Invitation to Comment on the 2024/25 Code of Practice on Local Authority Accounting in the United Kingdom

August 2023

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Invitation to comment

1. 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 and advice of the Financial Reporting Advisory Board, CIPFA/LASAAC can issue in-year updates to the Code. This is only done in exceptional circumstances.

3. This invitation to comment (ITC) sets out proposals for revisions to the 2024/25 Code which will apply to accounting periods commencing on or after 1 April 2024 (Section A of this ITC). This ITC also includes the proposed approach to implementing IFRS 17 *Insurance Contracts* (Section B) and a discussion about CIPFA/LASAAC's strategic work plan (Section C).

2. The consultation process

4. Specific consultation questions have been included in the ITC. CIPFA/LASAAC also welcomes general comments on the Code. To assess comments properly, CIPFA/LASAAC would prefer respondents to support comments with clear accounting reasons and, where applicable, explanations of practical effects.

5. Responses to this invitation to comment will be regarded as on the public record and may be published on the CIPFA website. Copies of all correspondence and an analysis of responses may be provided to the Financial Reporting Advisory Board.

6. Exposure drafts setting out proposed changes to the Code accompany this ITC.

7. In order that they can be considered by CIPFA/LASAAC in time to inform possible implementation, responses are required by **17 October 2023.**

8. Please make responses by email to cipfalasaac@cipfa.org.

Section A

3. IFRS 16 *Leases* implementation, stable platform for the Code and accounting for infrastructure assets

3.1 Mandatory implementation of IFRS 16 *Leases*

9. Stakeholders are likely to be aware that in April 2022 CIPFA/LASAAC agreed to defer the mandatory adoption of IFRS 16 *Leases* following its Emergency proposals for an update of the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022/23 Code. It issued its statement on the deferral of IFRS 16 *Leases* for local authorities on 8 April 2022.

10. CIPFA/LASAAC is clear that the Code **will** implement IFRS 16 as of 1 April 2024 in accordance with CIPFA/LASAAC's April 2022 statement on deferral. Local authorities have been permitted to implement IFRS 16 since 1 April 2022, though it is not clear that this option has been taken up by many authorities. CIPFA/LASAAC would strongly encourage local authorities to implement as of 1 April 2023.

11. CIPFA has issued separate guidance alongside the Code Guidance Notes to allow for implementation as of 1 April 2022 and will issue guidance as of 1 April 2023 before mandatory implementation as of 1 April 2024. CIPFA has also issued a project plan in CIPFA Bulletin 14: Closure of the 2022/23 financial statements to assist local authorities with effective implementation as of 1 April 2024.

12. CIPFA/LASAAC does not envisage that implementation of IFRS 16 will require any significant changes to the Code's provisions as included in the 2023/24 Code in its Appendix F (though please see updates in relation to *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)* in section 4 below). CIPFA/LASAAC would note that this includes the measurement of service concession arrangement (PPP/PFI) liabilities in accordance with the provisions of IFRS 16. CIPFA/LASAAC welcomes any commentaries on how the provisions of the Code can be improved.

Readiness survey

13. Paragraph 10 notes that CIPFA/LASAAC will proceed with the implementation of IFRS 16 in the 2024/25 Code in accordance with its April 2022 statement. CIPFA and CIPFA/LASAAC are, however, committed to supporting local authorities with implementation as of 1 April 2024. Local authorities are reminded that CIPFA Bulletin 14: Closure of the 2022/23 financial statements included Appendix 2, a project plan to assist local authorities with effective implementation which includes project review points to measure progress.

14. CIPFA/LASAAC remains committed to effective implementation of IFRS 16 and would be interested in local authority views on their readiness and any further support that CIPFA might be able to provide to local authorities to assist with this. Local authorities are invited to outline where they think they are in terms of readiness and what other support CIPFA can provide to local authorities. Other stakeholders may want to comment on how CIPFA or CIPFA/LASAAC might support local authorities. Questions are included below to seek stakeholders' views on this issue.

15. Note that CIPFA has issued guidance on IFRS 16 (IFRS 16 *Leases*: A guide for local authority practitioners) alongside the *Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for Practitioners 2022/23 Accounts* principally for local authorities that have voluntarily implemented IFRS 16 in 2022/23 but the contents will also support local authorities in their implementation either in 2023/24 or mandatory implementation in 2024/25.

3.2 Limitation of changes

16. In last year's Invitation to comment CIPFA/LASAAC decided to provide a stable platform and not make any changes to the Code other than for those standards which have changed and to reflect legislative changes; it did not bring forward any changes due to its strategic workplan.

17. With the full mandatory implementation of IFRS 16, CIPFA/LASAAC is not presenting proposals for a stable platform but it has limited changes to the Code to those which are necessary. It has developed proposed changes to narrative reporting by introducing new requirements for an overview of performance and summary financial information, but these provisions will be introduced on a voluntary basis for 2024/25, allowing accounts preparers time to prepare for these changes.

<table>
<tr><td colspan="2"><h2>Limitation of changes</h2></td></tr>
<tr><td>Q1</td><td>Do you agree with the approach to the changes to the Code ie to limit the changes to the 2024/25 Code? If not, why not? Please provide your views on why this might be the case.</td></tr>
<tr><td colspan="2"><h2>Readiness assessment</h2></td></tr>
<tr><td>Q2</td><td>Where do you consider your authority is in terms readiness for the mandatory implementation of IFRS 16?

a) Confident of being ready for implementation for 2024/25 financial year
b) Somewhat confident of being ready for implementation for the 2024/25 financial year
c) Unsure of whether the authority will be fully ready for the financial year
d) Not confident of the authority being ready for implementation for 2024/25 financial year
e) Do not consider the authority will be ready for implementation for the 2024/25 financial year.</td></tr>
<tr><td>Q3</td><td>What further support do you think CIPFA should provide to support mandatory implementation for the 2024/25 financial year?</td></tr>
</table>

3.3 Accounting for infrastructure assets

18. Stakeholders will be aware that CIPFA/LASAAC issued its Urgent consultation on temporary changes to the Code to resolve infrastructure assets reporting issues in May 2022 and a temporary solution has been proposed until 31 March 2025. The temporary solution includes:

- Update to the Code and Specifications for Future Codes for Infrastructure Assets
- Statutory prescriptions in England, Scotland and Wales:
  - The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 SI 1232/2022
  - Local government finance circular 09/2022: statutory override - accounting for infrastructure assets
  - The Local Authorities (Capital Finance and Accounting (Wales) (Amendment) Regulations 2022 SI 1254/2022 (W.255) –
- CIPFA Bulletin 12 – Accounting for Infrastructure Assets – Temporary Solution.

19. At its single-issue meeting on infrastructure assets reporting to discuss the longer-term solution on 27 April 2023, CIPFA/LASAAC agreed to proceed with a measurement solution based on depreciated replacement cost (DRC). This was to be subject to the outcomes of the HM Treasury Thematic Review of Non-investment Asset Valuation for Financial Reporting Purposes and a full consultation on the final proposals (note that consultation proposals included measurement at DRC for highways networked assets). CIPFA/LASAAC decided that the date for implementation would not be before 1 April 2025.

20. However, stakeholders may be aware that Lee Rowley, Parliamentary Under-Secretary of State for Local Government and Building Safety, sent a letter to the Chair of the Levelling Up, Housing and Communities Committee as a part of his evidence to the Committee inquiry into Financial Reporting and Audit in Local Authorities. This letter indicates that CIPFA [LASAAC] has already made a temporary adjustment to the Code on the measurement and reporting requirements for local authority infrastructure assets, which runs alongside amendments to regulation made by DLUHC in December 2022.

21. The letter also set out the view that the longer-term solution will take longer than the current temporary measures (both legislative and Code based) allow. DLUHC will seek to extend the changes made to legislation last year and CIPFA/LASAAC is currently considering whether the current amendments to the Code can be extended in tandem. It will need to do this as a part of the Code's due processes.

22. CIPFA/LASAAC will make a separate announcement on any proposed changes (or maintenance of the current temporary relief for the disclosure requirements) to the Code.

4. Changes to Standards for 2024/25

4.1 Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)

23. The International Accounting Standards Board issued *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)* in September 2022. The amendments to IFRS 16 address the subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 *Revenue from Contracts with Customers* to be accounted for as a sale.

24. The amendments require a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains. This might require departure from the definition of lease payments in IFRS 16, potentially involving the inclusion of variable lease payments in the calculation of the lease liability. The IASB argued that without these amendments, a seller-lessee could have recognised a gain on the right-of-use asset it retains solely because of a remeasurement if it had applied the subsequent measurement requirements for lease liabilities unrelated to a sale and leaseback transaction.

25. Although this transaction is not a frequent transaction for local authorities it may occur and therefore an additional paragraph 4.2.2.91 has been added for clarity.

26. This standard has already been adopted by the UK Endorsement Board and will therefore be implemented with the mandatory IFRS 16 changes to Section 4.2 of the Code.

Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	
Q4	Do you agree with CIPFA/LASAAC's view on the changes included for *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)*? If not, why not? What alternatives do you suggest?

4.2 Amendments to IAS 1 *Presentation of Financial Statements*

27. The International Accounting Standards Board issued IAS 1 *Classification of Liabilities as Current or Non-current* in January 2020, and further amendments to IAS 1 *Non-current Liabilities with Covenants* in October 2022. The further amendments address stakeholder concerns about the 2020 amendments and these will be implemented together.

28. The amendments provide clarification of the difference between current and non-current liabilities, clarifying one of the criteria in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.

29. The treatment of the current IAS 1 requirements in Section 7.3.6 of the Code is more narrowly focused on specific circumstances where a local authority might breach a condition of a loan and therefore be required to make immediate repayment. The material in the Code seems to clearly cover all relevant circumstances both under the extant IAS 1 and after amendment. No change to the Code is therefore proposed,

but implementation of the amended standard would be signalled in Appendices C and D.

30. Separately, the amendments to IAS 1 propose disclosure of the extent to which non-current liabilities might be at risk of becoming repayable within 12 months (and therefore would be reclassified as current) if the reporting entity does not satisfy the requirements of covenants. CIPFA/LASAAC is of the view that given the more limited context within which local authority non-current liabilities might be expected to be reclassified, it is not appropriate to set out this requirement in the Code, although where this matter is relevant this disclosure will be required. The amendments to the standards have been UK-endorsed and so will be included in the 2024/25 Code.

Amendments to IAS 1 *Presentation of Financial Statements*	
Q5	Do you agree with the proposed approach not to require changes to the Code for *Amendments to IAS 1 Presentation of Financial Statements*? If not, why not? What alternatives do you suggest?

4.3 Amendments to IAS 12 International Tax Reform: Pillar Two Model Rules

31. The International Accounting Standards Board issued *Amendments to IAS 12 International Tax Reform: Pillar Two Model Rules* in May 2023. The amendments introduce a temporary mandatory exception from accounting for deferred taxes arising from the Pillar Two model rules and a requirement to disclose that the exception has been applied, both of which are applicable immediately and retrospectively. They also introduce further targeted disclosure requirements, effective for annual reporting periods beginning on or after 1 January 2023. The amendment was UK endorsed on 19 July 2023 and is applicable immediately.

32. The International Tax Reform model developed by the Organisation for Economic Cooperation and Development (OECD) applies to large multinational entities. The related accounting requirements do not currently apply to any local authority or local authority company, and future applicability seems unlikely. No change to the Code is therefore proposed, but adoption of the amended standard would be signalled in Appendices C and D of the Code.

Amendments to IAS 12 International Tax Reform: Pillar Two Model Rules	
Q6	Do you agree with the proposed approach not to require changes to the Code for *Amendments to IAS 12 International Tax Reform: Pillar Two Model Rules*? If not, why not? What alternatives do you suggest?

4.4 Supplier Finance Arrangements

33. In May 2023, the International Accounting Standards Board (IASB) issued *Supplier Finance Arrangements*, which amended IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures.* The amendments add disclosure requirements, and ‘signposts’ within existing disclosure requirements, that ask entities to provide qualitative and quantitative information about supplier finance arrangements.

34. The finance arrangements for which the amendment sets out requirements seem unlikely to be appropriate for local authorities. No change to the Code is therefore proposed, but subject to UK endorsement processes, adoption of the amended standard would be signalled in Appendices C and D of the Code.

Supplier Finance Arrangements	
Q7	Do you agree with the proposed approach not to require changes to the Code for *Supplier Finance Arrangements*? If not, why not? What alternatives do you suggest?

4.5 Other issues arising from the implementation of new standards: application of IFRS 16 to service concession arrangement (PFI PPP) liabilities on first time application

35. Chapter 4 of the 2024/25 Code will include requirements for the implementation of IFRS 16 *Leases* in line with material presented in Appendix F to the 2023/24 Code and previous Codes.

36. Appendix F sets out the required approach which lessees must use on transition to IFRS 16 at paragraphs 4.2.2.95 to 4.2.2.105.

A lessee shall apply IFRS 16 to its leases retrospectively with the cumulative effect of initially applying IFRS 16 recognised at the date of initial application.

and

For leases that were classified as finance leases applying IAS 17, the carrying amount of […] the lease liability at the date of initial application … shall be the carrying amount of the […] lease liability immediately before that date measured applying IAS 17.

37. Appendix F also sets out requirements for the IFRS 16 approach to be applied to service concession arrangements, which in previous Codes have been accounted for in line with the treatment of finance leases in IAS 17 *Leases*. Paragraph 4.3.2.44 explains that the required approach on transition shall follow the requirements for lease liabilities in Section 4.2.

38. The treatment of lease liabilities under IFRS 16 is very similar to the treatment of finance lease liabilities under IAS 17, but there are some differences. The main difference is in the treatment of ‘variable payments that depend on an index or a rate’. Under IAS 17 these are expensed as ‘contingent rent’, whereas under IFRS 16 these are incorporated into the liability (and subsequently amortised), based on the most recent index or rate. The same considerations apply to service concession arrangement liabilities, to the extent that variable payments in the unitary charge are allocated to the asset rather than as payment for services.

39. The transition approach used in the Code and other UK public sector financial reporting is the ‘cumulative catch up’ or ‘modified retrospective’ approach set out in IFRS 16 C5(b). It is a practical expedient which avoids the need for comparative information and allows simple carry over of closing balances. There is a downside

compared to the alternative 'full retrospective' transition approach set out at IFRS 16 C5(a), in that the implementation of the improved measurement approach can be delayed until the next time a change in the variable payment is triggered by a movement in the index or rate.

40. Generally, CIPFA/LASAAC is content with the use of the practical expedient as applied to leases: this helpfully reduces the burden on preparers while applying a consistent approach across the public sector.

41. However, consideration of the effect on service concession arrangements in central government and the health sector has determined that deferring the application of IFRS 16 remeasurement until the next variable payment trigger is problematic. Many service concession arrangements are subject to indexation on an annual basis, and the trigger for change will often not be on 1 April and might be as late as 31 March. Similar contracts with similar payment levels could be accounted for quite differently in the first year of transition, while being accounted for almost identically in subsequent years.

42. In the interests of consistent treatment, the Government Financial Reporting Manual (FReM) and the DHSC Group Accounting Manual (GAM) have specified a modified approach which they consider consistent with IFRS 16 C5(b). While the opening balance is initially calculated on an IAS 17 basis on 1 April, the liability is then subject to immediate further remeasurement to reflect the effect of the index or rate on payments, based on the position at the end of the previous reporting period.

43. CIPFA/LASAAC notes that similar considerations will apply to local authority service concession arrangements. It is desirable for similar treatments to apply to similar arrangements, having regard to consistency and comparability within local government and across the public sector. For this reason, CIPFA/LASAAC proposes to take a similar approach to the FReM and GAM, mandating remeasurement on the date of initial application, rather than allowing remeasurement to be deferred until the next change in payments. This would also mean that no adjustments are needed in WGA returns.

Service concession arrangement transition arrangements	
Q8	Do you agree with the proposed amendments to the transition arrangements for service concession arrangement (PFI PPP) liabilities? If not, why not? What alternatives do you suggest?

Section B

5. IFRS 17 *Insurance Contracts*

5.1 Introduction

44. IFRS 17 *Insurance Contracts* will supersede IFRS *4 Insurance Contracts*. IFRS 4 is one of the small number of IFRSs that are only expected to apply to local authorities in limited circumstances. The Code does not include detailed accounting requirements for such standards, which are simply listed in Appendix A (IFRSs with limited application to local authorities) with a brief explanation.

45. Following some amendments, IFRS 17 has a revised effective date of 1 January 2023. It has been UK-adopted and therefore could be implemented in the Code. CIPFA/LASAAC understands that due to the impact this might have on some bodies, mandatory implementation in the public sector will be deferred to the 2025/26 year, with early adoption allowed subject to consideration on a case-by-case basis.

46. The IASB is clear that IFRS 17, like IFRS 4, is designed for insurance companies. In its fact sheet it indicates:

    IFRS 17 applies to insurance contracts. Although this means that IFRS 17 affects any company that writes insurance contracts, such contracts are generally not written by companies outside of the insurance industry. (IASB, May 2017)

47. CIPFA/LASAAC has included a summary of the key aspects of the standard in Figure 1 below.

Figure 1: Key aspects of IFRS 17 *Insurance Contracts*

Key aspects of IFRS 17 are as follows:

- An insurance contract is one in which the issuer accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
- Significant insurance risk is a risk, other than a financial risk, transferred from the holder of the contract to the issuer (ie from the policyholder to the insurer). Significant insurance risk is measured only by reference to the scale of the potential compensation. The probability of the event occurring is not considered: even an extremely unlikely event can be a ‘significant insurance risk’ and require reporting to follow IFRS 17.
- IFRS 17 may apply to contracts that are not specifically titled as insurance contracts and/or are not considered to be primarily concerned with ‘insurance’.
- Several scope exclusions are specified where other standards are considered to be applicable.

48. IFRS 17 has been consulted on in four previous consultations, each of which has raised new issues, while not challenging the view that the Code should not change its approach from that currently used for IFRS 4 *Insurance Contracts*. Additional guidance outside the Code may be appropriate, including guidance on how the scope exclusions in IFRS 17 allow other standards to be applied to transactions which would otherwise be accounted for under IFRS 17.

49. Nevertheless, CIPFA/LASAAC is keen to hear from stakeholders to consider whether there are issues which need to be addressed in the Code or in related guidance.

IFRS 17 *Insurance Contracts*	
Q9	Do you agree with CIPFA/LASAAC's approach to the implementation of IFRS 17 *Insurance Contracts* in the Code? If not, why not? What alternatives do you suggest?
Q10	Do you agree with the timing of the implementation of IFRS 17 *Insurance Contracts* in the Code ie in the 2025/26 Code? If not, why not? What alternatives do you suggest?

Section C

6. CIPFA/LASAAC's strategic work plan

6.1 Introduction

50. CIPFA/LASAAC has updated its strategic work plan with an intended focus on improving the presentation of local authority financial statements and ensuring that local authority accounts clearly present their key messages. However, CIPFA/LASAAC's work on its strategic plan will be set against the limited changes discussed in Section 2 of this ITC, unless any changes will assist with the resource issues faced by accounts preparers and/or local auditors.

6.2 CIPFA's Better Reporting Group

51. The Better Reporting Group is in the early stages of commencing its work and building up its membership. Its current membership has agreed its first three projects:

- Assisting local authorities with IFRS 16 *Leases* disclosures; this project commenced in July 2023.
- Considering effective presentation of the statutory adjustments; this project is anticipated to commence in September 2023.
- Group accounts and their effectiveness in presenting statutory adjustments; project commencement to be decided.

52. CIPFA/LASAAC is committed to ensuring that the key messages in the financial statements can be communicated to council taxpayers and members as representatives of service recipients. It notes that the government, though supportive, has deferred the work on the Redmond Recommendations for the Standardised Statement of Service Information and Costs until more stability exists in the local audit framework. CIPFA/LASAAC will continue its work into whether summarised financial information at the front of the narrative report will act as a medium to promote the key messages in the financial statements.

6.3 Overview of performance and summary financial information

53. CIPFA/LASAAC is of the view that the financial statements and the narrative report which accompanies them should be able to communicate the key messages of financial performance to service users and council taxpayers. The Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting undertaken by Sir Tony Redmond recommended in 2020 that a standardised statement of service information and cost be produced to communicate the key messages to service users and council taxpayers. CIPFA/LASAAC is aware that because of the numerous pressures on the local audit system, government has decided to delay the production of this statement.

54. CIPFA/LASAAC is of the view that the financial statements and the narrative report should communicate the key messages of financial and operational performance and the financial position of local authorities and therefore has decided to progress this in the narrative report. This should fulfil most of the aims of the standardised statement.

55. CIPFA/LASAAC therefore has considered practice in the UK public sector and has considered the overview of performance section which is included in the Government Financial Reporting Manual (FReM). The aim of this part of the performance report is to give the user a short summary that provides them with sufficient information to understand the organisation, its purpose, the outcomes it wants to achieve, its objectives, its performance against delivering those outcomes and/or objectives and both the impact and management of key risks. Crucially the performance overview (including commentary on financial resilience) should be enough for the lay user to have no need to look further into the rest of the annual report and accounts, unless they were interested in further detail or had specific accountability or decision-making needs.

56. CIPFA/LASAAC is of the view that such an overview of performance accords with its own aims of communicating local authority performance to the community and the objectives of the Redmond Review's recommendations of being able to communicate local authority performance to the service user and council taxpayer. As a part of the narrative report this would be subject to the assurance framework for the document. Note that the overview of performance should not duplicate the elements of the narrative report but should provide a summary of the relevant parts of it in a way which can engage with the lay user of the accounts.

57. In addition, as a separate part of the narrative report local authorities could issue the performance overview and summary financial information separately to communicate performance to council taxpayers and service users.

58. CIPFA/LASAAC has also been keen that financial performance and the financial position of the authority is clearly communicated to council taxpayers and service users. It has therefore included in this section summary financial information which will reconcile to the information produced in the financial statements and as a part of the accountability framework will also be a continuation of the reported financial performance following on from the council tax leaflets produced by the council. Summary financial information will include key financial elements of performance and demonstrate at a high level the financial position of the council.

59. The proposals for summary financial information include:

a) A **summary of service outturn** per service in comparison to an authority's **budget as reported in the council tax leaflet** and reconciled to the amounts charged to a revenue account in accordance with statutory provisions ie the reported surplus or deficit per paragraph 3.4.2.105 I) c) in the expenditure and funding analysis. This will be accompanied by the explanations of major variances from the budget reported in the council tax leaflet.

b) Where applicable an analysis of outturn against spend shall be provided for the **Housing Revenue Account**. This will be accompanied by the explanations of major variances in the budget reported to housing rent payers.

c) A summary of the local authority's **financial position** based on its reported Balance Sheet per paragraph 3.4.2.62 including minimum requirements.

d) An analysis of an authority's **usable reserves**.

e) An authority's **capital expenditure** for the current and preceding year and forecast for the following three years. A short explanation of the authority's capital programme including major capital projects.

f) The authority's **underlying need to borrow** to finance capital expenditure ie its reported capital financing requirement in accordance with paragraph 4.1.4.3 5); borrowing as a proportion of a council's total income for the current and preceding year and forecast for the following three years and an explanation of what the trends indicate in terms of capital financing.

g) A summary of any significant commercial activities and their risks.

60. CIPFA/LASAAC is of the view that this should provide sufficient financial information for the users of the accounts and should promote accountability. However, it would seek stakeholders' views on whether this information is sufficient to demonstrate key elements of financial performance and financial position to local authority users of the accounts. As with the overview of performance this will permit that any users that are interested in any specific aspect of financial performance, financial position or capital financing to consider those aspects in more detail in the financial statements themselves.

Overview of performance and summary financial information	
Q11	Do you agree with CIPFA/LASAAC's proposals to add a new section to the narrative report overview of performance and summary financial information? If not, why not? What alternatives do you suggest? Please set out the reasons for your response.
Q12	Do you agree that these new specifications should be voluntary for 2024/25? If not, why not? What alternatives do you suggest?
Q13	Do you agree with the content of the overview of performance? If not, why not? What alternatives do you suggest?
Q14	Do you agree with the proposals for the inclusion of summary financial information? If not, why not? What alternatives do you suggest? Please set out the reasons for your response.
Q15	Do you agree with the list of specifications for summary financial information? If not, why not? What alternatives do you suggest? Please set out the reasons for your response.

6.4 Changes to the structure/format of the Code

61. As reported in last year's ITC, CIPFA/LASAAC would note that the Code, though updated regularly and kept under constant review, has not had significant amendments to its structure and format since its inception in 2010/11 (the 2010/11 Code was issued in September 2009) to ensure that users were familiar with its structure and content. CIPFA/LASAAC would note that the ways in which information is communicated to the public sector more generally has gone under significant change since then. The Code is provided in hard copy and PDF.

62. CIPFA is considering its electronic platform for its services which will be able to include the Code. Therefore, it will be important that the Code's information and the accessibility of its format is reviewed.

63. CIPFA/LASAAC has now established its objectives for the structure and format of the Code. They are that it:

- supports CIPFA/LASAAC's objective to promote high-quality financial reporting and specifically its vision statement (see Annex 1) and strategic themes, in accordance with the relevant authority memorandum of understanding (terms of reference) available on the CIPFA/LASAAC webpage

- ensures that its users can understand how local authorities can achieve the reporting of a true and fair view of its financial position, performance and cash flows

- supports local authorities in ensuring that they can communicate the key messages of the financial statements to local authority users of the financial statements

- is the principal source of local government financial and narrative reporting including the reporting of financial performance

- is structured so that its provisions are readily accessible to its users

- clearly sets out where local government circumstances (and therefore reporting requirements) differ from both the private sector and in some cases the rest of the public sector, so ensuring that the adaptations and interpretations of UK-adopted IFRS are readily understood

- identifies all of the reporting requirements for local authorities across the UK (including separate statutory reporting requirements for each of the devolved administrations and England).

64. CIPFA/LASAAC would seek views on possible issues relating to a Code restructure and format as outlined in the following paragraphs below.

65. **Accessibility** – does the Code's structure and format allow its provisions to be both easily understood and usable? If practitioners have specific views on this issue, it would be useful if they could explain the issues that arise and how they consider this might be addressed.

66. **Approach to content of IFRS as adapted or interpreted for the public sector context** – different views have been expressed on the approach to this in the Code; some commentators have indicated that an approach more akin to the FReM, where the detailed provisions of standards are not presented, should be pursued. Alternatively other commentators have preferred a continuation of the current approach in the Code which does provide detailed text regarding IFRS implementation. CIPFA/LASAAC would be interested in whether the later approach assists and supports the finance community in reducing, but not removing, the need to refer to the underlying accounting standards. Note some accounts preparers have indicated that they would prefer as much as possible that the accounting prescriptions for local authorities are accessible in one place.

67. **Adaptations and interpretations** are an important element of the Code's provisions. CIPFA/LASAAC would wish to understand if adaptations and interpretations of standards affecting application for UK local government are clearly presented and easily identified in the Code.

68. **Structure of the Code** – the current structure of the Code is set out in the first column in the table below. There is good logic to its structure but there are some chapters which are long and covering wide areas, particularly Chapters 3, 4 and 6; arguably key guidance might be more difficult to locate. There are other chapters such as 5 and 8 which are more akin to concepts and principles. An alternative possible structure might be to follow the order in which the financial statements (including the reports/statements which accompany them) are presented by local authorities to their users. Although there are more chapters in the possible future structure it is anticipated that these will be more focused on the main requirements and therefore more accessible for accounts preparers. CIPFA/LASAAC would welcome views on whether a new structure to the Code might be preferable and on the suggested future structure.

Table 01

Current structure		Suggested future structure	
1	Introduction	1	Introduction
2	Concepts and principles	2	General principles of accounts preparation
3	Financial statements	3	Narrative report
4	Non-current assets	4	Comprehensive Income and Expenditure Statement (including the HRA)
5	Current assets	5	Movement in Reserves Statement (MiRS)
6	Employee benefits	6	Balance Sheet
7	Financial instruments	7	Cash Flow Statement
8	Liabilities	8	Pension fund accounts
9	Group accounts	9	Group accounts
		10	Material accounting policies
		11	General notes to the accounts
		12	Non-current assets
		13	Employee benefits
		14	Financial instruments

69. **Statutory accounting provisions** – these are currently included in most sections and chapters of the Code. Many emanate from the same provisions, but all of these will be subject of the statutory adjustment line in the Movement in Reserves Statement. These could therefore be simplified and included in the new chapter on the MiRS and this might improve the understandability of how the Code interprets the statutory adjustments.

Format and structure of the Code	
Q16	Do you have any comments on the structure and format of the Code in relation to accessibility? Please set out the reasons for your response.
Q17	In terms of the approach to content of IFRS as adapted or interpreted for the public sector context, are you content with the current approach in the Code or would you prefer the drafting to be more like that of the FReM? Please set out the reasons for your response.
Q18	Are the adaptations and interpretations of standards affecting application for UK local government clearly presented and easily identified in the Code? Please set out the reasons for your response.
Q19	Do you agree with the suggested revised structure of the Code? If not, why not? What alternatives do you suggest? Please set out the reasons for your response.
Q20	Do you agree that the specifications for statutory adjustments should be brought together in one place in the Code, ideally alongside the provisions for the Movement in Reserves Statement? If not, why not? What alternatives do you suggest? Please set out the reasons for your response.
Q21	Are there any other issues relating to the structure and format of the Code? Please set out the reasons for your response.

6.5 Sustainability reporting

70. CIPFA/LASAAC is considering how best to support local authorities in any move to sustainability reporting. Currently this is not explicitly included in CIPFA/LASAAC's terms of reference, but it is considering whether it should be. CIPFA/LASAAC is considering how best to take forward sustainability reporting for UK local government. Stakeholders will be aware of the importance of reporting the impact of sustainability on organisations and that there are significant national and international developments.

71. Stakeholders may be aware that the International Sustainability Standards Board has confirmed the use of Task Force on Climate-Related Financial Disclosures (TCFD) architecture for the basis of its standards. Following the scoping and research phase, the IPSASB decided to move forward with the development of a public sector specific Climate-Related Disclosures standard at its June 2023 meeting and has published a Climate-Related Disclosures project brief.

72. It is notable that there is a separate working group which sits under the Financial Reporting Advisory Board and FRAB was broadly supportive of HM Treasury's proposal to adopt (TCFD-) aligned disclosure in public sector reporting and the public sector as a whole.

73. Also in the UK and following an NAO report on the same topic in November 2022, the Public Accounts Committee issued its report Measuring and reporting public sector greenhouse gas emissions which reported on the quality of emissions in central government.

74. CIPFA has developed an initial guide on this area, *Public sector sustainability reporting: time to step it up*, issued in April 2023. This and other relevant material are available on the dedicated webpage Sustainability reporting in the public sector.

75. CIPFA/LASAAC is of the view that local government sustainability reporting should follow international and UK public sector best practice, but is of the view that in several areas it is not yet well developed. It would seek stakeholders' views on how best to do this.

Sustainability reporting	
Q22	What do you consider is the best approach to the introduction of sustainability reporting in local government? Please set out the reasons for your response.

Section D

7. Other financial reporting or emerging issues

7.1 Introduction

77. CIPFA/LASAAC considers that it would be helpful to introduce a new section to the Code consultation featuring issues which impact on local authority financial reporting or are emerging financial reporting issues.

7.2 Local audit and accounting issues in England

78. CIPFA/LASAAC recognises that accounts preparation for the 2024/25 financial year is substantially dependent on information in previous years' financial statements, and is aware that the current very serious delays mean that many of these have yet to be finalised and published as audited accounts.

79. Stakeholders will be aware that in 2022 CIPFA/LASAAC pursued some initiatives seeking to help preparers and auditors. The Board can only work through legitimate process in the development of the Code in accordance with the statutory and financial reporting frameworks (ie an appropriate Generally Accepted Accounting Practice framework) and the Board's terms of reference. Nevertheless, CIPFA/LASAAC would invite comments on any matters which the Board could pursue, subject to these constraints.

80. The letter to the Chair of the Levelling-up Housing and Communities referred to in paragraph 20 also indicated that changes to the Code would be explored for the medium and long term, in order to enable a more proportionate approach to the accounting requirements for non-investment assets and pension reporting for a local authority context and (for assets) considering the HM Treasury Thematic Review of Non-Investment Assets.

81. CIPFA/LASAAC would argue that it has consistently sought an approach to local authority reporting which supports the needs of the users of the accounts in accordance with its Terms of Reference and Vision Statement in Annex 1. However, in the interest of supporting the local audit system, it has agreed to set up a sub-group to fast track consideration of options to facilitate the relevant changes. It is anticipated that this group will enable CIPFA/LASAAC to issue a consultation paper in the autumn of 2023 but note that the timetables will be dependent on the outcomes of the HM Treasury Thematic Review on Non-Investment Assets.

82. In the meantime, CIPFA/LASAAC would seek general views on changes to financial reporting to support the local audit system.

Local audit and accounting issues	
Q23	Do you have any views on where accounting can be changed to ease the burden on the local audit and accounts preparation system? Please set out the reasons for your response.

7.3 Statutory specifications for local authority financial reporting

83. CIPFA/LASAAC considers that there is a place for statutory specifications. From a technical perspective accrual accounting in accordance with standards should meet the reporting needs of most organisations. However, adjustments from those amounts determined by accounting standards to an adjusted basis used for council tax and budget setting requirement is part of the financial performance reporting of local authorities.

84. The current system of statutory adjustments (sometimes referred to as statutory overrides) brings together the financial performance determined by accounting standards and the adjusted performance basis used in the council tax setting process, both of which provide relevant information. The adjusted basis used for council tax setting:

- protects council taxpayers from volatility which may arise from capital finance transactions, accounting for pensions and financial instruments
- reflects the government reporting requirements for information on capital and revenue spending
- supports government policy for financing transformation
- is used as a mechanism by government to provide support to local authorities in significant financial difficulty.

85. However, CIPFA/LASAAC is of the view that statutory adjustments should be limited to where circumstances or transactions in local government are different from other entities and make the requirements of IFRS unsuitable or there is a need to avoid perverse outcomes that impact on local government finances.

86. CIPFA and CIPFA/LASAAC have some concerns about the impact on financial reporting, the risks and the resource implications of two of the recently reinstated amendments to the capital finance regulations and is of the view that local authorities should be extremely cautious about the risks and financial consequences of the transactions to which the regulations apply.

Fair value gains and losses on pooled investments (England and Wales)

87. In 2018 a new regulation was inserted into the Local Authorities (Capital Finance and Accounting) Regulations 2003 to provide that a local authority must not charge an amount to its revenue account to reflect any fluctuation in the fair value of a local authority's investment in a pooled investment fund. Instead, such amounts must be recorded in a separate account established and usable solely for that purpose. This regulation applies to accounts prepared for financial years in respect of the period beginning on 1 April 2018 and ending on 31 March 2023 and have been reflected in the Code. Equivalent provisions were inserted into the Welsh Regulations. Both the English and Welsh Regulations have been extended to 31 March 2025.

88. CIPFA and CIPFA/LASAAC are of the view that generally there should not be a statutory override of IFRS 9 *Financial Instruments* and that fair value movements on pooled investments should be recognised in General Fund balances.

89. In their joint response to the consultation on Future of the IFRS 9 Statutory Override, CIPFA and ICAEW supported a very limited extension because of the economic

volatility, including that arising from the COVID-19 pandemic, the financial pressures facing many local authorities and recent high-profile financial management failures in local government highlight the importance of high-quality reporting and risk management in this sector.

90. IFRS 9 was introduced to address an issue in financial reporting that meant investment risks might not be fully reported. CIPFA and CIPFA/LASAAC are concerned that the statutory override results in less transparent reporting as the fair value movements are not immediately charged to General Fund balances. This increases the possibility that local authorities might not be able to effectively manage their investment risks, because it means fair value movements do not have an immediate impact on usable reserves. The override also exposes local authorities to the risk of significant impacts on the general fund in the future, such as when the investments mature, or they choose to withdraw.

91. Note that as a time limited extension local authorities should be aware that at the end of the statutory override the authority would need to ensure balances within reserves (fair value movements) are transferred to the General Fund. There is very little in the regulations about what happens once the override has elapsed, but CIPFA anticipates that it will provide appropriate guidance via its Bulletins or through the Code Guidance Notes and would be happy to discuss this with government. CIPFA would suggest that authorities relying on the override consider the current balances in reserves relating to the overrides and the impact this will have on General Fund balances when they end. Local authorities may need to set up contingencies to manage any adverse movements and balances on the reserve.

92. It will be a decision of the authority as to how such instruments are classified. CIPFA/LASAAC would anticipate that they are currently classified at fair value through profit or loss and would note that the removal of the statutory instrument does not represent a case for a change in classification.

93. For new investments in such financial instruments previous CIPFA/LASAAC consultations indicate that it is by no means clear that there is a case for classification at fair value fair value through other comprehensive income and both CIPFA and CIPFA/LASAAC believe that designating the instruments at FVTOCI would be inappropriate as this accounting policy choice should be limited to strategic investments.

Dedicated Schools' Grant (England)

94. On 6 November 2020, the secretary of state for the then Ministry of Housing, Communities and Local Government (MHCLG), now DLUHC, laid before Parliament a statutory instrument, the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020. The regulations provided that where a local authority has a deficit on its school budget, the authority must not charge any such deficit to its revenue account. Instead, the regulations provide that local authorities must charge any such deficit to a separate account, established and usable solely for that purpose. The regulations apply to accounts in the financial years 2020/21, 2021/22 and 2022/23, and provide formulas for calculating whether a local authority has a schools' budget deficit in relation to each such financial year.

95. The regulations have now been extended to have effect until 31 March 2026. CIPFA/LASAAC understands the rationale behind the extension but is concerned,

particularly where in some authorities the deficits are larger than General Fund balances, that the regulations obscure the resource position at 31 March of local authorities. It is of the view that even though the regulations are in place that local authorities should ensure that the statement of the accounts and the narrative report should clearly explain the resource position of the authority and the impact of the use of the override.

96. CIPFA and CIPFA/LASAAC are also of the view that significant steps should be taken by the authority to anticipate the end to the regulations on DSG and General Fund balances. Planning for the end of the regulations should feature in any medium-term financial plans. CIPFA and CIPFA/LASAAC are also of the view that section 151 officers would need to consider the resource implications and risks to their position regarding the use of the DSG adjustment account in their reports on the robustness of estimates under Section 25 of the Local Government Act 2003.

97. Paragraph 2.3.3.13 of the Code established a separate account to accommodate the provisions of the regulations and will need to be removed as the provisions will no longer apply. CIPFA will work with DLUHC and the Department for Education to set out the accounting treatment to accommodate the changes.

Statutory specifications for local authority financial reporting	
Q24	CIPFA/LASAAC would seek local authority views on their approach to investments in pooled investments and what the future approach might be to accounting for these investments when the statutory overrides come to an end? Please set out the reasons for your response.
Q25	CIPFA/LASAAC would seek the views on the impact of the DSG on financial reporting and local authority plans for the end of the amendments to the regulations. Please set out the reasons for your response.

7.4 Recognition of the net defined benefit pensions asset

98. A new issue which has emerged at the end of the 2022/23 financial year is the fact that IAS 19 *Employee Benefits* reports for pensions have resulted in surpluses. IAS 19 is clear that the recognition of a net defined pension asset is limited to that which is realisable, and this is also as interpreted by IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The Code requires the application of IAS 19 and the IFRIC as outlined in paragraph 6.4.3.27 below.

The defined benefit liability determined under paragraph 6.4.3.26 may be negative (ie an asset). Where this is the case there is a limit on the amount that can be recognised on the Balance Sheet as an asset. Any minimum funding requirement of the pension plan may also affect the amount that can be recognised as an asset. Where paragraph 6.4.3.26 indicates a negative liability (ie an asset), the amount to be recognised on the Balance Sheet shall be determined in accordance with IAS 19 paragraph 64 and IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

99. CIPFA/LASAAC would note that this paragraph has remained unaltered for some time (since the last major amendments to IAS 19) and was drafted when such surpluses were not anticipated. CIPFA/LASAAC would therefore seek views on whether any additional specifications are required in the Code or specific application guidance produced.

Recognition of the net defined benefit pensions asset	
Q26	What are your views on the Code's provisions in relation to the asset ceiling and the recognition of the net defined benefit pensions asset? Please set out the reasons for your response.

7.5 Changes to IPSAS standards which could impact on the Code

100. The Code includes interpretations of IFRS based on IPSAS in several sections of the Code. The terms of reference for relevant authorities allow for this where IFRS does not adequately accommodate public sector specific local government transactions. These interpretations largely help reflect the local government context but do not change IFRS.

101. The IPSASB have recently issued the following standards:

- **IPSAS 45 *Property, Plant, and Equipment***: this standard replaces IPSAS 17 *Property, Plant, and Equipment* by adding current operational value as a measurement basis, identifying the characteristics of heritage and infrastructure assets, and adding new guidance on how these should be recognised and measured.

- **IPSAS 46 *Measurement***: this standard introduces current operational value, a public sector specific current value measurement basis addressing views that an alternative to fair value is needed for certain public sector assets.

- **IPSAS 47 *Revenue***: This standard presents two accounting models based on the existence (or otherwise) of a binding arrangement. Broadly speaking, binding arrangements allow an IFRS 15 *Revenue from Contracts with Customers* five step model approach to be applied to exchange transactions and some non-exchange transactions. A different model is used where there is no binding arrangement. IPSAS 47 supersedes IPSAS 9 *Revenue from Exchange Transactions*, IPSAS 11 *Construction Contracts* and IPSAS 23 *Revenue from Non-Exchange Transactions*.

- **IPSAS 48 *Transfer Expenses***: This standard provides accounting guidance for transfer expenses (including government grants).

IPSAS 45 and 46 are effective from 1 January 2025, while IPSAS 47 and 48 are effective from 1 January 2026.

102. CIPFA/LASAAC will review all these standards and related changes to the IPSASB Conceptual Framework to consider whether they will assist with the interpretation of the public sector context for local government. The changes in IPSASs 46 and 47 may also be useful in its consideration of the changes that might

be progressed because of HM Treasury's Thematic Review of Non-Investment Assets. CIPFA's response to the HM Treasury review, dated 23 May 2023, is available on our responses to accounting and auditing standards consultations webpage.

103. There will need to be a significant review of the drafting of the Code, which currently makes many references to IPSASs which will be superseded. Particular consideration will need to be given to Section 2.3 of the Code (Government and Non-Government Grants) which relies on IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* particularly for recognition and presentation specification. CIPFA/LASAAC will also review the material referencing IPSAS 42 *Social Benefits* in paragraph 8.2.1.12. It is anticipated that the new standards IPSAS 47 and 48 will align with the Code's approach to asset measurement. The new IPSAS 45 may provide a clearer basis for some transactions which have a combination of exchange and non-exchange characteristics, and the new IPSAS 48 may help articulate the Code requirements for grants paid. It is not clear at this stage whether the new standards will prompt consideration of substantive changes to Code requirements.

104. CIPFA/LASAAC would seek stakeholders' views on the impact of the new standards on the Code's provisions.

Changes to IPSAS standards which could impact on the Code	
Q27	Do you have views on the impact of new IPSAS on the specifications of the Code as they augment the interpretations of the local government context? Please set out the reasons for your response.

8. Further guidance

105. CIPFA/LASAAC would be interested to hear respondents' views on whether there are any areas within the Code where, either due to difficulties in application or as a result of policy developments, additional guidance or improvements to the Code could helpfully be provided. This will help to inform the development programme for future editions of the Code, or where relevant and where more guidance might be required, be referred to the Accounting and Financial Reporting Forum.

106. CIPFA/LASAAC would also wish to remind stakeholders that comments or suggestions regarding the Code can be submitted to cipfalasaac@cipfa.org at any time. Please note that this is not an advice or enquiries service.

Other areas where additional guidance might be required	
Q28	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 amendments you would suggest.

Annex 1 – CIPFA/LASAAC's vision statement and key aims

Vision statement

UK local authority annual accounts should be widely recognised as an exemplar for clear reporting of the financial performance and position of complex public sector bodies. Users of accounts should be able to access the information they want to help them to understand the finances of an authority and to take practical and informed decisions.

Vision Implementation

To deliver the above vision, CIPFA/LASAAC has three strategic themes:

A. Ensuring that the annual accounts clearly articulate their key messages regarding their financial performance and position.

B. Engaging with stakeholders to raise awareness and understanding.

C. Reviewing its operations to ensure it is able to deliver its vision.