CIPFA The Chartered Institute of Public Finance & Accountancy

report

Paper CL 11 11-15

Committee	CIPFA/LASAAC
Venue	CIPFA Scotland Edinburgh
Date	4 November 2015
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Subject	Development of the 2017/18 Code of Practice on Local Authority Accounting

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To note the issues that need to be considered for inclusion in the Code of Practice on Local Authority Accounting for 2017/18

1 Introduction

1.1 This report is intended to highlight developments both in financial reporting standards and legislation that are likely to need to be considered for inclusion in the 2017/18 Code.

2 Legislative Developments

Accounts and Audit Regulations 2015

2.1 It is understood from an update with colleagues from the Department for Communities and Local Government that the government is anticipated to issue amendments to the Accounts and Audit Regulations 2015 for English local authorities. It is anticipated that these changes will be required for the 2017-18 financial year. The amendments are anticipated to take three forms and there is a further matter under consideration.

i) Disclosures relating to Employee Contributions

2.2 The Government Actuary's Department (GAD) has requested that local authority pension fund accounts contain a breakdown of benefits paid from the fund, split into those that derive from pre and post 2014 service (the further split to identify those benefits that derive from the so-called "50/50"[1] scheme), as well as a breakdown of employee contributions to identify those paid in respect of membership of the "50/50" scheme.

2.3 This data is required by GAD in order that it can carry out a valuation of the Local Government Pension Scheme (LGPS) in relation to the requirements of Section 12

[1] From April 2014 there is a new option in the LGPS called '50/50' where members can elect to pay 50 per cent of the employee contributions.

of the Public Service Pensions Act 2013, which concerns the cost management arrangements for public sector pension schemes and as specified in regulation 114(3) of the Local Government Pension Scheme Regulations 2013 (as amended). The power to request this data from LGPS administering authorities resides in regulation 114(4) of the same regulations and will include reporting requirements on pension contributions required by GAD as a result of changes to the Local Authority Pension Scheme.

ii) Amendments to the regulations to require a separate statement of accounts

2.4 DCLG colleagues have indicated as a part of these changes that a parallel amendment is anticipated to be introduced for local authority pension funds to be required to produce a separate statement of accounts in a combined document with the local authority pension fund annual report, which would mean that the pension fund accounts would no longer be required to be reported in the administering authority main financial statements.

iii) Amendments to Require the Disclosure of the Remuneration of Elected Mayors

2.5 DCLG colleagues also anticipate that the Regulations will need to be amended to require combined authorities to separately disclose the remuneration of directly elected mayors.

iv) Amendments to reflect the governance and accountability arrangements of combined authorities

2.5 DCLG colleagues will consider whether the Regulations need to be amended in to reflect the governance and audit arrangements in place for combined authorities. If any such changes are required, they will be included in the amending instrument.

The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012 for English Authorities

2.6 CIPFA/LASAAC will be aware that the transitional arrangements for the treatment of depreciation of housing dwellings in the *Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012* (Item 8 Determination) will cease at the end of 2016/17. It is understood that the *Item 8 Determination* is anticipated to be subject to amendment and the transitional arrangements extended. In addition the treatment of impairment for non-dwellings is also anticipated to be amended to follow the same requirements as dwellings in the Item 8 Determination. However, this treatment will not be applied retrospectively.

The Housing Revenue Account (Accounting Practices) Directions 2011

2.7 DCLG colleagues have also indicated that the Housing Revenue Account (Accounting Practices) Directions 2011 will be subject to review and amendment and that in particular the recommendations for measurement of the current value of Housing Revenue Account Dwellings will now recommend rather than stipulate that the guidance entitled *Guidance for Valuers on Stock Valuation for Resource Accounting 2010* published by the Secretary of State in January 2011 is applied to prescribed land, property and houses within the HRA in England.

Cities and Local Government Devolution Bill 2015-2016

2.8 The Cities and Local Government Devolution Bill 2015-2016 is intended to support delivery of the Government's policy to "devolve powers and budgets to boost local growth in England", in particular to devolve powers over economic development, transport and social care to large cities which choose to have elected mayors.

2.9 The Bill takes forward a number of reforms which are intended to allow for the implementation of devolution agreements with combined authority areas and with other areas. It is enabling legislation which will enable any public authority function relating to an area to be conferred on a county council or district council, or confer any local government function on a combined authority. It is understood that the combined authorities are likely to be constituted as a local authority. The Secretariat considers that there are unlikely to be many amendments to the Code as a result of the Bill. The combinations of bodies, for example, can be accounted for under the existing provisions of Section 2.5 of the Code (Local Government Reorganisations and Other Combinations) but there may need to be consequential amendments to the Code.

The Housing and Planning Bill 2015 -16

2.10 The Housing and Planning Bill contains a number of housing reforms, including a requirement for local housing authorities to pay the Secretary of State a sum in line with the anticipated receipt from the sale of high value council housing. Councils will be able to retain some of the sale funds to support new house building locally to increase the overall housing numbers in their area. The legislation allows for the payment to be calculated using a formula, providing local authorities with flexibility to choose to retain an individual high value property, while making the payment from other sources. It is likely that the Code will only require consequential amendments to reflect the relevant requirements of the Bill.

NNDR1 and NNDR3 forms[2]

2.11 The Accounts and Audit Regulations 2015 bring forward the timetable for publishing local authority accounts. Although unlikely to have a direct impact on the Code CIPFA/LASAAC members may wish to know that it is understood that colleagues within DCLG are looking at aligning the timetable for submission of the NNDR1 and NNDR3 forms with the revised accounts production and audit timetable.

2.12 CIPFA/LASAAC Members will also be aware of the Chancellor's recent announcement on the amendments to the retention of non-domestic rates. Currently it is not clear what impact this might have on the Code but the Secretariat will update the Board when more information is available.

Borrowing Legislation – Scotland

2.13 In Scotland the Secretariat understands that there is a review underway of borrowing legislation. This may not require substantial changes to the Code but the Secretariat will consider the issue when the outcomes of the review are issued. In addition, although the Code has been reviewed for developments in health and social care integration further developments might require additional consideration by the Board.

[2] The NNDR1 and NNDR 3 forms are statistical reporting forms to estimate, forecast and report national non domestic rate income.

Accounts and Audit (Wales) Regulations 2014

2.14 The Welsh Government is currently consulting on amendments to the Accounts and Audit (Wales) Regulations 2014. It is unlikely that the changes will be made in time for the 2017/18 Code.

2.15 There are no other new legislative developments that are currently anticipated to have effect on the Code unless they are not confirmed in time for the publication of the 2017/18 Code.

3 Other Items for the Development of the 2017/18 Code

3.1 There are other items that might emanate from the current development plan that will need to be considered in the 2017/18 Code. They include further proposals in relation to Telling the Story project eg review of accounting policies, further developments for the Narrative Report and any other elements that CIPFA/LASAAC considers would usefully be included in the 2017/18 Code. Other elements proposed by the Secretariat include a review of going concern reporting requirements as a result of the further areas suggested in report CL 06-11-15. It is also likely that further developments and reporting requirements for the Highways Network Asset will need to be considered, subject to CIPFA/LASAAC's views on CL 05-11-15.

4 Financial Reporting Developments for the 2017/18 Code

4.1 Financial Reporting Standards or amendments to standards or interpretations most likely to be included in the 2017/18 Code:

- IFRS 13 *Fair Value Measurement*: *Unit of Account* –The aim of this IASB project is to address questions received about the unit of account for financial assets that are investments in subsidiaries, joint ventures and associates measured at fair value. It also addresses questions received on the interaction between the use of Level 1 inputs and the measurement of quoted investments at fair value and the portfolio exception in IFRS 13.

- *IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses* - The objective of this project is to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

4.2 Accounting developments that might be included in the 2016/17 Code:

- Annual Improvements to IFRSs 2014-2016 cycle;

- Amendments to IFRS 8 Operating Segments Clarifications arising from the post implementation review;

- IAS 40 Investment Property—Transfers of investment property (Proposed amendments to IAS 40).

4.3 The IASB workplan indicates that within the three months after 25 September 2015 the new Leases Standard will be issued. It is unlikely that this will have an effective date for the 2017/18 financial year as the IASB indicated that when setting the effective date, the IASB will consider the need to allow sufficient time for debt covenants to be reconsidered. The workplan also indicates that the new insurance contracts standard will be issued subsequently. It is unlikely that the latter standard will have substantial impact on local authorities.

5 Other Items for the Development of the 2017/18 Code

5.1 CIPFA/LASAAC has consulted this year on the future application of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue Recognition from Contracts with Customers*. These standards now have an effective date of 1 January 2018. As was discussed at agenda item 8 both these standards will require substantial preparation including more information requirements and potentially systems developments before adoption of the anticipated requirements of the Code. Therefore the Secretariat recommends that these standards are consulted on at the same time as the 2017/18 Code and that the provisions for adoption of these Standards are included in an new Appendix in the 2017/18 Code (with a clearly marked effective date for the 2018/19 Code) so that local authorities will be able to consider the application issues and make adequate preparations for the accounting requirements for 2018/19.

Recommendation

CIPFA/LASAAC is asked to note the developments that need to be considered for the development programme for the 2017/18 Code.