

report

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Board	CIPFA/LASAAC
Venue	PwC Offices, Cardiff
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Subject	Approval of the Development Programme for the 2019/20 Code

Purpose

The purpose of this report is to approve the issues that need to be considered for inclusion in the 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom

1 Introduction

1.1 This report is intended to summarise developments in financial reporting standards, legislation and policy that need to be considered for inclusion in the 2019/20 *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) or subsequent Codes.

2 Legislative Developments

Statutory Guidance on the Minimum Revenue Provision and Local Authority Investments – England

- 2.1 The (then) DCLG consulted in November 2017 on proposals for changes to the Statutory Guidance on Local Government Investment and the Statutory Guidance on Minimum Revenue Provision (MRP). On 2 February 2018 the summary of responses and the government response to this consultation was published by the Ministry of Housing, Communities and Local Government (MHCLG).
- 2.2 The updated [Statutory Guidance on Minimum Revenue Provision](#) includes a number of clarifications on determining a prudent level of MRP in respect of capital expenditure financed by borrowing or credit arrangements and is applicable from 1 April 2019 although early adoption is encouraged. This is with the exception of those changes relating to the section 'Changing Methods for Calculating MRP', which apply from accounting periods starting on or after 1 April 2018. The updated guidance also includes the clarification that the MRP cannot be negative.
- 2.3 The [Statutory Guidance on Local Government Investments](#) has also been updated. The guidance was amended in response to changing practices for local authority investments, for example for investment in economic regeneration, and following the recent changes in CIPFA's updated *Prudential Code for Capital Finance in Local Authorities* (2017 Edition).

- 2.4 Largely it is not anticipated that either set of statutory guidance will have a substantial impact on the Code. However, usefully the statutory guidance on MRP has been future proofed and does set out the policy position in relation to the statutory treatment in respect of IFRS 16 *Leases* ie in overview that the same treatment that applied to finance leases is extended to those leases where a right-of-use asset is recognised on the balance sheet. This issue will therefore be referred to in the consultation documents on IFRS 16.

CIPFA/LASAAC is invited to note the position in relation to the statutory guidance for local government investments and the MRP.

Local Governance Review – Scotland

- 2.5 Scottish Government and COSLA jointly launched the Local Governance Review in December 2017. The review will consist of two overlapping strands. The first strand will focus on how decisions are taken in communities. The second strand will focus on how decisions are taken at the level of Community Planning Partnership (CPPs) and councils, or more regionally. Both strands potentially bring a wide range of Scotland’s public services into scope.
- 2.6 As part of the first strand, a cross-sector group has been established to take the conversation on sub-local authority decision-making out into local communities. It is anticipated that this process of engagement will begin in spring 2018 and last for approximately six months.
- 2.7 The second strand is anticipated to run in parallel. This will involve Scottish Government inviting individual, or groups of, local authorities, CPPs and other public sector organisations to propose place-specific alternative approaches to governance. Proposals will be considered in light of local circumstances, and their potential to improve outcomes and drive inclusive economic growth.
- 2.8 Legislative change required as a result of either strand will be introduced within the lifetime of this parliament. It is not clear whether the local governance review will require any changes to the Code.

CIPFA/LASAAC is invited to note the current position in relation to the local governance review.

Education (Scotland) Bill

- 2.9 The Scottish Government has issued a consultation on an Education Bill – the consultation closed on 30 January 2018. It is anticipated that the Scottish Government will introduce a new Education Bill later in this parliamentary. The Bill will create a school and teacher-led education system. It will establish a Headteachers’ Charter to set out the rights and responsibilities of headteachers. The Bill will also improve parental and community engagement in school life and in learning outside of school, and strengthen the voice of children and young people, by actively promoting and supporting pupil participation.
- 2.10 The Bill will provide the legislative underpinning for the establishment of Regional Improvement Collaboratives to allow them to fulfil their agreed functions which will include: regional priorities and regional improvement plans and professional learning and leadership. The Bill will enable registration of other education professionals with the Education Workforce Council.

- 2.11 A separate consultation seeking views on possible future approaches to funding school education to support the Scottish Government's vision of excellence and equity for all children and young people was carried out between June and October 2017. The Government will be reporting on the outcome of that consultation in summer 2018.
- 2.12 The Secretariat is of the view that the changes brought forward by the Bill are unlikely to require changes in the Code but it will keep the issue under review.

CIPFA/LASAAC is invited to note the current position in relation to the Education (Scotland) Bill.

Recent Statutory Guidance issued by the Scottish Government

- 2.13 The Scottish Government has updated its existing statutory guidance to ensure it remains relevant. Three updates have recently been issued:
- Finance Circular 1/ 2018: Local Government Pension Fund Annual Report and Accounts - [FC 1/2018 LGPS Annual Report & Accounts](#). This guidance has been updated to include new legislation for the local government pension scheme.
 - Finance Circular 2/2018: Short Term Accumulation Absences - [FC 2/2018 Short term accumulating absences](#). The guidance notes that the adjustment will only apply to annual leave and time off in lieu and flexi leave will no longer be included. This guidance will be applied on a transitional basis and will be introduced from 1 April 2021.
 - Finance Circular 3/2018: Capital Grants, Contributions and Donated Assets - [FC 3/2018 capital grants, contributions and donated assets](#) includes updated guidance on these issues.

These changes were not issued in time to be included in the 2018/19 Code but will need to be included in the 2019/20 Code. The *Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for Practitioners* (Code Guidance Notes) will, however, be able to reflect the changes in the interim.

CIPFA/LASAAC is invited to agree the inclusion of the recent statutory guidance issued by the Scottish Government in the development programme for the Code.

Accounts and Audit (Wales) Regulations 2014

- 2.14 The Accounts and Audit (Wales) Regulations 2014 have been amended by SI 2018 No 91. The amendments to the Regulations come into force on 18 March 2018 and apply to financial years ending on or after 31 March 2018 ie from the 2017/18 financial year. The amendments included changes to the dates for the preparation and publication of the accounts which were able to be included in the 2018/19 Code.
- 2.15 The amendments to the Welsh Regulations require that the pension fund accounts are not included in the statement of accounts of county or county borough councils that administer pension funds. The requirement to not include the pension fund accounts in the statement of accounts for the administering authority would appear to mean that the date for publication of pension fund

accounts is as prescribed under Regulation 57 of the Local Government Pension Scheme Regulations 2013 (which requires the pension fund annual report to be published on or before 1 December following the relevant year of account). The 2018/19 Code was not able to reflect these issues in section 6.5 (Accounting and Reporting by Pension Funds) but they were flagged for the attention of Welsh administering authorities and this section will need to be updated in the 2019/20 Code.

CIPFA/LASAAC is invited to agree the inclusion of the Accounts and Audit (Wales) Regulations as it applies to the reporting of Pension Funds in the development programme for the Code.

Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003

2.16 The Welsh Government issued its consultation on amendments to Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 on 20 October 2017. The Regulations cover amendments in the following areas:

- **Securitisation** - the Welsh Government proposes to introduce a new regulation to ensure that, if it is used lawfully by local authorities in Wales, securitisation will be on an equal footing with borrowing and other forms of credit. It also proposes to amend the regulations to provide that entry into a credit arrangement, in the case of a securitisation transaction, must be treated as the borrowing of an amount equal to the value of the consideration received by the authority as a result of that securitisation transaction.
- **Expenditure to be capital expenditure** - the Welsh Government proposes:
 - to relax the constraint in relation to all loan capital transactions which means that authorities will not incur capital expenditure if they lend to individual companies by means of corporate bonds
 - to amend regulation 20 of the 2003 Regulations to provide exemptions for shares in collective investment schemes from the definition of capital expenditure. The consultation notes that this will ensure local authorities in Wales are placed on an equal footing with English authorities
 - to extend the relevant regulation so that expenditure incurred on the acquisition, production or construction of assets for use by, or disposal to, a person other than the local authority, must be treated as capital expenditure, if it would have been capital expenditure had the assets been acquired, produced or constructed for use by the local authority.
- **Use of Capital Receipts** - the Regulations allow local authorities the use of up to 4% of a non-housing capital receipt to finance disposal costs. Currently this can only be applied if the disposal costs and capital receipts occur in the same financial year. The Welsh Government therefore proposes to amend the Regulations to avoid any potential practical implications should the disposal costs and capital receipts not occur in the same financial year.
- **Back pay following unequal pay** - the current regulations permit local authorities not to charge back-payments to their revenues until the payments were due - these provisions currently have effect until 1 April 2018; the Regulations propose extending this date until 1 April 2020.

- **Service Reporting Code of Practice (SeRCOP)** - the regulations propose removing references to the SeRCOP as proper practices following the removal of the requirements to include the SeRCOP service expenditure analysis in the Comprehensive Income and Expenditure Statement.

2.17 It is likely that a number of these changes will need to be reflected in the relevant sections of the Code when the Regulations are issued.

Subject to the timing of the issue of the Regulations CIPFA/LASAAC is invited to agree the amendments to the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 be included in the development programme of the Code.

Welsh Government White Paper - Reforming Local Government: Resilient and Renewed

2.18 On 31 January 2017 the Welsh Government issued its White Paper *Reforming Local Government: Resilient and Renewed*. The White Paper proposed regional structures and in its preferred option proposes functions for regionalisation and seeks views on regional working. It also proposes new, enhanced 'Joint Governance Committees' to oversee regional services, based on the current joint committee model but with clearer powers and delegations.

2.19 The White Paper also discussed voluntary mergers of local authorities.

2.20 The timetable for local government reform is not yet confirmed though it is unlikely to impact on the 2019/20 Code. On 27 June 2017, the First Minister for Wales announced that a Local Government Bill to give effect to the Welsh Government's proposals would be included in the legislative programme for the second year of the current National Assembly term. At the moment the Secretariat cannot see any specific need to change the Code for the proposals.

CIPFA/LASAAC is invited to note the current position in the reform of local government in Wales.

Carbon Reduction Commitment Scheme

2.21 The Carbon Reduction Commitment (CRC) Scheme will come to an end following the 2018/19 year. The Secretariat considers that following the removal of the related provisions on the CRC Scheme a review should be undertaken as to whether there is a continuing need for the relevant section of the Code (Section 2.4 (Landfill Allowance and Other Trading Schemes)).

CIPFA/LASAAC is invited to agree that section 2.4 of the Code be subject to review.

Apprenticeship Levy

2.22 The Secretariat has reported previously that the Apprenticeship Levy which was introduced from 1 April 2017 was being considered by LAAP from an application guidance perspective. CIPFA has issued the application guidance under the auspices of LAAP in [CIPFA Bulletin 01 Closure of the 2017/18 Financial Statements](#). This was issued in February.

- 2.23 There is an element of debate on the accounting treatment in relation to the income received in an authority's Digital Apprenticeship Service Account for English local authorities. The CIPFA Bulletin advises that the income is treated as a government grant whilst it is understood that some of the audit firms consider that the income should be treated as a prepayment. Both the Government's Financial Reporting Manual and the Department of Health Group Accounting Manual have included application guidance to the same effect of the CIPFA Bulletin.
- 2.24 The Secretariat has not previously recommended that this issue be included in the Code as it is an issue for application guidance and the Code only rarely includes application guidance (the only occasion is in relation to accounting for schools transactions – see Appendix E of the Code). It also is worth highlighting that Apprenticeship Levy transactions are unlikely to be quantitatively material for local authorities although local authorities have expressed an interest in the issue.

CIPFA/LASAAC is invited to consider whether it wishes to include application guidance on the Apprenticeship Levy in the Code and thus the development programme for the 2019/20 Code.

Trade Union (Facility Time Publication Requirements)

- 2.25 The Secretariat has been made aware of [The Trade Union \(Facility Time Publication Requirements\) Regulations 2017](#). The Regulations were issued on 8 March 2017 and were applicable from 1 April 2017. The regulations require disclosure by affected public sector employers, with more than 49 full time equivalents, of employee time spent on Trade Union activities. The territorial application of this instrument is England, Scotland and Wales and is anticipated to apply to local authorities. However, the Regulations instrument will not apply to devolved public authorities in Wales.
- 2.26 Schedule 2 of the Regulations set out the information to be published, in overview this is the number of union officials provided with facility time, the percentage of facility time (number of officers in percentage bands); and the percentage of the pay bill represented.
- 2.27 The Regulations require that this information is published on the public sector body on its website and that it be included in the employer's annual report which covers the relevant period, where the employer produces an annual report. The Code does not prescribe the reporting requirements for annual reports and therefore this is generally outside the scope of the Code. However, the Secretariat has flagged the issue as an item of note and as LASAAC also requested that this issue is considered by CIPFA/LASAAC.

CIPFA/LASAAC is invited to note the issue of the Trade Union (Facility Time Publication Requirements) Regulations 2017.

Other Policy Developments

- 2.28 There are no other new legislative developments that are currently anticipated to have effect on the Code.

CIPFA/LASAAC Members are invited to update the Board on any other policy or legislative developments that may impact on the 2019/20 or future Codes.

3 Financial Reporting Developments for the 2019/20 Code

3.1 CIPFA/LASAAC has already considered the approach to adoption of IFRS 16 *Leases* which will be most substantial change anticipated for the 2019/20 Code. A report on the approach to the consultation is considered elsewhere on the agenda. The report also covers the issue of the IPSASB Exposure Draft 64 *Leases*.

CIPFA/LASAAC is invited to note this comment.

Financial Reporting Standards or Amendments to Standards or Interpretations Most Likely to be Included in the 2019/20 Code

3.2 The following narrow scope amendments and the IFRIC were included in the consultation on the 2018/19 Code.

- IAS 40 *Investment Property*: Transfers of Investment Property
- *Annual Improvements to IFRS Standards 2014-2016 Cycle*, and
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

However, they were not adopted by the European Union in time for adoption in that Code (ie 1 January 2018¹). These amendments to IFRS will therefore need to be rolled forward into the development programme for the 2019/20 Code.

3.3 Other financial reporting developments that will need to be included in the 2019/20 Code are set out in the following table:

Amendment to IFRS	Comment
Amendments to IFRS 9 <i>Financial Instruments</i> : Prepayment Features with Negative Compensation (issued in October 2017), note this issue was discussed in CL 12 11 17	<p>The amendments to IFRS 9 allow entities to measure particular financial assets with prepayment features with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met, instead of at fair value through profit or loss. The Secretariat does not consider that this is an area of very broad application for local authorities.</p> <p>The second area of change is in the basis of conclusions of the standard which might have a broader application and applies to the modification of a liability. The amendment confirms that most modifications will result in immediate recognition of a gain or loss. This may therefore impact on local authorities that have restructured borrowings. However,</p>

¹ Note that the Annual Improvements to IFRS Standards 2014 - 2016 Cycle has since been adopted by the European Union.

	<p>the IASB notes in the amended basis of conclusions that this is not an area for amendments to standards because the requirements of IFRS 9 provide an adequate basis for an entity to account for modifications of exchanges of liabilities that do not require derecognition.</p>
<p>Amendments to IAS 28 <i>Investments in Associates and Joint Ventures: Long Term Interests in Associates and Joint Ventures</i> (issued October 2017)</p>	<p>This amendment clarifies that an entity is required to apply IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. Although this amendment does not have a wide application to local authorities it may apply and therefore would need to be adopted by the Code.</p>
<p>IFRIC 23 <i>Uncertainty Over Income Tax Treatments</i> (June 2017)</p>	<p>This IFRIC focuses on when it is appropriate for entities to recognise a current tax asset if tax laws require entities to make payments in respect of a disputed tax treatment. This is likely only to be applicable to the Group Accounts of Local Authorities.</p>
<p>Annual Improvements to IFRSs 2015 – 2017 Cycle including:</p> <ul style="list-style-type: none"> ▪ IAS 23 <i>Borrowing Costs: Borrowing Costs Eligible for Capitalisation</i> ▪ IAS 12 <i>Income Taxes: Income tax Consequences of Payments on Instruments Classified as Equity</i> ▪ IFRS 3 <i>Business Combinations</i> and IFRS 11 <i>Joint Arrangements: Previously Held Interests in a Joint Operation.</i> 	<p>These amendments may either apply to the authority or the local authority Group Accounts. Of the changes introduced by this cycle of the Annual Improvements to IFRS it is likely that the amendments in relation to IAS 23 will have the widest application to local authority financial statements.</p>
<p>Amendments to IAS 19 <i>Employee Benefits: Plan Amendment, Curtailment or Settlement</i> (issued on 7 February 2018)</p>	<p>The amendments are:</p> <ul style="list-style-type: none"> ▪ If a plan amendment, curtailment or settlement occurs, it is now a requirement that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. ▪ In addition, amendments have been included to clarify the effect of a plan

	<p>amendment, curtailment or settlement on the requirements regarding the asset ceiling.</p> <p>These amendments will apply to local authorities – although the second issue is unlikely to have a substantial impact. Note that CIPFA has already started considering this issue with actuaries and this might be a substantial reporting issue. It is possible that there may be cost issues relating to the changes.</p>
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3.4 The IASB intends to issue the following amendments to IFRS:

- Amendments to IFRS 3 *Business Combinations*: Definition of a Business
- Amendments to IAS 16 *Property, Plant and Equipment*: Proceeds before intended use.

These standards may need to be included in the development programme for the 2019/20 Code.

CIPFA/LASAAC is invited to agree that the standards and amended standards above be included in the development programme for the 2019/20 Code.

IASB Conceptual Framework

3.5 Section 2.1 of the Code currently includes key elements of the IASB *Conceptual Framework for Financial Reporting* (the IASB Conceptual Framework) as amended in September 2010. It is anticipated that the IASB will issue the updated Conceptual Framework at the end of quarter 1 of 2018. The updated Conceptual Framework will therefore need to be reflected in the 2019/20 Code.

3.6 The IASB Conceptual Framework has been substantially revised with changes anticipated in the following areas:

- recognition and derecognition
- the definitions of elements of the financial statements
- measurement
- the role of prudence and stewardship
- the use of other comprehensive income.

3.7 The Code does not include the whole of the current Conceptual Framework but focuses on those concepts necessary to assist in the development of local authority financial reporting and accounting policies. Once issued it will be necessary to review the balance of the concepts included in the new Conceptual Framework as relevant to local authority financial reporting. It will also be

important to review the introduction of any new provisions against the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, IPSASB, October 2014 (IPSASB Conceptual Framework).

CIPFA/LASAAC is invited to agree to include the relevant concepts in the Updated IASB Conceptual Framework be considered for inclusion in section 2.1 of the Code.

4 IPSAS 40 Public Sector Combinations

- 4.1 IPSASB issued IPSAS 40 *Public Sector Combinations* on 31 January 2017. The Standard establishes requirements for classifying, recognising and measuring public sector combinations.
- 4.2 IPSAS 40 covers an area which is not directly covered by IFRS. It is notable that section 2.5 of the Code is not directly based on IFRS but on the approach to group reconstructions and reorganisations and on the old UK GAAP FRS 6 *Acquisitions and Mergers*. The Code follows the approach, where relevant, in the FReM which was established following a special working group's deliberations on the issue.
- 4.3 The Memorandum of Understanding between the Relevant Authorities sets out that the issue of an IPSAS may indicate an adaptation of EU-adopted IFRS is necessary for the public sector context. It is necessary therefore to consider whether the IPSAS provides any additional guidance to augment the Code's provisions in this area.
- 4.4 The IPSAS establishes a definition of an operation which is very similar to the definition of a function being transferred under the Code's definition of a transfer of a function. The IPSAS also defines two forms of public sector combination – transfer by acquisition and transfer by amalgamation. The IPSAS includes a classification test to assist public sector entities to decide whether to account under the acquisition or the amalgamation form of accounting. Accounting for acquisition applies the acquisition method of accounting (in IFRS 3) and is therefore consistent with the approach in the Code. It does include specific provisions for accounting for a bargain acquisition.
- 4.5 Accounting for amalgamation recognises the assets, liabilities and any non-controlling interests in the financial statements of the combining operations as at the amalgamation date. It measures them at their carrying amounts in the financial statements of the combining operation. This is very similar to the transfer by absorption approach in the Code.
- 4.6 The IPSAS is very similar in many respects to the current approach in the Code. The most substantial, but not the only, difference between the two publications is that the Code (and the FReM) include a transfer by merger ie following the approach in the old UK GAAP FRS 6 which views the resulting combination as if the entity has always existed. This approach has been used in the past on the initial establishment of Police and Crime Commissioners and Chief Constables under the Police Reform and Social Responsibility Act 2011.
- 4.7 The effective date of the IPSAS is 1 January 2019 and could therefore be considered for application of the appropriate amendments in the 2019/20 Code. As this is a particular area where public sector accounting treatments need to be as consistent as possible, any amendments to the Code should be considered against the approach in the FReM.

- 4.8 The Secretariat would therefore recommend that consideration of the applicability of IPSAS 40 should be considered in the development programme for the 2019/20 Code. The Secretariat would note, however, that this is an area where consistency with the FReM and the other public sector manuals is particularly important and therefore any proposals for change would need to consider the anticipated approach of the FReM.

CIPFA/LASAAC's views are sought on the comments on IPSAS 40 and it is invited to consider agree to include this issue in the development programme for the 2019/20 Code.

5 Materiality Practice Statement

- 5.1 The IASB issued its Materiality Practice Statement in September 2017. CIPFA/LASAAC members will be aware that local authority accounts preparers have raised the issue of materiality for a number of reasons but particularly in relation to the size of local authority financial statements. The Materiality Practice Statement is non-mandatory. However, local authorities may find it useful if the Code includes some form of recommendation on its use. The Statement does not change or introduce any more requirements to IFRS. The Code may for instance indicate that authorities should have 'due regard' for this guidance or make another recommendation for its use. Alternatively the Code could remain silent on this issue and allow local authorities to use the Practice Statement in accordance with their reporting needs.

- 5.2 The Statement is intended to provide companies with guidance on making materiality judgements when preparing general purpose financial statements in accordance with IFRS and would be particularly useful in terms of process. However, as it is intended for use by companies it focuses on the primary users ie existing and potential investors lenders and other creditors and these users are different to those of local authority financial statements, the Code sets out that primary users for local authorities are and service recipients and resource providers. Subject to CIPFA/LASAAC's views the Secretariat will undertake a more detailed review and make appropriate recommendations on its use by local authorities as a part of the development programme for the Code.

CIPFA/LASAAC is invited to consider whether it wishes to include a review of the application of the Materiality Practice Statement in the development programme for the Code.

6 Post Implementation Reviews of Specific Areas of the Code

- 6.1 CIPFA/LASAAC agreed to issue a call for evidence on three areas for its second post implementation review ie IAS 19 *Employee Benefits* (Chapter Six), *Service Concession Arrangements Local Authority as Grantor* (Section 4.3) and the five Group Accounts Standards (Chapter Nine). The [call for evidence](#) is available on the CIPFA website and will close on 28 April 2018.
- 6.2 As a part of the post implementation review the Secretariat will review the relevant provisions in the Code (although it is notable that no substantial issues have been raised in these areas). In addition CIPFA/LASAAC members are invited to provide any comments on these three areas to the Secretariat either at the meeting or provide them by email to the Secretary by 28 April 2018. Any areas

requiring amendment to the Code will be considered for the Code's development programme.

CIPFA/LASAAC is invited to note the approach to the post implementation review, agree that any proposed changes to the Code are included in the Code development programme and provide any comments as necessary.

7 Telling the Story Changes to the Code (including Streamlining Proposals)

7.1 The Secretariat initiated an early review of the changes to the 2016/17 Code as a result of the Telling the Story changes to the Code during September and October 2017 and there were a small number of comments made as a part of the 2018/19 Code consultation process. As a result CIPFA/LASAAC made a number of clarifications which have been included in the 2018/19 Code. CIPFA/LASAAC also considered a number of the Secretariat's more substantial proposals for streamlining the financial statements in the Code and decided it would not proceed with these proposals until the changes introduced in the 2016/17 Code had some time to bed in and more feedback on the changes had been received.

7.2 CIPFA/LASAAC considered that an outreach programme might be needed in relation to the Telling the Story changes to the Code. The Secretariat raised this issue with the FAN network and recommended that whilst discussing the changes to the 2018/19 Code the delegates been invited to provide any commentary on the provisions to CIPFA. An invitation to comment on the effectiveness of the Telling the Story changes has also been included in the year end CIPFA Bulletin 01. The Secretariat considers that following CIPFA/LASAAC's direction at its last meeting a formal post implementation review of the changes might be initiated in the development programme for the 2020/21 Code.

7.3 CIPFA/LASAAC considered the proposals of the Group of London Treasurers Streamlining Group and noted that it had considered a number of its proposals as a part of CIPFA and CIPFA/LASAAC's Simplification and Streamlining Working Group's proposals and the Board's own work on the issues raised. CIPFA/LASAAC did, however, agree to consider the trading operations and agency disclosures for review as a part of the development programme for the 2019/20 Code.

7.4 CIPFA/LASAAC will also be aware that the disclosure framework for IAS 19 and the Group Accounts standards as adopted by the Code will be considered as a part of the post implementation review.

CIPFA/LASAAC is invited to:

- 1) consider the issues relating to the Telling the Story/ Streamlining changes to the Code and agree the way forward**
- 2) agree the trading and agency disclosures be subject to review in the development programme for the 2019/20 Code.**

8 Statutory Adjustments - LASAAC Presentation Issues

8.1 At the June 2017 meeting of CIPFA/LASAAC it was agreed that the CIPFA/LASAAC Secretariat undertake a review of the statutory adjustments issues proposed by LASAAC. Note that LASAAC now requests consideration of three areas:

- presentational changes for the transfers between Scottish statutory reserves in the Movement in Reserves Statement and the Expenditure and Funding Analysis
- the statutory adjustment in relation to the revaluation element of depreciation and impairment charges supported by the Revaluation Reserve, and
- pension remeasurement of the net defined benefit liability (asset).

Transfers to/from Statutory Reserves

- 8.2 In Scotland authorities are able to hold 'statutory usable reserves' (eg an Insurance Fund) and to transfer funds between these and the General Fund. LASAAC considers that these transfers should be reflected in both the Movement in Reserves Statement and the Expenditure and Funding Analysis. Local authorities in Scotland have therefore added the relevant line even though it is not explicitly included in the Movement and Reserves Statement or the Expenditure and Funding Analysis.
- 8.3 LASAAC has requested that this form of reporting be included specifically to reflect Scottish circumstances.

CIPFA/LASAAC is requested to agree to include this issue in the development programme for the 2019/20 Code.

Adjustment between the Revaluation Reserve and the Capital Adjustment Account

- 8.4 Paragraph 4.1.3.1 requires that:
- 'Depreciation charged to Surplus or Deficit on the Provision of Services is not a proper charge to the General Fund Such amounts shall be transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.'*
- 8.5 The LASAAC review has raised the issue about whether the transfer between the Revaluation Reserve and Capital Adjustment Account (CAA) which represents the difference between depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's historical cost required by paragraph 4.1.3.2 of the Code should be included as a statutory adjustment.
- 8.6 This transfer was based in part on paragraph 41 of IAS 16, as the asset is consumed (ie depreciation is charged) some of the revaluation surplus is allowed to be moved to retained earnings, instead of moving the whole revaluation surplus to retained earnings on derecognition. The Code has been treated this transaction as a statutory adjustment as it would be one sided to include the gain or loss on disposal as a statutory adjustment and not include the gain on revaluation as a statutory adjustment. This adjustment was also required because it was necessary to ensure that the CAA shows the correct capital financing position ie the extent to which an authority has financed its capital transactions on an historical cost basis.
- 8.7 The LASAAC Secretary has sought views on whether the two transactions required by the Code for the statutory treatment of depreciation ie whether the transactions in paragraphs 4.1.3.1 and 4.1.3.2 can be made together or must be disclosed separately. The CIPFA/LASAAC Secretariat is of the view that provided that the capital financing position in both accounts is the same this should be

permissible. Paragraphs 4.1.3.1 and 4.1.3.2 could include relevant commentary to allow this. The LASAAC Secretary has indicated that permitting a voluntary transfer, as allowed under IFRS, for the revaluation element of depreciation from the General Fund to the Revaluation Reserve would meet the Scottish local authority reporting requirements.

CIPFA/LASAAC is invited to agree to include this issue in the development programme for the 2019/20 Code.

Remeasurement of the net defined benefit liability (asset)

- 8.8 As noted last year LASAAC has suggested that CIPFA/LASAAC review the accounting treatment for the remeasurement of the net defined benefit liability (asset) and whether it should be considered as a statutory adjustment on the basis that in the private sector these are charges to retained earnings.
- 8.9 The CIPFA/LASAAC Secretariat would note that whilst the re-measurement of the net defined benefit liability (asset) is a charge to retained earnings in private sector financial statements, the starting point in the Code for accounting policies for statutory adjustments has not been standard private sector practice and specifically not retained earnings. The position in the Code and the predecessor SORP is based on the requirements across local government statutory provisions to charge to the General Fund what is defined in statute in England and Wales principally under the Local Government Act 2003 and the relevant regulations and statutory guidance as a being chargeable to a 'revenue account'.
- 8.10 On the move to IFRS CIPFA/LASAAC maintained the position from the predecessor SORP that the transactions considered as being chargeable or not to Council Tax were the transactions included in the Surplus or Deficit on the Provision of Services. The remeasurement represents amounts disclosed separately in Other Comprehensive Income and Expenditure to present income and expenditure additional to the Surplus or Deficit on the Provision of Services. As the remeasurement is not charged to the reference measure of the Surplus or Deficit on the Provision of Services, it is not a requirement of English and Welsh legislation, to be charged against the General Fund. Conceptually therefore for England and Wales the remeasurement of the net (asset) is not a statutory adjustment. It is also arguable that IFRS itself would not require this.

CIPFA/LASAAC is invited to note this position.

- 8.11 It is recognised that the Scottish statutory reporting position is different to that in England and Wales and does not generally refer to what is chargeable to a revenue account. To date, where government policy has allowed, the Scottish statutory position is reflected in the Code and by identifying what are proper charges, under the accounting requirements, to the General Fund.
- 8.12 There could, therefore, theoretically, be a different starting point for Scottish local authorities for the statutory adjustments. If the remeasurement of the net defined benefit liability (asset) was, in Scotland, to be considered to be initially chargeable to the General Fund. This would move the focus of the adjustments from the Surplus or Deficit on the Provision of Services to the bottom line of the Comprehensive Income and Expenditure Statement. It would however, create inconsistency with the approach in England and Wales.

- 8.13 Conceptually, if the focus for statutory adjustments was changed then a consistent accounting policy for such a fundamental issue would require the same principles to be applied to the other elements in the Other Comprehensive Income and Expenditure Section of the Statement. This would include
- the surplus or deficit on the revaluation of non-current assets,
 - impairment losses on non-current assets charged to the revaluation reserve,
 - surplus or deficit from investments in equity instruments designated at fair value through other comprehensive income (FVOCI), and
 - surplus or deficit on financial assets measured at FVOCI.

Following this principle these transactions would then need to be brought into the same treatment as initial charges to the General Fund, arguably just to be removed from it. There are therefore cost/benefit issues both that would need to be considered.

- 8.14 CIPFA/LASAAC might also consider that it is considered undesirable, and inconsistent, to make such a fundamental change in accounting policy and presentation specific for one geographic area. Although it is recognised that the Code would need to follow the relevant statutory provisions.
- 8.15 The Secretariat would also note that in addition to the cost/ benefit issues, that stakeholder perceptions, particularly after the debates on IFRS 9, will be important to CIPFA/LASAAC's approach to the issue.
- 8.16 It is presumed that the issue was raised to inform and explain that the status and financial impact of the remeasurement of the defined benefit is different in local government compared to the private and non-profit sectors. There are likely to be other ways of achieving this objective which could be considered in the post-implementation review which focuses on the reporting of employee benefits or it could be considered as a part of the future review of the Telling the Story Changes to the Code if the other line items in Other Comprehensive Income also need to be considered.

CIPFA/LASAAC is invited to note this issue. It is also is invited to consider whether to add the explanation of the financial impact of the remeasurement or the other line items be taken forward in its future reviews.

Recommendation

CIPFA/LASAAC is asked to approve the developments that need to be considered for the development programme for the 2019/20 Code.