CIPFA The Chartered Institute of Public Finance & Accountancy

# report

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| Committee | CIPFA/LASAAC |
| Venue | CIPFA Scotland Offices Edinburgh |
| Date | 19 June 2012 |
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| Subject | 2012/13 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) Update and 2013/14 Code – Proposed Exposure Draft and Invitation to Comment |

The purpose of this report is to seek approval of the 2012/13 Code of Practice on Local Authority Accounting (the Code) Update and the 2013/14 Code Exposure Drafts and Invitation to Comment.

## 1 Introduction

1.1 At the CIPFA/LASAAC meeting held on 28 February 2012, the Board considered a report on the development of the 2012/13 Code Update and 2013/14 Code, and agreed that the Secretariat should develop the following matters for inclusion:

(i) Housing Revenue Account Reform Changes

(ii) Accounting Requirements for Carbon Reduction Commitment (CRC) Energy Efficiency Scheme Allowances

(iii) Amendments as a Result of the new Prudential System for Capital Finance in Northern Ireland

(iv) General Power of Competence – minor changes to the Code due to the possible use of derivatives by local authorities.

(v) Amendment to the Capital Finance and Accounting Regulations (England)

(vi) End of Landfill Allowance Trading Scheme (England)

(vii) Structural Changes to Police and Fire Boards in Scotland to recognise the Code would no longer apply to these bodies.

(viii) June 2011 Amendments to IAS 19 *Employee Benefits*

(ix) IAS 1 Amendment, Financial Statement Presentation – Other Comprehensive Income

(x) IFRS 13 *Fair Value Measurement*

(xi) The five new or amended Group Accounting Standards:

- 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);

(xii) Use of the additional guidance available for service concession arrangements

(xiii) IFRS 7 *Financial Instruments; Disclosures* (December 2011 Amendments)

(xiv) 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 Board agreed that these amendments are included in the 2013/14 Code as agreed previously by CIPFA/LASAAC.

1.2 The Board also agreed to the inclusion of Tax Increment Financing (TIF) subject to the establishment that there were specific accounting issues that needed to be addressed in the Code. See also later in this report.

1.3 Furthermore, the Board agreed that:

- it would consider an update on the latest developments and the use of the *Code of Practice on Transport Infrastructure Assets* in order to consider what it would include in the Invitation to Comment about the possible adoption of that Code in the Accounting Code. This is considered in more detail at agenda item 7.

- if a need was identified it would include any of the relevant recommendations of the post implementation review group in the consultation. This is considered in more detail at agenda item 8.

- it would include outcomes of the conclusions of the Working Party - Accounting for Schools in Local Government which would need to be incorporated into the 2012/13 Code Update or 2013/14 Code. This is considered in more detail at agenda item 9.

- it would include appropriate reference to the anticipated changes to the Code as a result of the Local Government and Finance Bill 2011

- it would include the following legislative developments subject to the timing and the need for inclusion in the Code.

  - amendments to the Local Authority Accounts (Scotland) Regulations 1985 (SI 1985, No. 267);

- accounting for insurance compensation (anticipated guidance to be issued in Scotland).

**SECTION A**

## 2 Housing Reform in England

2.1 The introduction of the self-financing regime for the Housing Revenue Account (HRA) in England was referred to in the Invitation to Comment (ITC) on the 2012/13 Code. However, as was highlighted in the ITC, the statutory arrangements required to implement the regime were confirmed too late to be reflected in the 2012/13 Code. An Update to that Code dealing with the accounting implications of the change is therefore required. It has previously been reported to CIPFA/LASAAC that the Localism Act 2011 and the suite of self-financing determinations required to introduce the new regime are now in-place.

2.3 This report also includes other amendments to the HRA as a result of the self-financing regime for Housing Authorities in England. In addition, when considering the new statutory disclosures for the Housing Revenue Account last year and following the review of the Code's statutory and non-statutory disclosure requirements CIPFA/LASAAC agreed that it would review the non-statutory HRA disclosures as a part of its review of the Code's provisions of the HRA following HRA reform in England. This has been included in the post implementation review of disclosures.

*Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012*

2.1 This report is concerned with the amendments required to the Code as a result of the *Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012* (the Determination) and other changes as a result of the move to the new self-financing regime for local authorities. CIPFA/LASAAC Members will be aware that this Determination governs the capital charges (both debits and credits) to be made to the HRA in relation to the financing and (capital) accounting requirements of property, plant and equipment. The Determination has been simplified significantly from those for previous years.

2.2 The new Determination, although still formulaic, has seen a move from the complex formulas that were previously included to requirements to make capital charges that are related to proper practices, which under Section 21 of the Local Government Act 2003 would include the Code. The Secretariat's understanding is that a significant part of the policy intention of the move to self-financing is that depreciation will be a real charge to the HRA.

2.3 The Determination permits depreciation to be charged in accordance with proper practices to the HRA. It also includes a five-year transitional period which permits the difference between a notional Major Repairs Allowance (MRA) and depreciation (where dwelling depreciation is greater than the MRA) to be charged to the Major Repairs Reserve (MRR), such that the MRA becomes the effective charge against the HRA balance. This is facilitated by a credit item in the Determination for a "Transfer from Major Repairs Reserve." Board Members will be aware that there is no longer a MRA cash payment as a part of the Subsidy. The Determination specifies that the MRA figure to use is equal to the assumption about the need to spend on major repairs for each authority used in the self-financing valuation for 2012/13 and each of the next four years.

2.4 In addition there are debits and credits (reversals) for impairment losses and revaluation decreases, with the reversal in the Determination being on a transitional basis. The DCLG confirmed in its response to the consultation that the reversal for non-dwellings (eg, garages, shops, recreational facilities) is not included in the Determination. It is thought that non-dwelling assets are not a particularly material item for local housing authorities, although the Secretariat is aware of one authority for which this is a material issue. The issue of reversals for non-dwellings is covered in more detail in later paragraphs.

2.5 CIPFA/LASAAC Members will be aware that an important element of the capital transactions of the HRA is not included in the Determination: the interaction of the requirements of the Accounts and Audit (England) Regulations 2011 and the Housing Revenue Account. Regulation 7(5)(a) requires that "a credit of an amount in respect of any charge for depreciation included in the housing revenue account for that year under item 8" is made to the MRR. The impact of this requirement is that it maintains the same requirements in relation to this credit to the MRR (and therefore would require the same accounting treatment and entries). It also arguably is a significant feature that serves to maintain the capital revenue split in the HRA. Combined with the Determination requirements, the net effect is to post an amount equal to the MRA to the MRR each year, such that the Reserve records a balance of usable capital resources. For authorities not opting to use notional transitional treatment the effect will of course be to post an amount equal to depreciation to the Reserve to record a balance of usable capital resources.

2.6 The retention of the credit to the MRR in the Accounts and Audit Regulations and the capital/revenue split will mean that the same statutory adjustments that are currently included in the Code will be required to maintain a revenue account that shows the statutory HRA balance as its bottom line. If authorities use the MRA adjustment the only substantial difference in the accounting treatment from that required previously by Determinations, Regulations and the consequential treatment specified by the Code is that there is no cash payment of subsidy. If authorities chose not to operate the transitional arrangements then the MRA adjustment is also removed.

2.7 This transaction required by the Accounts and Audit Regulations (per Regulation 7 (a) extracted above) can only be made if the credit is sourced from a usable resource balance (which can only be the HRA revenue balance). Taking this income outside the HRA into the MRR has important consequences on the accounting treatment for the capital charges to the HRA (depreciation and impairment and revaluation decreases (losses) charged to a revenue account), particularly in the post transition period in the self-financing regime. These charges are made to the HRA Income and Expenditure Statement so that rents can be raised (or costs reduced) to cover the expenditure. If this income is posted out of the HRA balance to the MRR but the charges are not also neutralised, then the HRA will be put into deficit. The depreciation entries therefore have to be reversed in the same manner using the same entries required by the Code under the current arrangements (ie, to the Capital Adjustment Account).

*The Proposed Amendments to the Code*

2.8 As all the statutory requirements (ie the continuation of the Major Repairs Reserve credits via the Accounts and Audit Regulations 2011 and the adjustment between depreciation and the MRA) will continue to exist, albeit the transfer for the adjustment between depreciation and the MRA in transitional and optional form, the required amendments to the Code are not extensive and are set out in the Exposure Draft. The transfer to the MRR when depreciation for HRA dwellings is less than the MRA is not included in the Determination and has therefore been removed (see paragraph 4.1.3.6, first bullet, deletion of first sentence).

**CIPFA/LASAAC's views are sought on this proposed amendment**.

2.9 Authorities are permitted by the Determinations to charge a sum in excess of any charge for depreciation to its Major Repairs Reserve. It is not clear why under proper practices covered by the Code an authority would chose to do this and therefore this transaction has not been included in the early draft of the amendments to the Code. It is noted that the Determination itself permits authorities to undertake this transaction.

**CIPFA/LASAAC's views are sought on this issue**.

2.10 The transactions required by the second bullet in paragraph 4.1.3.6 of the Code are the same ones required currently. These have been covered in greater detail than previously to assist practitioners but CIPFA/LASAAC members will note that they will have the same effect. Both transactions are also required because it is difficult to present a true and fair view by making a transfer to the MRR (a usable reserve) from the Capital Adjustment Account (a non-usable reserve). At its last meeting CIPFA/LASAAC required that the Secretariat present the full set of accounting entries for depreciation and the movements between the HRA and the Major Repairs Reserve. These are attached at Appendix 1 for information.

**CIPFA/LASAAC's views are also sought on the proposed amendment.**

2.11 In addition the Code has been updated for a transfer included in the Determination where decent homes backlog funding has been credited to the Housing Revenue Account in accordance with a direction made by the Secretary of State under item 9 of Part I of Schedule 4 to the 1989 Act. This transaction has been added to ensure that the transfers to the Major Repairs Reserve in the Code accord with the Determinations.

**CIPFA/LASAAC's views are also sought on the proposed amendment.**

2.12 The Secretariat is of the view that consistency of treatment under the capital and revenue split requires that non-dwelling depreciation and impairment and revaluation decreases (losses) should also be subject to the same statutory adjustment as these are not charges that would hit a revenue account in either the transition or post transition period. In addition as set out above, the Accounts and Audit Regulations 2011 will require a credit to the MRR for an amount equal to "any charge for depreciation included in the housing revenue account" which would include non-dwelling depreciation – this strongly supports the arguments for the same adjustments continuing to be required for both dwelling and non-dwelling depreciation. However, it appears that the statutory requirements would not permit this. This issue has been raised with the DCLG.

*Other amendments as a Result of HRA Reform*

2.13 The removal of the subsidy and the move to self-financing for English Housing authorities has meant that there are further changes required to Section 3.5 of the Code. This has meant removing references to the subsidy and the Major Repairs Allowance for English Housing Authorities.

2.14 In addition, the new self -financing regime renders statutory disclosure 3.5.5.1 6) obsolete but this has not yet been removed from the draft as the originating statutory directions remains extant[1].

**CIPFA/LASAAC's views are sought on these amendments and whether or not it considers any further amendments are required.**

## 3 The Accounting Requirements for the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme

3.1 CIPFA/LASAAC considered the Scheme at its last meeting. In order to inform the development of provisions in the Code in relation to the Scheme it requested further reference either to the FRAB debates on the issue or to any further developments of the IASB. There have been a number of developments which provide useful background information for the development of the accounting provisions for CRC allowances. The IASB has supported a recommendation that its work programme include research on emissions trading schemes. However, there appear to be no formal recommendations on the accounting treatment for such schemes. In addition the Chancellor's recent budget statement set out that the government would

"… consult on simplifying the Carbon Reduction Commitment (CRC) energy efficiency scheme to reduce administrative burdens on business. Should very significant administrative savings not be deliverable, the Government will bring forward proposals in autumn 2012 to replace CRC revenues with an alternative environmental tax, and will engage with business before then to identify potential options…"

3.2 At the time of drafting this report the Secretariat is not aware that the operation of the CRC Scheme for 2012/13 will be subject to significant change.

3.3 The FRAB's last significant debate on the treatment of allowances in October 2010 concluded that:

"The Board [FRAB] discussed whether the existing accounting standard should be followed or whether it should consider derogation, as proposed in the paper. It was agreed that IAS 38 should be followed, but that the accounting should remain under review, so if there are significant changes to the scheme or volatility in its application, the issue should be returned to the Board."
*FRAB (104) (1) Minutes of 7 October 2010*.

3.4 In addition at its last meeting CIPFA/LASAAC agreed that the Code did not need to include specific provisions on the accounting treatment of the liability as this was covered in the Code's general provisions. CIPFA/LASAAC also agreed that as a part of the amendments to the Code and as the Landfill Allowance Trading Scheme (LATS) had ended in England the provisions in relation to England and Scotland would be removed.

3.5 At its last meeting the Board debated whether the CRC assets might need to be accounted for as a financial instrument. However, the allowance itself does not meet the definition of a financial asset as its settlement cannot be for cash, the allowance can only be surrendered to the CRC Registry.

*The Proposed Amendments to the Code*

[1] The Housing Revenue Account (Accounting Practices) Directions 2011

3.6 The draft of the Code follows the recommendations of the withdrawn IFRIC 3 which required allowances of this nature to be accounted for as an intangible asset. This is because the allowances are an “identifiable non-monetary asset without physical substance”. The proposed amendments also require the assets recognised and measured in accordance with section 4.5 of the Code and further to be classified as current or non-current in accordance with paragraph 3.1.2.57 of the 2012/13 Code.

3.7 As reported previously, it is important to note that the Code, following the requirements of IAS 38, scopes out intangible assets “held for sale in the ordinary course of business” from the provisions of Section 4.5 of the Code therefore if the assets are held for the purpose of trading by local authorities it is considered that these assets should be measured as an inventory item (although it is considered that this is not likely in the introductory stages of the Scheme). The draft of the Code therefore allows for the assets to be classified as inventory and in such cases should be recognised and measured in accordance with the provisions of section 5.1 of the Code.

3.8 It is possible that if an authority classifies these assets as intangible that the assets might meet the definition of capital expenditure under the various regulatory regimes across the UK. The Secretariat raised the issue in its February report and has raised or is in the process of raising the issue with the relevant devolved administrations. This is still being considered. However, it is not clear whether or not this will be a material issue for local authorities.

3.9 At its last meeting CIPFA/LASAAC was of the view that the Code does not need to contain any specific provisions in relation to penalties in the Scheme, these would be covered by the general provisions of the Code. These have therefore not been included in the Exposure Draft.

3.10 CIPFA/LASAAC also requested that the paragraphs on Landfill Allowance Trading Scheme be removed from the Code for both England and Scotland. However, this draft is for the 2012/13 Code Update ie whilst the Scheme is still in operation for England and therefore the provisions have been retained. This draft has therefore been drafted slightly differently from previous versions and has separated out the accounting requirements for LATS and CRC Schemes. The proposed draft also does not align the accounting requirements for LATS and CRC Schemes as was suggested in responses to the consultation for CRC Schemes in 2011/12 as such an alignment would only occur for the 2012/13 year. The ITC indicates that the paragraphs relating to the LATS scheme for the 2013/14 year will be removed from the Code.

**CIPFA/LASAAC’s views are sought on the proposed amendments to the 2012/13 Code Update for the CRC Efficiency Scheme.**

## 4 The New Prudential System for Capital Finance in Northern Ireland

4.1 As reported previously the changes to the capital finance system in Northern Ireland require updating amendments to the 2012/13 Code as the system was introduced on the 1 April 2012. However, the secondary legislation was introduced too late to amend the Code appropriately. As indicated in the 2012/13 Code the 2012/13 Code Update would need to set out the amendments to the Code. The resultant proposed amendments to the Code are in relation to the recommended wording in relation to the Statement of Responsibilities for Northern Ireland District Councils and to the statutory accounting requirements in Sections 4.1-4.6 of the Code and to Appendix B which sets out the statutory sources for those accounting requirements. In general it appears that the prudential system will operate in a manner similar to England and Wales. CIPFA Northern Ireland is consulting with the Department of the Environment Northern Ireland on the proposed changes to the Code on 19 June 2012.

## 5 The Local Authorities (Capital Finance and Accounting)(England) (Amendment) Regulations 2012 (SI 2012 No. 265) (as amended)

5.1 The abovementioned Regulations were made in February 2012. The main effect of the changes is to bring securitisation within the capital finance framework, relax the rules on bond investments, and clarify the definition of capital expenditure. It was considered that a reference to these regulations would be needed in However, the proposed amendments to the Code recognise the issue of the Regulations in the relevant section of Appendix B: *Sources and Legislation Part 2 Legislative Basis for the Accounting Section of the Code*. However, the relevant reference ie to 4.6 Revenue Expenditure Funded for Capital under Statute (Page 258 of the 2012/13 Code) refers only in general terms to "Local Government Act 2003 and related regulations and directions". Therefore it is recommended that no direct reference to this specific SI be made in the Code.

**CIPFA/LASAAC's views are sought on this approach.**

## 6 Minor Amendments

*Non-Domestic Rate Income: Potential for the Authority to Act as Principal (England and Scotland)*

6.1 CIPFA/LASAAC will be aware that there is a possibility that Tax Increment Financing will be introduced in both England and Scotland. In addition LASAAC Members of the Board may be aware that the Scottish Government has also introduced the Business Rate Incentivisation Scheme from 1 April 2012, which allows authorities to retain a portion of any Non Domestic Rate income in excess of a target collection performance. It is not yet clear how the detailed policy and practice will develop for these Schemes. However, it is suggested that a minor amendment be added to the NNDR section to allow for future policy development. It is recommended that as these changes are as a result of policy development and not changes to accounting or financial reporting standards that this proposed amendment is included in the 2012/13 Code Update.

**CIPFA/LASAAC's views are sought on this proposed amendment.**

*Police Pension Scheme and Firefighters' Pension Scheme (Scotland)*

6.2 At its last meeting it was noted that paragraph 6.5.6.7 of the Code refers to guidance that was anticipated but was not issued by the Scottish Government. It is suggested therefore that these references are removed as a minor amendment to the 2012/13 Code Update.

6.3 The minor amendments also correct paragraph 2.3.2.11 as this paragraph refers to donated assets which is incorrect.

**SECTION B 2013/14 Code Only**

## 7 IAS 19 Employee Benefits (June 2011 Amendments)

7.1 The IASB issued the amendments to IAS 19 Employee Benefits in June 2011. The amendments to the standard focus on three main areas:

- Recognition — the removal of the option to defer the recognition of gains and losses resulting from defined benefit plans (known as the corridor approach).
- Presentation — the removal of options for the presentation of gains and losses relating to defined benefit plans and changes to the presentation of the components of the defined benefit cost.
- Disclosures — the improvement of disclosure requirements that will better demonstrate the characteristics of defined benefit plans and the risks arising from those plans.

The amendments also incorporate changes to the accounting for termination benefits that were exposed for public comment in 2005.

*Definitions*

7.2 The definitions in the standard have been restructured into four sections.

- definitions of employee benefits;
- definitions relating to classifications of plans;
- definitions relating to the net defined benefit liability; and
- definitions relating to defined benefit cost.

Currently, the 2012/13 Code definitions in relation to IAS 19 are included in alphabetical order. Other chapters/sections of the Code also include definitions alphabetically. The current draft follows the structure and order of the IFRS. Arguably, this will assist practitioners to understand the effects of the definitions. Alternatively, ordering alphabetically ensures the definitions are easy to find and is consistent with the other chapters of the Code.

**CIPFA/LASAAC views are sought on whether or not it wishes to retain the definitions as drafted or wishes them to be included in the Exposure Draft alphabetically.**

*Short-Term Employee Benefits*

7.3 There are minimal changes to terminology and emphasis in the amendments to the Code in relation to short term employee benefits. The interpretations, with the exception of reference to the corridor approach, have been retained as drafted. However, the Standard has changed terminology and refers instead to paid absences instead of compensated absences. The draft of the amendments has used both terms with primacy being given to the word compensated as this is the term used in the legislative provisions in relation to accumulating compensated absence.

**CIPFA/LASAAC's views are sought on the amendments as drafted.**

*Long-Term Employee Benefits*

7.4 There are more significant amendments to the IFRS in relation to long-term employee benefits. The Standard requires the same recognition and measurement requirements for other long-term employment benefits as for post-employment benefits. However, all changes in the carrying amount of liabilities are recognised in profit or loss (in the Code in the Surplus or Deficit on the Provision of Services). Thus the changes to the standard in relation to the components of cost apply equally to long-term employee benefits.

**CIPFA/LASAAC's views are sought on the amendments as drafted in relation to long-term employee benefits.**

**Termination Benefits**

7.5 Termination benefits are employee benefits payable as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The amendments to the standard now require that an entity recognise termination benefits at the earlier of when the entity can no longer withdraw an offer of those benefits and when it recognises any related restructuring costs. The changes to the recognition of termination benefits have been included in the amendments to the Code.

**CIPFA/LASAAC's views are sought on the amendments as drafted in relation to termination benefits.**

*Disclosure of Other Employee Benefits Other than Post-Employee Benefits*

7.6 The disclosures in the amended Standard in relation to short and long-term employee benefits and termination benefits refer to the requirements of other standards as is set out below. This is similar but more specific than had been in the Standard previously. The requirements from the amended standard are included below (and are the same for short and long-term employee benefits and termination benefits)

"Although this Standard does not require specific disclosures about termination benefits, other IFRSs may require disclosures. For example, IAS 24 requires disclosures about employee benefits for key management personnel. IAS 1 requires disclosure of employee benefits expense."

Paragraph 3.4.2.92 of the 2012/13 Code states that the analysis of total income and expenditure also satisfies the requirement in IAS 1 to present information regarding the nature of expenses. This analysis may or may not separately identify employee benefits but the required analysis does include employee expenses. The current draft of the Code at paragraphs 6.2.4 and 6.3.3 have been amended based on the text of the amended Standard which arguably might increase the reporting requirements of these employee benefits for some authorities.

**CIPFA/LASAAC's views are sought on whether or not it wishes to retain the disclosures based on the provisions of IAS 19 as extracted above or wishes disclosures for short, long-term employee benefits and Termination Benefits in Sections 6.2 and 6.3 of the Code to be drafted in a similar manner to the 2012/13 Code.**

*Post-Employment Benefits*

7.7 The proposed amendments to Section 6.4 of the Code reflect the significant changes to the standard. Principally for the Code this means the changes in relation to the changes to the classification, recognition and measurement of the defined benefit cost. These changes require new classifications of:

- service cost comprising:

  (a) current service cost,

  (b) past service cost; and

  (c) gains and losses on settlements.

- net interest on the net defined benefit liability (asset) - this is the change during the period in the net defined benefit liability (asset) that arises from the passage of time, and

- Remeasurements of the net defined benefit liability (asset) comprising:

  (a) actuarial gains and losses;

  (b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and

  (c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

7.8 CIPFA/LASAAC Members will be aware that the components of the defined benefit cost should be recognised as set out in the three main bullets above, ie service cost, the net defined benefit liability (asset) and remeasurements of the defined benefit (asset) liability. The new classification of service cost includes as its components, current service cost, past service cost and gains and losses on settlements. Currently the proposed amendments maintain this split for recognition purposes in the Comprehensive Income and Expenditure Statement as the definition of total cost does in the *Service Reporting Code of Practice* does not include past service costs or gains or losses on settlements. The classification of remeasurement has not been disaggregated as there is no clear reporting need to require disaggregation on the face of the Comprehensive Income and Expenditure Statement.

**CIPFA/LASAAC's views are sought on whether or not they are content with this approach or would prefer an alternative classification.**

7.9 As noted above the service cost component includes current service cost, past service cost and any gain or loss on settlement. However, it excludes changes in the defined benefit obligation that result from changes in demographic assumptions that are included in the remeasurements component together with other actuarial gains and losses. The current draft of the 2013/14 Code has been drafted on the same basis as the 2012/13 Code ie it does not include the detailed provisions of the standard in relation to actuarial assumptions required to be used in measuring the defined benefit obligation. Therefore, this issue is not brought to the attention of the readers of the Code. This clarification is highlighted in the Standard in new paragraphs 80 and 81 in relation to actuarial assumptions on mortality.

**CIPFA/LASAAC's views are sought on whether or not they are content with this approach or whether they consider the provisions of the Code should refer directly to this issue**.

7.10 The amendments to the Standard also introduce changes to the definition of past service costs, settlements and curtailments. Curtailments are no longer defined separately by the standard. As the amendments made in June 2011 require immediate recognition of unvested past service costs and because IAS 19 now treats plan amendments and curtailments in the same way, the standard now treats gains or losses on a curtailment as one form of past service cost. These changes have been reflected in more detail in the Code to highlight the nature of these changes.

**CIPFA/LASAAC's views are sought on whether or not they are content with this approach**.

7.11 The introduction of the net interest on the net defined benefit liability (asset) component of the defined benefit cost replaces the expected return and on assets and interest costs on the defined benefit obligation with a single net interest component. The definition and measurement requirements of this part of the amendments to the standard are included in the Code. In addition, the definition of remeasurements differs from the definition of actuarial gains and losses in IAS 19 before the amendments made in June 2011 because the introduction of the net interest approach changed the disaggregation of the return on plan assets and the effect of the asset ceiling.

**CIPFA/LASAAC's views are sought on the proposed amendments to the Code for net interest and remeasurements on the net defined benefit liability (asset).**

*Recognition in the Comprehensive Income and Expenditure Statement and Balance Sheet*

7.12 The general approach to the recognition of the defined benefit liability in the balance sheet is largely unchanged from that in the 2012/13 Code. The draft of the 2013/14 Code only refers to the limit on the defined benefit asset (now in paragraph 64 of the amended standard) and IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

7.13 The approach to the recognition of the components of the defined benefit cost in the Comprehensive Income and Expenditure Statement (CIES) is in accordance with the requirements of the amendments to the standard outlined above as interpreted for CIES. In practice the most significant of these changes are the changes to past service cost, net interest and the remeasurements classifications. It should be noted that there will need to be consequential changes required to the CIES line descriptions to accommodate these changes in Section 3.4 of the Code.

*Post-Employment Benefits Disclosures*

7.14 The disclosures relating to employee benefits have currently been included with minimal interpretation with the exception of paragraph 148 of the amended IAS 19 (disclosure 14 in the proposed Exposure Draft). In addition, some of the examples have been changed or removed where not relevant and disclosures that are clearly not relevant have not been included. The amended standard introduces explicit disclosure objectives and is more of a principle-based approach. As noted in the report sent to CIPFA/LASAAC on 8 May 2012 the

Secretariat has met with actuaries to discuss the impact of the new disclosures, consider the new requirements and whether or not the disclosures will require additional interpretation for local government circumstances (and whether the information can be produced for the Local Government Pension Schemes).

7.15 The actuaries have indicated that most of the disclosures can be provided. However, they considered that proposed disclosure 6.4.3.42 8) is likely to lead to difficulties in estimation processes for this particular disclosure whilst the asset breakdown was achievable (and similar to that currently required) the disaggregation by for example industry type was far more difficult to achieve as this information was held at the pension fund level but not at the employer level. Estimation processes could be used but this was made more difficult in the timings of the estimation process for the employer information and for the pension funds accounts closure. It was likely also that this would be at an additional cost to the employer/authority. It is possible that some of this information might be able to be compensated for by additional cross-reference to the pension fund financial statements.

7.16 One of the actuaries also indicated that they considered that the proposed disclosure requirements at paragraph 13 c) ie information about the maturing profile including the weighted average duration of the defined benefit obligation would be problematic. Again, this actuary indicated that this would also be difficult to estimate as actuaries were not collecting this information per employer at the moment. The actuary considered that this could be achieved relatively easily for English authorities for the 2013/14 year as this would coincide with the timing of the valuation. It was noted, however, that this would not be easy for Scottish authorities as the Valuation takes place in the following year. The actuary noted that this information could be estimated, however, this would be at an additional cost to each employer. The Secretariat recommends that CIPFA/LASAAC continues to consult on the basis of the disclosures as drafted but identifying the issues for the interested parties in the ITC. Information from interested parties can then be used to inform any adaptations (including transitional approaches) that CIPFA/LASAAC might consider necessary.

**CIPFA/LASAAC's views are sought on the proposed amendments and the proposed approach in the Invitation to Comment**.

*Pension Funds – Actuarial present value of promised retirement benefits*

7.17 CIPFA/LASAAC Members may be aware that there has been some debate about what the Code requires in relation to the actuarial value of promised retirement benefits. IAS 26 gives three options for the presentation of the actuarial present value of promised retirement benefits. Paragraph 6.5.2.10 of the Code confirms how these are to be applied by administering authorities – the three options are reproduced in the proposed amendments to the Code. However, recently there has been debate about what the Code and IAS 26 require ie whether or not the Code requires a roll forward of assets and liabilities at the balance sheet date, in the same way estimates are rolled forward for the IAS 19 figures. Reference to the Board's debate at its May 2009 meeting appears to support the view that the Code permits that the assets and liabilities could be at a different date to the balance sheet date. In addition the Board has clarified that Option A may only be used where the actuarial present value of promised retirement benefits being disclosed is at the Balance Sheet date.

7.18 It is clear from financial reporting requirements that the best option would be to require a roll-forward of assets and liabilities in the same manner as IAS 19. However, for some funds with admitted bodies at a different year end this might be at a significant additional cost. Currently, the local government pension scheme funds are not consolidated into WGA. However, it is possible that in the future that the funds might be. CIPFA/LASAAC's views are sought on their preferred way forward for the Code. The Secretariat considers that it is not absolutely clear what IAS 26 requires and suggests that the Board may wish as a part of its preferred way forward to recommend that the assets and liabilities are presented at the balance sheet date. This would have the benefit of ensuring that the Code does not exceed IAS 26's requirements whilst promoting good practice.

**CIPFA/LASAAC's views are sought on its preferred approach to the measurement of actuarial present value of promised retirement benefits.**

7.19 At CIPFA/LASAAC's last meeting LASAAC raised the issue of whether added year funding should be regarded as an 'agency' transaction. This may depend on the choice of legislation used in awarding the added years. The Secretariat agrees that this does depend on the legislation used but considers that this level of detail is not normally included in the Code and that this issue be considered for application guidance.

7.20 The second issue raised was "whether Pension Fund accounts (eg LGPS) should reflect a debtor for delayed 'strain on fund' funding. This approach is not apparently used for other pension funding arrangements, which are usually dealt with as non-exchange/cash funding transactions (e.g. deficit recovery plans can involve lump sum payments over 3 years but there is no specific requirement that a debtor is created in such circumstances)." The Secretariat is of the view that this issue is covered in application guidance which emanates from the general income and asset recognition provisions of the Code.

**CIPFA/LASAAC's views are sought on whether or not they concur with the Secretariat's view.**

## 8 Amendments to IAS 1 Presentation of Financial Statements

8.1 The IASB issued the amendments to IAS 1 Presentation of Financial Statements in June 2011. The amendments to the Standard focus on the presentation of Items of Other Comprehensive Income.

8.2 The main change resulting from the amendments to IAS 1 was a requirement for entities to group items presented in Other Comprehensive Income on the basis of whether they are potentially may be reclassified to profit or loss subsequently.

8.3 As described in Section 7 above CIPFA/LASAAC will be aware that other changes are required to the Comprehensive Income and Expenditure Statement as a result of the amendments to IAS 19 Employee Benefits.

*The Proposed Amendments to the Code*

8.4 The changes resulting from the above changes to the Standard have been included in proposed amendments. This has meant inserting a sub heading into the Comprehensive Income and Expenditure Statement using the appropriate terminology used in the Code. It also utilises the current terminology built into the Comprehensive Income and Expenditure Statement ie line items j) to n) in the Comprehensive Income and Expenditure Statement. In order to facilitate the groupings the line items have been reordered slightly and a new line item has been added to ensure that any other items caught by the second group (items that may be reclassified into the Surplus or Deficit on the Provision of Services).

8.5 In addition, the proposed new 3.4.2.50 has been inserted to set out the requirements of the amended IAS as it applies to local authorities. Paragraph 3.4.2.49 has also been amended to reflect the requirements of the Standard.

8.6 CIPFA/LASAAC will be aware that there have been a number of recent commentaries in relation to the complexity of local authority financial statements. The items which are most likely to require grouping into the items that might be reclassified subsequently to the Surplus or Deficit on the Provision of Services are, exchange differences on translating operations, cash flow hedging and available for sale financial assets. The only item that might occur (relatively) regularly in local authority financial statements is available for sale financial assets. This item is expected to be removed following the expected adoption of IFRS 9 in 2015/16. It is arguable that grouping the lines items into these two sub groups is unlikely to reduce the complexity in an already long financial statement (the CIES). CIPFA/LASAAC may therefore consider it appropriate to consider options for the adoption of the amendments to this standard in the 2013/14 Code. The options include:

- including the amendment fully, as set out in the proposed amendments to the Code – this option has the advantage of being fully compliant with IAS 1 amendments with the obvious disadvantage of making a relatively complex statement more difficult to read without necessarily adding to the information that the users of local authority financial statements would normally receive,

- not including the amendment, (if CIPFA/LASAAC consider that the specific groupings will mean very little in the financial statements of local authorities') - this option has the advantage of not adding to the complexity to the CIES but might not realise the benefits in the Standard, or

- referring to the amendment in the Code ie, requiring local authorities to adopt the amendment as appropriate if authorities have material balances requiring grouping in accordance with the amendments to the Standard - this option retains the advantages of being complaint with the requirements of the amendments to the standard, should not add to the complexity of the financial statements where such reclassification is not required but has the disadvantage of potentially reducing the consistency between local authority financial statements.

**CIPFA/LASAAC's views are sought on the three options above and whether or not it wishes to consult on these options (or a variation of these options) with interested parties.**

8.7 Following the reclassifications referred to above the amendments to IAS 19 will require consequential amendments to the Comprehensive Income and Expenditure Statement. These have been included at line items c) to include the new classification of "net interest on the net defined benefit liability (asset)" and l) to include the new classification "remeasurements of the net defined benefit liability (asset)".

**CIPFA/LASAAC's views are sought its preferred approach to the classification of defined benefit obligation costs in the CIES.**

## 9 IFRS 13 Fair Value Measurement

*Introduction and Background*

9.1 The Fair Value Measurement standard:

(a) defines fair value;

(b) sets out in a single IFRS a framework for measuring fair value; and

(c) requires disclosures about fair value measurements

9.2 The IFRS applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), 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.

9.3 CIPFA/LASAAC has previously raised concerns about applicability of this standard to local authority assets and liabilities, particularly for property, plant and equipment assets that for the majority of local authority assets are not held for profit generating purposes as the definition of fair values is based on exit values. The Board has been concerned that this would not present an effective measure of the value of such assets to the authority. The drafting of the proposed amendments to the Code this has been taken into account.

*Proposed Amendments to the Code*

9.4 The proposed amendments to the Code introduce a new Section 2.10 Fair Value Measurement which reflects the requirements of the standard in by including its main assumptions and definitions. Following CIPFA/LASAAC's concerns ie as the measurement requirements are based on a definition of fair value that in turn is based on exit values, assets which are not held for profit generating purposes have been excluded from the scope of this new section following the approach already included in the standard, for example, fair value measurements under IAS 17 *Leases* are excluded from IFRS 13.

9.5 In order to do this a rebuttable assumption has been included in the scope ie where assets in the relevant section of the Code are profit generating then the authority would be required to apply the provisions of Section 2.10. A definition of non-profit generating non-current assets has been added to the definitions to facilitate this. This definition is not included in the Standard but has been used to clarify the position for local authorities.

**CIPFA/LASAAC's views are sought on the approach to scope exclusions in the proposed amendments to the Code.**

9.6 Following this approach this means that these assets are also excluded from both the measurement and disclosure requirements of the standard. It is arguable that for effective financial reporting that all assets measured at fair value (even when that definition of fair value has been adapted) should meet one of the disclosure objectives of that standard ie to demonstrate to users of the financial statements to understand the techniques and inputs used to achieve that valuation. Again, the Board might wish to follow the approach in the standard for other exclusions ie the fair value of leased asset valuations and exclude it from both measurement and disclosure requirements. This also has the advantage of being clearer to the users of the Code. The proposed amendments have been drafted to exclude these assets from this section of the Code in its entirety.

**CIPFA/LASAAC's views are sought on the approach to scope exclusions in the proposed amendments to the Code.**

9.7 As this section of the Code will (with the exception of those assets excluded from its scope) be applied in the same way as all other entities there have been very few amendments for local authority circumstances and the proposed amendments to the Code include the main assumptions and definitions in the Standard as they are likely to apply to local authorities.

9.8 CIPFA/LASAAC may be aware that the standard includes very significant disclosure requirements that help the user of the financial statements to assess the valuation techniques and inputs used to develop the fair value measurements used by entities and where entities have used measurements based on significant unobservable inputs the effect of those measurements on profit or loss. It is considered that local authorities are largely unlikely to adopt the latter measurement approach on a regular basis and therefore a number of the disclosure requirements are unlikely to apply to local authorities. However, the first disclosure objective of the standard is likely to apply to local authorities and therefore the relevant disclosure requirements will apply.

9.9 There are therefore a number of issues that arise for CIPFA/LASAAC's consideration in relation to the disclosure requirements of the Standard ie, whether the Board considers that it needs to include any or all of the disclosure requirements of the Standard in the Code. CIPFA/LASAAC might for example wish to:

- only include those which are most likely to apply; or
- direct authorities to the disclosure requirements of the Standard with the provision that local authorities should only apply those which apply to it
- include all those disclosures that might apply to local authorities in the Code.

Currently, all of the Standard's disclosures are included in the proposed amendments to the Code for demonstration purposes ie application of the third bullet above.

9.10 If CIPFA/LASAAC considers that the disclosures should be included in the Code, disclosures 5) and 8) appear not to be relevant to local authorities and if CIPFA/LASAAC agrees with this analysis may not be included in the Code Exposure Draft.

**CIPFA/LASAAC's views are sought on its preferred approach to the disclosures.**

9.11 The commentary on fair value included in Section 2.1 of the Code has been retained as this might assist authorities to understand the new approach to fair value measurement in the Code. However, CIPFA/LASAAC might wish this to be moved into Section 2.10.

**CIPFA/LASAAC's views are sought on this approach.**

9.12 The adoption of this standard in the Code results in a number of significant consequential amendments to other sections of the Code where fair value measurements and disclosures apply. CIPFA/LASAAC's views are sought on these amendments (which are also largely amendments required by the Standard).

**CIPFA/LASAAC's views are also these consequential amendments.**

9.13 The Secretariat understands that the principles being considered as the basis for an adaptation are in essence the same as those being considered by HM Treasury. The Secretariat will work with HM Treasury to seek consistency in the application of those principles and thus there may be a need for some consequential amendments to achieve consistency, where possible. The Secretariat will confirm any changes as soon as possible.

## 10 Service concession arrangements: local authorities as grantor

10.1 The Secretariat has enhanced the guidance in section 4.3 of the Code currently described in the Code as PFI and PPP Arrangements. These amendments have used for additional guidance IPSAS 32 *Service Concession Arrangements: Grantor.* CIPFA/LASAAC Members will be aware that this standard was issued last October. It uses the criteria in IFRIC 12 for determining whether the operator controls the asset used in a service concession arrangement to assess whether the grantor (local authority) controls the asset. This additional guidance also creates symmetry with IFRIC 12 on relevant accounting issues (i.e., liabilities, revenues, and expenses) from the grantor's point of view and therefore provides additional guidance for accounting for these elements for the public sector.

10.2 In order to maintain the same level of detail and explanation as currently included in the 2012/13 Code this has meant focusing on the application guidance available; an alternative approach would be to use less detailed provisions or a principles basis in the Code.

**CIPFA/LASAAC's views are sought on this approach.**

*Recognition of the Liability*

10.3 CIPFA/LASAAC will be aware that the recognition of the liability for the PFI/PPP arrangements in the 2012/13 Code is based on the principles of IAS 17 *Leases*. The augmented provisions in the Code set out that the liability recognised is a financial liability reflecting (in mirror form) the principles adopted by the IFRIC. The payments to the operator are allocated and accounted for according to their substance as a reduction in the liability. It is considered that the treatment under the proposed new amendments to the Code will nevertheless be the same.

**CIPFA/LASAAC's view is sought on whether or not it considers this to be the case and or whether or not it considers any further provisions are required in the Code to explain this.**

10.4 The detailed application guidance in the Code Guidance Notes includes two payment components under PFI and PPP Schemes not directly covered in the proposed amendments to the Code (and these were not covered by the 2012/13 Code). These include contingent lease rental and capital lifecycle costs. The treatment of these transactions would in the case of contingent lease rental follow the requirements of IAS 17. The lifecycle replacement costs are more difficult and the detailed application recommended treatment is to:

- charge the costs to the unitary payment when they are incurred in future years or

- set aside a proportion of the unitary payment each year as a prepayment for the costs that are planned eventually to be incurred.

It is considered that the change in the treatment of the liability would not require a change in the accounting treatment of these transactions as the Code (and the Standards) would require treatment in accordance with existing standards.

**CIPFA/LASAAC's is asked on whether it concurs with this view and whether or not the Code requires any explicit provisions to specify the accounting treatment for these transactions.**

*Assets outside the Scope of the Section of the Code*

10.5 The 2012/13 Code includes those assets that might be a part of a PFI/PPP arrangement but do not meet both the control criteria in IFRIC 12. These are now excluded from section 4.3. It is considered that although these transactions might not be very common for local authorities undertaking PFI/PPP Schemes these provisions of the Code should be retained. The provisions of paragraphs 4.3.2.4 - 4.3.2.6 of the 2012/13 Code have therefore been included in a new Annex to section 4.3.

**CIPFA/LASAAC's views are sought on whether or not the provisions should be retained and if so are they content that an Annex to section 4.3 of the Code be created to accommodate them.**

*Intangible Assets*

10.6 The current provisions of the Code do not refer to intangible assets. It is considered that some PFI/PPP schemes might include intangible assets and therefore the proposed amendments to the Code currently include appropriate provision for service concession assets that are intangible assets.

**CIPFA/LASAAC's views are sought on whether or not it wishes to include provisions in the Code relating to service concession assets meeting the definition of intangible assets.**

*Transition*

10.7 As noted above it is considered that the accounting changes introduced in the Code do not represent a change in accounting policy with the possible exception of assets under construction. Therefore subject to CIPFA/LASAAC's views on the treatment of assets under construction it is suggested that no transitional arrangements will be required for the 2013/14 Code**.**

**CIPFA/LASAAC's views are sought in this issue.**

*Assets under Construction*

10.8 Currently both proposed amendments to the Code and the 2012/13 Code use the same recognition criteria for PFI/PPP arrangements in accordance with IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* ie when it is probable that economic benefits and service potential will flow to the authority and the cost of the asset can be measured reliably. The 2012/13 Code at paragraph 4.3.2.9 adds:

> "This will be when the asset is made available for use unless the local authority bears an element of the construction risk, which will not be the case where

standard PFI contract terms are used. Where an authority does bear the construction risk, it shall recognise an asset under construction prior to the asset being made available for use where it is probable that the expected future benefits attributable to the asset will flow to the authority."

The draft 2013/14 Code sets out that:

> "Similar to an asset the grantor constructs or develops for its own use, the grantor would assess, at the time the costs of construction or development are incurred, the terms of the binding arrangement to determine whether the service potential of the service concession asset would flow to the grantor at that time."

It is therefore debatable that the requirements of the proposed amendments to the Code and the 2012/13 Code are requiring a substantially different accounting treatment. The 2012/13 Code anticipates in accordance with custom and practice that the asset would not be recognised during the construction phase. The proposed amendments to the Code suggest that recognition might take place progressively as contractual provisions are met for elements of a scheme, depending on how "at that time" is interpreted. Currently the Code does not include any transitional provisions in relation to the accounting treatment of service concession arrangements under construction.

**CIPFA/LASAAC's views are sought on whether or not it agrees with this approach.**

## 11 *IFRS 7 Financial Instruments Disclosures* – Offsetting Financial Assets and Liabilities December 2011 – Amendments

11.1 Disclosures—Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7), issued in December 2011, amended the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

11.2 These disclosures would apply equally in local government circumstances and in a manner akin to the presentation requirements for offsetting (paragraph 7.4.4.1 of the 2012/13 Code) have been adopted in the Exposure Draft of the Code with no proposed adaptations. On review it appears that last year's amendments to IFRS 7 (Transfers of Financial Assets) introduced to the 2012/13 Code would be better positioned at a sub section 7.4.4 (there have been no amendments to the wording of this paragraph) with sub section 7.4.4 being renumbered at Section 7.4.5. This has allowed the new disclosure requirements relating to offsetting to be inserted at paragraph 7.4.2.4.

## 12 Group Accounts Standards

12.1 CIPFA/LASAAC will be aware of the five group accounting standards that have an effective date of 1 January 2013. The Secretariat has drafted changes to the Code to adopt the standards. However, on 1 June 2012 the Accounting Regulatory Committee ARC met to consider endorsement of the five Standards. The European Financial Reporting Advisory Group (EFRAG) issued the EU Endorsement Status Report. This included the following note:

"On 1 June 2012, ARC voted on a regulation that requires IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 to be applied, at the latest, as from the commencement date of a company's first financial year starting on or after 1 January 2014 (i.e. early adoption would be permitted once the standards have been endorsed)."

12.2 The mandatory application date is therefore at 1 January 2014. As the application of these standards raise significant reporting requirements for local authorities and there is already a heavy agenda for change in 2013/14 Code the Secretariat does not recommend early adoption for local authorities. In addition this additional time will enable the Secretary to further liaise with HM Treasury on this issue.

**CIPFA/LASAAC is invited to consider whether or not it wishes to recommend early adoption for local authorities of the five group accounting standards.**

12.3 To ensure that local authorities are clear on the development timescales this has also been reported in the Invitation to Comment.

**CIPFA/LASAAC is invited to confirm it is content with this approach**

## 13 Annual Improvements to IFRSs 2009 – 2011 Cycle

13.1 Annual Improvements to IFRSs 2009 – 2011 Cycle has an effective date of 1 January 2013 and therefore falls to be included in the 2013/14 Code. However, the Improvements will not be considered for an ARC vote until Quarter 4 and is not expected to be endorsed until the first Quarter of 2013, therefore after the effective date of the application of Standards to the Code. Annual Improvements to IFRSs 2009 – 2011 Cycle has therefore been included in the ITC to inform authorities of the timing of endorsement but no proposed amendments are proposed to the 2013/14 Code.

**CIPFA/LASAAC is invited to confirm it is content with this approach**.

## 14 Accounting for Schools in Local Government

14.1 This is considered at agenda item 9.

## 15 Proposals from the Post-Implementation Review

15.1 This is considered at agenda item 8.

## 16 Code of Practice on Transport Infrastructure Assets

16.1 This is considered at agenda item 7.

## 17 Localism Act 2011 – General Power of Competence

17.1 CIPFA/LASAAC agreed to include the general power of competence as an issue in the consultation on the 2012/13 Code. A respondent to the consultation referred to the possibility of additional guidance being available on the accounting treatment of derivatives. CIPFA/LASAAC agreed at its last meeting to include reference to this issue in the Code. However, the Code already includes a general reference to this issue a very minor amendment can be made to ensure that the Code's provisions are in accordance with CIPFA/LASAAC's wishes.

**CIPFA/LASAAC is invited to confirm that it is content with this approach.**

## 18 Memorandum of Understanding between Relevant Authorities

18.1 CIPFA/LASAAC will be aware the Memorandum of Understanding between Relevant Authorities (MoU) has been revised recently. The revised Memorandum of Understanding is reported to CIPFA/LASAAC under agenda item 3. The process for making adaptations to EU IFRS is set out in Annex A to the MoU. It is suggested for ease of update and to accurately reflect the process paragraph 1.1.6 of the Code now refers directly to the MoU and not the hierarchy of standards in the Code.

**CIPFA/LASAAC is invited to confirm that it is content with this approach**

18.2 In addition Members will be aware that the introduction of the majority of the sections of the Code refers to both adaptations and interpretations. The MoU now refers to an adaptation as "An adaptation of EU-adopted IFRS includes an adaptation, interpretation, deferral or clarification of IFRS as considered necessary in the context of the UK public sector." Therefore as a part of the drafting process of the Code these will be changed – this has been referred to in the ITC.

**CIPFA/LASAAC is invited to confirm that it is content with this approach**

## 19 The Implementation of Hutton Review Fair Pay Recommendations

19.1 At its last meeting CIPFA/LASAAC requested more information on the background to the Implementation of Hutton Review Fair Pay Recommendations. CIPFA/LASAAC wanted to understand the extent of the current disclosure requirements across the UK for remuneration reporting. The following sets out a summary of the requirements across the UK.

**Table 1 – Summary of Disclosure Requirements for Remuneration Reporting Across the UK**

| Jurisdiction | Requirements |
|---|---|
| England | The Accounts and Audit Regulations (England ) 2011 (SI 2011 No. 817)<br>1. Disclosure in bandwidths of officer remuneration over £50k<br>2. Disclosure of senior officer remuneration |
| Northern Ireland | Code requirements for disclosure in bandwidths of officer remuneration over £50k. |
| Scotland | The Local Authority Accounts (Scotland) Amendment Regulations 2011 (SSI 2011 No. 64) – requirement to produce a Remuneration Report including:<br>1. Remuneration policy<br>2. Disclosure in bandwidths of officer remuneration over £50k<br>3. Disclosure of senior officer, senior councillor and relevant persons remuneration (including pensions) |

| | |
|---|---|
| Wales | The Accounts and Audit Regulation (Wales) 2005 as amended<br>1. Disclosure in bandwidths of officer remuneration over £60k<br>2. Disclosure of senior officer remuneration |
| UK | Exit package disclosure |

19.2 CIPFA/LASAAC will be aware that the majority of these reporting requirements are supported by statutory requirements with the exception of the disclosure for exit packages. In addition the disclosure in bandwidths of officer remuneration in Northern Ireland is not supported by a direct statutory requirement and the Code ensures that there is equivalent provision for all jurisdictions on this disclosure.

19.3 As reported previously CIPFA/LASAAC 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..."

19.4 The relevant recommendation from the Hutton review is extracted below:

"RECOMMENDATION 1: Using pay multiples to track executive pay against that of all employees

The Government should not cap pay across public services, but should require that from 2011-12 all public service organisations publish their top to median pay multiples each year to allow the public to hold them to account.

...

To this end, the Government, with advice from the Financial Reporting Advisory Board, should at the earliest opportunity amend the disclosure requirements in the Financial Reporting Manual (FReM) to require organisations to include the disclosures above, and should work with relevant bodies to make similar amendments to other relevant guidance including the NHS Manuals, the NHSFT FReM the IFRS based Code of Practice on Local Authority Accounting, and guidance for remuneration reports by NDPBs not covered by the FReM. "

*Hutton Review of Fair Pay in the Public Sector, March 2011*

19.5 As noted in the report at agenda item 8 in the past CIPFA/LASAAC's analysis of whether a disclosure should be included in the Code included as a criteria consistency with the FReM. Other criteria included relevance and the availability of the information elsewhere. Following CIPFA/LASAAC's deliberations at it last meeting regarding the Hutton Fair Pay disclosures and following recent debates about the length of local authority financial statements it appears that CIPFA/LASAAC requires a refinement of the criterion in relation to its assessment of disclosures. The Secretariat recommends that this is amended to "consistency with the FReM provided that this is in accordance with the financial reporting needs of local authorities".

19.6 It is arguable as a part of Hutton's recommendations that this information is relevant to local authorities' remuneration requirements included in the financial statements. However, it should be noted that for England the median pay disclosure is one of the pieces of data that the *Code of Recommended Practice for Local Authorities on Data Transparency*, DCLG September 2011 recommends should "as a minimum" be released. It could be argued that release of this type of information through reports on data transparency is a better medium for this disclosure. This would not, however, cover the requirements in Northern Ireland, Scotland and Wales.

**CIPFA/LASAAC's views are sought on whether it wishes to consider the inclusion of the Hutton median pay disclosure in the consultation on the Code.**

## 20 Minor Amendments 2013/14 Code

20.1 The ITC on the 2013/14 Code currently includes the amendments to IAS 12 (referred to in the introduction of this report) in its minor amendments section.

**CIPFA/LASAAC is invited to consider whether or not it considers any additional requirements be included in this section of the ITC.**

## 21 Further guidance

21.1 This and earlier consultations have sought respondents' views on improvements, rationalisation of accounting and disclosure requirements and other areas for further guidance in the Code.

## recommendation

CIPFA/LASAAC is asked to:

1) Agree the Exposure Draft of the 2012/13 Code Update.
2) Agree the Exposure Draft of the 2013/14 Code
3) Agree the Invitation to Comment on 2012/13 Code Update and the 2013/14 Code