CIPFA\ LASAAC

the 2015/16 code of practice on local authority accounting in the united kingdom

invitation to comment

\ the people in public finance

code 2014/15 itc

invitation to comment

Introduction

1. Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper practices'. This includes, for the purposes of local government legislation, compliance with the terms of the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code), prepared by the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC). The Code is reviewed continuously and is issued annually.

2. Under the oversight of the Financial Reporting Advisory Board, the CIPFA/LASAAC Code Board is in a position to issue mid-year updates to the Code. However, this will only be done in exceptional circumstances.

3. The edition of the Code that is applicable for a financial year is based on accounting standards in effect on 1 January prior to the start of the financial year. For the 2015/16 Code, this means that EU adopted accounting standards with an effective date of 1 January 2015 or earlier will need to be taken into account. This year the consultation also includes proposals for the adoption of IFRS 13 Fair Value Measurement which has been deferred to this edition of the Code.

4. This ITC sets out CIPFA/LASAAC's proposals for developing the new edition of the Code (the 2015/16 Code) to apply to accounting periods commencing on or after 1 April 2015 (Section B of this ITC). As there are a number of complex issues covered in this ITC it also contains an Executive Summary (Section A which highlights the most significant issues which interested parties will need to consider).

5. The proposed developments for the 2015/16 Code are:

   (a) IFRS 13 *Fair Value Measurement*
   (b) Narrow scope amendments to IFRSs
   (c) IFRIC 21 *Levies*
   (d) Changes to UK GAAP, and
   (e) Other minor and drafting amendments

The Consultation Process

6. Where CIPFA/LASAAC is interested in specific issues, consultation questions have been included in the ITC. However, CIPFA/LASAAC welcomes comments on any aspect of the draft 2015/16 Code. In order to assess comments properly CIPFA/LASAAC would prefer respondents to support comments with clear accounting reasons and, where applicable, preferred alternatives.

7. Responses to this Invitation to Comment will be regarded as on the public record and are required to be published on the CIPFA Website unless confidentiality is specifically requested on the response form. If you require your response to be treated as confidential please indicate this clearly on the response itself. Copies of all correspondence and an analysis of responses will be provided to the Financial Reporting Advisory Board.

8. A copy of the Exposure for the Drafts of the 2015/16 Code in pdf format can be down-loaded from the CIPFA website

9. To assist interested parties to respond to the consultation, a response form (in Word format) is attached. We would be grateful if respondents to the consultation could use this form as this will speed up the analysis.

10. Responses are required by **10 October 2014** and may be sent to:

The Secretary
CIPFA/LASAAC Local Authority Accounting Code Board
Policy and Technical Directorate
CIPFA
3 Robert Street
London
WC2N 6RL

Fax: 020 7543 5695

E-mail: code.responses@cipfa.org

(For ease of handling, e-mailed responses using the Word document form provided are preferred.)

SECTION A – EXECUTIVE SUMMARY

IFRS 13 Fair Value Measurement and the Measurement of Property, Plant and Equipment

Property, Plant and Equipment

11. In order to ensure that the underlying concepts of IFRS *13 Fair Value Measurement* are applied appropriately to property, plant and equipment in the public sector, the adoption of the Standard in the Code was deferred to 2015/16.

12. Since last year CIPFA/LASAAC has worked with HM Treasury to establish objectives for measuring property, plant and equipment that are consistent with the objective for the financial statements prescribed in the Code. This work has confirmed that it is appropriate to focus on valuing the service potential and thus the operating capacity used to deliver goods and services. The proposals in this consultation are therefore for property, plant and equipment used to support service delivery to be measured on the basis of its service potential ie an existing use valuation. Where no market is in existence or assets are specialised, a depreciated replacement cost measurement would be needed. These assets will not be formally valued at "fair value" and thus under the requirements of IFRS 13 will be outside of its scope[1].

13. Measurement of operational property, plant and equipment will therefore not be subject to change.

Surplus Assets

14. However, property, plant and equipment that are not being used to supply goods and services and do not meet the criteria of assets held for sale (ie surplus assets) would be measured at fair value in accordance with IFRS 13. Currently they are measured by an existing use valuation based on their use before coming surplus.

Current Value

15. As a part of the conceptual approach to measurement the Code will clarify that all assets shown at their revalued amount will reflect the economic environment prevailing for the service or function the asset is supporting at the reporting date and be described as being measured at current value. The Code will include a flow chart to demonstrate the decisions required to determine the measurement of property, plant and equipment. Current value measurement bases in the Code include:

- **Existing use value** – for operational assets where there is an active market for the asset
- **Existing use value - social housing** – for operational council dwellings

[1] Note that the three measurement bases for operational property, plant and equipment are not defined as fair value and are therefore excluded from the measurement requirements of the Standard. However, the need to ensure that it is clear which assets are measured at fair value was raised as a query and this issue will be considered by CIPFA/LASAAC.

- **Depreciated Replacement Cost** – for operational assets where there is no active market and the assets are specialised

- **Fair Value** – for Surplus Assets.

Disclosure Requirements for Property, Plant and Equipment

16. Whilst the measurement requirements for property, plant and equipment assets remain substantially the same it is proposed that disclosures about valuation are enhanced to include explicit disclosure provisions to aid the understanding of the valuation techniques and inputs used to develop property, plant and equipment and their impact, where material on the Comprehensive Income and Expenditure Statement.

IFRS 13 Disclosures

17. Section 2.10 of the proposed Code amendments contains disclosure requirements for assets and liabilities measured at fair value. The exclusion of most property, plant and equipment assets from the scope of the Standard's notes will limit the detail to which local authorities may be exposed, but the impact on other assets and liabilities is a matter of application of the Code. However, this will mean that in addition to the disclosures currently required under the Code for property, plant and equipment disclosures under the new fair value section will be required for surplus assets.

Measurement of Liabilities

18. The proposed Code amendments contain no adaptations in relation to the fair value of liabilities. Potential issues have been identified in the private sector in relation to derivatives. In local government PWLB loans, service arrangements and LOBO[2] loans may raise issued but these are areas for application guidance.

Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)

19. An amendment to IAS 19 *Employee Benefits* has clarified the treatment of contributions to defined benefit plans by employees or third parties. Where contributions are linked to service, they should be attributed to periods of service as a reduction of service cost (ie, as a negative benefit).

20. CIPFA/LASAAC has determined that for the pension schemes relevant to local government employee contributions are determined independently of years of service. Therefore in accordance with amendments to the standard they should be recognised in the period that the relevant service is rendered, and not attributed in part to earlier years of service. CIPFA/LASAAC has not identified any changes that need to be consulted on for this amendment to IAS 19. It also considers that this is not a change in accounting practice for local authority accounts preparers.

Annual Improvements to IFRSs

21. The IASB carries out cyclical work to identify and implement improvements in IFRSs. The Annual Improvements to IFRSs 2010-2012 and 2011-2013 Cycles will, subject to EU adoption be included in the 2015/16 Code. The impact of

[2] Lender Option Borrower Option Loans

these narrow scope amendments to the Code and local authority accounting is set out in Appendices B and C to this ITC. There are some amendments to the Code required in the 2010-2012 Cycle. None are anticipated for the 2011-2013 Cycle.

IFRIC 21 *Levies (ie levies imposed by governments[3])*

22. IFRIC 21 *Levies* provides guidance on the recognition of liabilities to pay levies. In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the IFRIC specified the obligating event as the activity that triggers the payment of the levy (which may occur progressively or when a threshold is reached, or both). Section 8.2 will be amended to confirm the relevance of the principles of the IFRIC.

Other Standards issued by the IASB

23. The IASB has issued the following standards or amended standards whose effective date is outside of the 2015/16 Code and are therefore not reflected in the ITC:

- IFRS 15 *Revenue Recognition from Contracts with Customers*
- IFRS 14 *Regulatory Deferral Accounts*
- Acquisition of an interest in a joint operation (amendments to IFRS 11 *Joint Arrangements*)
- Clarification of Acceptable Methods of Depreciation and Amortisation (amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*).

24. In July 2014 the IASB issued the final version of IFRS 9 *Financial Instruments*. As it is not clear when EU endorsement will take place this amendment is not included in the Exposure Draft of the 2015/16 Code.

Changes to UK GAAP and Accounting for Value Added Tax, Heritage Assets and Pension Funds

25. In the absence of provisions about certain transactions in IFRS, three sections of the Code rely on UK GAAP as a source of accounting requirements. The 2015/16 Code is the first edition drafted after the effective date of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* which substantially revises UK GAAP and replaces all the SSAPs and FRSs. The implications for the revisions to UK GAAP have therefore had to be considered for three sections of the Code.

- *Value Added Tax* – no substantial changes required to existing section 2.9 of the Code.
- *Heritage Assets* – FRS 30 *Heritage Assets* featured relaxed valuation methods, allowing entities to select the most appropriate and relevant to their circumstances. FRS 102 does not include the direct relaxation included in FRS 30. For the avoidance of doubt the draft 2015/16 Code proposes that an interpretation of the measurement provisions of FRS 102 and IAS 16

[3] "Government" refers to government, government agencies and similar bodies whether local, national or international.

would allow retention of the current provisions in the Code on measurement of heritage assets. However, CIPFA/LASAAC will discuss this issue with the FRC.

Although FRS 102 no longer includes the concession that depreciation need not be provided for heritage assets with indefinite lives, CIPFA/LASAAC considers that this is likely to be the case for those heritage assets and retains the previous provisions to this effect in paragraph 4.10.2.10.

The disclosures for heritage assets are largely unchanged under FRS 102, but CIPFA/LASAAC proposes to delete the Code requirement for a five year analysis of transactions. This is based on the precedent set by the IASB in its amendments to IAS 19 where it was determined that information already available in previous financial statements was redundant.

- *Pension Funds* – the Code format of the Fund Account and Net Asset Statement section is drawn from the SORP *Financial Reports of Pension Schemes*. CIPFA/LASAAC considers that the Code requirements remain consistent with the SORP and the financial reporting requirements of the Code provide a robust basis for the presentational and financial reporting requirements of the Code. It will review this again when the SORP is finalised and will thus use the opportunity to review the reporting requirements of the Pension Fund in more detail next year. CIPFA/LASAAC is therefore seeking interested parties views on whether they consider that there are any issues that need to be included in the review.

Minor Amendment – Accounting for Schools

26. Minor clarification has been added to Appendix E of the Code that specifies the recognition of schools non-current assets should be in accordance with the relevant section of Chapter Four of the Code.

Appendix C – Changes in Accounting Policies Disclosures (ED 6)

27. An Exposure Draft of Appendix C relating to the disclosures for the proposed changes in accounting policies outlined in this ITC is also available for comment. CIPFA/LASAAC is seeking views on the draft Appendix.

Changes in Legislation that May or are Anticipated to impact on the 2015/16 Code

28. The draft Code does not include any changes in relation to the following legislative or policy developments which are expected to impact on the 2015/16 financial statements but which have not been finalised at the time of drafting:

- Accounts and Audit (England) Regulations
- Accounts and Audit (Wales) Regulations
- Housing Revenue Account in Wales Self Financing

The final legislative provisions have not been issued at the time of drafting this consultation document.

29. The Local Authority Accounts (Scotland) Regulations 2014 were laid before the Scottish Parliament on 7 July 2014[4] and are due to come into force on 10 October 2014.

30. Where possible, the changes introduced as a result of paragraphs will be included in the final edition of the 2015/16 Code.

31. It is not clear, as yet, as a result of any of these legislative provisions whether a further consultative process might be needed.

32. It is also CIPFA/LASAAC's understanding that the Accounts and Audit (Northern Ireland) Regulations 2006 will be subject to review. This may impact on the 2015/16 financial year and therefore the Code's references to these Regulations will be subject to change.

33. Section 1.2 of the Code will also be amended for the impact of the new requirements in the Local Audit and Accountability Act 2014 on the relevant authorities applying the Code. Although for the majority of local authorities this is a technical change and will not impact on the general requirement to apply the Code.

The Public Bodies Joint Working (Scotland) Act 2014

34. The Public Bodies (Joint Working) (Scotland) Act 2014 Act 2014 provides a framework to support improvements in the quality and consistency of health and social care services through the integration of health and social care in Scotland. There are two models of integration under the Act both of which are covered by the existing provisions of the Code. The Code will need to be updated for Integration Joint Boards which may be created under one of the models.

Local Government Reform – Northern Ireland

35. The local government reform process in Northern Ireland will mean a reduction of Councils from 26 to 11 and a transfer of some central government functions to local government. CIPFA/LASAAC considers that the accounting treatment for the reorganisations will be covered under Section 2.5 (Local Government Reorganisation and Other Combinations) of the Code and that appropriate references in the Code to the new Councils may to need to be updated.

CIPFA Code of Practice on Transport Infrastructure Assets

36. Currently the Accounting Code requires that infrastructure assets are measured at historical cost. CIPFA/LASAAC confirmed in the 2014/15 Code an intention to move to a depreciated replacement cost basis for transport infrastructure assets in the 2016/17 Code. As a change in accounting policy, Appendix C of the 2016/17 Code will be drafted to include disclosure requirements for the 2015/16 financial statements for a change required by a new standard that has not yet been adopted. These requirements were indicated in Appendix D of the 2014/15 Code which it is proposed to carry forward into the 2015/16 edition.

Consultation on Simplifying and Streamlining the Presentation of Local Authority Financial Statements

[4] Note that this was after the Exposure Drafts of the Code were finalised.

37. CIPFA/LASAAC is continuing to consider opportunities to simplify and streamline the financial statements focusing particularly on the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement and how they reflect local authority performance.

Further Guidance

38. CIPFA/LASAAC welcomes views as to any areas within the Code where improvements or additional guidance might be needed.

Consultation Questions

IFRS 13 *Fair Value Measurement* and Measurement of Property, Plant and Equipment

Q1 Do you agree with the approach to the adoption of IFRS 13 in the Code? If not, why not? What alternatives do you suggest?

Q2 Do you agree with the proposed approach and clarification and modification of the current adaptation for the measurement of property, plant and equipment held by local authorities in section 4.1 of the Code for operational property, plant and equipment? If not, why not? What alternatives do you suggest?

Q3 Do you agree that assets classified as Surplus Assets should be measured at fair value? If not, why not? What alternatives do you suggest?

Q4 Do you agree with the proposed augmentation of the disclosure requirements of property, plant and equipment for local authorities? If not, why not? What alternatives do you suggest?

Q5 Do you consider there are specific areas where additional guidance would be necessary for the measurement of property, plant and equipment at current value?

Amendments to IAS 19 *Employee Benefits* (Defined Benefit Plans: Employee Contributions)

Q6 Do you agree with the approach to the adoption of IAS 19 *Employee Benefits* (Defined Benefit Plans: Employee Contributions) in the Code? If not, why not? What alternatives do you suggest?

Annual Improvements to IFRSs 2010 -2012 Cycle

Q7 Do you agree with the approach to the adoption of the Annual Improvements to IFRS 2010 -2012 Cycle in the Code? If not, why not? What alternatives do you suggest?

Annual Improvements to IFRSs 2011 -2013 Cycle

Q8 Do you agree with the approach to the adoption of the Annual Improvements to IFRS 2011 -2013 Cycle in the Code? If not, why not? What alternatives do you suggest?

IFRIC 21 *Levies* (*ie levies imposed by governments)*

Q9	Do you agree with the approach to the adoption IFRIC 21 *Levies* in the Code? If not, why not? What alternatives do you suggest?

Value Added Tax

Q10	Do you agree with CIPFA/LASAAC that no further amendment is required to the Code's requirements for VAT? If not, why not? What alternatives do you suggest?

Heritage Assets

Q11	Do you agree with the amendments to the Code in relation to Heritage Assets? If not, why not? What alternatives do you suggest?

Accounting and Reporting By Pension Funds

Q12	Are there any issues you consider should be covered in the review of section 6.5 Accounting and Reporting by Pension Funds? Please list giving the reason for your response.

Appendix C – Changes in Accounting Policies Disclosures

Q13	Do you agree with CIPFA/LASAAC's approach to the draft Appendix C? If not, why not? What alternatives do you suggest?

CIPFA *Code of Practice on Transport Infrastructure Assets*

Q14	Do you have any commentary on the disclosure included in Appendix D.1.5 of the Code?

Further Guidance

Q15	Are there any areas within the Code where additional guidance or improvements to the Code would be helpful? Please support your answer by giving details of the difficulties being experienced.

SECTION B – 2015/16 CODE – DETAILED DISCUSSION

IFRS 13 *Fair Value Measurement* and the Measurement of Property, Plant and Equipment (ED 1)

Introduction and Background

39. CIPFA/LASAAC and other public sector bodies deferred adoption of IFRS 13 *Fair Value Measurement* to the 2015/16 financial year to allow time to review the concepts which underpin its measurement requirements for property, plant and equipment and their relevance in the public sector and to ensure that the approach to adoption was able to be applied objectively by accounts preparers. Appendix A to this Invitation to Comment presents an overview of the principles in the Standard.

Last Year's Proposals for Adoption of IFRS 13 in the Code

40. The consultation proposals last year were for application of the standard to property, plant and equipment to follow one of three routes. The route taken where IFRS 13 is not able to capture the constraints faced by local authorities in securing highest and best use for an asset required adaptation of IFRS 13. Another of the routes required the application of the highest and best use principle to property such as office accommodation for administrative purposes, which might have required remeasurement.

41. Whilst most (but not all) interested parties supported the proposals in principle, a significant number were concerned about the practicability of application and whether the options could be applied objectively. The proposals were concerned to ensure that application of the standard captured the constraints faced by local authorities. In many instances local authorities would not be able realistically to take advantage of the benefits measured by an asset in its highest and best use, the measurement principle for non-financial assets in IFRS 13 (see Appendix A). CIPFA/LASAAC, HM Treasury and the Government's Financial Reporting Advisory Board (FRAB) have considered the consultation responses and undertaken an in depth conceptual review of the approaches. CIPFA/LASAAC is therefore proposing the following in relation the measurement of property, plant and equipment.

Measurement of Property, Plant and Equipment in the 2015/16 Code

42. The key issue identified by some FRAB members following these debates was that, if the public sector is applying IFRS 13, then it is also necessary to subscribe to the principle of exit values which IFRS 13 is based on. CIPFA/LASAAC has previously concluded that exit value although useful information for the users of the financial statements is not the best measurement for assets used for their operational capacity. It would reiterate this position. CIPFA/LASAAC and CIPFA Secretariat have worked with HM Treasury to provide an understanding of how IFRS 13 can be applied and particularly have focussed on the measurement objective for property, plant and equipment used by public sector entities.

43. The objective for measurement of property, plant and equipment has to be set against the objectives for the financial statements as prescribed by the Code ie to provide:

- financial information about the reporting authority that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to it; and

- information about the authority's financial performance, financial position and cash flows that is useful to a wide range of users for assessing the stewardship of the authority's management and for making economic decisions (2014/15 Code, paragraph 2.1.2.1).

44. The measurement of property, plant and equipment in the UK public sector since the introduction of accrual accounting has sought to value the service potential or operational capacity of assets used to deliver goods and services. Service potential is of primary interest when managing public sector assets because the purpose of acquiring and holding assets within the public sector is to enable the delivery of services. This is therefore the basis on which those charged with the stewardship of assets and the management of these scarce resources would need to be held to account.

45. In the public sector, resources are provided by government and, significantly, in local authorities, by local taxpayers. These resources are provided to allow local authorities to deliver public services. Therefore, in order to be useful financial information needs to communicate the cost of delivering public services and information about the asset base used to deliver those services. Decisions on whether to provide resources for capital expenditure will be based on what is needed to support service delivery, taking into consideration opportunities for re-deploying or disposing of existing assets.

46. The 2014/15 Code[5] currently adapts IAS 16 to remove the option to hold most[6] assets at historical cost and to effectively require the valuation of all other assets on the basis of existing use value. If there is no market-based evidence of this adapted definition of fair value because of the specialist nature of the asset and the asset is rarely sold, authorities may need to estimate fair value using a DRC approach. These adaptations were made in order to support the objectives above and, in adopting IFRS 13, CIPFA/LASAAC is seeking to ensure that performance against these objectives is not reduced.

47. Local authorities are accountable to government, the general public, service recipients, and elected members who represent their constituents. Local authorities need to provide information to demonstrate that they are using the operational capacity of these public resources effectively. For assets, this will include information about whether the organisation is maintaining the required capacity to support service delivery, minimising losses and effectively utilising the assets to support the objectives of the authority.

Proposals for Measuring Property, Plant and Equipment following Initial Recognition

48. CIPFA/LASAAC therefore proposes that in order to support the measurement objectives above property, plant and equipment used to support service delivery must be measured for its service potential at current value ie at an existing use

[5] This adapted definition of fair value under IAS 16 has been in place since the move to IFRS in 2010/11.
[6] The Code currently prescribes that infrastructure assets are measured at depreciated historical cost and community assets are held at historical cost or are permitted to be measured at valuation in accordance with the measurement requirements of heritage assets in Section 4.10 of the Code.

value[7] measurement. Where no market is in existence or where assets are specialised a Depreciated Replacement Cost (DRC) measurement would be needed in accordance with current measurement techniques. This approach maintains much of the previous adaptation of IAS 16 and the measurement requirements under the Code for these assets would not be subject to change. Therefore for property, plant and equipment providing the services of the authority these assets are not measured at fair value and are therefore outside of the scope of IFRS 13[8]. There are no direct adaptations proposed to the adoption of IFRS 13 in the Code.

49. For the avoidance of doubt assets meeting the criteria to be classified under either the Code's adoption of IAS 40 *Investment Property* or IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* would continue to be classified under the Code's requirements for those standards and when applicable (under these standards ie IAS 40 and IFRS 5) the assets would be measured under the IFRS 13 definition of fair value.

Surplus Assets

50. This leaves the classification of those items of property, plant and equipment not being used by the authority to provide services and not meeting the criteria of assets held for sale. These are currently classified in the Code as Surplus Assets. Surplus Assets are currently measured in the same way as operational property, plant and equipment based on their use before becoming surplus. However, CIPFA/LASAAC does not consider that this measurement requirement continues to meet the objectives outlined above as these assets are by definition only uncertainly being held to provide the services of the authority in the future. CIPFA/LASAAC's proposal is that Surplus Assets are measured at fair value as by definition these assets are not currently providing service potential to the authority but are available for a number of alternative uses which could include realisation of fair value by disposal.

51. An authority would need to ensure that the measurement of the assets reflect any restrictions on the asset in accordance with the requirements of IFRS 13, (these restrictions will travel with any purchaser of the asset). This may be more difficult in some cases where the restrictions are more onerous than the restrictions envisaged in the Standard. However, this is a matter of application of the standard and will depend on the nature and timing of the sale or disposal.

Current Value

52. In order to support this conceptual approach CIPFA/LASAAC has decided to clarify the measurement bases used for the relevant classes of property, plant and equipment. Therefore all assets shown at their revalued amount will reflect the economic environment prevailing for the service or function the asset is supporting at the reporting date. CIPFA/LASAAC proposes describing this in the Code as measurement at current value with current value including four measurement bases in section 4.1 of the Code ie:

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[7] As with the current valuation basis for these assets, existing use value measurement is in accordance with RICS Valuation – Professional Standards UKVS 1.3.

[8] Note that the three measurement bases for operational property, plant and equipment are not defined as fair value and are therefore excluded from the measurement requirements of the Standard. However, the need to ensure that it is clear which assets are measured at fair value was raised as a query and this issued will be considered by CIPFA/LASAAC.

- **Existing use value** – for those assets providing service potential for the authority ie operational assets - where there is an active market for the assets

- **Existing use value - social housing** – for operational council dwellings

- **DRC** - those assets providing service potential for which there is no active market and the assets are specialised

- **Fair Value** – those assets not currently providing service potential for the authority that are classified as Surplus Assets[9].

53. CIPFA/LASAAC also proposes including a new flow chart on the decisions required to decide on the appropriate measurement base for property, plant and equipment. This flow chart is introduced at amended paragraph 4.1.2.33 of the Exposure Draft of the 2015/16 Code.

Disclosures Relating to the New Measurement Requirements for Property, Plant and Equipment

54. Whilst recognising that the disclosures in IFRS 13 increase the disclosure requirements for local authorities and have the potential for adding too much detail to the financial statements, CIPFA/LASAAC does consider that the objective of the disclosures to understand the valuation techniques and inputs used to develop those measurements is important and has added this requirement to Section 4.1 of the Draft 2015/16 Code. If any changes in these techniques have an impact on the performance of the authority (ie on the Comprehensive Income and Expenditure Statement), this also should be made clear to the users of the financial statements (see the proposed addition to paragraph 4.1.4.2).

IFRS 13 Disclosures

55. IFRS 13 disclosures have also been considered in the last two consultations on the implementation of IFRS 13. As discussed in previous consultations CIPFA/LASAAC acknowledges that these disclosures have the potential to add too much detail in the financial statements. However, it considers that this has been significantly reduced by its proposals to introduce the definition of current value to section 4.1 of the Code as this would no longer require the full list of disclosures included in section 2.10 of the Code for property, plant and equipment with the exception of Surplus Assets (see below paragraph 51). CIPFA/LASAAC considers that the impact of the disclosures on other assets and liabilities is considered a matter of application and not for direct prescription in the Code.

56. As surplus assets will be measured at fair value in addition to the disclosures required by section 4.1 authorities will be required to apply the measurement requirements of section 2.10. However, for surplus assets it is not anticipated that these disclosures will be onerous and likely to be subject to materiality considerations.

Application to Measurement of Liabilities

57. In its previous two consultations on the Code which have considered the adoption of IFRS 13 CIPFA/LASAAC has not proposed any adaptations to the Standard for liabilities. This position remains unchanged. However, CIPFA/LASAAC understands that application to liabilities has caused difficulties in the private

[9] See footnote 8

sector, particularly for complex financial instruments eg derivatives. This has been due to the clarity provided by IFRS 13 that the fair value measurement of financial liabilities should be based on the principle of measuring transactions at transfer prices. This means that in order to reflect that price at which liability would be transferred to market participants the fair value of the liability, including non-financial liabilities, will also need to reflect the non-performance risk which includes but may not be limited to the authority's own non-performance risk.

58. CIPFA/LASAAC maintains the position that it does not anticipate that this will be such a complex issue for local authorities. It would highlight that the disclosures of fair value measurements for PWLB debt may need to be considered as these financial instruments do not have transfer values - this is currently an issue of debate under *IFRS 7 Financial Instruments: Disclosures*. Consultation responses last year raised the issue of service concession arrangements (PFI/PPP) contracts and Lender Option Borrower Option loans (LOBOs). However, CIPFA/LASAAC considers that this is an area for application guidance and not for specific reference in the Code.

Drafting of the Amendments to the Code as a Result of the Adoption of IFRS 13

59. The drafting approach in the Code to IFRS 13 has followed the process previously adopted ie by setting out the overall approach to the standard and including the main provisions of the Standard drafted for local authority circumstances or references. However, the Code does not repeat all the provisions of the Standard. It should be noted that as set out in the Code where a specific provision of IFRS (or relevant interpretation ie SIC or IFRIC) or additional guidance is not repeated in the Code that it will apply (for local authority circumstances) unless it has been specifically adapted in the Code.

IFRS 13 *Fair Value Measurement* and Measurement of Property, Plant and Equipment

Q1	Do you agree with the approach to the adoption of IFRS 13 in the Code? If not, why not? What alternatives do you suggest?
Q2	Do you agree with the proposed approach and clarification and modification of the current adaptation for the measurement of property, plant and equipment held by local authorities in section 4.1 of the Code for operational property, plant and equipment? If not, why not? What alternatives do you suggest?
Q3	Do you agree that assets classified as Surplus Assets should be measured at fair value? If not, why not? What alternatives do you suggest?
Q4	Do you agree with the proposed augmentation of the disclosure requirements of property, plant and equipment for local authorities? If not, why not? What alternatives do you suggest?
Q5	Do you consider there are specific areas where additional guidance would be necessary for the measurement of property, plant and equipment at current value?

Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)

Introduction and background

60. In November 2013 the IASB issued its amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions). IAS 19 requires contributions from employees or third parties to be considered when accounting for defined benefit plans. It requires that such contributions that are linked to service to be attributed to periods of service as a reduction of service cost (ie as a negative benefit). Therefore, contributions from employees or third parties reduce the ultimate cost of a defined benefit and should therefore be accounted for consistently with the accounting for the defined benefit. This amendment to the standard will apply to local authorities.

61. It offers two options for this and the second option is most applicable to the accounting requirements for employee contributions ie if the amount of the contributions is independent of years of service an authority is permitted to recognise such contributions as a reduction in the service cost in the period in which the related service is rendered, instead of attributing a proposition the contributions to the periods of service over which a reduction of contributions was earned. CIPFA/LASAAC considers that this is consistent with the approach of local authorities and therefore does not consider that there will be a significant change in accounting practice for local authorities.

62. The Code does not include the original paragraph which is subject to amendment and concerns how such contributions should be accounted for ie paragraph 93 of IAS 19. However, for the avoidance of doubt reference will be made in paragraph 6.4.1.1 to the amendments to IAS 19 that this will apply in the 2015/16 Code. This is subject to EU adoption of the standard by 1 January 2015.

Amendments to IAS 19 *Employee Benefits* (Defined Benefit Plans: Employee Contributions)	
Q6	Do you agree with the approach to the adoption of IAS 19 *Employee Benefits* (Defined Benefit Plans: Employee Contributions) in the Code? If not, why not? What alternatives do you suggest?

Annual Improvement to IFRSs 2010 – 2012 Cycle (EDs 2, 3 and 5)

63. The IASB carries out cyclical work to identify and implement improvements in IFRSs. It issued the Annual Improvements to IFRSs 2010 – 2012 Cycle in November 2013. The proposed amendments to the Code are set out in Appendix B to this ITC and in the relevant Exposure Drafts. The amendments have not yet been endorsed by the EU and endorsement would be needed by the effective date of 2015/16 Code ie 1 January 2015 to be included in the published edition.

Annual Improvements to IFRSs 2010 -2012 Cycle	
Q7	Do you agree with the approach to the adoption of the Annual Improvements to IFRS 2010 -2012 Cycle in the Code? If not, why not? What alternatives do you suggest?

Annual Improvement to IFRSs 2011 – 2013 Cycle

64. The IASB issued the Annual Improvements to IFRSs 2011 – 2013 Cycle in December 2013. The proposed approach to the adoption of these amendments in the Code is set out in Appendix C to this ITC. The amendments have not yet been endorsed by the EU and endorsement would be needed by the effective date of 2015/16 Code ie 1 January 2015 to be adopted in the published edition.

Annual Improvements to IFRSs 2011 -2013 Cycle	
Q8	Do you agree with the approach to the adoption of the Annual Improvements to IFRS 2011 -2013 Cycle in the Code? If not, why not? What alternatives do you suggest?

IFRIC 21 *Levies (ie levies imposed by governments*[10]*)*

65. IFRIC 21 *Levies* provides guidance on accounting for levies[11] in the financial statements of entities paying the levy. The IFRIC relates to when to recognise a liability to pay a levy that is accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The IFRIC sets out that the obligating event that gives rise to the liability to pay a levy is the activity that triggers the payment of the levy, that the liability is recognised progressively if the obligating event occurs over time and that if an obligation is triggered on reaching a minimum threshold the liability is recognised when that threshold is reached. CIPFA/LASAAC considers that the IFRIC would apply equally to local authorities and will add appropriate confirmation in a new paragraph inserted at paragraph 8.2.1.10.

IFRIC 21 *Levies* (*ie levies imposed by governments)*	
Q9	Do you agree with the approach to the adoption IFRIC 21 *Levies* in the Code? If not, why not? What alternatives do you suggest?

Other Standards issued by the International Accounting Standards Board

66. The IASB has issued the following standards/amended standards at the time of drafting this ITC

- IFRS 15 *Revenue Recognition from Contracts with Customers*
- IFRS 14 *Regulatory Deferral Accounts*
- *Acquisition of an Interest in a Joint Operation* (amendments to IFRS *11 Joint Arrangements*)

[10] "Government" refers to government, government agencies and similar bodies whether local, national or international.
[11] A levy is described in the IFRS as an outflow of resources (other than the exceptions described in the IFRIC) embodying economic benefits that is imposed by governments on entities in accordance with legislation.

- *Clarification of Acceptable Methods of Depreciation and Amortisation* (amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*).

67. These standards/amended standards have an effective date which is outside of the 2015/16 Code and therefore are not considered in this consultation.

68. In July 2014 the IASB issued the final version of IFRS 9 *Financial Instruments*. As it is not clear when EU endorsement will take place this amendment is not included in the Exposure Draft of the 2015/16 Code.

Changes to UK GAAP and Accounting for Value Added Tax, Heritage Assets and Pension Funds

69. There are three sections of the Code that place reliance on the provisions of UK Generally Accepted Accounting Practices (GAAP)

- Value Added Tax (VAT) (SSAP 5 *Value Added Tax)*
- Heritage Assets (FRS 30 *Heritage Assets*)
- The format of the Pension Fund Accounts (note that this format has followed that of the Pensions SORP[12]).

70. The provisions of these standards and sections of the Code after 1 January 2015 will be included in FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and the Pensions SORP. As IFRS does not include explicit provisions for these transactions reliance will continue to be placed on UK GAAP and can now be made on FRS 102.

Value Added Tax

71. CIPFA/LASAAC has considered the provisions of FRS 102 for Value Added Tax and does not consider that substantial changes are required to the relevant sections of the Code ie section 2.9 Accounting for VAT.

Value Added Tax	
Q10	Do you agree with CIPFA/LASAAC that no further amendment is required to the Code's requirements for VAT? If not, why not? What alternatives do you suggest?

Heritage Assets (ED 4)

72. FRS 102 no longer includes the specific statement in FRS 30 *Heritage Assets* ie that valuations

"… *may be made by any method that is appropriate and relevant*"

(see paragraph 21 of FRS 30) .

[12] *Statement of Recommended Practice: Financial Reports of Pension Schemes* (the Pensions SORP)

However, CIPFA/LASAAC argued in the introduction of the FRS 30 measurement requirements to the Code that these provisions promote transparency and assist with the presentation of a true and fair view of local authority financial statements with regard to heritage assets. The measurement requirements also reflect the lack of a market for many heritage assets. CIPFA/LASAAC notes that the consultation on the Charities SORP[13] (which will be a part of UK GAAP once approved) based on FRS 102, includes similar provisions to FRS 30 on the measurement of heritage assets and donated heritage assets.

73. CIPFA/LASAAC intends to take a similar approach to the Charities SORP and the draft 2015/16 Code proposes that an interpretation of the measurement provisions of FRS 102 and IAS 16 allows retention of the current provisions in the Code at paragraph 4.10.2.8. and 4.10.2.9. However, CIPFA/LASAAC will consult with the Financial Reporting Council on this issue. The draft 2015/16 Code also retains the provisions that where information on valuation is not able to be produced at a commensurate cost and cost information is available heritage assets may be measured at cost. This relies on the provisions in FRS 102 which allow the assets to be measured at cost or valuation.

74. FRS 102 does not include the statement included in paragraph 23 of FRS 30 that depreciation need not be provided on heritage assets which have indefinite lives. However, CIPFA/LASAAC is of the view that it is likely that heritage assets that have indefinite lives are not likely to be subject to depreciation and has retained the previous provisions to this effect in paragraph 4.10.2.10.

75. In relation to heritage assets, some of the disclosures have been refined and appropriate amendment has been made to the Exposure Draft of section 4.10 of the Code. CIPFA/LASAAC's *consultation on simplifying and streamlining the presentation of local authority financial statements* received comments that heritage asset disclosures added disproportionately to the volume of the disclosures in the financial statements. CIPFA/LASAAC would note that in its reliance on UK GAAP it cannot make significant amendments to the disclosures for heritage assets but considers that this is an issue again for consideration of the materiality of these transactions in the financial statements.

76. CIPFA/LASAAC does see an opportunity to reduce the reporting requirements for one of the disclosures which is supported in a recent approach to reporting under IFRS. Heritage asset disclosures include a five year analysis of heritage asset transactions (see paragraph 4.10.4.5 of the 2014/15 Code). A reference point for this approach and review is available in IFRS. In the recent (2011) changes to IAS 19 *Employee Benefits* one of the amendments removed the requirement to disclose historical information over five years about amounts in the balance sheet and experience adjustments. The basis of conclusions paragraph 244 e) states that "*the Board concluded that this requirement provided information about the defined benefit plan that was already available in previous financial statements and therefore was redundant*". CIPFA/LASAAC considers that the same rationale can be applied to the five year disclosure of transactions on heritage assets.

Heritage Assets	
Q11	Do you agree with the amendments to the Code in relation to Heritage Assets? If not, why not? What alternatives do you suggest?

[13] *Accounting and reporting by charities: statement of recommended practice (SORP (Exposure Draft, July 2013) note that the Charities SORPs have been issued after the Exposure Drafts of the Code were finalised.*

Accounting and Reporting by Pension Funds

77. Accounting and Reporting by Pension Funds is included in section 6.5 of the Code and is based on EU adopted IFRS and drafted for local authority circumstances. This principally means reliance on IAS 26 *Retirement Benefit Plans* and, to the extent that they are not superseded by IAS 26 requirements, the financial instruments standards[14] and IAS 19 *Employee Benefits*. The format of the Fund Account and the Net Assets Statement has been derived from the *Statement of Recommended Practice: Financial Reports of Pension Schemes* (the Pensions SORP) which in turn is based on FRS 102.

78. CIPFA/LASAAC considers that as the pensions accounting requirements are based on extant EU adopted IFRS included in the Code, this forms a robust base for the reporting of local authority pension funds. It acknowledges that the format of the accounts are based on the Pensions SORP but is not aware that the format of the two statements needs to be significantly changed and are consistent with the requirements of FRS 102 and the Pensions SORP for local authority circumstances. It does consider that it may be worthwhile reviewing the guidance in the Code against the requirements of the Pensions SORP once it has been finalised. This review will be added to the development programme for the 2016/17 Code. CIPFA/LASAAC is seeking interested parties' views on any issues they consider might usefully be added to this review.

Accounting and Reporting By Pension Funds	
Q12	Are there any issues you consider should be covered in the review of section 6.5 Accounting and Reporting by Pension Funds? Please list giving the reason for your response.

Minor Amendment -Accounting for Schools in Local Authorities in England and Wales (ED 5)

79. Minor clarification has been added to Appendix E of the Code which clarifies that the recognition, where relevant, of schools non-current assets should be in accordance with the relevant section of chapter four of the Code. Note that this will be in accordance with the circumstances under which the non-current asset is held. CIPFA has issued interim application guidance on this issue which is accessible here http://www.cipfa.org/-/media/Files/Policy%20and%20Guidance/Panels/Local%20Authority%20Accounting%20Panel/Technical%20Accounting%20Alert%20%20Accounting%20for%20Schools%20Interim%20Clarification.pdf.

Appendix C – Changes in Accounting Policies Disclosures (ED 6)

80. An Exposure Draft of Appendix C relating to the disclosures for the proposed changes in accounting policies outlined in the preceding paragraphs of this ITC is also available for comment. CIPFA/LASAAC is seeking views on the draft Appendix.

[14] IAS 39 *Financial Instruments: Recognition and Measurement*; IAS *32 Financial Instruments: Presentation* and IFRS 7 *Financial Instruments: Disclosures*.

Appendix C – Changes in Accounting Policies Disclosures

Q13 Do you agree with CIPFA/LASAAC's approach to the draft Appendix C? If not, why not? What alternatives do you suggest?

Changes in Legislation that May or are Anticipated to Impact on the 2015/16 Code

81. The following legislative or policy developments are likely to impact on the provisions of the 2015/16 Code:

- Accounts and Audit (England) Regulations - The Local Audit and Accountability Act 2014 received Royal Assent in January this year. A *Local Audit Consultation* issued in June 2014 is consulting on proposals for changes to these regulations which are anticipated to apply from 1 April 2015.
- The Accounts and Audit (Wales) Regulations – The consultation on these regulations closed in January 2014.
- Housing Revenue Account in Wales self-financing - The Welsh Government has indicated that this new regime will commence for the 2015/16 financial year.

82. The final legislative provisions have not been issued at the time of drafting this consultation document.

83. The Local Authority Accounts (Scotland) Regulations 2014 were laid before the Scottish Parliament on 7 July 2014[15] and are due to come into force on 10 October 2014.

84. Where possible, the changes introduced as a result of paragraphs 81to 83 will be included in the final edition of the 2015/16 Code.

85. It is not clear, as yet, as a result of any of these legislative provisions whether a further consultative process might be needed.

86. It is CIPFA/LASAAC's understanding that the Accounts and Audit Regulations (Northern Ireland) 2006 will also be subject to review. This may impact on the 2015/16 financial year and therefore the Code's references to this Act will be subject to change.

87. As noted above the Local Audit and Accountability Act 2014 was given Royal Assent in January 2014. Paragraphs 50 and 51 extend the list of bodies to which sections 21 and 22 apply to include all relevant authorities under section 2 of the LAA Act. CIPFA/LASAAC will therefore amend section 1.2 of the Code to reflect these changes but will await the issue of the Accounts and Audit Regulations (England) to ensure that the provisions of the Code reflect the relevant details. However, this is a technical change which is not anticipated to substantially change the applicability of the Code for most authorities that currently apply it.

The Public Bodies Joint Working (Scotland) Act 2014

[15] Note that this was after the Exposure Drafts of the Code were finalised.

88. The Public Bodies (Joint Working) (Scotland) Act 2014 (the PB(JW)(S)) Act 2014 provides a framework to support improvements in the quality and consistency of health and social care services through the integration of health and social care in Scotland. CIPFA/LASAAC understands that two models of integration are available for health boards and local authorities to choose from: delegation between partners (i.e. lead agency arrangements) and delegation to a body corporate ie Integration Joint Boards (IJBs).

89. Section 13 of the PB(JW)(S) Act 2014 amends the Local Government Scotland Act 1973 s106(1) to include IJBs as section 106 bodies bringing them into the accounting framework for local government. These bodies will therefore need to be referred to in the Code. However, CIPFA/LASAAC is of the view that the accounting requirements for each of these models of integration are covered by the existing specifications of the Code and is therefore not planning to make any further changes.

Local Government Reform – Northern Ireland

90. Interested parties will be aware that local government reform process in Northern Ireland will mean a reduction in Councils from 26 to 11. The 11 new Councils are currently operating in shadow form and will assume full responsibilities from 1 April 2015. The reform will also mean a transfer of some central government functions to local government. The creation of new districts in Northern Ireland will therefore impact on financial reporting in the 2015/16 financial year. The Code's provisions in Section 2.5 (Local Government Reorganisation and Other Combinations) provide for the accounting treatment for such reorganisations but it is possible that further application guidance might be needed on this issue. These reforms may also mean that references in the Code to Councils in Northern Ireland will need to be updated.

CIPFA Code of Practice on Transport Infrastructure Assets

91. The CIPFA *Code of Practice on Transport Infrastructure Assets* (the Transport Infrastructure Code) was published in March 2010. The Transport Infrastructure Code is intended to serve as best practice guidance for those who are responsible for the management of infrastructure assets and as a tool for those who audit their performance. A key principle that underpins the Code is that the same data should be capable of serving the needs of asset management, financial management, budgeting and financial reporting. The Transport Infrastructure Code therefore uses a Depreciated Replacement Cost (DRC) approach to valuation that provides the current cost of replacing an asset with its modern equivalent asset, less deductions for all physical deterioration and impairment.

92. Previous consultations on the Code have sought the views of interested parties on the adoption of the measurement principles in the Transport Infrastructure Code ie measurement of these assets on a DRC basis. The consultations have been responded to positively but the responses have indicated that there are practical difficulties to this move. CIPFA/LASAAC therefore decided to allow more time for implementation and the 2014/15 Code confirmed CIPFA/LASAAC's intention to move to the new DRC basis in the 2016/17 Code.

93. CIPFA/LASAAC considers that this change in accounting policy is equivalent to a change in IFRS and therefore has indicated[16] that Appendix C of the 2015/16 will

[16] See 2014/15 Code Appendix D (D.1.5)

require the disclosures necessary for a change required by a new standard that has been issued but not yet adopted. As Appendix C disclosures are included in the Code in the year that the change is adopted (ie in this case 2016/17) in the Code this will remain the case for transport infrastructure assets and the disclosure will be retained for information in Appendix D (with a minor correction for the date of the Code). However, it is unlikely that there will be any substantial change in this requirement and the disclosure set out in Appendix D will need to be made in the 2015/16 financial statements.

94. CIPFA/LASAAC is aware that the move to measurement on a DRC basis will require significant planning. It would encourage authorities to build on the progress made for Whole of Government Accounts submissions and start their preparations for a move to this measurement basis for transport infrastructure assets as soon as possible. CIPFA/LASAAC and the CIPFA Project Implementation Steering Group (the Group responsible for the development of the Transport Infrastructure Code) is in the process of assisting the Local Authority Accounting Panel (LAAP) with its preparations for a LAAP Bulletin setting out an outline project plan for the essential tasks required for such a move.

CIPFA *Code of Practice on Transport Infrastructure Assets*	
Q14	Do you have any commentary on the disclosure included in Appendix D.1.5 of the Code?

Consultation on Simplifying and Streamlining the Presentation of Local Authority Financial Statements

95. CIPFA/LASAAC consulted on simplification and streamlining of the presentation of local authority financial statements during the summer of 2013. The responses agreed with the consultation that the local authority financial statements were often overburdened with detail. One of the main messages from the consultation was that the statements did not clearly reflect traditional local authority performance ie the movement on General Fund and Housing Revenue Account balances. CIPFA/LASAAC will therefore focus its review on the performance statements ie the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement and segmental reporting requirements. The review will also consider the narrative reporting requirements which accompany the financial statements[17] and which will assist local authorities in telling the story of local authority financial performance. It is anticipated that roundtables will be held to facilitate the review.

96. In addition CIPFA has issued its *How to Tell the Story* Publication which focuses on how IFRS based statements does provide analysis on the movement of General Fund and HRA balances and includes a commentary on the impact of materiality in the financial statements. The publication is available to download at: http://www.cipfa.org/howtotellthestory2ndedition. In addition, as a part of its development process for the Code CIPFA/LASAAC has and will continue to challenge the relevance of IFRS disclosures to local authority circumstances.

[17] Note the consultation on Local Audit proposes "*The introduction of a requirement for an explanatory narrative to accompany the statement of accounts is a first step in the necessary changes*".

Further Guidance

97. CIPFA/LASAAC would be interested to hear respondents' views on whether there are any areas within the Code where additional guidance would be welcomed or improvements to the Code could be made.

Further Guidance	
Q15	Are there any areas within the Code where additional guidance or improvements to the Code would be helpful? Please support your answer by giving details of the difficulties being experienced.