The Chartered Institute of
Public Finance & Accountancy

CIPFA/LASAAC feedback statement on the 2022/23 Code of Practice on Local Authority Accounting in the United Kingdom

1 Introduction

1.1 This publication is a feedback statement from the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA LASAAC) updating accounts preparers and other interested parties on the amendments to the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the Code), following the consultation on proposed changes the Code in August to October 2021.

1.2 This feedback statement should be considered alongside the consultation papers on the Code. The consultation documents are available on the archived consultation pages of the CIPFA website.

1.3 In successive years, CIPFA/LASAAC has consulted on implementation of IFRS 16 Leases, including for the 2022/23 Code. It should be noted that in line with the emergency consultation issued in February 2022, mandatory implementation of IFRS 16 has been deferred, although voluntary implementation is permitted. A separate feedback statement on that consultation has been issued.

1.4 On the basis of its earlier consultations, CIPFA/LASAAC established interpretations and transitional arrangements as well as more general material on IFRS 16 implementation which were set out in Appendix F of the 2020/21 and subsequent Codes. No changes have been made to these provisions in Appendix F and no further consultation has been carried out on these. Appendix F has however been amended to allow voluntary implementation of IFRS 16 during 2022/23.

1.5 A consolidated feedback statement bringing together all developments in relation to IFRS 16 implementation will be issued when the standard is adopted in the Code in 2024/25. The main areas which have been subject to discussion or debate are in relation to the implications for service concession arrangement liabilities, which are discussed in this document.

1.6 **This feedback statement does not form any part of the 2022/23 Code**.

1.7 Local authorities in the United Kingdom are required to keep their accounts in accordance with ‘proper practices’. This is defined, for the purposes of local government legislation, as meaning compliance with the terms of the Code, prepared by CIPFA/LASAAC. The Code is reviewed continuously and is normally updated annually. The Code confirms that in the unusual event that other statutory provisions require departures from the Code, then the statutory provisions must be followed.

1.8 In meeting its terms of reference CIPFA/LASAAC is committed to having due regard to ensuring high-quality financial reporting in local authority financial statements.

1.9 CIPFA/LASAAC received 25 responses to the consultation. This was similar to the 2021/22 ITC response, but lower than in previous years. CIPFA/LASAAC was of the view that this was principally due to the pandemic. The following tables show the distributions of responses:

Different types of organisation responding to the 2022/23 Code consultation
Accountancy consultant
Audit body
Audit firm
Constabulary and police & crime commissioner
County council
District council
English unitary authority
Fire and rescue authority
London borough
Metropolitan district
Scottish unitary
Treasury management advisor
Welsh unitary

Geographical distribution of organisation responding to the 2022/23 Code consultation	
English – 14	Welsh – 1
Scottish – 2	Other – 8

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Feedback on the responses to the questions subject of consultation in the 2022/23 Code

IFRS 16 *Leases* implementation

A1 Service concession arrangements: measurement of the liability

1.10 Successive consultations on the implementation of IFRS 16 requested views on the approach to measurement of service concession arrangement (PFI/PPP) liabilities. CIPFA/LASAAC's view was that these liabilities should be measured in accordance with the IFRS 16 lease liability requirements, and this was supported by the majority of responses to each consultation. CIPFA/LASAAC set up a working group to consider points raised by those who did not agree. The working group concluded that IFRS 16 represents the liabilities for lease arrangements more accurately than IAS 17, and they would also expect this to apply for arrangements with similar payment streams to leases. In line with the above the group confirmed CIPFA/LASAAC's choice of the IFRS 16 approach and this was the basis of the Exposure Draft.

1.11 In the ITC CIPFA/LASAAC asked the following questions:

Question	Agree	Agree conditionally or reluctantly	Strongly disagree
Q1 Do you agree with the revised approach to measurement of the service concession arrangement liability? If not, why not? What amendments do you suggest?	13 (52%)	5 (20%)	7 (28%)
Question			
Q2 Do you have any comments on the practical impact of the adoption of this approach? Are there any particular matters on which guidance would be helpful? Please provide details.	Guidance was requested in general terms and in relation to • Effect of transition on reserves • Effect on asset • Which components of payments relate to the asset and to service provision		

1.12 The table below sets out respondents' comments and CIPFA/LASAAC's decisions:

	Comments	CIPFA/LASAAC's deliberations	CIPFA/LASAAC's decision
A	A slight majority of respondents agreed straightforwardly with the proposal. Others agreed while setting out their view that the effort required to implement the change was significant.	CIPFA/LASAAC acknowledges that there will be resource implications, but is of the view that IFRS 16 reporting is an improvement on previous reporting under IAS 16.	CIPFA/LASAAC approved the IFRS 16 based approach to measurement of the service concession arrangement liability.

	Comments	CIPFA/LASAAC's deliberations	CIPFA/LASAAC's decision
	Seven responses made specific objections as set out in rows B to F.	CIPFA/LASAAC carefully considered each of the objections and determined that they did not provide valid arguments against adoption of IFRS 16.	
B	IFRS 16 does not apply to arrangements covered by IFRIC 12 *Service Concession Arrangements*.	This objection was also made in the 2021/22 consultation. The working group advised that while IFRS 16 indicates that it does not apply to arrangements covered by IFRIC 12, the same logic would invalidate use of IAS 17. Additionally, IFRS 16 is mainly being applied from the grantor perspective, to which IFRIC 12 does not apply.	CIPFA/LASAAC approved the IFRS 16 based approach to measurement of the service concession arrangement liability.
C	Concerns over clarity of what is being represented in Appendix 1 to the ITC which provided background on the implications of moving to IFRS 16 for service concession liabilities.	CIPFA/LASAAC notes that providing clear accessible guidance on this matter is difficult but acknowledges that this material could have been clearer.	CIPFA/LASAAC does acknowledge this point. However it did not impact on the decision to approve an IFRS 16 based approach.
D	Suggestion that the liability is not subject to indexation.	This assertion was provided without explanation as to why the liability is not subject to indexation. The explanatory material on IFRS 16 clearly indicates that liabilities of this type increase when anticipated future payments increase.	CIPFA/LASAAC approved the IFRS 16 based approach to measurement of the service concession arrangement liability.
E	Suggestion that, where changes to payments for assets are calculated as residuals in a calculation involving indexation of the unitary charge, this does not mean that the change to the asset payment results from the change in the index.	CIPFA/LASAAC reviewed this technical objection to determine whether it reflects a correct reading of IFRS 16. Based on consideration of the IFRS 16 Basis for Conclusions and particularly BC 163 to BC 169, the Board determined that the IASB is clear that conceptually, changes to the liability occur whether or not the changes to future payments for assets are calculated directly or as residuals.	CIPFA/LASAAC approved the IFRS 16 based approach to measurement of the service concession arrangement liability.

	Comments	CIPFA/LASAAC's deliberations	CIPFA/LASAAC's decision
F	The revised Section 4.3 is incomplete and needs to provide direction on related remeasurement of the service concession asset.	CIPFA/LASAAC was not minded to include guidance at this stage.	CIPFA/LASAAC will review the position if difficulties emerge in practice.
G	Guidance was requested in general terms and in relation to: • Effect of transition on reserves • Effect on asset • Which components of payments relate to the asset and to service provision	CIPFA/LASAAC agreed that local authorities might find such guidance helpful. The specific requests were in practice not material which falls to be included in the Code, but are more likely to fall to be usefully covered by the Code Guidance Notes or other material.	No material to be included in the Code on these matters. Points made by respondents to be passed on to the drafters of the publication Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes For 2022/23 Accounts

A2 Clarification of status of housing tenancies in transitioning to IFRS 16

1.13 Based on previous consultation on IFRS 16 implementation, CIPFA/LASAAC developed an interpretation, the practical effect of which is that all housing tenancies are deemed to be operating leases, but otherwise there is no effect on the recognition, measurement or disclosure of housing tenancies. From a formal perspective, these arrangements do need to be ‘reassessed’ to determine that they are (operating) leases. An amendment was therefore proposed to paragraph 4.2.2.93 of Appendix F to confirm that this exemption from reassessment does not apply to housing tenancies in the HRA.

1.14 Additionally, paragraph 4.2.2.30 of Appendix F was inaccurately framed as excluding Housing Revenue Account tenancies from the scope of lease accounting. A proposed amendment explains that only the disclosure requirements are disapplied.

1.15 CIPFA/LASAAC asked the following question:

Question	Agree	Disagree	No comment
Q1 Do you agree with CIPFA/LASAAC on the amendments to paragraph 4.2.2.30 and 4.2.2.93? If not, why not? What alternatives do you suggest?	21 (84%)	0 (0%)	4 (16%)

1.16 The table below sets out respondents’ comments and CIPFA/LASAAC’s decisions:

	Comments	CIPFA/LASAAC’s deliberations	CIPFA/LASAAC’s decision
D	Two responses suggested clarifications to the drafting to be clearer that operating lease disclosures for housing tenancies reported in the HRA are not required.	CIPFA/LASAAC agreed with the intention of the suggestions.	An amendment based on these suggestions was made to section 4.2.4 of Annex F.
E	One response suggested some additional disclosure based on IFRS 16, and also reorganising so all material relevant to housing tenancies is in Section 3.5.	CIPFA/LASAAC reflected on this suggestion but determined that it is better to maintain the current structure of the guidance.	No changes to be made.

Exposure Draft B: Changes to accounting standards

B1. Annual Improvements to IFRS Standards 2018–2020

1.17 CIPFA/LASAAC reviewed the minor amendments made by the IASB in this standard and determined that the amendments may sometimes affect local authorities although the effects were not expected to be significant. No substantive amendments to the Code were proposed. No requirement for adaptation or interpretation for local government application have been identified.

1.18 CIPFA/LASAAC asked the following question:

Question		Agree	Disagree	No comment
Q	Do you agree with the proposals for implementation of these amendments to standards?	21 (84%)	0 (0%)	4 (16%)

1.19 The table below sets out respondents' comments and CIPFA/LASAAC's decisions:

	Comments	CIPFA/LASAAC's deliberations	CIPFA/LASAAC's decision
F	One response requested clarification on the treatment of leasehold improvements.	CIPFA/LASAAC reviewed this suggestion, which it considered actually referred to lease incentives which is the topic for which IASB has amended misleading text in an illustrative example.	No change was made to the drafting.

B2. Property, plant and equipment: proceeds before intended use (Amendments to IAS 16)

1.20 CIPFA/LASAAC reviewed this amendment to IAS 16 and determined that the amendment would not affect local authorities. No substantive amendments to the Code were proposed. No requirement for adaptation or interpretation for local government application have been identified.

1.21 CIPFA/LASAAC asked the following question:

Question		Agree	Disagree	No comment
Q	Do you agree with the proposals for implementation of this amendment to standards?	21 (84%)	0 (0%)	4 (16%)

1.22 The table below sets out respondents' comments and CIPFA LASAAC's decisions:

	Comments	CIPFA LASAAC's deliberations	CIPFA LASAAC's decision
G	Three respondents noted an error in the ITC explanation that this amendment would not impact on local authorities, but agree that the amendment should be adopted.	CIPFA LASAAC acknowledge the correctness of this observation.	No change was made to the drafting.

B3 IPSAS standards: IPSAS 42 *Social Benefits*

1.23 The IPSASB issued IPSAS 42 *Social Benefits* in January 2019. While IPSAS 42 is not adopted in the Code, CIPFA/LASAAC considers IPSAS when setting out the treatment of relevant transactions.

1.24 Before issuing IPSAS 42, the IPSASB used the term 'social benefits' in a wide sense to encompass a wide range of 'benefits'. When developing IPSAS 42, the IPSASB reframed the definition to focus on transactions for which the treatment was not obvious, defining social benefits narrowly as cash transfers paid to specific individuals and/or households to mitigate the effect of social risk and address the needs of society as a whole. Social benefits are relevant to local authorities, both in the 'wide' and 'narrow' senses. Council tax benefit and housing benefit fall within the wide sense. Coronavirus grant funding to small businesses appears to be a social benefit in the IPSAS 42 sense.

1.25 IPSAS 42 includes a general approach to social benefits, which includes an 'insurance approach' which entities are permitted to use if certain conditions are met. No social benefit schemes in the UK are constructed as insurance schemes as outlined in IPSAS 42. Except for these, IPSAS 42 recognises liabilities in the same way as IPSAS 19 and IAS 37, taking the view that a liability for social benefit is recognised when all eligibility criteria are satisfied, and in practice these only apply to the next payment of benefit. This is also the view taken in the UK public sector, and results in the current treatment outlined in the Code, which considered these part of the 'natural' accrual process.

1.26 Having regard to the clarification provided by IPSAS 42, it no longer seemed appropriate to frame the treatment of social benefits, whether in the wide or narrow sense, as not being within the scope of Section 8.2 of the Code, or in the scope of IAS 37.

1.27 CIPFA/LASAAC asked the following questions:

Question	Agree	Disagree	No comment
Q1 Do you agree with the proposal to redraft paragraph 8.2.1.3?	21 (84%)	0 (0%)	4 (16%)
Question			

Q2 Do you consider that any further explanation is needed or would be helpful to explain how the accounting for social benefits applies under IAS 37?	7 respondents suggested that examples or a brief explanation would be helpful.

1.28 The table below sets out respondents' comments and CIPFA/LASAAC's decisions:

	Comments	CIPFA/LASAAC's deliberations	CIPFA/LASAAC's decision
H	Seven respondents suggested examples or brief explanation would be helpful.	CIPFA agreed that additional explanation would be helpful.	Additional explanation added.

Exposure Draft C: Legislation

C1. Regulations on corporate joint committees under the Local Government and Elections (Wales) Act 2021

1.29 The Local Government and Elections (Wales) Act 2021 provides for a new type of reporting entity reflecting collaboration and regional working by local authorities using corporate joint committees (CJCs). Initially, CJCs seemed likely to be smaller relevant bodies. CIPFA/LASAAC proposed not to amend the Code, while noting that in later years, CJCs might fall to be included under paragraph 1.3.9 in the description of typical local authorities covered by these requirements.

1.30 CIPFA/LASAAC asked the following question:

Question	Agree	Disagree	No view	No comment
Q1 Do you agree with the proposal not to include references to Corporate Joint Committees in the Code at this stage.	8 (32%)	3 (12%)	7 (28%)	7 (28%)

1.31 The table below sets out respondents' comments and CIPFA/LASAAC's decisions:

	Comments	CIPFA/LASAAC's deliberations	CIPFA/LASAAC's decision
I	Three respondents disagreed, providing explanation based on new information.	CIPFA/LASAAC reviewed and agreed with the explanation.	Revised text included in the Code.

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Exposure Draft D: Other matters

D1 IFRS 17 *Insurance Contracts* (future implementation)

1.32 CIPFA/LASAAC has engaged with stakeholders to discuss IFRS 17 in two previous Code consultations. Very few responses were received, and the analysis of these responses did not provide a convincing case that IFRS 17 warrants provision of detailed material in the Code. CIPFA/LASAAC is working on the assumption that the Code should continue the approach of designating the insurance IFRS as one of the small number of IFRSs which are only expected to apply to local authorities in limited circumstances, and limiting the content of the Code.

1.33 However, CIPFA/LASAAC sought further information in the ITC. Information collected in this exercise will inform the Board's development of future Codes.

D2 Review of capital financing requirement disclosures

1.34 The consultation on the 2021/22 Code indicated that some local authorities were having difficulty measuring the capital financing requirement as required by paragraph 4.1.4.3 5) of the Code.

1.35 CIPFA/LASAAC sought views on whether the Code should simply refer to 'the actual capital financing requirement as specified by the Prudential Code' or whether, for example, preparers should be referred to more detailed guidance by cross referencing to paragraph 79 of the Prudential Code, asking the following question:

Question	Agree	Disagree	No comment
Do you agree with CIPFA/LASAAC on the amendment to paragraph 4.1.4.3 5) that the Code should refer to the actual capital financing requirement as specified by the Prudential Code? If not, why not? What alternatives do you suggest?	16 (64%)	4 (16%)	5 (20%)

1.36 The table below sets out respondents' comments and CIPFA/LASAAC's decisions:

	Comments	CIPFA/LASAAC's deliberations	CIPFA/LASAAC's decision
M	16 respondents agreed including all preparers. 4 respondents either proposed alternative text or suggested	CIPFA/LASAAC reviewed the comments, determining that the underlying requirements were correct, but that the text could be clearer.	Minor changes were made to the amendment proposed in the ITC.

	Comments	CIPFA/LASAAC's deliberations	CIPFA/LASAAC's decision
	greater or lesser additional requirements.		