CIPFA The Chartered Institute of Public Finance & Accountancy

report

Paper CL 04 02-12

Committee	CIPFA/LASAAC
Venue	CIPFA Robert Street, London
Date	28 February 2012
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Subject	Development of 2012/13 Code of Practice on Local Authority Accounting (the Code) Update and the 2013/14 Code

The purpose of this report is to seek the views of CIPFA/LASAAC members regarding the changes that will be required to the Code of Practice on Local Authority Accounting for 2012/13 Code Update and the 2013/14 Code.

1 Introduction

1.1 At its November 2011 meeting CIPFA/LASAAC considered a report on the changes that will be required to the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for a 2012/13 Code Update and a 2013/14 Code. 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 2012/13 Code Update and the 2013/14 Code and thus establish the development programme for the year.

1.2 The 2012/13 Code has been 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 2012 or earlier (though please see comments in relation to the amendments to IAS 12 *Income Taxes*).

The Code has not been developed to incorporate other accounting standards ahead of their effective date. This approach reflects a desire to allow local authorities a period of stability.

1.3 It is recommended that a similar approach is applied in developing the 2013/14 Code. However, CIPFA/LASAAC has previously identified that due to the changes in relation to the Housing Revenue Account Reform in England, there will need to be a 2012/13 Code Update. In addition, the legislation and statutory guidance required to implement the new prudential system for capital finance in Northern Ireland in 2012/13 were introduced in September and October 2011. The changes resulting from the introduction of the new system will also need to feature in the 2012/13 Code Update.

1.4 This report details those known legislative requirements, pronouncements and accounting standards that the Secretariat proposes for incorporation into the 2012/13 Code Update and the 2013/14 Code.

1.5 In addition the 2012/13 Code consultation sought local authorities views on areas where further guidance might need to be included in the 2012/13 Code Update or the 2013/14 Code. It is suggested that these are referred to the post-implementation review to consider whether any further guidance can be added to the development programme for either the 2012/13 Code Update or the 2013/14 Code, as appropriate.

1.6 It is also likely that the outcomes of the conclusions of the Working Party - Accounting for Schools in Local Government will need to be incorporated into the 2012/13 Code Update or 2013/14 Code (it is probable that any changes requiring significant derecognition or recognition of assets will need to be timed for the 2013/14 Code to allow authorities sufficient implementation time). 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 2012/13 Code Update and/or 2013/14 Code.

1.7 This report also provides details of developments being undertaken which are expected to be relevant to the development of the Code for 2014/15 or later years.

2 Changes in legislation that are expected to impact on the 2012/13 Code Update and the 2013/14 Code

2.1 The following outlines the legislation that is expected to impact on the 2012/13 Code Update and the 2013/14 Code.

Implementation of Hutton Review Fair Pay Recommendations – UK Application

2.2 At its last meeting CIPFA/LASAAC considered the FReM consultation paper on the median pay disclosure arising from the Hutton Review of Fair Pay, which was the subject of a short consultation process at that time. CIPFA/LASAAC agreed that it wanted a full consultation process to apply to any such disclosures. In effect this meant that such amendments to the Code could only be included in the 2012/13 Code. The 2011-12 FReM has adopted the disclosure at paragraph 5.2.20 (e):

> "The median remuneration of the reporting entity's staff and the ratio between this and the mid-point of the banded remuneration of the highest paid director (see paragraph 5.2.6), whether or not this is the Accounting Officer or Chief Executive. The calculation is based on the full-time equivalent staff of the reporting entity at the reporting period end date on an annualised basis. For departments, the calculation should exclude arm's length bodies within the consolidation boundary. Entities shall disclose information explaining the calculation, including the causes of significant variances where applicable. Further guidance is provided on this Manual's dedicated website..."

The guidance mentioned in the disclosure is available at http://www.hm-treasury.gov.uk/frem_guidance.htm.

2.3 The Secretariat recommends that the disclosure is included in the consultation on the 2012/13 Code Update.

Social Impact Bonds

2.4 Under a Social Impact Bond, a local authority contracts with a third party (usually a Special Purpose Vehicle (SPV)) for intervention services. The SPV will often engage providers to deliver the intervention services. At the end of the contract, the third party is paid according to the success of those services (ie outcome based payment). There may be other types of arrangement. It is possible that the Code may need to provide guidance on these types of bonds. The Secretariat will provide an update on this issue at the next meeting of CIPFA/LASAAC.

Self-Financing Regime – Housing Revenue Account Self-Financing Determinations (England)

2.5 The Localism Act 2011 has paved the way for the subordinate legislation required to commence the new Self-Financing Regime for local housing authorities in England. The Self- Financing Determinations were issued on 1 February 2012. These determinations include:

- The Settlement Payments Determination 2012 - the determination sets out the amount that each local authority is required to pay to the Secretary of State or will be paid from the Secretary of State in order to move to the new self-financing regime.

- Limit on Indebtedness Determination 2012 – this determination places a cap on the amount of housing debt each local housing authority may hold.

- The Housing Revenue Account Subsidy Amendment Determination for the 2011-12 financial year – this determination adjusts the subsidy entitlement for the 2011/12 financial year in order to take account of the interest cost or savings arising from the settlement payments (which will take place three days before the end of 2011/12).

- The Item 8 Credit and Item 8 Debit (General) Determination 2011-12 Amending Determination – this determination enables changes to be made between the Housing Revenue Account and the General Fund to reflect the borrowing cost or savings arising from the settlement payments in the last three days of 2011/12.

- The Item 8 Credit and Item 8 Debit Determination from 1 April 2012 – this brings about the accounting changes for the HRA framework to move to the new self- financing regime and is the subject of a separate agenda item as this is the area which will have most impact on the financial reporting requirements of the Code. These amendments will need to be made to the 2012/13 Code Update.

The determinations are available on the DCLG website at the following address: http://www.communities.gov.uk/publications/housing/selffinancingdeterminations

General Power of Competence

2.6 The Localism Act 2011 also introduced the new general power of competence [in England]. There are no direct reporting requirements that arise from this new power in the Act. However, two respondents from the consultation on the

2012/13 Code raised the issue of the potential for local authorities to enter into financial derivatives. CIPFA/LASAAC's views are sought on whether or not it wishes to extend the Code's provisions on derivative financial instruments.

Amendment to the Capital Finance and Accounting Regulations (England)

2.7 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2012 (SI 2012 No. 265) were laid in February 2012. These amending Regulations include the treatment of securitisation transactions as credit arrangements. However, the consultation and the summary of responses to the consultation set out that it is for authorities to consider whether or not securitisation is lawful. The Regulations also:

- remove bonds (and other loan capital) from the definition of capital expenditure

- change the reference to fixed asset in the Regulations to non-current asset which is not a financial asset.

It is unlikely that the Regulations will require any significant amendment to the Code. The Regulations may need to be referred to in Appendix B *Sources and Legislation.*

Community Infrastructure Levy Reform

2.8 In October 2011 the DCLG issued a consultation *Community Infrastructure Levy: detailed proposals and draft regulations for reform – Consultation*. This consultation proposed the introduction of neighbourhood funds where authorities will be required (where relevant) to pass on a proportion of the CIL to other bodies. This may require some additional provisions in the Code. It is not clear as yet whether this would be required to be in the 2012/13 Code Update or 2013/14 Code.

The Local Government and Finance Bill 2012

2.9 The Local Government and Finance Bill 2012 was introduced to parliament on 19 December 2011 and is currently before parliament. The Bill is anticipated to introduce a rates retention scheme, enabling local authorities in England to retain a proportion of the business rates generated in their area. To do this, the Bill will insert a new schedule in the 1988 Local Government Finance Act, which sets out the parameters of how that new system will work, including:

- how total business rates should be split between local and central government

- a duty on billing authorities to either pay a "tariff" to, or receive a "top up" from, central government; and for billing authorities to make payments to upper tier authorities

- establishing a "levy" on disproportionate growth and "safety net" payments which will be managed via a separate single account, with decisions about how these will be set being taken in regulations

- allowing for authorities to retain in full the rates growth in designated Tax Increment Financing (TIF2) and Enterprise Zone areas

- local authorities being able to choose to form "pools" which can then be treated as a single authority under the scheme.

2.10 The consequent Act is anticipated to come into effect on 1 April 2013. It is likely that the requirements of the Act will have a significant impact on the provisions in Code in relation to business rates, but the particular effects cannot be specified in detail at this stage.

Council Tax Reduction Scheme

2.11 The Local Government and Finance Bill also requires billing authorities in England to establish a council tax reduction scheme by 31 January 2013 and those schemes must relate to the financial year beginning on 1st April 2013. This is necessary to enable the planned reduction in expenditure to be achieved in 2013-14. The Secretary of State has power to alter the commencement of these provisions. It is not yet clear whether there will be a direct requirement for the Code to set out the accounting arrangements for the Scheme.

Carbon Reduction Commitment (CRC) Energy Efficiency Scheme

2.12 Phase 1 of the Scheme commenced in April 2010. The 2011/12 financial year was the first year that a financial obligation arose for local authorities in relation to the Scheme. A LAAP Bulletin has been issued setting out the accounting treatment for the obligation as this can be accommodated under the general requirements of the Code as a provision. The recognition of the asset when an authority purchases the allowances for surrender is more complex. This issue is the subject of a separate report on the agenda. The second phase of the Scheme will commence on 1 April 2013. It should be noted that the commentary on the Simplification of the Scheme[1] issued by the Department of Energy and Climate Change (DECC) sets out that there will be no cap or auctioning of the Scheme in the second phase

The End of Landfill Allowance Trading Scheme (England)

2.13 The Waste Review[2] has announced the ending of the Landfill Allowance Trading Scheme (LATS) after the 2012/13 scheme year in England. The provisions for England therefore need to be removed from the Code, effective from the 2013/14 edition. It should be noted that the Scheme remains suspended in Scotland and therefore the provisions as they relate to Scotland will need to remain. The requirements for Landfill Allowance Schemes in Wales and Northern Ireland remain unchanged.

Amendments to the Local Authority Accounts (Scotland) Regulations 1985 (SI 1985, No. 267)

2.14 Following a LASAAC request for a review, the Scottish Government established a stakeholder working group to consider amendments to the Regulations. The group reached some tentative conclusions and the proposals for consultation have been agreed. It is anticipated that this consultation will be issued in 2012. The amendments to the Regulations will need to be included in either the 2012/13 Code Update or the 2013/14 Code. This will be subject to the timing of the issue of the amendments.

[1] Simplifying the CRC Energy Efficiency Scheme: Next Steps, DECC, June 2011
[2] Government Review of Waste Policy in England 2011, DEFRA June 2011

Accounting for Insurance Compensation

2.15 The treatment of non-current asset insurance receipts is the subject of a review by the Scottish Government with potential guidance being issued.

Structural Changes to Police and Fire Boards in Scotland

2.16 The decision to proceed to 'single' services has already been made [i.e. one Scottish Police force, one Scottish Fire and Rescue Service]. The formal public consultation on proposed structure and arrangements closed on 2 November 2011. The implementation timescale is unclear but might possibly be 1 April 2013. Unless there are specific arrangements made, it appears likely that these new bodies will be accounted for under central government arrangements – this will mean removal of references to these bodies from the Code.

Tax Increment Financing (Scotland)

2.17 The Scottish Government has stated it is supportive of proceeding with TIF pilots[3]. Guidance on the administration of TIF schemes has been developed and Non Domestic Rate legislation has been amended to allow pilots to proceed[4]. Initial pilot schemes have been approved with detailed plans to be developed. The accounting arrangements will be considered by LASAAC once the final form of any TIF projects is finalised. This will then be referred to CIPFA/LASAAC for consideration for inclusion in the Code. The Secretariat will update CIPFA/LASAAC at the meeting on the possible timing for this referral.

Integrated Health and Social Care Scotland

2.18 The Scottish Government is considering the integration of health and social care. The Secretariat understands that legislation has not yet been drafted and that working groups are considering issues relevant to the project. It is not yet clear whether or not this will impact on the reporting provisions of the Code.

Police Pension Scheme and Firefighters' Pension Scheme (Scotland)

2.19 Paragraph 6.5.6.7 of the Code states that:

"The regulations and orders referred to above state that payments between the Police Operating Account/Firefighters' Operating Account and central government may be required. The Scottish Government is expected to issue statutory guidance confirming that grants will be paid where the pension account is in deficit, and that payments to central government will be required where the pension account is in surplus. If such guidance is not issued, the regulations and orders would not provide sufficient certainty to support accrual of the amounts involved. Any surplus or deficit would then fall to the Police Operating Account/ Firefighters' Operating Account; with the expected transfer to or from central government being disclosed in a note to the accounts."

[3] See: http://www.scotland.gov.uk/Topics/Government/Finance/18232/TIF

[4] For Scottish Govt TIF pilot administration scheme see http://www.scotland.gov.uk/Resource/Doc/919/0107206.doc; for Non Domestic Rate legislation amendment (SSI 2010/391) see http://www.legislation.gov.uk/ssi/2010/391/contents/made

The Secretariat understands that government guidance referred to above was not issued in the form expected and in a final editing amendment to the 2012/13 Code added a footnote which noted that this issue was anticipated to be subject to review and considered for inclusion in the 2012/13 Code Update.
CIPFA/LASAAC's views are sought on this issue.

3. Other Guidance

3.1 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 2012/13, 2013/14 or later years, but will keep the situation under review.

4 Accounting Standards

4.1 The 2012/13 Code incorporates standards that have been issued with an effective date of 1 January 2012 or earlier. The 2013/14 Code will require adoption of standards with an effective date of between 2 January 2012 and 1 January 2013. At the time this report was drafted there a number of projects that have been completed by the IASB, which have been considered previously by CIPFA/LASAAC:

- The Group Accounting Standards ie:
  - IFRS 10 *Consolidated Financial Statements;*
  - IFRS 11 *Joint Arrangements;*
  - IFRS 12 *Disclosure of Interests in Other Entities;*
  - IAS 27 *Separate Financial Statements* (as amended in 2011);
  - IAS 28 *Investments in Associates and Joint Ventures* (as amended in 2011);
- IFRS 13, Fair Value Measurement
- IAS 1 Amendment, Financial Statement Presentation – Other Comprehensive Income
- IAS 19 Amendment, Post-Employment Benefits (including pensions).
- IFRS 7 *Financial Instruments; Disclosures* (December 2011 Amendments)
- IAS 12 Amendments (Please note that this was included in the 2012/13 Code Exposure Draft but was not adopted by the EU by the 1 January 2012) at the time of drafting this report it has still not been adopted by the EU. The Secretariat recommends that these amendments are included in the 2013/14 Code as agreed previously by CIPFA/LASAAC.
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* (not applicable to local authorities).

The Group Accounting Standards

4.2 The Group Accounting Standards were considered by CIPFA/LASAAC at its June 2011 meeting. In summary IFRS 10 replaces the consolidated financial statements provisions in IAS 27. IFRS 11 supersedes IAS 31 interests in Joint Ventures. IFRS 12 replaces the disclosure requirements of IAS 27, IAS 28 and IAS 31 except for the disclosure requirements in IAS 27 for the preparation of separate financial statements. IAS 28 (as amended in 2011) now additionally includes the requirements for the application of the equity method for an entity's interest in joint ventures. All the standards have an effective date of 1 January 2013 and therefore would be applicable to the 2013/14 Code.

4.3 As was noted at the Board's June and November meetings the principle of control applied in IFRS 10 is relied upon in all the new or amended standards. The assessment of control in IFRS 10 places heavy reliance on the power of the investor to influence an investee's returns. Such a reliance on the investor and investee relationship and the concept of returns as set out above is likely to cause significant application difficulties for local authorities whose interest in their subsidiaries is often not to benefit from a financial return but to benefit from the service potential generated by activities of the subsidiary or to allow others to benefit from the activities. The Secretariat has had initial discussions with the HM Treasury officials and is meeting in the near future to co-ordinate the approach to the Code with that in the FReM.

4.4 In addition the IASB issued amendments to IFRS 10 to clarify the transition guidance in IFRS 10 by confirming when an entity needs to apply the Standard retrospectively. It is anticipated that these amendments should be available for application in time for the effective date of the standard.

4.5 In a related issue FRAB has established a Working Group to look at the accounting treatment of mergers under common control. Paul Mason Assistant Director, Professional Standards and Central Government is a member of this working group.

IFRS 13 Fair Value Measurement

4.6 The new standard IFRS 13:

- provides a definition of fair value;
- presents a single IFRS a framework for measuring fair value; and
- requires disclosures about fair value measurements.

4.7 The standard applies to all IFRSs that require or permit fair value measurements or disclosures about fair value measurement except in specified circumstances. It has an application date of 1 January 2013 and earlier application is permitted. The standard requires prospective application The IFRS explains how to measure fair value for financial reporting purposes. It does not require any additional fair value measurements than those already required by IFRSs.

4.8 IFRS 13 defines fair value as "**…** the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." (IFRS 13, paragraph 9) ie measurement at an exit price. As discussed previously this is unlikely to be a suitable measurement for any asset that includes a measure of service potential particularly assets that are currently measured at value in use. At its October meeting FRAB considered a report on the adoption of FRS 13 in the FReM The Secretariat has had initial discussions with the HM Treasury officials and is meeting in the near future to co-ordinate the approach to the Code with that in the FReM.

IAS 1 Amendment, Financial Statement Presentation – Other Comprehensive Income

4.9 In June 2011, the IASB issued its amendment to IAS 1 Other Comprehensive Income (OCI). The amendments to the standard have an effective date of 1 July 2012. The amendments to the standard have changed from the Exposure Draft. The Exposure Draft previously proposed that all items of income and expense should be presented in a continuous statement of profit or loss and other comprehensive income with two sections—profit or loss and OCI. The final version of the standard retains the option to present items of profit or loss in a separate statement.

4.10 The standard has made another significant change to IAS 1 that is to group items of Other Comprehensive Income into items that are reclassified into profit or loss and those items that are not reclassified into profit or loss. This means that there will be some relatively minor structural changes to the format of the other comprehensive income and expenditure part of the CIES. It is unlikely that the majority of the items that can be reclassified (likely to be exchange differences, cash flow hedging) will have a significant effect on local authorities.

IAS 19 Amendments, Post-Employment Benefits

4.11 The new standard was issued in June 2011 and has an effective date of 1 January 2013. The amendments to the standard include:

- removal of the option to defer recognition of gains and losses (known as the corridor method);
- amendments to the presentation of changes in assets and liabilities ie:
  - liabilities (and assets) recognised in profit and loss will be:
    - (i) service cost (including current service cost and past service cost),
    - (ii) net interest on the defined benefit liability - requiring calculations of net interest on the net defined benefit liability (asset) using the same discount rate used to measure the defined benefit obligation. This replaces interest cost and the expected return on plan assets.
  - remeasurements which are to be presented in other operating income (these remeasurements include actuarial gains and losses, the return on plan assets and any change in the effect of the asset ceiling, (not included in net interest on the net defined benefit liability (asset));
- enhanced disclosure requirements for defined benefit plans;
- amendments to the definition, recognition and measurement of termination benefits;
- amendments to the requirements for curtailments and past service costs;
- clarification of measurement issues.

4.12 CIPFA/LASAAC will be aware that the Code does not adopt the corridor approach. However, the Code will need to adopt all the other amendments and will thus require some significant redrafting. This will be reported to CIPFA/LASAAC in the near future and prior to the next meeting for their early consideration. Although a presentational change, the changes to the net interest on the defined benefit liability and the remeasurements included in Other Comprehensive Income (and Expenditure) might impact on the costs reported in the Surplus or Deficit on the Provision of Services.

IFRS 7 *Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities* (December 2011 Amendments)

4.13 In December 2011 the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) issued common disclosure requirements that are intended to help investors and other users to better assess the effect or potential effect of offsetting arrangements on an entity's financial position. The new requirements are set out IFRS 7 *Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities* (December 2011 Amendments). The effective date of the amendments to the standard is 1 January 2013 and therefore these disclosures will need to be included in the 2013/14 Code.

IFRS 9 *Financial Instruments*

4.14 The IASB issued amendments to IFRS 9 *Financial Instruments* that defer the mandatory effective date from 1 January 2013 to 1 January 2015. As has been reported previously, the IASB is developing this standard in phases, and a complete standard has yet to be issued. Phase 1 was completed with the issue of the second part on requirements for financial liabilities (most of the added requirements were unchanged from IAS 39 *Financial Instruments: Recognition and Measurement*). The deferral will make it possible for all phases of the project to have the same mandatory effective date. This will mean that IFRS 9 will need to be adopted in the 2015/16 Code to coincide with the effective date of the standard.

4.15 The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. This relief was originally only available to companies that chose to apply IFRS 9 prior to 2012. Instead, additional transition disclosures will be required to enable investors and other users understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments.

Projects in the IASB Work Plan

4.16 One further project is anticipated to be issued by the IASB in 2011. Taking into account its expected issue date it may be issued before the development of the Code is complete. The project will need to be addressed in the 2013/14 Code if its effective date is 1 January 2013, or earlier, and they are adopted by the EU prior to the Code being approved.

4.17 The project being considered by the IASB and that CIPFA/LASAAC may need to address is set out in the table below. If the effective date of the standards to be amended is after 1 January 2013, it is proposed to consider the standards for inclusion in the 2014/15 edition of the Code. Appendix 1 includes a list of proposed standards where is it is likely that the effective date of the standard will be post 1 January 2013.

Proposed Standard	Expected Impact on the Code
IASB 2009 - 2011 Annual Improvements Standards (issued June 2011 – closed 21 October 2011) It is anticipated that the effective date of this part of the Annual Improvements Project is 1 January 2013. This therefore will need to be included in the 2013/14 Code.	The Improvements Project includes amendments to: • IFRS 1 *First Time Adoption of IFRS* – this standard would not normally be applicable to local authorities, having adopted the IFRS based Code for the first time in 2010/11. However, the proposals include the clarification that an entity is required to apply IFRS 1 when the entity's most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with IFRSs. The Code may need to include this comment as appropriately interpreted for the local authorities and may need therefore to (re) include IFRS 1 in the 2013/14 Code. • IFRS 1 – Clarification on borrowing costs relating to qualifying assets for which the commencement date for capitalisation is before transition date. CIPFA/LASAAC Members will be aware that the Code adopts IPSAS 5 *Borrowing Costs*. • IAS 1 – Clarification of the Requirements for Comparative Information - The proposed changes are: (a) the opening statement of financial position should be presented as at the beginning of the required comparative period; and (b) related notes are not required to accompany this opening statement of financial position. • The consultation on IAS 1 also includes a proposal to update the objective of financial statements to be the objective of financial reporting to reflect the *Conceptual Framework* that was issued in September 2010. • IAS 16 *Property, Plant and Equipm*ent the consultation includes proposals to clarify that servicing equipment should be classified as property, plant and equipment when it is used during more than one period and as inventory otherwise. • IAS 32 *Financial Instruments: Presentation -* Accounting for the income tax consequences of distributions - these amendments are unlikely to be applicable to local authorities' financial statements. • IAS 34 *Interim Financial Reporting* – these amendments will not be applicable to local authorities' financial statements.

Standards issued by IPSASB

4.18 The IPSASB approved IPSAS 32, *Service Concession Arrangements: Grantor* at its September 2011 meeting. IPSAS 32 is effective for periods beginning on or after January 1, 2014. As the standard is largely consistent with the current UK treatment of these schemes, CIPFA/LASAAC may wish to consider early adoption in the 2013/14 Code. It is suggested that the Secretariat will need to co-ordinate its approach to the adoption of this standard with that of the FReM.

The Future of Financial Reporting in the UK and Republic of Ireland

4.19 As reported previously the Code currently relies on two UK GAAP standards, FRS 30 *Heritage Assets* and SSAP 5 *Accounting for Value Added Tax*. It is anticipated that these standards will remain in effect until entities have moved over to Financial Reporting Standard 100 ie *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, at which point the standards will be withdrawn. This is anticipated to be in January 2015 and therefore would be applicable to the 2015/16 Code. This suggests that the 2013/14 Code and 14/15 Code will be able to rely on the existing standards, but that later editions of the Code will need to be amended.

4.20 The current exposure draft of FRS 100 includes the accounting requirements for heritage assets which are very similar to those in the Code. The Code using the hierarchy of standards set out in paragraph 1.1.6 of the Code would be able to move to the requirements in the anticipated new standard. The draft FRS 100 does not contain any dedicated provisions in respect of VAT, and CIPFA/LASAAC will need to consider whether the existing provisions are required in the Code.

4.21 It is useful to note that the previous structure for the future of UK GAAP has changed from that previously reported.

The revised proposals recommend a financial reporting structure where:

- entities required by law to apply EU-adopted IFRS must do so;
- certain qualifying entities may apply the EU-adopted IFRS with reduced disclosures;
- all other entities apply the draft standard set out in FRED 48 the exposure draft of FRS 100; and
- entities eligible to apply the FRSSE may continue to apply it.

An interesting point for note is that the reporting requirements for public benefit entities (the requirements for heritage assets apply to all entities) will be included in the new draft standard. These arrangements will be subject to consultation until 30 April 2012. It is also useful to note that the new standard includes the definition and criteria for merger accounting for entity combinations which is only applicable to public benefit entities.

5 Development Programme

5.1 A number of the issues highlighted in the above report will need to be updated as further information is available. However, CIPFA/LASAAC is asked to confirm its initial approach to the development programme based on the current position.

CIPFA/LASAAC will be asked to approve the 2012/13 Code Update and 2013/14 Code Exposure Drafts and Invitation to Comment at its meeting in June 2012. Sections of the Code will be circulated electronically prior to this meeting to enable CIPFA/LASAAC to give early consideration to some of the issues that will need to be considered. The results of these discussions will be incorporated into the draft of the Code presented at the June meeting.

Recommendation

CIPFA/LASAAC is asked to agree which developments are to be incorporated into the 2012/13 Code Update and 2013/14 Code.

Developments in Accounting Standards to be included in Future Editions of the Code

Development	**Commentary**	**Expected Date**	**Code Edition**
IAS 32 *Financial Instruments: Presentation*	As part of the project on asset and liability offsetting the IASB also clarified the application aspects of IAS 32 *Financial Instruments: Presentation.* The amendments address inconsistencies in current practice when applying the requirements.	December 2011	2014/15
Annual Improvements 2010 -2012	The following list of issues are proposed improvements anticipated to be included in the 2010-12 cycle • IFRS 2 *Share Based Payment* – Definition of a Vesting Condition • IFRS 3 *Business Combinations* Accounting for contingent consideration in a business combination • IFRS 8 *Operating Segments* - Aggregation of operating segments - Reconciliation of the total of the reportable segments' assets to the entity's assets • IFRS 13 – *Fair Value Measurement* - Short-term receivables and payables • IAS 1 *Presentation of Financial Statements* - Current/non-current classification of liabilities • IAS 7 *Statement of Cash Flows* - Classification of interest paid that is capitalised as part of the cost of an asset • IAS 12 *Income Taxes* - Recognition of deferred tax assets for unrealised losses on available-for-sale debt securities • IAS 16 *Property Plant and Equipment* and IAS 38 *Intangible Assets* - Revaluation method—proportionate restatement of accumulated depreciation • IAS 24 *Related Party Disclosures* – Key Management Personnel • IAS 36 *Impairment of Assets* - Harmonisation of disclosures for	1 January 2014	2014/15

Development	**Commentary**	**Expected Date**	**Code Edition**
	value in use and fair value less costs to sell		
Annual Improvements 2011 -2013	The following list of issues are proposed improvements anticipated to be included in the 2010-12 cycle • IFRS 3 *Business Combinations* Definition of a Business – Scope of exception for joint ventures • IAS 38 Intangible Assets – IFRIC 12 Service Concession Arrangements – Selection of amortisation method • IAS 7 *Statement of Cash Flows* - Presentation of cash flows for construction or upgrade service within the scope of IFRIC 12.	1 January 2014	2014/15
Revenue Recognition	The core principle of the ED is that an entity should recognise revenue from contracts with customers when it transfers goods or services to the customer in the amount of consideration the entity receives, or expects to receive, from the customer. The proposed standard will replace IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. The proposed standard is likely to impact on the way revenue is recognised for different types of contractual arrangements. In addition there will need to be some interpretation of the new standard for local government circumstances. The second issue of the Exposure Draft was issued in November 2011; note that this did not amend the core principle. The consultation period will close on 13 March 2013	H2 2012 (Target Date of IFRS 2012/13)	Not known
IASB: Leases	The ED issued in August 2010 proposes that lessees and lessors should apply a right-of-use model in accounting for all leases. There are a number of scope exclusions. However, the ED would mean a fundamental change in accounting requirements for the majority of leased assets held or leased by local authorities.	H2 2011 (ED)	Not Known

Development	**Commentary**	**Expected Date**	**Code Edition**
	For leases within the scope of the ED, this means that: (a) a lessee would recognise an asset representing its right to use the leased asset for the lease term (the ‘right-of-use’ asset) and a liability to make lease payments. (b) a lessor would recognise an asset representing its right to receive lease payments and, depending on its exposure to risks or benefits associated with the underlying asset, would either: (i) recognise a lease liability while continuing to recognise the underlying asset (a performance obligation approach); or (ii) derecognise the rights in the underlying asset that it transfers to the lessee and continue to recognise a residual asset representing its rights to the underlying asset at the end of the lease term (a derecognition approach). There are also fundamental changes to the measurement requirements of the standard. The changes anticipated by the standard are very likely to have implications for the capital accounting regulations in England and Wales and statutory guidance in Scotland. It is anticipated that the standard will be re-exposed in 2012		
Insurance Contracts	The ED proposes a comprehensive measurement approach for all types of contracts issued by entities (including reinsurance contracts). It also includes a modified approach	Not Known	Not known

Development	Commentary	Expected Date	Code Edition
	for some short duration contracts. It is anticipated that there will not be any significant effect on the Code. It is anticipated that the draft will be reviewed or consulted on in the first half of 2012.		
IFRS 9 Classification and Measurement	In November 2011, the Board tentatively decided to consider making limited modifications to IFRS 9 on an expedited basis. The Board decided to consider making limited modifications to IFRS 9 for three primary reasons: • Specific application issues • Interaction with insurance project • Convergence with the US-based FASB.	1 January 2015	2015/16
Impairment	The objective of this phase is to improve the decision-usefulness of financial statements for users by improving the amortised cost measurement, in particular the transparency of provisions for losses on loans and for the credit quality of financial assets. It is anticipated that the draft of the standard will be subject to either consultation or be subject to further review by the end of the first half of 2012.	1 January[5] 2015	2015/16
Hedge Accounting	In December 2010 the IASB published the exposure draft on the accounting for hedging activities. The exposure draft proposed requirements that will allow entities to reflect their risk management activities better in their financial statements, and, help investors to understand the effect of those activities on future cash flows. It is anticipated that the IASB will review the draft during the last quarter of 2011 with a target issue date of the first half of 2012.	1 January 2015[6]	2015/16

[5] This date anticipates that this phase of the financial instruments project will be issued in accordance with the new effective date of the standard ie 1 January 2015

[6] As above

Development	Commentary	Expected Date	Code Edition
Macro Hedging	This is a part of the third phase of the financial instruments project. The IASB set out that the objective of this phase is to improve the usefulness of financial statements for users by fundamentally reconsidering the current hedge accounting requirements. The objective is to address risk management strategies referring to open portfolios (macro hedging) which were not covered by the exposure draft issued in December 2010 for general hedge accounting. An exposure draft is expected to be issued in the second half of 2011.	Not known	Not known
IASB: Conceptual Framework	The Conceptual Framework project aims to update and enhance the current concepts to reflect the changes that have occurred since the concepts in the Framework were first developed. The IASB and the FASB will amend sections of their conceptual frameworks as they complete individual phases of the project. The project's overall objective is to create a sound foundation for future accounting standards that are principles-based, internally consistent and internationally converged. There are eight phases of the project. Phase A was completed in September 2010. There are three other live phases including *The Reporting Entity* which was issued as an Exposure Draft in March 2010. The remaining two live phases are *Definition of Elements Recognition and Derecognition* and *Measurement.* Code developments will need to be considered against the updated Framework as phases are finalised. The boards have considered the comments they received on the exposure draft for Phase D *Reporting Entity*. In the light of those comments the boards have decided that they will need more time to finalise this chapter than they initially anticipated. The boards have not yet published	Various Phases	2012/13 Onwards

Development	**Commentary**	**Expected Date**	**Code Edition**
	discussion papers for Phase B *Elements* or Phase C *Measurement*. The IASB expects to recommence development of the Conceptual Framework at the beginning of 2012.		
IPSASB: Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities	The first phase of the conceptual framework has been issued as an ED (Phase 1: Scope: Objectives and Users) Qualitative Characteristics. The consultation period closed in June 2011. Phases 2 and 3 of the Conceptual Framework have been issued for consultation: • Phase 2: Elements and Recognition in Financial Statements; and • Phase 3: Measurement of Assets and Liabilities. The consultation period closed in June 2011. Code developments will need to be considered against the updated Framework as phases are finalised.	Various phases	Not known
Liabilities (IAS 37)	The ED proposes replacing the current measurement of liabilities based on the ‘probability- weighted average of the present values of the outflows for the possible outcomes’. This would be a significant change in accounting for liabilities. The appropriate accounting would need to be discussed with HM Treasury and would need to be considered against the outcomes of the IPSASB conceptual framework. This project is paused until the IASB concludes its ongoing deliberations about its future work plan in 2012.	Not known	Not known
Financial Statement Presentation – IAS 1 and IAS 7 replacement (including	The proposals in the anticipated ED will replace the existing standards on financial statement presentation, IAS 1 *Presentation of Financial Statements* and IAS 7 *Statement of Cash Flows*. The ED is anticipated	Not known	Not known

Development	Commentary	Expected Date	Code Edition
discontinued operations)	for issue in Q1 of 2011. It was noted at the February 2010 meeting of CIPFA/LASAAC that an earlier discussion paper on this issue received a negative response from the UK public sector, as the proposals were geared to investors seemingly at the expense of other users. It is therefore possible that CIPFA/LASAAC may wish to adopt an alternative approach. This project is paused until the IASB concludes its ongoing deliberations about its future work plan in 2012.		
Financial Instruments with characteristics of equity	Not expected to result in any significant changes to the Code. This project is paused until the IASB concludes its ongoing deliberations about its future work plan in 2012.	Not known	Not known
Consolidation - Investment Entities	The IASB published an Exposure Draft in August 2011 the ED defines investment entities as a separate type of entity that would be exempt from the accounting requirements in IFRS 10. It is unlikely that this standard would have an application for local authorities. The consultation period closed on 5 January 2012. It is anticipated that the standard will be issued in the second half of 2012.	Not known	Not known
Emissions Trading Schemes	Until the ED is issued it is not known as yet what effect this might have on the Code. Discussions on the emissions trading scheme project were deferred in November 2010. The IASB will consider whether the project will remain on the agenda as part of its agenda consultation process in 2012.	Not known	Not known