CIPFA The Chartered Institute of Public Finance & Accountancy

report

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Committee	CIPFA/LASAAC
Venue	Robert Street, London
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The purpose of this report is to seek the views of CIPFA/LASAAC members regarding the changes that will be required to the 2015/16 Code of Practice on Local Authority Accounting

1 Summary

1.1 This report seeks CIPFA/LASAAC's approval for the development programme for the 2015/16 Code of Practice on Local Authority Accounting. The Secretariat recommends that the process used to develop the Code in previous years is maintained.

Legislative Developments

1.2 The Secretariat recommends that the following anticipated legislative changes are included in the development programme:

- Accounts and Audit (England) Regulations,
- Local Authority Accounts (Scotland) Regulations 2013,
- Accounts and Audit (Wales) Regulations, and
- Self-Financing for the Housing Revenue Account in Wales.

Management Commentary

1.3 Following CIPFA/LASAAC's previous deliberations on the introduction of improved provisions for the management commentary and new legislative developments in Scotland and on the basis of the current encouragement approach in the Code, the Secretariat recommends that the development programme include options for an improved management commentary in the 2015/16 Code.

Accounting Developments

1.4 CIPFA/LASAAC has already made the decision on the deferral of IFRS 13 to the 2015/16 Code. The Secretariat recommends that in addition the following financial reporting standards or amendments to standards are included in the development programme:

- Annual improvements to IFRSs 2010 – 2012,
- Annual improvements to IFRSs 2011 – 2013,
- IFRIC 21 *Levies Charged by Public Authorities on Entities that Operate in a Specific Market*,
- IAS 19 Employee Benefits (Employee Contributions), and
- UK GAAP FRS 102 the financial reporting standard applicable in the UK and Republic of Ireland (amendments to the Heritage Assets and Value Added Tax sections of the Code).

1.5 In addition, the Secretariat will keep under review all those financial reporting standards or amendments to financial reporting standards that are anticipated to be issued in 2014 for inclusion in the Code, as set out in the detailed discussion. This will also be subject to the likelihood of EU adoption. The Secretariat will update CIPFA/LASAAC on these developments at its June meeting.

1.6 CIPFA/LASAAC Members are invited to approve the development programme and add any areas it considers should be included.

Recommendation

CIPFA/LASAAC is asked to agree which developments are to be incorporated into the 2015/16 Code.

Detailed Discussion

2 Introduction

2.1 At its November 2013 meeting CIPFA/LASAAC noted a report on the changes that will be required to the *Code of Practice on Local Authority Accounting in the United Kingdom* for 2015/16. This report provides an update on developments in legislation and financial reporting standards since that meeting enabling CIPFA/LASAAC to consider the modifications it requires to the 2015/16 Code and establish the development programme for the year.

2.2 The 2014/15 Code was developed to incorporate:

- any known legislative changes,
- changes in relation to pronouncements by CIPFA and other bodies; and
- new accounting standards that have a mandatory commencement date of 1 January 2015 or earlier (though members will be aware of the developments in relation to IFRS 13).

The Code has not been developed incorporate other financial reporting or accounting standards ahead of their effective date.

2.3 It is recommended that CIPFA/LASAAC maintain this approach in developing the 2015/16 Code.

2.4 The consultation on the 2014/15 Code sought local authorities' views on areas where further guidance might be needed. This question did not identify any further relevant areas for the Code.

2.5 The 2015/16 Code will also need to include the deferred provisions on IFRS 13 *Fair Value Measurement.* This is considered elsewhere on this agenda.

2.6 CIPFA/LASAAC has also had in its development programme since the 2013/14 Code review of disclosures required for local authorities as a result of the Whole Government Accounts (WGA). However, the Secretariat recommends that this will need to follow the outcomes of the streamlining and simplification project (see also the separate item on this agenda).

2.7 CIPFA/LASAAC members are asked for their views on these proposals and to suggest any other items which in their view should be incorporated into the 2015/16 Code.

2.8 This report also provides details in Appendix A of developments being undertaken which are expected to be relevant to the development of the Code for 2016/17 or later years.

3 Changes in legislation that are expected to impact on the 2015/16 Code

3.1 The following outlines the legislation and other policy initiatives that are anticipated to impact on the 2015/16 Code.

Accounts and Audit (England) Regulations

3.2 The Local Audit and Accountability Act 2014 received Royal Assent in January this year. The *Future of Local Audit - Consultation on Secondary Legislation* issued in November last year anticipated that new regulations under the Act would be issued for consultation "later in 2014". It is possible that these regulations will apply to the 2015/16 Code. The consultation raised a number of issues on the approach to the new Accounts and Audit Regulations. The consultation may be accessed by means of the following link: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/260929/Future_of_Local_Audit_-_Consultation_on_secondary_legislation__2_.pdf.

Local Authority Accounts (Scotland) Regulations 2013

3.3 The consultation on these regulations closed in October 2013. The consultation indicated that the regulations would be effective for 2013/14 financial year. The implementation date of the new regulations has been discussed previously at CIPFA/LASAAC and LASAAC. The consultation paper's proposals include:

- The requirement for local authorities to review the effectiveness of their systems of internal control. Following this review a local authority in Scotland will be required to consider the findings of that review and issue a governance statement. The statement is to be published as a part of the annual statutory accounts.

- An enhanced role for council members for approval in the annual statutory accounts which requires a meeting of members either of the authority or by committee to consider the accounts.

- The introduction of the requirement to provide a management commentary with the financial statements

The proposals in the regulations have been subject of significant debate at LASAAC and these debates can be seen on the LASAAC pages of the CIPFA website: http://www.cipfa.org/regions/scotland/policy-and-technical/local-authority-scotland-accounts-advisory-committee/meetings-and-minutes.

The impact of the final version of these regulations will need to be reflected in the 2015/16 Code. In previous CIPFA/LASAAC meetings whilst debating the impact of these regulations LASAAC members of CIPFA/LASAAC have concluded that it will be appropriate that the changes brought forward in the regulations can be dealt with by means of application guidance, for example, a LAAP Bulletin as opposed to the issue of Code Update. The Secretariat concurs with this proposed approach and subject to CIPFA/LASAAC agreement the changes will therefore need to be taken forward in the 2015/16 Code.

Accounts and Audit (Wales) Regulations 2014

3.4 The consultation on these regulations closed in January 2014. It is likely that the regulations when issued in final form will apply to the 2014/15 financial year. It is anticipated that these regulations will apply to the 2015/16 Code. The Secretariat suggests the same approach proposed by LASAAC members for the Scottish regulations see 3.4 above is also used for the Welsh regulations. The changes in the Welsh regulations will therefore be brought forward in the 2015/16 Code. Changes are anticipated for:

- the new disclosure on median remuneration;

- the changes in the procedures for publication; and

- appropriate references to the new regulations.

Self-financing for the Housing Revenue Account in Wales

3.5 The Secretariat has previously highlighted for CIPFA/LASAAC members the introduction of the new self-financing regime for authorities in Wales with a Housing Revenue Account (HRA). In December, the Secretariat met with the Welsh Government for initial discussions on its proposals for a move to self-financing. The Welsh Government has confirmed that the introduction of its new self-financing regime will not take place until the 2015/16 financial year. It is likely that there will need to be changes to the format of the HRA statements for Welsh authorities. The Secretary has been invited to join the accounting stream working group established by Welsh government to develop the approach to self-financing for the HRA in Wales. It is possible that there will be other changes to the Code to reflect the new regime, the most obvious example being the capital accounting requirements.

4 Management Commentary

4.1 CIPFA/LASAAC reviewed the Code's provisions for a management commentary for the 2012/13 Code. It considered that the Code's provisions for an Explanatory Foreword needed augmentation following appropriate recommended practice. However, it agreed not to make any significant changes to the 2012/13 Code as at that time the legislative position for the narrative reporting requirements for local authorities was not clear. For example, the consultation on local audit arrangements in England suggested that the new audit regime might introduce requirements for local authorities to produce an Annual Report.

4.2 The Local Audit and Accountability Act 2014 does not introduce any requirements for local authorities in England to produce an Annual Report. At its June 2013 meeting CIPFA/LASAAC therefore considered it was appropriate to revisit its deliberations on the management commentary in the 2015/16 Code. This is reinforced by the Local Authority (Accounts) Scotland Regulations consultation proposals to introduce requirements for a management commentary to be provided with the financial statements as set out in paragraph 3.3 above.

4.3 The 2012/13 Code and subsequent editions did include encouragement to follow the government's Financial Reporting Manual (FReM's) provisions on the management commentary. It is suggested (and the consultation responses to the 2012/13 Code generally supported this) that any recommended approach aligns as far as possible with the reporting requirements for a management commentary in the FReM. In addition, under the *Memorandum of Understanding between the Relevant Authorities* (MoU) it may be useful to consider additional public sector guidance provided in the IPSASB *Recommended Practice Guideline on Financial Statement Discussion and Analysis* to support the development of any new provisions in the Code.

4.4 The Secretariat considers that it is important to note that a number of the consultation responses at that time did refer to the need to avoid overburdening the financial statements with excessive detail and appeared not to support any changes to the Explanatory Foreword which would extend their reporting requirements.

5. Other Guidance

5.1 At this stage, the Secretariat is not aware of any other definite proposals for other guidance that will affect the development of the Code for 2015/16 or later years, but will keep the situation under review.

6 Accounting Developments

6.1 The 2015/16 Code will require adoption of standards with an effective date between 2 January 2014 and 1 January 2015 and the deferred IFRS 13. At the time this report was drafted there a number of projects that have been completed by the IASB:

Completed Standards	
Standard	*Secretariat Comment*
Annual Improvements to IFRSs 2010 – 2012	

▪ IFRS 2 *Share-based Payment* – definition of vesting condition	Not likely to be applicable to local authorities.
▪ IFRS 3 *Business Combination*s – accounting for a contingent consideration in the business combination.	Whilst this may be applicable this is unlikely to be a major issue for local authorities.
▪ IFRS 8 *Operating Segments:* – aggregation of operating segments – reconciliation of the total of the reportable segments' assets to the entity's assets.	 A minor amendment to require entities to disclose those factors that are used to identify the entity's reportable segments when operating segments have been aggregated. This will require consideration for appropriate amendment in the Code. This amendment is intended to clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed, if that amount is regularly provided to the chief operating decision maker. Again section 3.4 the Code will need to be considered for appropriate amendment to reflect this change.
▪ IFRS 13 *Fair Value Measurement* – short-term receivables and payables.	This amendment will be included in the consideration of the approach to the adoption of IFRS 13.
▪ IAS 16 *Property, Plant and Equipment* – revaluation method – proportionate restatement of accumulated depreciation. ▪ IAS 38 *Intangible Assets* – revaluation method – proportionately statement of accumulated amortisation.	These amendments clarify the revaluation requirements in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* to address concerns about the calculation of the accumulated depreciation or amortisation at the date of the revaluation. Although only an improvement amendment this will be an important issue particularly for local authorities in relation to IAS 16.
▪ IAS 24 *Related Party Disclosures* – key management personnel services.	This amendment clarifies whether or not key management personnel could apply to an entity or whether it would only apply to individuals. These amendments will need to be considered in the Code.
Annual Improvements to IFRSs 2011 - 2013	
▪ IFRS 1 *First- time Adoption of International Financial Reporting Standards* – meaning of effective IFRSs'.	Not applicable to local authorities.

▪ IFRS 3 *Business Combinations* – scope exceptions for joint ventures.	This amendment is to clarify the scope of IFRS 3 ie that it ▪ excludes the formation of all types of joint arrangements as defined in IFRS 11 *Joint Arrangements* from the scope of IFRS 3; and ▪ the scope exception only applies to the financial statements of the joint venture or the joint operation itself. Although this may apply to local authorities it is unlikely to be a significant issue.
▪ IFRS 13 *Fair Value Measurement* – scope of paragraph 52 (portfolio exception).	This amendment will be included in the consideration of the approach to the adoption of IFRS 13.
▪ IAS 40 *Investment Property* – clarifying the interrelationship between IFRS 3 and IAS 40 classifying property as an investment property or an owner occupied property.	This amendment will apply to local authorities and may need to be considered for inclusion in the 2015/16 Code.
IFRIC 21: *Levies Charged by Public Authorities on Entities that Operate in a Specific Market*	The IFRIC provides guidance on accounting for levies in the financial statements of the entity paying the levy. This IFRIC will apply to local authorities, although it is unlikely to require significant amendment to the Code.
Defined Benefit Plans: Employee Contributions – Proposed Amendments to IAS 19 – Employee Benefits	This amendment clarifies the accounting treatment for contributions from employees or third parties set out in the formal terms of a defined benefit plan. This minor but important clarification will need to be reflected in the Code.

6.2 The following includes the list of standards or amended standards that may need to be included in the Code:

Standards anticipated to be issued imminently:	
Standard	*Secretariat Comment*
Acquisition of an interest in a joint operation (proposed amendments to IFRS 11).	The aim of this project is to add new guidance to IFRS 11 *Joint Arrangements* on accounting for the acquisition of an interest in a joint operation that constitutes a business. The amendment proposes that acquirers of such interests must apply the relevant principles on business combination accounting in IFRS 3 and other Standards.

Clarification of Acceptable Methods of Depreciation and Amortisation (proposed amendments to IAS 16 and IAS 38) Target IFRS in quarter 2 of 2013	This project is a limited-scope amendment to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* to prohibit the use of a revenue-based depreciation or amortisation methods. Although relevant this is unlikely to have a significant application to local authorities as they are unlikely to use revenue-based depreciation or amortisation, with the possible exception of social housing if authorities have chosen the DCF methodology.
Equity Method: Share of Other Net Asset Changes (proposed amendments to IAS 28	This amendment is intended to provide additional guidance to IAS 28 *Investments in Associates and Joint Ventures* on the application of the equity method. This amendment will apply to local authorities.
Bearer plants (proposed amendments to IAS 41)	It is unlikely that this will have significant impact on the Code.
Sale or contribution of assets between an investor and its associate or joint venture (proposed amendments to IFRS 10 and IAS 28)	This amendment is intended to address the inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. This amendment will apply to local authorities although this is thought not to be a frequent transaction for authorities.

New Standards

6.3 The IASB has issued IFRS 14 *Regulatory Deferral Accounts* – a number of countries have industry sectors that are subject to rate regulation, whereby governments regulate the supply and pricing of particular types of activity by private entities e.g. utilities such as gas and water. This standard is considered by the IASB to be an interim measure for the accounting treatment of rate regulated activities. It is intended to provide short-term guidance for first-time adopters of IFRS until the research project on rate regulated activities is completed. This standard will not apply to local authorities

6.4 *Revenue Recognition* – at the time of drafting this report the standard is anticipated to be issued in the first quarter of 2014. The new standard aims to clarify the principles for recognising revenue from contracts with customers. It applies to all contracts with customers except leases, financial instruments and insurance contracts. It is not clear, as yet, whether the standard will have an effective date that you require inclusion in the 2015/16 Code.

6.5 The Secretariat will provide an update to the CIPFA/LASAAC on those standards likely to be included in the 2015/16 Code its June meeting. This will need to include an assessment of the standards likely to be adopted by the EU in time for adoption in the 2015/16 Code.

UK GAAP FRS 102 – *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

6.6 CIPFA/LASAAC members will be aware that the accounting provisions for Heritage Assets in Section 4.10 and Value Added Tax section 2.9, of the Code rely on UK GAAP ie FRS 30 *Heritage Assets* and SSAP 5 *Accounting for Value Added Tax* respectively. Both these areas are included in FRS 102 and therefore the Code will need to be reviewed against the relevant provisions in the new standard. For both of these areas the principles for the accounting treatment are very similar and therefore it is anticipated that there should not need to be a significant change to the provisions in the Code. However, the Secretariat would recommend review of the five year analysis of heritage asset transactions. Heritage assets disclosures were cited by a number of respondents in the streamlining and simplification consultation.

6.7 The Secretariat suggests a reference point for this 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*". The same rationale can be applied to the five year disclosure of transactions on heritage assets.

IFRS 9 Financial Instruments

6.8 The limited amendments[1] made to IFRS 9 *Financial Instruments* in November 2013 remove the mandatory effective date from IFRS 9. As the impairment phase of the IFRS 9 project has not yet been completed, the IASB decided that a mandatory date of 1 January 2015 would not allow sufficient time for entities to prepare to apply the new Standard. The IASB decided that a new date should be decided upon when the entire IFRS 9 project is closer to completion. However, entities may still choose to apply IFRS 9 immediately. IFRS 9 has yet to be adopted by the EU. It would not be possible to adopt the Standard in the Code before EU adoption.

6.9 In addition the limited amendments[2] project also introduced changes to enable entities to change the accounting treatment of liabilities that they have elected to measure at fair value, before applying any of the other requirements in IFRS 9. This change in accounting would mean that gains caused by a worsening in an entity's own credit risk for such liabilities (eg their own debt) are no longer recognised in the Surplus or Deficit on the Provision of Services. This may have an impact on those authorities issuing bonds. The Secretariat is not aware whether this is a significant issue for local authorities and suggests that this should be discussed with the CIPFA Treasury and Capital Management Panel. It is unclear as yet when the limited amendments standard will be adopted by the EU.

[1] IFRS 9 *Financial Instruments* (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39)
[2] See footnote 1.

Conceptual Frameworks

6.10 Both the IASB[3] and the IPSASB[4] have significant projects underway on their conceptual frameworks. The IASB has issued a discussion paper as a first step towards issuing its revised *Conceptual Framework* in July 2013. The period for comments on the discussion paper closed in January 2014. It is unlikely that the remaining changes to the Conceptual Framework will be available in time for completion of the 2015/16 Code. For the IPSASB – Phase 1 of the Conceptual Framework is complete and it is anticipated that the final three phases of the Framework will be complete by June 2014. This will include the measurement section which is anticipated to support the finalisation of CIPFA/LASAAC's principles on the measurement of property, plant and equipment as was discussed at the single issue conference call on IFRS 13 in January.

Recommendation

CIPFA/LASAAC is asked to agree which developments are to be incorporated into the 2015/16 Code.

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[3] IASB *Conceptual Framework Financial Reporting* – Phase 1 of this Framework was completed in September 2010 and is included in Chapter 2 of the Code.
[4] IPSASB *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*- Phase 1 of this Framework was completed in January 2013.

Other Accounting Developments

IASB Work Plan	
Standard	**Timing and comments**
IFRS 9 *Financial Instruments* – projects including ▪ classification and measurement (limited amendments) ▪ impairment ▪ accounting for macro hedging	Amendments to be issued in quarter two of 2014 (target discussion paper macro hedging to be issued in quarter one of 2014).
Insurance contracts	Re-deliberations in quarter one – this standard will not have a significant impact on local authority accounting.
Leases	There has been a significant response to the second exposure draft on this standard. The IASB Work Plan specifies that there will be re-deliberations in quarter one of 2014. The re- deliberations cover 5 areas within the scope of the standard ie 1) lessee accounting model; 2) lessor accounting model; 3) lease classification; 4) definition and scope; and 5) measurement.
Rate regulation	Target discussion paper issued in quarter two of 2014. This project is not anticipated to impact on the Code.
IFRS for SMEs comprehensive review 2012 – 2014	No direct impact on the Code
Amendments to IAS 1 (Disclosure Initiative)	Target exposure draft in quarter one.
Elimination of gains arising from 'downstream' transactions (proposed amendments to IAS 28)	Target exposure draft in quarter one.
Fair Value Measurement: unit of account	Target exposure draft in quarter one.
Put Options Written on Non-Controlling Interests (proposed members to IAS 32)	Awaiting next steps in quarter one.
Separate Financial Statements (Equity Method) (proposed amendments to IAS 27)	Re-deliberations in quarters one and two.
IFRS 3 Business Combinations	Post implementation review.
IASB Research Projects – such projects involve preliminary research to assist the	

IASB to assess whether to add a topic to its work plan.	
Business combinations under common control	
Disclosure initiative	
Discount rates	
Emissions trading schemes	
Equity method of accounting	
Financial instruments with characteristics of equity	
Extractive activities	
Intangible assets	
IPSASB Work Plan	
Public Sector Combinations	Exposure draft anticipated in September 2014. This may impact on the Code's provisions in section 2.5 *Local Government Reorganisation and Other Combinations.* The IPSAS is anticipated to be issued in 2015.
Revision of IPSASs 6 - 8	The IPSASB is consulting on the IPSAS equivalents of IFRSs 10 to 12 and IASs 27 and 28 i.e. the 2011 group accounting standards[5]. It may be useful under the MoU to consider whether any of the 2014/15 Code's provisions would benefit by being augmented by the public sector guidance provided in the final version of the standards. The IPSASB Work Plan anticipates that the final standards will be issued in December 2014.

[5] IPSASB issued ED 48, Separate Financial Statements, ED 49, Consolidated Financial Statements, ED 50, Investments in Associates and Joint Ventures, ED 51, Joint Arrangements, ED 52, Disclosure of Interests in Other Entities in October 2013 the consultation period for these Exposure Drafts will close on 28 February 2014.