CIPFA The Chartered Institute of Public Finance & Accountancy

report

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Board	CIPFA/LASAAC Local Authority Accounting Code Board
Venue	CIPFA Offices, Robert Street, London
Date	5 November 2014
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Subject	Analysis of Responses to Consultation on 2015/16 Code

Purpose

To report on the responses to the consultation on the Draft 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom and seek approval of the 2015/16 Code.

1 Introduction

1.1 In total there were 39 responses (listed at Appendix A) to the public consultation on the draft 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom. This is disappointing following the improving trend over recent years. The Secretariat considers that this may be indicative of the sector's general acceptance of the proposals in the consultation paper, particularly at a time when resources are scarce within local authority finance departments. It is pleasing to see a substantial number of professional accounting firms that audit local authorities and three out of the four audit bodies have responded to the consultation.

1.2 The responses received are summarised in the remainder of this report with more detailed analysis in Appendix B, section by section, followed by the Secretariat's comments and suggestions. Issues of principle are considered in the main body of the report. The statistical analysis of all the responses and individual comments are included in Appendix B. Minor corrections or other minor issues are not included in this analysis but may be included in amendments to the Exposure Draft of the Code.

1.3 Copies of the responses received will be made available to Board members electronically on request. The names of the confidential interested parties responding to the consultation will need to remain confidential to the Board. For the avoidance of doubt the body of the report does not refer to the individual entities.

2 Summary of Responses

2.1 Responses to the consultation are summarised below and presented in more detail in Appendix B.

IFRS 13 Fair Value Measurement

2.2 The statistical analysis of responses indicates that the vast majority (85%) of interested parties supported CIPFA/LASAAC's approach to the adoption of IFRS 13 in the 2015/16 Code. The respondents responded very positively, endorsing the arguments in the ITC. One confidential respondent included their own option analysis (see Appendix B) and concluded that the approach in the ITC was the best approach.

2.3 The exception to the positive support was the one professional firm who believes that where possible IFRS should be adopted. The firm considers that sufficient tools are available within IFRS 13 to allow for the specialist measurement of property, plant and equipment. CIPFA/LASAAC was aware of this argument but with HM Treasury considered that a conceptual approach should be made for the measurement of operational property, plant and equipment. This conceptual approach measures the operational capacity of the assets (and its service potential) and not the financial capacity of the assets.

2.4 The remaining three respondents that disagreed with the approach focused on the complexity and the level of disclosures which is considered further below.

CIPFA/LASAAC is requested to approve the general approach to the adoption of IFRS 13 in the Code (ref CD 1).

Measurement Approach to Property, Plant and Equipment

2.5 Two respondents including one of the firms were of the view that fair value is not a current value measurement base. A similar issue was raised on these lines by a FRAB Member who was concerned that confusion might arise as the principle had been discussed at FRAB that UK public sector property, plant and equipment measurement was excluded from IFRS 13 because it was not measured at fair value but at current value. However, the ED and defined all property, plant and equipment measurement at current value with only one of those measurement bases for local authority property, plant and equipment being described as fair value. Thus only the latter measurement basis would be included in the scope of the fair value measurement standard.

2.6 The arguments in the ED were based on the approach in the IPSASB Conceptual Framework. Although this does not include fair value as a measurement base it does refer to exit values. The Secretariat has also considered the latest staff draft of the IASB Conceptual Framework which appears to consider fair values as a current cost measurement. The Secretariat therefore considers that it remains appropriate to describe fair value as a measurement base and has not made any changes to the Draft 2015/16 Code but would welcome the Board's views on this issue.

CIPFA/LASAAC is requested to consider whether it considers fair value to be a current value measurement base (ref CD 1).

2.7 CIPFA Business property managers have raised the issue of whether Depreciated Replacement Cost (DRC) is a measurement base or a measurement technique/methodology. This is a confusing issue as IFRS 13 refers to a cost based measurement as a measurement technique. However, both the IPSASB and the IASB Draft Conceptual Frameworks refer to Replacement Cost being a measurement base. The Secretariat considers that the approach in the ED and the HM Treasury approach describe DRC as a basis of measuring current value for specialised assets or assets where a market does not exist. In addition, the current edition of the RICS "Red Book" refers to the measurement of specialised assets as being on a DRC measurement base. The need for DRC to be considered as a measurement base is likely to be reinforced with the move to the measurement of transport infrastructure assets.

CIPFA/LASAAC is invited to consider whether it wishes refer to DRC as a measurement base (ref CD 1).

Surplus Assets

2.8 Two interested parties suggested that a decision making process should be added for assets that might be "temporarily" surplus. One which maintains these assets as operational and one which creates a sub-classification for Surplus Assets (both would maintain an existing use measurement). Note HM Treasury has considered this issue and classifies these assets as operational.

2.9 The Secretariat has not changed approach from that in the Exposure Draft as local authorities have been classifying Surplus Assets in accordance with the Code since the introduction of the IFRS-based Code (see Appendix B for further comments). This is a new classification issue for the 2015/16 FReM. The Secretariat has therefore retained the current classification requirements to maintain the simpler classification decisions in the Code. The Secretariat also considers that this is a less material issue for local authorities.

CIPFA/LASAAC is invited to consider whether it agrees to maintain the classification decisions in the Code for Surplus Assets in accordance with those requirements in previous Codes (ref CD 1).

2.10 One respondent raised the issue of the inclusion of restrictions in the measurement of Surplus Assets. Note that the FReM's proposals are to measure Surplus Assets with restrictions at existing use value. CIPFA/LASAAC considered that such restrictions would be able to be measured following the requirements for IFRS 13 as the Standard requires that legal restrictions on the use of the asset are taken into account when pricing the asset. The Secretariat has therefore not proposed any further changes to the Code. The Secretariat has discussed this issue with HM Treasury in the drafting of the joint CIPFA/HM Treasury report to FRAB on the approach to IFRS 13 and the measurement of property, plant and equipment and considered that the two approaches are unlikely to result in material differences.

CIPFA/LASAAC is invited to consider whether it is content with the approach to the measurement of Surplus Assets (ref CD 1).

Application Issues

2.11 The ITC highlighted a number of issues where fair value measurement of assets and liabilities was a matter of application. A firm raised the issue of Lender Option Borrower Option Loans (LOBOs) and considered that due to the "*significance of these liabilities we believe that there should be consultation on the nature of these liabilities and the approach to be taken in establishing their fair value*." The Secretariat considers that this is an issue for application of the Standards and not one for prescription in the Code due the complexity of the nature of these financial instruments. However, the Secretariat recommends that this issue should be referred to the Treasury and Capital Management and Local Authority Accounting panels to consider the need for application guidance on this issue.

CIPFA/LASAAC is invited to consider whether or not it agrees with this approach (ref CD 1).

Disclosures of Fair Value and Disclosures for Property, Plant and Equipment Measurement

2.12 Four of the interested parties considered that the disclosures under IFRS 13 are complex and do not help present the key messages about the measurement of their assets and liabilities to the users of local authority financial statements. CIPFA/LASAAC has acknowledged that the IFRS 13 disclosures have the potential to be onerous and may lead to detailed disclosures. The Simplification and Streamlining Workshop members were keen to challenge disclosures that did not help authorities clearly "tell the story" of local authority financial statements.

2.13 The Secretariat suggests that there are a number of disclosures which are unlikely to have a material effect on local authority financial statements. It recommends that the IFRS 13 disclosures include a rebuttable presumption that these disclosures will not be material/or applicable to assist authorities in taking their materiality and disclosure decisions. One of the key disclosures areas is that which relates to transfers of assets or liabilities within the fair value hierarchy.

2.14 Local authorities' objectives for measurement of all assets and liabilities in their balance sheet are largely to achieve compliance with the Code's requirements and to present a "true and fair" view of the financial position. The Secretariat is not aware that local authorities routinely, if ever, change their approach to measurement of any assets or liabilities unless there is a change to the Code's requirements for measurement a particular asset or liability. The other disclosure identified as not being material is for liabilities with an inseparable third-party credit enhancement.

2.15 The Secretariat also included an additional statement on materiality to encourage authorities to ensure only material transactions are included.

CIPFA/LASAAC is invited to consider the approach outlined above for the disclosures of fair value measurements in the 2015/16 Code (ref CD 1).

Current Value Measurement of Property, Plant and Equipment

2.16 The Code consultation considered the augmentation of the IAS 16 disclosures of property, plant and equipment to include the objectives of IFRS 13 disclosures ie to enable users to assess the inputs used for the measurements and the impact this might have on the financial statements of local authorities. This was supported by respondents.

2.17 A substantial number of respondents indicated that this would not accord with the Simplification and Streamlining agenda. The FReM proposals do not include additional disclosures under IAS 16 for its operational property, plant and equipment. CIPFA Secretariat considers that in the spirit of the Simplification and Streamlining Review this augmentation is not taken forward in the 2015/16 Code. It is suggested that opportunities be sought in application guidance to encourage authorities to ensure that the current disclosures on property, plant and equipment effectively provide the key messages about their measurement to the users of the financial statements.

CIPFA/LASAAC is invited to consider whether they agree with the recommendation not to proceed with the approach proposed in the ED for the augmentation of the IAS 16 disclosures (ref CD 1).

2.18 An audit body suggested that CIPFA/LASAAC be invited to consider whether users of the accounts would want to know the difference between the value of the asset in use and the value of the asset in its highest and best use. CIPFA/LASAAC has considered this issue in detail a number of times previously and at its last meeting in June (again after much debate) decided that if it considered that existing use value was the best measurement base then only this disclosure requirement should be included in the 2015/16 Code. The FReM approach to measurement of property, plant and equipment does not include alternative disclosures at highest and best use.

CIPFA/LASAAC is invited to consider whether it wishes to confirm its decision in the Exposure Draft in relation to whether disclosures of property, plant at equipment at their highest and best use should also be included (ref CD 1) in the Draft 2015/16 Code.

3. Narrow Scope and Other Minor Amendments

3.1 There were no substantive issues raised by respondents in relation to the amendments to IAS 19 Employee Benefits, Annual Improvements (both 2010-2010 and 2011-2013) or IFRIC 21 Levies. A related issue was raised in relation to the accounting treatment of accumulated depreciation but this has been corrected in CD 1 (see Appendix B).

3.2 There were a small number of comments on Appendix C to the Code (see Appendix B to this report) as a result the Secretariat has made appropriate amendment to the draft Appendix C.

CIPFA/LASAAC is invited to confirm that it is content with the approach in relation to the narrow scope amendments and Appendix C (see CD 1, CD 2, CD 3, CD 5 and CD 6)

4 Measurement of Property, Plant and Equipment – Frequency of Valuations

4.1 A number of respondents used the consultation to raise the issue of the frequency of valuations of local authority property, plant and equipment[1]. This issue was raised by a professional firm of local authority auditors and by a number of authorities. CIPFA's view on the frequency of valuation issue has been included in the Technical Alert issued in March 2014, see link: http://www.cipfa.org/-/media/Files/Policy%20and%20Guidance/Panels/Local%20Authority%20Accounting%20Panel/Technical%20Alert%20Frequency%20of%20Valuations%20Final%20for%20publication.pdf.[2]

[1] These comments are detailed in Appendix D to this report.

[2] This Technical Alert was agreed to by the Chair and Vice Chair of CIPFA/LASAAC and the Chair of LAAP. The Audit Commission also agreed to the text of the Technical Alert. LAAP subsequently endorsed the Bulletin by including a link to the Alert in its year end Bulletin.

4.2 CIPFA's view on this issue has been augmented in the 2014/15 Code Guidance Notes. CIPFA does not consider that a short period in "*IAS 16 is written in such a way that a short period is expected to be within the reporting year*". If the IASB had wanted to describe it as such it would have used the words "reporting period" instead of "short period". In addition, a rolling basis would not need to be referred to if the valuations had to take place within a financial year. An audit body also raised the issue and its comments support CIPFA's position.

4.3 CIPFA would also highlight that one of the authorities clearly states that it cannot afford to measure its assets more frequently than once every five years. A number of the other authorities responding also commented on the costs of more frequent valuations.

4.4 Since moving to a current value measurement base in 1994 the accepted approach to assuming (by exception) that valuations would be materially accurate has been a five year period. CIPFA does not consider that users of the local authority financial statements take economic decisions on the asset valuations which would normally require that valuations are made substantially more frequently than this. CIPFA considers that the costs of more frequent valuations will not provide additional value to the users of local authority financial statements.

4.4 CIPFA therefore recommends that to avoid different interpretations of a "short period" the Code clearly sets out what its expectations are for materially accurate valuations ie that assets are measured once every five years provided the current value of the class of assets is materially accurate. As this is an urgent issue for authorities it is suggested that CIPFA/LASAAC consider whether it wishes to take action in respect of 2014/15.

CIPFA/LASAAC's views are sought on its approach to the frequency of valuation of property, plant and equipment including the suggested drafting changes at paragraph 4.1.2.37 to 4.1.2.38 (ref CD 1).

4.5 One of the interested parties sought clarification of the frequency of valuations for Surplus Assets. Currently, as the assets are a class within property, plant and equipment then the valuations will be in accordance with the requirements outlined above (see paragraphs 4.1 to 4.4). However, as a small class of assets and one which some users (though this is more likely to be management) might take decisions on with a lower threshold of materiality, there may be arguments for more frequent valuations of these assets.

CIPFA/LASAAC's views are sought on its approach to the frequency of valuation of surplus assets (ref CD 1).

5.0 Accounting for Schools in Local Authorities in England and Wales

5.1 A number of respondents to the consultation raised the issue of accounting for local authority schools (these issues are outlined in Appendix D). Concerns were raised in relation to whether voluntary aided and foundation school assets should be recognised on local authority balance sheets. An authority was concerned about the length of time that it would take them to investigate Voluntary Aided and Foundation school asset control decisions. A number of authorities demonstrated some confusion in relation to the recognition of schools non-current assets. Queries have also been received by the Secretariat about the restatement process. Two respondents considered that the accounting for schools consultation issue of the 2014/15 Code process was hurried.

5.2 The Secretariat issued a separate Technical Alert as soon as possible following CIPFA/LASAAC's consultative process http://www.cipfa.org/-/media/Files/Policy%20and%20Guidance/Boards/CIPFA%20LASAAC%202012/CIPFALASAAC%20Informal%20Comments%20on%20Accounting%20for%20Schools%20%20Final.pdf. A new section has been included in the Code Guidance Notes and a FAQ[3] has been issued which covers these areas. The Technical Alert outlines the asset recognition position as set out in the consultation and Appendix E to the 2014/15 Code.

5.3 However, the evidence from the consultation, the technical queries and a TIS On-Line thread indicate that authorities are still having difficulties establishing their asset recognition decisions.

5.4 A further Technical Alert has been discussed with the Department for Education and representatives of the religious bodies to attempt to reach a consistent position and reduce the amount of research that authorities will have to undertake to evidence the position for each authority. This Technical Alert will focus on the position for those assets held by religious bodies ie voluntary aided, voluntary controlled and a small number of foundation schools. If possible the Secretariat will present the latest Technical Alert to CIPFA/LASAAC at its meeting. It is likely that a further Technical Alert will be needed for foundation schools.

5.5 It is very likely that at least some authorities will need to recognise non-current assets on their balance sheet as a result of the accounting treatment outlined in Appendix E to the Code. CIPFA/LASAAC members will be aware that a material change in accounting policy will require authorities to restate the financial statements as if the accounting policy had always applied. With regard to the recognition of schools as subsidiaries, via the adaptation, it will be difficult to recreate the transactions in the local authority accounts.

5.6 It is therefore recommended that CIPFA/LASAAC includes a transitional accounting policy in Appendix E which requires authorities to recognise the assets at fair value (2014/15 Code) current value (2015/16 Code). It may also be necessary to consider a deemed cost as at the 1 April 2013. It may also be necessary to utilise the Capital Adjustment Account to recognise these assets. It is recommended these changes are made in a 2014/15 Code Update to ensure that local authorities can apply the transitional accounting policy. The Secretariat anticipates being able to present a draft of the Technical Alert and more details on this transitional accounting policy at CIPFA/LASAAC's meeting.

CIPFA/LASAAC's views are sought on the recommended changes to Appendix E and whether it wishes to issue a 2014/15 Code Update on Accounting for Local Authority Schools in England and Wales (ref CD 5).

6. Accounting for Heritage Assets

6.1 The majority of respondents supported the view expressed by CIPFA/LASAAC ie that it did not see any benefit in changing the recognition and measurement

[3] The FAQ can be viewed at http://www.cipfa.org/-/media/files/policy%20and%20guidance/technical%20inquiry%20service%20faq/faq%20treatment%20of%20maintained%20schools.pdf

requirements of the Code for Heritage Assets. One respondent agreed with the view of the Secretary that FRS 102 did not support "*valuations may be made by any method that is appropriate and relevant*" approach but considered that the Code is using this as a starting point to develop its own accounting policy. The Code's approach is also supported by the Charities SORP (see Appendix B) which had its Statement issued by the FRC and is therefore considered to be a part of UK GAAP.

6.2 The Secretariat recommends therefore that the Code retain the adaptation for the avoidance of doubt with the support of UK GAAP. Both the accounting policy for valuations and depreciation is consistent with the approach in the 2014/15 FReM. This position did not change in the consultation on IFRS 13 for the 2015/16 FReM. A small editorial amendment has been made following the comments of a respondent.

The Board is invited to consider whether it wants to confirm the approach it agreed on in the ED on Heritage Assets (ref CD 4).

7.0 Statutory Changes

The Local Authority Accounts (Scotland) Regulations 2014

7.1 The draft 2015/16 Code includes the changes as a result of the Local Authority Accounts (Scotland) Regulations 2014. These changes are for the large part changes of fact. The Secretariat has consulted with LASAAC Members on the draft and has included any relevant updates arising from their comments.

7.2 The one minor exception to this is proposed amendments to Section 3.1 of the Code which arise as a result of the new requirement of the Regulations for the Annual Accounts to include a management commentary.

7.3 CIPFA/LASAAC has agreed that its new provisions on a form of management commentary will be considered as a part of the Simplification and Streamlining Review and therefore will be included in the 2016/17 Code. However, questions will arise as to whether local authorities in Scotland will need to include an Explanatory Foreword in addition to a management commentary. The Draft 2015/16 Code confirms that provided the reporting requirements of paragraph 3.1 are met within a management commentary then an additional Explanatory Foreword will not be required. As the reporting requirements are only those that are confirmed by statute the Secretariat considers that a consultation exercise would not be needed but would welcome CIPFA/LASAAC's views on this issue.

The Board is invited to approve the changes to the Code as a result of the Local Authority Accounts (Scotland) Regulations 2014 and agree that an additional consultative process is not necessary for these changes (ref CD 7).

The Accounts and Audit (Wales) Regulations 2014

7.4 At the time of drafting this report these regulations have not been issued by the Welsh Government and therefore have not been included in the Draft 2015/16 Code.

The Local Audit and Accountability Act 2014 and the Accounts and Audit (England) Regulations 2014

7.5 At the time of drafting the Accounts and Audit (England) Regulations 2014 have not yet been made. The Secretariat recommends not amending Chapter 1 of the Code until the Regulations are made.

Self- Financing in the Housing Revenue Account in Wales

7.6 The Housing (Wales) Act 2014 was given Royal Asset on 17 September 2014. Section 131 of this Act includes provision for the abolition of the subsidy payable to Housing Revenue Accounts in Wales. At the time of drafting the commencement order for this section has not yet been made. Current plans for the move to self-financing are still anticipated to be for the 2015/16 financial year. At this juncture the Secretariat considers that the provisions in the Code will not need to be substantially changed. The main change will be removal of references to Housing Revenue Account subsidy payments. If the commencement orders have not been made by the time that the Code has to be published it is recommended that the Code includes a footnote to explain that these references would be overridden by the relevant statutory provisions.

The Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006

7.7 The consultation mentioned possible changes to the Local Government (Accounts and Audit) Regulations 2006 (Northern Ireland). The Secretariat is not aware of any changes to these regulations at the time of drafting this report.

CIPFA/LASAAC is invited to:

i) note the statutory developments which cannot be included in the 2015/16 Code; and

ii) agree the way forward in relation to the references to the Housing Subsidy in Wales.

8 Transport Infrastructure Measurement

8.1 The ITC sought interested parties views on any further commentary they might have on Appendix D in the 2014/15 Code. The comments are included at Appendix C to this report. The measurement of transport infrastructure assets and the preparation for the move to DRC measurement in 2016/17 is covered at agenda item 8.

CIPFA/LASAAC is invited to consider the comments provided in Appendix C.

9. Further Areas of Guidance

9.1 It is the normal process for the ITC to seek respondents' views on other issues. A number of respondents referred to the frequency of valuations for property, plant and equipment and accounting for schools. These issues are covered in Sections 4 and 5 of this report. Other items of substance raised are listed in Appendix D.

9.2 Two of the respondents (a firm and an audit body) considered the drafting format of the Code and recommended that the Code be drafted following the format of the FReM ie focussing on the parts of IFRS where the Code adapts or interprets the Standards. One of these respondents has reiterated its response for the third time.

9.3 The Secretariat considers that this is not what local authority accounts preparers want. One of the respondents, a firm considers that local authorities have to refer to two sources. However, this will be the case even if the Code opted for the approach outlined by those bodies. In addition the model for adopting two authoritative sources is also one which public benefit SORPs follow. The Secretariat would also highlight that the CIPFA/LASAAC review considered this issue in some detail and the review decided to stay with the approach in the Code but to move gradually to a more minimal approach.

9.4 There are a number of other issues listed in Appendix D which the Secretariat considers need not be taken forward in the 2015/16 Code. One of these issues can be referred to LAAP.

CIPFA/LASAAC is asked to note the issues listed in Appendix D in areas of further guidance.

10. Amendments to the Code Simplification Review

10.1 Agenda item 7 refers to the Simplification Review that the Secretary undertook in September. Two areas where substantial detail is provided in the disclosures are those which support the line adjustments between the accounting basis and the funding basis under regulations and transfers to or from earmarked reserves or other statutory reserves Scotland. Although these disclosure requirements are likely to be subject to change as a result of the Simplification Review the Secretariat considers that the 2015/16 Code can be augmented to assist authorities with the presentation of these disclosures for the 2015/16 financial statements.

10.2 The Secretariat has used for its drafting model the provisions in IFRS 12 *Disclosures of Interests in Other Entities* (paragraph 4) to encourage authorities to strike a balance between burdening financial statements with excessive detail that may not assist users of financial statements and to seek the appropriate level of aggregation for these disclosures. In order to support the Simplification and Streamlining objectives further the Secretariat considers that it would not be useful to include all 18 items listed in paragraph 3.4.2.40 and therefore has proposed adding commentary to further promote the aggregation of the items.

CIPFA/LASAAC is invited to consider the proposals for two of the disclosures in paragraph 3.4.2.40 (ref CD 8).

11. Pensions Fund Accounting

11.1 The comments made in relation to the CIPFA/LASAAC's review next year of Section 6.5 of the Code have been included in Appendix E to this report. Most of these have not been analysed in depth by the Secretariat but will be included in next year's review.

11.2 However, one issue identified by a respondent may require further consideration by CIPFA/LASAAC. This issue relates to the scope exclusion from IFRS 13 disclosures for IAS 26 *Retirement Benefits* (Section 6.5 of the Code). This scope exclusion when linked to the consequential amendments to IFRS 7 *Financial Instruments: Disclosures* means that disclosures in relation to fair value inputs and valuations would no longer be required for pension funds. This is a difficult issue as these disclosures have been excluded from IAS 26 and therefore if CIPFA/LASAAC considered that they needed to be retained it would have to include disclosures not required by IFRS. Arguably the requirements of IAS 1 would mean that if these issues were material the disclosures should be made by pensions funds. An intermediate course of action may be not to exclude the IFRS 7 disclosures from the Code until the review of the pensions fund accounting requirements take place.

CIPFA/LASAAC is invited to consider which approach it would like to take in relation to the financial instruments disclosures for pensions funds.

12. Draft 2015/16 Code

12.1 In addition to the above issues, further changes will need to be made to the 2015/16 Code to bring it up to date, as follows:

- At the end of each section, areas which have been updated substantially will be noted whilst those which have not changed will be described as such.
- A number of minor amendments identified as a result of the consultation process or final review will be corrected by the Secretariat.

12.2 It is proposed that once all these changes, and changes arising out of CIPFA/LASAAC decisions, have been made, a complete draft of the Code (with changes in mark-up) will be circulated for final approval.

Recommendations

The Board is invited to consider the individual issues brought to its attention above and consider for approval the 2015/16 Code.

Appendix A

List of Respondents

Aberdeenshire Council	Argyll and Bute Council	Bournemouth Borough Council
Calderdale Metropolitan Borough Council	Derbyshire County Council	East Ayrshire Council
Essex County Council	Hampshire County Council	Hertfordshire County Council
Inverclyde Council	Kent County Council	Lancashire County Council
Leeds City Council	Lichfield District Council	London Borough of Hackney
London Borough of Richmond upon Thames	North Lanarkshire Council	Portsmouth City Council
Sheffield City Council	South Lanarkshire Council	Staffordshire County Council
Stoke on Trent City Council	Suffolk County Council	Surrey County Council
Torfaen County Borough Council	Wakefield MDC	Audit Commission
Audit Scotland	Wales Audit Office	Deloitte
Ernst and Young LLP	Grant Thornton UK LLP	Mazars
PwC	Arlingclose	Personal Response - Richard Hughes
Confidential Response	Confidential Response	Confidential Response

SUMMARY OF CONSULTATION RESPONSES

Note – a group of interested parties best described as professional accounting firms that audit local authorities is abbreviated in this Appendix to firm or "firms"

Statistical Analysis of Responses

IFRS 13 Fair Value and Property, Plant and Equipment Measurement

Question		Agree	Disagree	No Comment
1	Do you agree with the approach to the adoption of IFRS 13 in the Code? If not, why not? What alternatives do you suggest?	33 (85%)	4 (10%)	2 (5%)
2	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?	34 (87%)	2 (5%)	3 (8%)
3	Do you agree that assets classified as Surplus Assets should be measured at fair value? If not, why not? What alternatives do you suggest?	33 (85%)	1 (2%)	5 (13%)
4	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?	22 (56%)	14 (36%)	3 (8%)

Comments and Responses

Issue	**Secretariat Response**
Question 1 – Agree with the Proposed Amendments re IFRS 13	
As is evident by the statistics most respondents support the approach outlined in the Exposure Draft (ED). Supportive comments include:	These comments and arguments are consistent with the Exposure Draft and the conceptual approach to the measurement of the property, plant and equipment.

Issue	**Secretariat Response**
• Use of exit values not assisting the user of the accounts to appreciate the true value of the asset. • The measurement of PPE should reflect the principal purpose for holding the assets. • A confidential respondent had undertaken a cost benefit analysis of the possible options: 1. applying IFRS 13 and IAS 16 without adaptation 2. using a deemed cost approach to revert back to historical cost model under IAS 16 and 3. following the proposal outlined in the ED, and concluded that the option in the ED was the best option available. • Existing use value is the most appropriate measurement of service potential and operational capacity.	
One firm objected to the approach in the ED as it is of the view that fair value is a key concept in IFRS for measuring both assets and liabilities. It considers that there should be a common application by all bodies adopting IFRS accounts and IFRS 13 permits the market based valuation to reflect its condition, location and any restrictions on the sale or use of the asset.	CIPFA/LASAAC and the CIPFA Secretariat in its discussions with HM Treasury considered the application of the standard and the ability to reflect the condition, location and any restrictions on the sale or use of the asset in its deliberations on the application of IFRS 13. The groups decided from a conceptual base that they wished to measure the operational capacity of the asset and not the financial capacity of the asset in its highest and best use. This response was given by the same firm last year. **No further action.**
The same firm commented "the Code Consultation says "*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 loans may raise*	The Code consultation indicates clearly that the fair value measurement of LOBOs would be an issue for application guidance and therefore the normally would be included in the Code Guidance Notes. The Code only in exceptional circumstances (eg schools) includes application guidance. Some application issues may also be included in adaptations of the Code.

Issue	Secretariat Response
issues but these are areas for application guidance". Our analysis to date has indicated that there may be significant difficulties in assessing fair value of some of these liabilities, particularly those that include derivatives. "We would welcome clarification on CIPFA/ LASAAC's comments on the use of "application guidance" for complex areas such as LOBOs. Does this mean that future editions of the Code will include formal Application Guidance as IFRS does or is this a reference to CIPFA Guidance notes? "In view of the potential significance of these liabilities we believe that there should be consultation on the nature of these liabilities and the approach to be taken in establishing their fair value."	Chapter Seven of the Code includes two adaptations for the measurement of LOBOs at amortised cost i) on the options embedded and ii) on the contractual life of the cash flows. IFRS 13 will impact primarily on the disclosures. However, the application guidance for the fair value measurement of these complex financial instruments (particularly those with derivatives) is not an area which the Code or the Code Guidance Notes can prescribe for as it is difficult to cover the range of circumstances for such complex instruments. It is suggested that direct reference will need to be made to the Standard for those authorities with LOBOs. It is also recommended that consideration of whether any application guidance can be developed for LOBOs should be referred to the CIPFA Treasury and Capital Management Panel and Local Authority Accounting Panel. **CIPFA/LASAAC's views are sought on this issue.**
The same firm commented: "we also add that CIPFA should liaise with DCLG and the Welsh Office on whether to reconsider the basis of valuing council dwellings to make this more consistent with the Social Housing sector and provide more relevant information on the management of housing stock under HRA self-financing."	The Stock Valuation for Resource Accounting Guidance for Valuers – 2010 remains the statutorily specified valuation basis for local authority social housing properties in England and requires assets to be measured at EUV-SH. It allows the Beacon approach and Discounted Cash Flow methodologies to achieve EUV-SH. DCLG's view provided in the Guidance is that for the purposes of stock valuation for resource accounting, and for depreciation, the Beacon approach is likely to be more suitable for the purpose. The valuation basis EUV-SH is specified by the RICS Red Book. The *Housing SORP 2014: Statement of Recommended Practice for Registered Social Landlords* allows for both EUV-SH and a Discounted Cash Flow method to be used. It is considered that the Code is therefore consistent with the Sector in specifying EUV–SH for social housing. Also care should be taken with an income based approach due to the limitations on rental income in the Sector. It is noted that in

Issue	Secretariat Response
	Scotland LASAAC mandatory guidance requires that Scottish Authorities use the Beacon approach to measuring social housing by the 2015/16 financial year. **CIPFA/LASAAC is invited to note this issue. The Secretariat recommends no action currently.**
Three authorities and a treasury management advisor objected to the detail of the disclosures required by IFRS 13, one citing the burden of the level of detail in the accounts. Another commented that the level of detail in the level three disclosures (fair value disclosures relating to unobservable inputs) should be covered in estimation and uncertainties note. The third authority was concerned with the level of technical detail relating to the language used. It claims that the Code should explicitly state that for short term receipts and payables fair value should be deemed to be "face value".	CIPFA/LASAAC has acknowledged in its preceding consultations on IFRS 13 that the disclosures have the potential to be onerous. Earlier consultations have not provided evidence for CIPFA/LASAAC to make any clear prescriptions on the use of the disclosures. It previously decided to maintain them in accordance with the requirements of IFRS 13. The ITC sets out CIPFA/LASAAC's view that the impact of the disclosure requirements is a matter for application and not for direct prescription in the Code. It is not clear that the treatment of short-term receipts or payables under IFRS 13 would require any different treatment than current definitions of fair value measurement. The issue of fair value disclosures is, however, covered in more detail in the body of the report. **See main report.**
An audit body referred to the table at 2.1.2.31 of the Code which refers to the initial recognition at fair value for service concession arrangements being the cost to purchase the asset. It recommends that referral be made to estimated construction costs.	The table at 2.1.2.31 is intended to be a high level summary only but minor amendment can be made. **Limited amendment made See CD 1.**
An authority commented "section 4.7 would still refer to fair value as part of the recoverable amount. Is this appropriate when considering the impairment of PPE? Does the introduction of exit values for impaired assets lead to a possible	As this is related to the recoverable amount fair value is the appropriate measurement. **CIPFA/LASAAC's views are sought on this issue.**

Issue	Secretariat Response
inconsistency in the valuation of like assets (e.g. where one is impaired and one isn't)?"	
Qu 2 Measurement Approach to Property, Plant and Equipment	
One of the audit bodies whilst agreeing with the approach in the ED and ITC considered that users would want to know the difference between the service potential of PPE and the value of the asset in its highest and best use.	CIPFA/LASAAC has considered this issue previously. At their last meeting it concluded that it would only include the measurement at current value as this was CIPFA/LASAAC's view of the most appropriate measurement base. However, this has been an issue of substantial debate. **CIPFA/LASAAC is invited to consider whether it wishes to revisit its debate.**
A confidential respondent considered that fair value should not be considered as a measurement base within an overarching framework of fair value. A firm concurred that fair value is not a current value measurement base.	The approach to current value was based on the approach of the IPSASB Conceptual Framework which although it did not discuss fair value refers to exit values. The current development of the Exposure Draft of the IASB Conceptual Framework (Staff Draft) differentiates between current cost and historical cost measurement basis and describes fair value as a current (cost) basis. Arguably therefore it appears that fair value is an estimation of a current value. NB a FRAB Member was concerned that the Code should be very clear on use of the different measurement bases and raised concerns about describing fair value as a sub set of current value. **CIPFA/LASAAC's views are sought on this issue. See main report.**
A firm indicated that the flow chart could be made more complete by consideration of held for sale assets and more consistent with the equivalent flow chart in the FReM.	The flow chart is included in Section 4.1 of the Code and therefore assets held for sale are outside its scope (as they are in Section 4.9 of the Code). The flow chart applies to local authority assets and has been reviewed for consistency with the FReM. The structure of the flow chart is different due to the different structures of the FReM and the Code.

Issue	Secretariat Response
	No further action.
A firm did not agree with the proposed adaptation for property, plant and equipment arguing that the nature of many local authority assets is that there is no established market. Valuations of local authority assets it suggests can be made by using level 3 inputs.	CIPFA/LASAAC is aware that fair value measurements of local authority assets can be obtained by means of using level 3 inputs. However, CIPFA/LASAAC's approach has been from the conceptual base of measuring the operating capacity of the assets and not the financial capacity ie at its highest and best use. **No further action.**
Qu 3 Measurement Approach for Surplus Assets	
Most respondents agreed that the approach to surplus assets in the ED was appropriate, comments including: • As it will inform authorities decisions about whether to put their surplus assets to alternative use or to realise their value by disposal, and • Fair value is appropriate as the assets are no longer used for their operational capacity.	No further comments. The second bullet is consistent with the ED's argued approach.
A confidential respondent suggested that a practical expedient be added that where an asset is held temporarily surplus and there is a plan to bring the asset back into use then existing use value be maintained. A firm appeared to agree with this view but suggested that Surplus assets should be classified into two sub categories: • Not currently intended to be used at a future date, and • Currently intended to be used at a future date for the delivery of services.	The proposals in the ED have not made any changes to the classification of Surplus Assets, only the measurement base. Therefore local authorities are used to the decision making process for classification of assets as surplus. The HM Treasury consultation on the FReM and IFRS 13 adds a decision making process into the classification and describes assets that are temporarily not in use for which there are clear plans to bring back into use as operational. The sub classification described by the first bullet would need to be derecognised (as in theory the assets are not providing any service potential or should be held as an Asset Held for Sale). The option outlined by the firm is not consistent with the proposed approach in the FReM. Authorities have taken their own decisions on when an asset is classified as Surplus following the classification

Issue	Secretariat Response
	requirements in paragraph 4.1.2.2 ie: *"… assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties under section 4.4 of the Code or non-current assets held for sale under section 4.9 of the Code."* This is not an issue for authorities currently and therefore the additional decision making criteria would add to the complexity for local authorities when classifying assets. Early classification of assets as Surplus and measured at fair value could promote better decision making for assets not currently in use by authorities. **No further action but the body of the report identifies this as a decision for confirmation by CIPFA/LASAAC.**
One firm noted that that it agreed that fair value should be used for all surplus assets: However it suggested that the approach for operational assets classified as surplus that have restrictions on their use should be clarified and the requirement to use fair value conflicts with the FRAB decision at its meeting in June 2014.	IFRS 13 allows for circumstances where there are restrictions on assets. These restrictions should be less onerous for assets declared surplus. The comment made by the firm which indicates that this decision contradicts a decision made by FRAB at its meeting in June is erroneous. Whilst the June 2014 FRAB minutes reflect the decisions taken in the 2015/16 FReM proposals for the ED, relating to Surplus Assets with restrictions (ie these assets are measured at existing use valuation). The June report to FRAB clearly itemised that CIPFA/LASAAC had decided to take a different approach. The report stated: "*The proposal for dealing with surplus assets subject to restrictions in the FReM is slightly different to CIPFA/LASAAC's current proposal for the Code which is to apply IFRS 13 without adaptation to all surplus assets. CIPFA/LASAAC anticipates that application guidance might be needed on the necessity of considering restrictions when measuring an asset. The two approaches are not expected to result in material differences, if any at all*." **No further action. See main report.**

Issue	**Secretariat Response**
One authority noted that it thought that the valuation at fair value would give rise to death bed valuations. This could in turn result in manipulated gains and losses in the CIES. It also noted that if Councils under programmes of rationalisation declare assets as surplus and then as operational this would require two valuations with an associated cost.	The classification decision and therefore measurement should be governed by the requirements in the Code (described in the preceding row) and therefore should not give rise to death bed valuations. **See comments above on decision making and classification of surplus assets.** **No further action.**
One authority noted that the approach in the ED does not accord with the RICS "Red Book" as it stands.	The Secretariat and HM Treasury have had meetings with RICS on this issue and there should be alignment in the next version of the RICS Red Book anticipated to be effective for 1 January 2015.
One authority indicated that it would be useful if the Code indicated how often the assets would be valued. Another wanted clarification of whether the assets should be depreciated.	As a class of property, plant and equipment the measurement frequency would be governed by that of section 4.1 of the Code (ie paragraphs 4.1.2.37 and 4.1.2.38 of the draft 2015/16 Code) and measurements should be materially accurate at the balance sheet date. Surplus assets would also be subject to the depreciation requirements of section 4.1. However, it is considered that authorities will not want to hold these assets for substantial lengths of time and therefore depreciation should not be a significant issue. **No further action.**
One authority noted that it thought that Surplus Assets would be difficult to value and therefore have substantial cost implications for local authorities.	The Secretariat is not aware that Surplus assets are any more difficult to value than other assets. It would be difficult to argue that these assets should maintain measurement at existing use value from the conceptual viewpoint used by CIPFA/LASAAC. **No further action.**
Qu 4 Augmentation of IAS 16 Disclosures	
A number of respondents agree with the augmentation of the disclosure requirements as outlined in the ED	This was the objective of the augmented disclosures. However, see below.

<table>
<tr><th>Issue</th><th>Secretariat Response</th></tr>
<tr><td>comments including:
This information is helpful to the user in understanding the material accuracy at the balance sheet date.
Transparent useful disclosure is not the same as lengthy disclosure and effective examples should be provided in application guidance.</td><td></td></tr>
<tr><td>A firm noted that the augmentation includes more detailed disclosures for current value but does not include all the detailed disclosures for those measurements at level 3 inputs under IFRS 13.</td><td>Recent discussions with RICS have indicated that there will be level 3 inputs used for some local authority property, plant and equipment. However, these inputs as a part of the valuations of property, plant and equipment are normally made by qualified valuers and therefore are professionally verified.

No further action.</td></tr>
<tr><td>Twelve authorities responded that the augmentation of disclosures would add additional detail to local authority financial statements which does not accord with the moves to declutter and streamline the accounts. Some of the authorities commented that the level of detail on the inputs required would not be of interest to their stakeholders or users. Some authorities responded that the Code's disclosure requirements for IAS 16 should already do this.</td><td rowspan="2">The aim of the augmentation of the disclosures was to provide users of the financial statements with effective disclosures with a similar objective to that given in paragraph 91 of IFRS 13 ie to enable users to assess the inputs used for the measurements and the impact this might have on the financial statements of local authorities. However, the Secretariat is concerned to avoid the level of detail that might be interpreted from the disclosures. To a certain extent this should be avoided by effective disclosures as a number of commentators point out. The Secretariat notes that the proposals for the 2015/16 FReM have not added to the IAS 16 disclosures. Against the background of the Simplification and Streamlining agenda the Secretariat would therefore recommend that this disclosure is omitted.

The Secretariat recommends that the augmentation of the IAS 16 disclosures is not continued at this juncture.</td></tr>
<tr><td>One firm considered that the inclusion of the augmentation of the disclosure might not be able to achieve its aims. It commented that this depended whether the objective of the disclosure was to meet the requirements of IFRS 13 paragraph 91 (a) to enable the authorities to assess the inputs used and to understand the effect the impact that level 3 disclosures will have on the financial statements (including the supplementary disclosures in paragraph 92 and 93 of</td></tr>
</table>

Issue	Secretariat Response
IFRS 13) then it was unlikely to be able to be met by the requirements of paragraphs 4.1.4.3 of the Code.	
Qu 5 Other Guidance Required?	
A number of authorities requested further guidance on schools non-current assets.	Additional guidance has been provided in the 2014/15 Code Guidance Notes but the Secretary is in the process of producing additional guidance in a third technical alert for schools. CIPFA/LASAAC Members are invited to comment on the draft Technical Alert if they wish.
One authority noted that it was important that local authority valuers understood the implications of the changes.	The Secretariat is meeting with RICS on the issue and the CIPFA publication on local authority asset valuation is being updated this year.

IAS 19 Amendments Defined Benefit Plans Employee Contributions

Question		Agree	Disagree	No Comment
6	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?	31 (79 %)	1 (3 %)	7 (18%)

Issue	Secretariat Response
Question 6 – IAS 19 Amendments	
There were no comments of substance in relation to the amendments to IAS 19 Employee Benefits (Defined Benefits: Employee Contributions).	

Annual Improvements

Question		Agree	Disagree	No Comment
7	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?	30 (77%)	1 (2%*)	8 (21%)
8	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?	31 (79%)	0	8 (21%)

*rounding adjustment

Issue	**Secretariat Response**
Question 7 – Annual Improvements 2010 to 2012	
One authority noted that the restating of accumulated depreciation is optional and is comfortable with the content of the draft Code. However, if this were to become mandatory it is felt that the cost in the system to deliver this requirement would not deliver value for money for the taxpayer.	The Secretariat considered this paragraph in detail as a result of the approach to recognising and disclosing accumulated depreciation for transport infrastructure assets. Currently the Code is drafted from the perspective that authorities are only clearly allowed to use the option under IAS 16 where depreciation is eliminated. This was due to the earlier drafting stages in the original IFRS based Code where the option for restating accumulated depreciation was withdrawn. CIPFA/LASAAC then decided that this option should not be withdrawn. However, the text was not edited to allow clearly for this. The Secretariat has redrafted in accordance with CIPFA/LASAAC's intentions in December 2008. It is considered that authorities have largely been content to use the elimination option. However, the option has been clearly restated. **The Secretariat has corrected paragraph 4.1.2.33.**
The authority that disagreed with the proposals did so to raise the issue of	See response to question 5.

Issue	Secretariat Response
schools assets.	
Question 8 – Annual Improvements 2011-2013	
No issues of substance have been raised in relation to Annual Improvements 2011- 2013	

IFRIC 21 Levies

Question		Agree	Disagree	No Comment
9	Do you agree with the approach to the adoption of IFRIC 21 *Levies* in the Code? If not, why not? What alternatives do you suggest?	29 (74%)	2 (5%)	8 (21%)

Issue	Secretariat Response
Question 9 – IFRIC 21 Levies	
A confidential respondent commented that it is considered that levies should be treated like any other in-year expenditure.	This is not consistent with the IFRIC or IAS 37 *Provisions, Contingent Assets and Contingent Liabilities*. The respondent does not provide any economic argument requiring a different treatment for local government circumstances. **No further action.**

Value Added Tax

Question		Agree	Disagree	No Comment
10	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?	32 (82%)	0	7 (18%)

Issue	Secretariat Response
Question 10 – Value Added Tax	
No issues of substance were raised in relation to the proposals in the consultation in accounting for Value Added Tax.	

Heritage Assets

Question	Agree	Disagree	No Comment
11 Do you agree with the amendments to the Code in relation to Heritage Assets? If not, why not? What alternatives do you suggest?	32 (82%)	2 (5%)	5 (13%)

Issue	Secretariat Response
Question 11 – Heritage Assets	
A firm agreed with the approach but noted that FRS 102 does not permit the use of "any valuation approach" … given that the Code is using the Standard as a starting point and in doing so is seeking to preserve an existing accounting treatment in the Code and commented that it did not see any problems in adopting this valuation approach as an interpretation. It noted a similar argument can be applied to the interpretation of depreciation of heritage assets.	The Secretary would concur that FRS 102 does not permit the use of "*valuations may be made by any method that is appropriate and relevant*" approach and thus recommended the adaptation for the avoidance of doubt. This accounting position is, however, supported by the Charities SORP (FRS 102) which as it has now been approved by the FRC is a part of UK GAAP. The Charities SORP[1] States that "*Charities may adopt any reliable valuation technique to estimate the fair value of a heritage asset*" It also states that "*Fair value may be determined by the appraisal of market-based evidence by trustees or staff who have relevant skills, knowledge and experience or by a professionally qualified valuer*." Whilst these are not quite as wide as the previous text in FRS 30 *Heritage Assets* the

[11] Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)

Issue	**Secretariat Response**
	Secretariat considers that there is sufficient support in UK GAAP to base the adaptation included in the ED. **The Secretariat recommends maintaining the approach used in the ED for valuation of heritage assets. See main report.**
A number of authorities included commentary within their responses that they were pleased with the approach in the ITC and Exposure Draft and considered that this approach was appropriate to the benefits they received from including this information. A number of authorities also explicitly commented on the approach to reduction of the five year transactions of heritage assets to the current and preceding year. One of the respondents indicated that the volumes of disclosures in previous years did not enhance the presentation of information for the users of the financial statements.	This supports the approach in the ED.
One authority that disagreed with the approach agreed with most of the changes but objected to the removal of "if any" when referring to professional qualification of an external value as this gives the implication that only external valuers with professional qualifications can be used.	This change was to accord with the disclosures in FRS 102 but appropriate amendment should be made to accord with CIPFA/LASAAC's approach in the ED. **The Secretariat recommends reinserting the words "if any" at paragraph 4.10.4.2 (b).**

Appendix C

Question		Agree	Disagree	No Comment
13	Do you agree with CIPFA/LASAAC's approach to the draft Appendix C? If not, why not? What alternatives do you suggest?	30 (77%)	1 (2%)	8 (21%)

Issue	Secretariat Response
Question 13 – Appendix C	
A firm considers that the scope of Appendix C should be extended to cover all known future changes to accounting requirements rather than those to be introduced under IFRS. This would follow the principles of the requirements of IAS 8.30.	It is not clear what this firm is meaning as they have continued their comments with a sentence which appears to be incomplete. The Code has since the introduction of IFRS always confirmed the disclosures of the impact of future standards when the Code has adopted those standards or other changes in accounting policy. This is because it is only when the full impact of the new accounting policy or new accounting standard is known (following consultation) against the complex legislative framework that the Code operates within that an authority can anticipate the impact of those standards on the financial statements. **No further action.**
One authority was not clear what prior period restatement would be required on the move from FRS 30 Heritage Assets to FRS 102 would require.	Appendix C was anticipating that there might be changes but the Secretariat concur that there will not be any changes if CIPFA/LASAAC are content with the approach in the Exposure Draft. **The Secretariat will amend Appendix C as there are no substantial changes to the accounting requirements for Heritage Assets.**
A firm stated that the 2015/16 section of the Appendix should also refer to Appendix D [relating to Transport Infrastructure Assets] because disclosures in the latter are driven by the requirements to disclose future accounting policy.	Disagree – Appendix D deals with disclosures of accounting policy which occur in that financial reporting period. The change of accounting policy will take place in the 2016/17 financial year. If any change is included in this year this will lead to confusion. **No further action.**
One authority referred to the need to refer to IFRS 9 *Financial Instruments*.	See response above re the approach to Appendix C.

Transport Infrastructure Assets

Issue	Secretariat Response
***Question 14 – Appendix C/D -* Do you have any commentary on the disclosure included in Appendix D.1.5 of the Code?**	
A Scottish Authority's Councillors have questioned whether revaluations are really relevant in a local authority context. With the forthcoming changes in relation to Transportation Infrastructure Assets, this is likely to increase Aberdeenshire Council's net assets from £2 billion to £7 billion, with a significant increase in the depreciation reported through the CIES and reversed out via the MIRS. Its value to the users of the accounts is questionable.	CIPFA/LASAAC is invited to consider this comment.
A confidential respondent commented that, when adopted the asset values will have a huge effect on local authority balance sheets and turn them into infrastructure authorities from a balance sheet point of view.	CIPFA/LASAAC is invited to consider this comment.
An authority commented that "the disclosures in Appendix D.1.5 a) iii & iv) will require preparers of the accounts to essentially restate the accounts for Transport Infrastructure assets in advance of the guidance (i.e. code guidance Nov 2016) on how it is to be done. Whilst we can provide the total value of infrastructure assets to which the changes apply (a ii), without guidance we do not expect to be able to calculate the impact on revaluations, depreciation etc (a iii and a iv) to be available for inclusion in 2015/16." Five other respondents requested more guidance. One stating that they see difficult in translating these to movements on the asset register and	The Code of Practice on Transport Infrastructure Assets was updated last year. The approach to measurement has therefore been outlined and authorities have been producing GRC and DRC information for WGA for a number of years. However, additional guidance is being produced by CIPFA to assist with the move. Other transport infrastructure measurement issues are raised at item 8 on the agenda. This item will cover a number of the issues raised by the respondents.

Issue	**Secretariat Response**
how the accounting entries will operate.	
An authority commented that: "We have been actively working with SCOTS on advance preparations for over a year now for the change to DRC valuations that will be introduced by The CODE on Transport Infrastructure Assets. We are taking measures to ensure we have valuations for a "third balance sheet" at 1 April 2015 for the 2016/17 Accounts." "We will require to consider how best to respond to the requirement to disclose the impact in the "Accounting Standards Issued not Adopted" note in the 2015/16 accounts. While we will have DRC valuations for opening and closing balance sheets, it is uncertain whether we will be in position to quantify the effect upon the CIES."	CIPFA/LASAAC is invited to note this comment.

Areas where Interested Parties consider Further Guidance is Necessary

	Issue	Secretariat Response
	Question 15 – Further Areas	
	Structure of the Code	
1	An audit body stated that CIPFA/LASAAC may wish to review the balance between the extent of material in the Code itself and information in supporting guidance citing the example of the FREM. All supporting guidance would be in the Code Guidance Notes making the status of the commentary on the application of the accounting standards clearer to practitioners.	The CIPFA/LASAAC Review considered this issue in detail. It decided that its stakeholders preferred the more detailed approach in the Code. However, it agreed to streamline gradually in future years. This way forward was followed in relation to the Group Accounts Standards and IFRS 13 Fair Value Measurement. The Code does not contain substantial amounts of application guidance. One notable exception is the Guidance on Accounting for Schools. This approach was thought necessary by CIPFA/LASAAC to bring as much clarity as possible following the complex analysis of the Joint Working Group on schools (though see later). There are a small number of other examples included in the financial instruments standards for local government circumstances (these are largely adaptations and therefore not directly application guidance) and those related to local taxation. **The Secretariat recommends continuing with the conclusions of the CIPFA/LASAAC Review.**
2	A firm made the same comment as the audit body. This firm has repeated its comments to the last two consultations. The firm commented that a number of the amendments to IFRS included in this consultation have not featured in the Code. This creates the risk that users may be unaware of the changes to the Standard. The firm also makes the comment that CIPFA/LASAAC should follow the model in the FReM.	See comments above. The Code consultation questions users of the Code on whether it is appropriate to exclude these provisions from the Code as they refer to transactions which local authority users are seldom faced. The consultation analysis will confirm whether the Secretariat's assumptions are correct and this is supported by the statistics in Appendix B. The use of two authoritative sources of accounting standards and interpretations is already common place in the public benefit

	Issue	Secretariat Response
	In a new suggestion the firm suggests that different Codes should be produced for England, Scotland and Wales in view of the pace of devolution.	sector where there are a number of public benefit and other SORPs which refer to FRS 102 and have direct interpretations within the SORP. **The Secretariat recommends no further action.** The Secretariat is not yet aware of substantial difficulties of any of the devolved nations in applying the requirements of the Code as they apply to their circumstances. Substantial parts of the Code apply to all parts of the UK. **The Secretariat recommends no further action.**
	Frequency of Valuations	
3	The same firm commented that: "There have been practical difficulties encountered with the changes made in the 2013/14 Code in respect of the frequency of PP&E valuations in relation to the requirements of IAS 16. This change has been made even though there has been no change in IAS 16 requirements in respect of valuation frequency." "As explained in the 2013/14 Code Consultation this change was introduced under the post implementation review to clarify the wording in earlier editions of the Code, which provided an interpretation of the IAS 16 requirements." "We note that the amendment to the Code still creates an uncertainty over the meaning of a short period. Paragraph 4.1.2.35 of the 2013/14 and 2014/15 Codes takes selective extracts from IAS 16, Property, Plant and Equipment, paraphrases the extracts and reorders them. As a result, some practitioners	The Secretariat would disagree with this commentary and the comments on the interpretation of the Standard. An audit body also disagrees with the comments of this firm– see comments below. The augmentation of the 2013/14 Code was as a result of a potential misunderstanding of the requirements by some authorities of the Code's requirements for the frequency of valuations. The Code consultation *did* not state that the earlier edition of the Code provided an interpretation of the IAS 16 requirements. It stated that: "*There are currently no adaptations in relation to the frequency itself (although the Code states that valuations should be carried out at intervals of no more than five years) and therefore the Code requires that the provisions of IAS 16 are followed even if they are not explicitly stated within the Code. This might have resulted in an area of confusion for local authorities. The Post Implementation Review Group has therefore added proposed amendments to paragraphs 4.1.2.35 and 4.1.2.36 directly based on the*

	Issue	**Secretariat Response**
	have interpreted a "short period" as being up to five years whereas IAS 16 is written in such a way that a short period is expected to be within the reporting year."	*wording of IAS 16 to clarify the requirements*." The Code takes the most relevant extracts from IAS 16 including the exact wording from IAS 16 in relation to the frequency of valuations for a class of assets but still requires reference to the other paragraphs, if necessary. As noted above it does set out that valuations should be carried out at intervals of no more than 5 years. This is consistent with paragraph 34 of IAS 16 which states that "*instead, it may be necessary to revalue an item only every three or five years*". The Secretariat would refute that a short period is "expected to be within the reporting year". If this is what IAS 16 required then it would have clearly and easily used the word "reporting period" instead of "short period". Indeed the short period allows for a rolling basis. A rolling basis need not be specified in any periods outside of a reporting period. In addition this text is not the text in bold in IAS 16 which requires that "*revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period*". **Further comments on this issue are made within the body of the report.**
4	An audit body commented: "In our view, the clarification that valuation of PPE assets carried at fair value must be carried out with sufficient regularity to ensure that the values are not materially misstated does not represent a substantial change in Code requirements. "However, it is clear that some others are interpreting this as a substantial change and accordingly are pressing local government bodies to conduct annual assessments of valuations. "We would therefore urge CIPFA/LASAAC to clarify the requirements regarding	The Secretariat concurs with the first paragraph. The main body of the report indicates its proposals for further clarification.

	Issue	Secretariat Response
	frequency of valuation. We suggest that it may be appropriate for the Code to interpret the requirements of paragraph 31 of IAS 16 as being satisfied, for the local government bodies, by conducting revaluations at intervals of no more than five years unless there is clear evidence that the carrying amount may be materially misstated."	
5	Six authorities cite the issue of frequency of valuations being an issue for further clarification. A number of them provided commentary from their external auditors. One authority commented that they considered that the Code should say that 5 year rolling programmes are deemed to be sufficiently regular. This issue was raised at the last meeting of the Local Authority Accounting Panel by its Vice Chair.	The Secretariat recommends that CIPFA/LASAAC include a position in the 2015/16 Code to avoid further interpretation. It also recognises the costs of requiring valuations on an annual basis for a class of assets is likely to have substantial costs issues when it is clear that local authorities do not have large number of users taking regular economic decisions based on the value of their assets. However, it does recommend that the balance sheet is materially accurate for local authority property, plant and equipment. **See main report.**
	Accounting for Schools	
6	A confidential respondent – sought clarification on whether to recognise schools voluntary aided and voluntary controlled assets on the balance sheet. The authority complained that the consultation and the Technical Alert were rushed through. The Authority commented that if the LAs need to be checking Diocesan Trust deeds etc that confirmation needs to be made very quickly.	The Schools consultation did take place very quickly. However, the Technical Alert only confirmed the accounting position for voluntary aided schools. Whilst authorities will need to consult with Diocese or other religious bodies on whether the conditions exist as outlined in the Exposure Draft, it is unlikely that they need to check the Trust Deeds to confirm the position. **CIPFA/LASAAC's views are sought on this issue. See main report.**
7	Another authority was concerned about the length of time that it would take them to investigate Voluntary Aided and Foundation school asset control decisions. One authority was concerned that the schools accounting was "glossed	See comments above. The Board has not dealt with this issue as a minor change. This was only a minor change to the substantial issues that arose in the separate work stream and consultative process on the accounting for schools issue. A separate

	Issue	**Secretariat Response**
	over" as a minor change and was concerned about the resources required to make the changes required.	technical alert was issued as soon as possible following CIPFA/LASAAC's consultative process. A new section has been included in the Code Guidance Notes. **See main report.**
	Other Issues	
8	A firm commented that "We suggest that further consideration be given to accounting for third party income under Service Concession agreements. This was referred to in The Foreword to the 2013/14 Code, which noted that the treatment was under review by the CIPFA/LASAAC Code Board. However this matter was not addressed in the 2014/15 Code and the 2015/16 consultation is also silent on this."	This issue was considered by CIPFA/LASAAC in its deliberations on service concession arrangements at the time. Unfortunately there are two opposing views in international GAAP at the moment; one by the FRC included in FRS 102 and one included in IPSAS 32. CIPFA/LASAAC does include provisions in the Code but has recommended that authorities consider their transactions from first principles (see paragraph 4.3.2.19 of the Code). CIPFA/LASAAC has also considered the issue at its last meeting and the previous consultative processes have not yet identified any authorities that have transactions of this nature. The Secretariat has also not received any queries from authorities on this type of transaction. **No further action.**
9	A treasury management advisor commented: "Provisions for doubtful debtors - authorities commonly create these on initial recognition of debtors in apparent contravention of 7.3.3.1. We suggest that clarification on this is provided in section 5.3."	The Code Guidance notes have extensive guidance on the treatment of doubtful debt in accordance with the Code's requirements on impairment of debtor balances. CIPFA/LASAAC referred issue to LAAP last year. LAAP consider the Guidance Notes in module 8 Section B paragraph B46-B50 to be sufficient. **No further action.**
10	The treasury management advisor also commented: "Soft loans - 7.1.4.7 requires the double entry to go to the FIAA. However if the loan counts as capital expenditure under regulations, we believe that double entry	There could be arguments for this entry to be either to the Financial Instruments Adjustment Account of the Capital Adjustment Account. This should not lead to problems with the Capital Financing Requirement as the Prudential Code allows

	Issue	**Secretariat Response**
	should go to the CAA instead. Using the FIAA causes problems with the calculation of the CFR."	appropriate adjustments to be made. **No further action.**
11	One authority requested "Guidance on the treatment of investments and loans treated as capital expenditure eg LAMS including how these should be shown in the capital adjustment accounts."	The Local Authority Accounting Panel and CIPFA Secretariat has considered the need to add specific guidance on Local Authority Mortgage Guarantee Schemes and has decided that there is sufficient source material included in the Code Guidance Notes and other guidance issued by CIPFA to enable local authorities to account for these transactions. **No further action.**
12	One authority referred to the Code Guidance notes on materiality and suggested that they should require the materiality of any item to be considered on its merits rather than starting from the assumption that everything is material unless it can be shown otherwise. The same authority suggested that there is scope for reducing the extent of disclosures required by the Code and refers to the subjective analysis disclosure. It also suggested that a number of authorities have interpreted Appendix E Accounting for Local Authority Schools in England and Wales differently and added some recommended wording.	**The materiality issue can be referred to LAAP and considered in the Simplification and Streamlining Review.** Following the review of the financial statements the Secretariat concurs that the segmental disclosure note should be reviewed. **Suggest that this is considered as a part of the Simplification Review**. The Secretariat has issued guidance which concurs with this interpretation of Appendix E of the Code and has added the minor drafting suggestion to the Code Draft. **See main report and CD 5 amendments.**
13	An authority requested updated guidance on EUV-SH.	The Code doesn't provide any further guidance on the methodology to achieve EUV-SH as this would be an issue for the authority and its valuer. In England the *Stock Valuation Guidance for Resource Accounting* provides the methodology and is underpinned by an accounting direction. LASAAC has provided direction to Scottish

	Issue	Secretariat Response
		authorities. **No further action.**
14	Another authority referred to materiality guidance.	**This can be considered as a part of the Simplification and Streamlining Review.**

Pension Fund Accounts

Issue
***Question 12* – 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.**
An Audit Body Commented: "1) Investment management costs. The Code (based on IAS 26) requires 'administrative expenses' to be presented on the face of the fund account. However a recent guidance publication from CIPFA recommends management costs being presented in the fund account with three cost categories being disclosed in the notes, of which administrative expenses is one. It would be helpful if the Code was brought into line with this updated guidance. "2) The Codes guidance on the disclosure of the actuarial present value of promised retirement benefits could be improved. Currently it allows each of the three options available under IAS 26 but recommends one (which few authorities actually follow). It may be better to simply remove the other two options and require the one considered to be best practice. "3) The LGPS accounts for Scottish authorities are published in a separate document rather than with the authority's annual accounts. The review of section 6.5 should ensure that this scenario is properly reflected."
An firm commented: "Local Government Pension Funds have previously been required to make the disclosures required by IFRS 7, including disclosure of valuation methods and assumptions, and the level in the fair value hierarchy within which the fair value measurement is categorised. The disclosure requirements in IFRS 7.27-27B were removed from IFRS 7 on issue of IFRS 13. We make an observation that disclosure requirements in IFRS 13 are not required to be made for retirement benefit plan investments measured at fair value in accordance with IAS 26 Accounting and Reporting by Retirement Benefit Plans (see IFRS 13.7(b)). We are not aware of the IASB's rational for this scope exclusion, other than what is said in the Basis for Conclusions. Retirement Benefit Plans are, however, required to make disclosures about sources of estimation uncertainty and key judgements in accordance with IAS 1. In practice, it remains to be seen what level of disclosure Retirement Benefit Plans will typically make under IAS 1 now that the requirement to disclose valuation methods and assumptions has been removed from IFRS 7 and dis-applied by IFRS 13. This is due to the small number of plans around the world that apply IAS 26. It would seem appropriate to assume that IAS 1 disclosures will often be required where a material investment is valued using level 2 or level 3 of the fair value hierarchy. We further note that the draft Pensions SORP issued by PRAG will require funds reporting under the SORP to make disclosures about the fair value hierarchy and

Issue
valuation method and assumptions. On the face of it the SORP therefore has more onerous requirements than IFRS. We recommend that CIPFA/LASAAC gives careful consideration to where the right balance of disclosure lies in respect of users of Local Government Pension Funds and provides clear guidance on this matter."
The Secretariat concurs that the disclosures under 27 to 27 B (these disclosures relates to the disclosures of the valuation techniques, assumptions applied, and where within the hierarchy the fair value measurements of the financial instruments lie) are removed from IFRS 7 and that the scope exclusion in IFRS 13 will mean that these disclosures are no longer required for retirement benefit plans. Arguably if this is material for the pension fund accounts such disclosures would be required under IAS 1. CIPFA/LASAAC is invited to consider whether it wishes to make any further amendments to the 2015/16 Code or whether it wishes to wait for the review.
A firm commented: "We consider that reporting for pension funds should follow the practice in other sectors where these are not presented as part of the host body's accounts." "This would simplify preparation of local authority accounts." "In our view the accounts of the pension fund should be prepared, audited and reported separately from the accounts of the administering authority. "
Secretariat response: **This comment accords with CIPFA/LASAAC's own views. CIPFA Secretariat raised this issue with Government in its response to the draft Accounts and Audit (England) Regulations 2014. The Secretariat also raised this issue verbally with the Welsh Government.**
An authority commented that it would be useful to make it explicit that the "simplification" agenda applied to the pension fund accounts.