CIPFA The Chartered Institute of Public Finance & Accountancy

report

Paper CL 11 06 18

Board	CIPFA/LASAAC
Venue	CIPFA, Edinburgh
Date	5 June 2018
Author	CIPFA Secretariat: Policy and Technical Team
Subject	2019/20 Code Development – Invitation To Comment

Purpose

To provide a basis for consideration of 2019/20 Code Consultation process.

1 Content of Draft Consultation

1.1 A draft Invitation To Comment for the 2019/20 Code is attached (Appendix A). Related exposure drafts are also attached.

1.2 This report will not seek to replicate all the details in the attached papers. The summary below is intended to provide an overview framework to assist in discussion. The main additional items not included in the ITC or Exposure draft are in the 'Comment' boxes.

1.3 In reviewing the ITC and Exposure Draft CIPFA/LASAAC will wish to consider:

- Whether the ITC gathers the information and evidence that CIPFA/LASAAC will require when finalising implementation decisions for 2019/20, in particular in the event that adaptations or interpretations are requested
- Whether the ITC and Exposure Draft are structured and formatted to support engagement and maximise the quality and number of responses received
- Whether the number of questions is insufficient, excessive or appropriate

2 Exposure Draft A: IFRS Amendments

<table>
<tr><th colspan="2">Exposure Draft A: IFRS Amendments</th></tr>
<tr><td rowspan="4">A1. Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement</td><td>Overview: Specifies calculations arising when a defined benefit plan amendment, curtailment or settlement occurs during the financial year.</td></tr>
<tr><td>Impact: May affect actuarial practices and reporting needs eg on staff transfers to academies or other organisations.</td></tr>
<tr><td>Proposal: Implementation of requirements</td></tr>
<tr><td>Comment: Liaison with actuaries should be specifically sought. The Secretariat is understood to have initiated contact.</td></tr>
<tr><td rowspan="4">A2. Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation</td><td>Overview: Allows that financial instrument classification can be affected where ‘negative compensation’ (to the advantage of the borrower) may feature.</td></tr>
<tr><td>Impact: Could result in changes in classification of some financial instruments, with reserves potentially affected.</td></tr>
<tr><td>Proposal: Implementation of requirements.</td></tr>
<tr><td>Comment: The extent of occurrence and potential financial consequences of implementation will be crucial evidence which should be sought in the ITC.

Members may wish to note that the basis for conclusions in the amendment indicate:
The effective interest method, and therefore amortised cost, are not appropriate when the prepayment amount is inconsistent paragraph B4.1.11(b) for any other reason. (BC4.231)
It cannot be presumed that all prepayable financial assets are eligible for amortised cost treatment. The instrument’s specific contractual cash flow characteristics must be assessed. (BC4.232)
Where amortised cost measurement results in frequent adjustments to the carrying value this may indicate the fair value measurement would provide more useful information [to readers of the accounts]. (BC4.233) [However the IASB stopped short of specifying further criteria that would limit the instruments that could be treated as amortised cost]
The Board regarded the treatment of modifications in IFRS 9 as being consistent (BC4.253)</td></tr>
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Exposure Draft A: IFRS Amendments	
A3. IAS 40 Investment Property (Transfers of Investment Property) (Proposed Amendments to IAS 40)	Overview: Clarifies when a change in use of a property is regarded as occurring.
	Impact: May affect authorities which change the use of properties.
	Proposal: Implementation of requirements
	Comment: was consulted on last year. Consequentially the Board may consider removing the detail from the ITC and note the intention to implement.
A4. Annual Improvements to IFRS Standards 2014 – 2016 Cycle	Overview: Amendments relate to IFRS 1 First time Adoption of IFRS; IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates & Joint Ventures.
	Impact: IFRS 12 changes may affect disclosures required. IAS 28 changes relate to investments in an associate / joint venture held through a unit trust or similar entity.
	Proposal: Implementation of IFRS 12 requirements. No other changes. IAS 28 amendments will apply where IAS 28 is cited.
	Comment: was consulted on last year. Consequentially the Board may consider removing the detail from the ITC and note the intention to implement.
A5. Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures	Overview: Clarifies that IFRS 9 Financial Instruments (eg impairment requirements) applies to some forms of interest held in associates or joint ventures.
	Impact: Could affect loss recognition where some interests in associates or joint ventures are held.
	Proposal: Implementation of requirements
	Comment: The ITC should seek to gather evidence on possible financial impact.

Exposure Draft A: IFRS Amendments	
A6. Annual Improvements to IFRS Standards 2015-17	Overview: Amendments relate to IFRS 3 Business Combinations; IFRS 11 Joint Arrangements; IAS 12 Income Taxes; and IAS 23 Borrowing Costs.
	Impact: The clarifications provided by the amendments may generally be rare; but could affect group accounting considerations. Changes to IAS 23 may affect those authorities with a policy of capitalising borrowing costs.
	Proposal: Implementation of requirements
	Comment: Note that a respondent to the Post Implementation Review suggested that IFRS 3 Business Combinations be given more prominence in the Code. The amendments are not expected to be controversial.
A7. IFRS Interpretations	Overview: Relates to IFRIC 22 Foreign Currency Transactions and Advance Consideration; and IFRIC 23 Uncertainty over Income Tax Treatments.
	Impact: The interpretations may potentially affect some group entities and pension fund accounts.
	Proposal: Implementation of requirements
	Comment: IFRIC 22 was consulted on last year. Consequentially the Board may consider removing the detail from the ITC and note the intention to implement.

2.1 CIPFA/LASAAC is requested to approve or amend :

- **the inclusion of the above items in the ITC**
- **the implementation of the above items in Exposure Draft A.**

3 Exposure Draft B: Statutory Adjustments and Legislation

Exposure Draft B: Statutory Adjustments and Legislation	
B1. Adaptations and Interpretations of Accounting Standards	Overview: Clarification of the role of adaptations and interpretations
	Impact: No change in accounting requirements
	Proposal: Text commentary amendment (paras 1.2.5-1.2.8)
	Comment: Members and government observers will particularly wish to ensure that they are content with the amendments.
B2. Scotland: Presentation of Transfers to / from Other Statutory Reserves	Overview: Scottish authorities can transfer funds between different usable statutory reserves.
	Impact: Scottish authorities only
	Proposal: Amendments to Movement in Reserves Statement (MiRS) and Expenditure and Funding Analysis (EFA) for Scottish authorities only.
	Comment: Not expected to affect other government administrations.
B3. Presentation of Statutory Adjustments	Overview: Amendments relate to the basis for and presentation of statutory adjustments. Includes allowance, for Scotland only, of a voluntary transfer between Revaluation Reserve and General Fund / HRA balance regarding revaluation element of depreciation (instead of presenting this as a statutory adjustment).
	Impact: Affects presentation. No impact expected on reserves or fund balances.
	Proposal: Commentary on the nature of usable and non-usable reserves added (1.2.9-1.2.12). Allowance for voluntary transfer by Scottish authorities between Revaluation Reserve and General Fund under accounting standards (see 4.1.3.1-4.1.3.8); and consequent amendments to the MiRS and EFA (3.4.2.55, 3.4.2.99).
	Comment: Members will wish to review the description of usable and unusable reserves. Voluntary transfer allowance may provoke some discussion as to whether this would also be applicable in other government administrations. NOTE: Potentially some asset register reports, where they are based on existing MiRS presentation, may need to be revised where the voluntary transfer is undertaken in Scotland.

Exposure Draft B: Statutory Adjustments and Legislation	
B4. Carbon Reduction Commitment Scheme and Landfill Allowances	Overview: Schemes have ended, been suspended or are ending
	Impact: No anticipated impact on fund balances or requirements.
	Proposal: Removal of relevant requirements for CRC and Scottish and English landfill allowance schemes.
	Comment: Not anticipated to be controversial but note that CRC allowances for 18/19 may be purchased and surrendered in 19/20 (by Oct 2019). Thus there may be CRC related entries in 19/20.
B5. Apprenticeship Levy	Overview: Scheme applies to qualifying local authorities
	Impact: No impact on amounts payable or use of levy funding
	Proposal: Specification of treatment of payments as expenditure; and of use of levy funds as grant income.
	Comment: Consistent with the FReM but note the FReM appears to specifically reference use of funding under the English scheme. The Code wording is drafted for UK application.
B6. Legislative References	Overview: Updates to reflect various changes in legislative requirements
	Impact: No impact, simply reflecting existing requirements
	Proposal: Text amendments and updating of Appendix B legislative sources
	Comment: Members and government observers are particularly requested to review correctness and identify any legislation which is not addressed.
B7. Trade Union Facility Time Regulations	Overview: Regulations require disclosure of trade union facility time permitted by authorities. The Code could explicitly require the disclosure to be included in the annual accounts.
	Impact: No impact
	Proposal: No amendment to Code.
	Comment: Potentially CIPFA/LASAAC could require cross referencing to the website information i.e. still avoiding replication of the disclosure in the accounts.

3.1 CIPFA/LASAAC is requested to approve or amend :

- **the inclusion of the above items in the ITC**
- **the implementation of the above items in Exposure Draft B.**

3.2 Government observers on CIPFA/LASAAC are requested to:

- **Comment on whether the Code treatments of legislation appear acceptable**
- **Identify if any relevant legislation is not included or properly addressed**
- **Indicate whether they are content with the treatment of the voluntary transfer by Scottish authorities allowed in item B3**

3.3 As an additional note it has been identified that the Code paragraph 4.5.3.4 regarding intangible assets states:

"Amortisation and impairment charged to Surplus or Deficit on the Provision of Services are not proper charges to the General Fund or Housing Revenue Account (see part 2 of Appendix B for the legislative basis). Such amounts shall be transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement."

3.4 Following a query received, it is not clear that in England the current Item 8 debit and credit requirements formally allow either the charging of intangible asset amortisation to, or the reversal of amortisation charges from, the HRA balance.

3.5 CIPFA/LASAAC is requested to consider whether the Code treatment of amortisation of intangible assets for the English HRA requires amendment.

4 Exposure Draft C: IFRS Conceptual Framework

4.1 A separate paper is provided on this subject. The following is a summary:

Exposure Draft C: IFRS Conceptual Framework	
C1. IFRS Conceptual Framework (March 2018)	Overview: The IASB has issued a revised Conceptual Framework. The role of the framework includes assisting all parties to understand and interpret IFRS standards.
	Impact: The framework does not itself change the IFRS standards. It is therefore not anticipated to significantly change accounting practices or requirements. It may influence how auditors and preparers interpret standards in situations of uncertainty.
	Proposal: Selective draft amendments to the text in the Code (Section 2.1) are proposed, with some amendments for the local government context.
	Comment: Specific considerations are raised in the separate paper.

4.2 **CIPFA/LASAAC is requested to determine whether the IFRS Conceptual Framework changes should be included in the ITC.**

5 D- Other Areas for Stakeholder Feedback

5.1 This section of the ITC includes a number of topics. The following text on IPSAS 40 is provided to inform CIPFA/LASAAC consideration on this matter.

IPSAS 40 Public Sector Combinations

5.2 UK public sector reporting of public sector combinations is substantially interpreted/adapted because they are not adequately covered by IFRS 3. The Code includes two approaches: Transfer By Absorption and Transfer By Merger.

5.3 UK stakeholders provided input to the development of IPSAS 40, Public Sector Combinations. While IPSAS 40 has material in common with the UK approach, it requires little comparative information, and does not require designation of reserves within the residual interest of the combined entity.

5.4 We would note in passing that some respondents to the Post Implementation Review suggest that the Code's Transfer By Merger approach is inconsistent with the FReM, which only allows Transfer By Absorption. We suggest that this is not inconsistent, but reflects rare circumstances that can occur in local government, but are extremely unlikely to occur in other sectors.

IPSAS 40: Implications for the Code

5.5 The Secretariat view is that current UK approaches are broadly consistent with IPSAS 40. It may be appropriate to use IPSAS 40 as a basis for the UK approach, given that IFRS 3 does not provide adequate support.

5.6 In considering whether to do this a co-ordinated approach for the UK public sector would be appropriate. Therefore no changes for the 2019-20 Code are proposed.

5.7 Abandoning current disclosure requirements for comparatives and reserves may seem inappropriate given the capacity of UK preparers, and the importance of statutory reserves and, for example, the revaluation reserve.

5.8 However, it might be appropriate to consider whether some of the disclosures of comparative information could be reduced or modified, having regard to the demands on preparers, and the need for adequate reporting while avoiding information overload. Stakeholder views on the costs and benefits may help CIPFA LASAAC decide whether to pursue this in the 2020-21 Code.

5.9 A question setting out the issues and asking for views has been included in the draft Invitation To Comment.

5.10 The following is a summary of the matters currently raised in the ITC:

D. Other Areas for Stakeholder Feedback	
D1. IPSAS 40 Public Sector Combinations	Overview: See text commentary above
	Proposals: No amendment to Code. Question asks for views on comparative information and extent of group disclosures.
D2. Application of the IASB Materiality Practice Statement	Consideration of whether the statement can be usefully applied and adopted in the Code.
	Comment: The ITC is drafted to suggest no Code amendment. This is on the bases that: • It does not change the definition of materiality • It is primarily focused on the needs of users of private sector accounts • Other guidance on materiality is not referenced by the Code Members may wish to consider whether this question is removed from the ITC. In any event members will wish to consider the best means by which materiality application can be supported and encouraged.
D3. Remuneration Reporting	Consideration of the extent to which local government accounts should include further details of remuneration pay, for example in respect of gender pay and in accordance with the Hutton Review of Fair Pay in the public sector.
	Comment: Separate paper provided for consideration. Note: potentially CIPFA/LASAAC could require the annual accounts cross-referencing to the statutorily required information, with specific disclosure requirements only needed if this is not undertaken.
D4. Contracts with Lender Option Borrower Option clauses	Whether any further specification of accounting treatment is required; and the basis for seeking this.
	Comment: Specific areas for clarification, or where judgement is critical, can be anticipated to be identified during 17/18 audits
D5. Issues Arising from the Post-Implementation Review	Proposed action by CIPFA/LASAAC following the post-implementation review. Key areas include Pension Guarantees; Service Concession Arrangements (PFI); Group Accounts; and property valuation.

D. Other Areas for Stakeholder Feedback	
D6. England: Accounting for Non-domestic rates for the Pilot Authorities	Whether the pilots give rise to a need for amendments to the Code requirements for Non-Domestic Rate income.
D7. Any other areas of comment	Open stakeholder feedback invitation

5.11 CIPFA/LASAAC is requested to approve or amend :

- **the inclusion of the above items in the ITC**

CIPFA/LASAAC is requested to identify any further improvements to the ITC and Exposure Drafts