	<p>CIPFA/LASAAC has debated going concern in detail and has formalised its decisions on the issue. The auditor framework as such is outside of the scope of the Code.</p> <p>However, even if so we would note that ISA 570.2 is still by reference to the appropriateness of going concern accounting and the assumptions about management intending to cease trading or liquidate assets, which are prohibited by statute. ISA 570 does not introduce a general requirement to audit the sustainability of the entity. Even when undergoing substantial sustainability issues local authorities will not change the going concern basis of accounting. For example the local authority accounting policies for the measurement of their assets will not change to remeasure them as if they were liquidating the assets.</p> <p>In addition although the Code reflects the statutory framework it is not the financial reporting framework which requires the going concern assumption to be maintained but a matter of fact as a result of statute prohibiting the dissolution of an authority or the ability for local authorities to liquidate the assets.</p> <p>Sustainability and liquidity issues should, however, be adequately reported under the Code's requirements in the narrative report and in relation to IFRS 7 <i>Financial Instruments: Disclosure</i> and IAS 7 <i>Cash Flow Statements</i>.</p> <p>No further action in accordance with CIPFA/LASAAC's substantial earlier debates on the issue.</p>

	Comment	Secretariat's response and/or proposed amendment
	<i>concern and, in our view, be clear that authorities should disclose any material uncertainties where these exist.</i>	
6	<p>The same firm commented</p> <p><i>Auditors need to comply with the FRC's Revised Ethical Standard 2016. The appendix to the standard sets out a template audit fees disclosure which would be good practice for local authorities to follow. We ask CIPFA/LASAAC to consider expanding the audit fees disclosures required in the Code with the illustrative template for communicating fees set out in the Appendix to the Revised Ethical Standard 2016. The additional disclosure is useful to a reader of the accounts as it demonstrates the objectivity of the auditor.'</i></p>	<p>This issue was raised during the consultation on the 2018/19 Code. Then the Secretariat noted that the statutory circumstances are such that this disclosure does not have the relevance for local authorities. Last year CIPFA/LASAAC decided not to proceed with this issue.</p> <p>No further action in accordance with the debate at CIPFA/LASAAC's November meeting last year.</p>
7	<p>An audit body commented:</p> <p><i>'LASAAC has been discussing whether the principles set out in a joint ICAEW/ICAS technical release (TECH 02/17BL issued in April 2017) can be applied to movements in the fair value of financial instruments in the local authority sector. The technical release provides guidance on the net realised profits that companies may distribute. This includes assets which are readily realisable, including changes in fair value to the extent readily convertible to cash. This is closely aligned with the definitions of levels 1 and 2 in the fair value measurement hierarchy. It is recommended that CIPFA/LASAAC consider the application of the principles in the technical release to local authorities in the UK.'</i></p>	<p>The Secretariat considers that this may usefully be reviewed as a part of one of the projects initiated on the CIPFA/LASAAC Away Day.</p> <p>The Secretariat invites CIPFA/LASAAC to consider the issue under the relevant projects in the five year work programme.</p>
8	<p>The same audit body commented in relation to narrative reporting:</p> <p><i>'Clear and concise explanations in the narrative within the annual accounts is fundamental to users'</i></p>	<p>The Secretariat considers that this may usefully be reviewed as a part of one of the projects initiated on the CIPFA/LASAAC Away Day.</p>

	Comment	Secretariat's response and/or proposed amendment
	<i>understanding. CIPFA/LASAAC should consider whether there is sufficient prominence given in the Code to the importance of narrative reporting.'</i>	The Secretariat invites CIPFA/LASAAC to consider the issue under the relevant projects in the five year work programme.
9	<p>A representative body commented:</p> <p><i>Much time is spent each year around non-current asset valuation. Although the values are large, due to the statutory over-rides, the impact is relatively modest on local authorities. The five year limit on asset reveals is irrelevant as each year authorities are being asked to demonstrate that carrying values are not materially different from current/fair value. The ensuing to/fro is not adding much value for valuers, auditors or the reporting authorities. It would be helpful if there was some relaxation around materiality that better reflected the relevance of non-current asset accounting to the sector. Similarly, if there was scope to review materiality issues around IAS 19 disclosures this could be helpful; although these are large values, some assessment of their meaning to readers of the accounts could help discussions with audit around how appropriate a late year estimate is vs the need to use actuals post 31 March.'</i></p> <p>A local authority provided similar comments to those of the representative body in relation to non-current assets.</p>	<p>The Secretariat is of the view that the capital accounting issues can be reviewed as a part of the capital accounting project initiated at the CIPFA/LASAAC Away Day. The pensions issue could also be considered under the Streamlining Projects.</p> <p>The Secretariat invites CIPFA/LASAAC to consider the issues under the relevant projects in the five year work programme.</p>

Amendments to IFRS 9 – Modification or Exchange Not Resulting in Derecognition

A 2017 addition to the Basis of Conclusions for IFRS 9 clarified the expected accounting treatment for a financial liability that is modified but not derecognised:

- calculate a new carrying amount by discounting the revised cash flows with the original effective interest rate (resulting in a gain or loss on modification)
- take the difference between the new carrying amount and the old carrying amount as a gain/loss on modification
- adjust the new carrying amount and recalculate the effective interest rate to amortise any costs and fees incurred in the modification

Under IAS 39, it was possible to:

- retain the old carrying amount
- recalculate the effective interest rate using the revised cash flows

The IAS 39 treatment had been carried forward into the Early Guidance example (A37), on the basis that IFRS 9 did not specify any new treatment for modified liabilities to contradict IAS 39 (although the specified treatment for modified financial assets in IFRS 9 would be inconsistent with it).

[The A37 example is superseded by the IFRS 9 amendment and should follow the process in the first paragraph. However, under this new approach it will become important to determine whether premiums are to be treated as costs/fees:

- *if so, they will be omitted from the cash flows in step 1 and accounted for in step 3*
- *if not, they will be included in the cash flows in step 1 and omitted from step 3*

Alternative rewrites of paragraphs A36 and A37 of the Early Guidance are provided for each of these positions below.]

Premiums Are a Cost/Fee

A36 The assessment as to whether there has been an exchange or a modification is best understood by a worked example. The projected cash flows before and after the restructuring are scheduled out according to when payment is due and then discounted using the original effective interest rate (NB: the example below shows the premium being paid upfront, but other restructurings may feature (eg) a premium being wrapped up in the loan as an additional maturity settlement sum or as a surcharge on the interest payable).

ILLUSTRATION: ASSESSMENT OF DEBT RESTRUCTURING EXERCISE

Blackwood Ho! Council had taken out a loan of £1m at a fixed rate of 8% that has four years to run. Interest rates have fallen. The lender offers to cancel the existing loan agreement provided that the council agrees to take out a replacement loan of £1m at 6% for eight years, with payment of a £100,000 premium payable on renegotiation. An immaterial amount of arrangement fees was payable.

At the date of the restructuring, the projected cash flows for the original loan were as follows, with the contracted interest rate of 8% also being the effective interest rate for the loan:

	Principal £	Interest £	Total £	Discount factor	Present value £
Year 1	–	80,000	80,000	0.92592593	74,074
Year 2	–	80,000	80,000	0.85733882	68,587
Year 3	–	80,000	80,000	0.79383224	63,507
Year 4	1,000,000	80,000	<u>1,080,000</u>	0.73502985	<u>793,832</u>
			1,320,000		1,000,000

The calculation confirms that the amortised cost of the loan at the restructuring date is equal to the principal amount in the contract.

Under the new agreement to borrow £1m at 6%, the scheduled cash flows (discounted at the original rate of interest of 8%) are as follows:

	Principal £	Interest and Premium £	Total £	Discount factor	Present value £
Year 0	-	100,000	100,000	1.0	100,000
Year 1	–	60,000	60,000	0.92592593	55,556
Year 2	–	60,000	60,000	0.85733882	51,440
Year 3	–	60,000	60,000	0.79383224	47,630
Year 4	–	60,000	60,000	0.73502985	44,102
Year 5	–	60,000	60,000	0.6805832	40,835
Year 6	–	60,000	60,000	0.63016963	37,810
Year 7	–	60,000	60,000	0.5834904	35,009
Year 8	1,000,000	60,000	<u>1,060,000</u>	0.54026888	<u>572,685</u>
			1,580,000		985,067

As the present value of the new cash flows of £985,067 is only 1.49% less than the £1,000,000 amortised cost, the restructuring qualifies under the 10% rule as an exchange of instruments.

A37 The special accounting treatment for modifications and exchanges is that a new carrying amount is established at the date of modification by discounting the new cash flows by the original effective interest rate. The premium or discount is not posted to Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement but adjusts the carrying amount of the liability. It is then amortised over the life of the modified contract or new instrument. In order to achieve this, the effective interest rate is recalculated. If this were not done, the carrying amount of the new loan would not be amortised down to the principal repayment amount at the end of the contract.

Step 1 – calculate new carrying amount by discounting new cash flows by original EIR (8%)

Principal	Interest	Total	Discount Factor	Present Value
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Year 1		60,000	60,000	0.925926	55,556
Year 2		60,000	60,000	0.857339	51,440
Year 3		60,000	60,000	0.793832	47,630
Year 4		60,000	60,000	0.735030	44,102
Year 5		60,000	60,000	0.680583	40,835
Year 6		60,000	60,000	0.630170	37,810
Year 7		60,000	60,000	0.583490	35,009
Year 8	1,000,000	60,000	1,060,000	0.540269	<u>572,685</u>
					885,067

Step 2 – adjust carrying amount

The difference between the old carrying amount of £1,000,000 and the new carrying amount of £885,067 is balanced by a credit to the CIES (Financing and Investment Income and Expenditure) of £114,933.

Step 3 – adjust carrying amount for fees and costs

This requires the recalculation of the EIR, so that the fees/costs are properly amortised over the remaining term. The relevant EIR is 10.03374% is calculated as the interest rate required to discount the remaining cash flows down to the adjusted carrying amount of the loan of £785,067 (the new carrying amount of £885,067 less the premium of £100,000), demonstrated as follows:

	Principal	Interest	Total	Discount Factor	Present Value
Year 1		60,000	60,000	0.908812	54,529
Year 2		60,000	60,000	0.825940	49,556
Year 3		60,000	60,000	0.750624	45,037
Year 4		60,000	60,000	0.682176	40,931
Year 5		60,000	60,000	0.619970	37,198
Year 6		60,000	60,000	0.563436	33,806
Year 7		60,000	60,000	0.512058	30,723
Year 8	1,000,000	60,000	1,060,000	0.465364	<u>493,286</u>
					785,067

Step 4 – programme accounting transactions for the revised loan term

The accounting arrangements for the remainder of the loan term will then be based on:

Opening Principal	Effective Interest	Actual Interest	Closing Principal
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Year 1	785,067	78,772	60,000	803,839
Year 2	803,839	80,655	60,000	824,494
Year 3	824,494	82,728	60,000	847,221
Year 4	847,221	85,008	60,000	872,229
Year 5	872,229	87,517	60,000	899,746
Year 6	899,746	90,278	60,000	930,025
Year 7	930,025	93,316	60,000	963,341
Year 8	963,341	96,659	60,000	1,000,000

The total for revenue costs after modification is £580,000: £100,000 of premium payable plus actual interest of £480,000 (£60,000 x 8 years). The overall accounting debits and credits are:

	£000s
Gain on modification	(114,933)
Effective interest debits	694,933
	<hr/>
Total	580,000

This shows that the gain recognised in the CIES upon modification is not an absolute gain but a technicality arising from the requirement to use the old EIR to calculate a new carrying amount on modification. There is therefore reasonable justification for treating the credit cautiously.

Premiums Not a Cost/Fee

A36 The assessment as to whether there has been an exchange or a modification is best understood by a worked example. The projected cash flows before and after the restructuring are scheduled out according to when payment is due and then discounted using the original effective interest rate (NB: the example below shows the premium being paid upfront, but other restructurings may feature (eg) a premium being wrapped up in the loan as an additional settlement sum or as an surcharge on the interest payable).

ILLUSTRATION: ASSESSMENT OF DEBT RESTRUCTURING EXERCISE

Blackwood Ho! Council had taken out a loan of £1m at a fixed rate of 8% that has four years to run. Interest rates have fallen. The lender offers to cancel the existing loan agreement provided that the council agrees to take out a replacement loan of £1m at 6% for eight years, with payment of a £100,000 premium payable on renegotiation. An immaterial amount of arrangement fees was payable.

At the date of the restructuring, the projected cash flows for the original loan were as follows, with

the contracted interest rate of 8% also being the effective interest rate for the loan:

	Principal	Interest	Total	Discount	Present
	£	£	£	factor	value
					£
Year 1	–	80,000	80,000	0.92592593	74,074
Year 2	–	80,000	80,000	0.85733882	68,587
Year 3	–	80,000	80,000	0.79383224	63,507
Year 4	1,000,000	80,000	<u>1,080,000</u>	0.73502985	<u>793,832</u>
			1,320,000		1,000,000

The calculation confirms that the amortised cost of the loan at the restructuring date is equal to the principal amount in the contract.

Under the new agreement to borrow £1m at 6%, the scheduled cash flows (discounted at the original rate of interest of 8%) are as follows:

	Principal	Interest	Total	Discount	Present
	£	and Premium	£	factor	value
		£			£
Year 0	-	100,000	100,000	1.0	100,000
Year 1	–	60,000	60,000	0.92592593	55,556
Year 2	–	60,000	60,000	0.85733882	51,440
Year 3	–	60,000	60,000	0.79383224	47,630
Year 4	–	60,000	60,000	0.73502985	44,102
Year 5	–	60,000	60,000	0.6805832	40,835
Year 6	–	60,000	60,000	0.63016963	37,810
Year 7	–	60,000	60,000	0.5834904	35,009
Year 8	1,000,000	60,000	<u>1,060,000</u>	0.54026888	<u>572,685</u>
			1,580,000		985,067

As the present value of the new cash flows of £985,067 is only 1.49% less than the £1,000,000 amortised cost, the restructuring qualifies under the 10% rule as an exchange of instruments.

A37 The special accounting treatment for modifications and exchanges is that a new carrying amount is established at the date of modification by discounting the new cash flows by the original effective interest rate. The premium or discount is not posted to Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement but is treated as a new cash flow to be reflected in the recalculation of the carrying amount.

Step 1 – calculate new carrying amount by discounting new cash flows by original EIR (8%)

Per the analysis in the preceding table, the new carrying amount of the loan (remaining cash flows discounted by the original effective rate) is £985,067.

Step 2 – adjust carrying amount

The difference between the old carrying amount of £1,000,000 and the new carrying amount of £985,067 is balanced by a credit to the CIES (Financing and Investment Income and Expenditure) of £14,933.

Step 3 – programme accounting transactions for the revised loan term

The accounting arrangements for the remainder of the loan term will then be based on:

	Opening Principal	Effective Interest	Actual Interest and Premium	Closing Principal
Year 0	985,067	0		885,067
Year 1	885,067	70,805	60,000	895,873
Year 2	895,873	71,670	60,000	907,542
Year 3	907,542	72,603	60,000	920,146
Year 4	920,146	73,612	60,000	933,757
Year 5	933,757	74,701	60,000	948,458
Year 6	948,458	75,877	60,000	964,335
Year 7	964,335	77,147	60,000	981,481
Year 8	981,481	78,519	60,000	1,000,000

Demonstration That the Gain/Loss on Modification Represents Part of the Premium

The total for revenue costs after modification is £580,000: £100,000 of premium payable plus actual interest of £480,000 (£60,000 x 8 years). The overall accounting debits and credits are:

	£000s
Gain/loss on modification	(14,933)
Effective interest debits	594,933
Total	580,000

This shows that the gain recognised in the CIES upon modification is not an absolute gain but a technicality arising from the requirement to use the old EIR to calculate a new carrying amount on modification. There is therefore reasonable justification for treating the credit cautiously.