CIPFA The Chartered Institute of Public Finance & Accountancy

report

Paper CL 08 03-16

Committee	CIPFA/LASAAC
Venue	CIPFA, Mansell Street, London
Date	3 March 2016
Author	Sarah Sheen, CIPFA, Technical Manager, Local Government Financial Reporting
Subject	Development of the 2017/18 Code of Practice on Local Authority Accounting

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To approve 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 set out the 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 As noted in CL 11 11-15 it is understood from an update with colleagues from the Department for Communities and Local Government (DCLG) 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 2016/17 year. The amendments are anticipated to take three forms.

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 of the Public Service Pensions Act 2013, which concerns the cost management

[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.

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 Government 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 which would mean that the pension fund accounts would no longer be required to be reported in the administering authority main financial statements. CIPFA/LASAAC has long since considered that such a change was desirable. Amendments will be required to the Code to reflect this change. This may need an Update to the 2016/17 Code to confirm such substantial changes, though other than the new reporting arrangements outlined above, this will not change the accounting requirements for local authority pension funds.

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

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

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 for impairment of dwellings. 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 2015

2.7 CIPFA/LASAAAC members are aware that the above Accounting Practices Directions were subject to consultation at the end of 2015. CIPFA has provided a response on the consultation which the Board has seen in draft form. These directions will lead to a change in the statutory disclosures for the HRA in 2016/17. The disclosures are repeated in Section 3.5 of the Code. The 2017/18 Code will need to reflect the changes to the statutory requirements. The Secretariat would not suggest that a 2016/17 Code Update is issued for these changes as they will be clearly signposted for local authorities in the Accounting Practices Directions, though if an Update is already being issued for the pensions changes then it would be useful to confirm the reporting requirements in the Code for English local authorities with a HRA.

Cities and Local Government Devolution Act 2016

2.8 The Cities and Local Government Devolution Act 2016 was given Royal Assent in January 2016. The Act 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.

2.9 The Act 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 combinations of local authority 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 is at the Committee Stage at the House of Lords. It 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.

Business Rates

2.11 CIPFA/LASAAC Members will also be aware of the Chancellor's 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. It is understood that work on the proposals will take place over the summer. At the time of drafting it is not clear whether there will need to be substantial amendment to the Code on this issue.

2.12 The consultation on reforming business rates appeals closed in January 2016. The proposed new system has three stages: check, challenge and appeal. The Secretariat considers that there is unlikely to be a need for substantial changes to the Code for this issue. The Government will also conduct a funding review as part of the moves to fully retain business rates locally from 2020. This would consider what should be included in the needs assessment formula for local government once the sector is funded by local resources and not central grant from 2020.

Local Government Funding Issues

2.13 CIPFA/LASAAC members will be aware of the multi-year settlement for local authorities in England which included indicative figures to allow councils to apply for a 4 year budget, extending to the end of the this Parliament. There is a separate social care precept of 2 per cent. This is unlikely to have a substantial impact on the Code.

The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016

2.14 CIPFA/LASAAC members may be aware that the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 regulations were subject to consultation at the end of 2015. The draft Regulations were laid before the Scottish Parliament on 19 January 2016. The Regulations will not require substantial changes to the provisions of the Code but appropriate references, particularly in Appendix B will need to be updated.

2.15 In addition, although the Code has been reviewed for developments in health and social care integration, further developments might require additional consideration by the CIPFA/LASAAC.

Accounts and Audit (Wales) Regulations 2014

2.16 The Welsh Government consulted on amendments to the Accounts and Audit (Wales) Regulations 2014 in 2015. These principally focussed on bringing forward the accounts closure timetable. It is unlikely that the changes will be made in time for the 2017/18 Code.

Other Legislative Developments

2.17 There are no other new legislative developments that are currently anticipated to have effect on the Code.

CIPFA/LASAAC is invited to comment on the list of legislative developments to be considered for inclusion in the 2017/18 Code. It is also invited to comment on the possible need for an Update to the 2016/17 Code.

3 Other Items for the Development of the 2017/18 Code and Future Codes

3.1 At its November meeting CIPFA/LASAAC identified a number of issues which it wanted to be included in the development programme for the 2017/18 Code. These comprise:

- **Review of the Code's requirement on going concern issues** – this arose from the consultation responses where a firm commented that "in view of the increasingly challenging financial environment we suggest that the Code, whilst not changing the underlying assumption, clarifies disclosure requirements in relation to going concern." The Board agreed that this would be reviewed for the 2017/18 Code.

- **Review of the structure of the Code** - the structure was established in the original 2010/11 IFRS based Code. It has been maintained in that original format and has worked effectively since that date. The approach to drafting the Code was also considered in the CIPFA/LASAAC review in 2012/13 where the Board was content with the current approach, with the suggestion that there should be less detail in the Code where possible and more reliance should be placed on the relevant standard. However, at the last meeting a CIPFA/LASAAC member focused on the references to the individual UK administrations and that the structure of some of the chapters eg the introductory chapter should be split across the relevant administrations. CIPFA/LASAAC is also invited to provide any suggestions for any further changes to the structure of the Code to improve its accessibility to its readership.

- **Review of the accounting policies listed in section 3.4** - a FRAB Member commented that "it seems circular to explain a significant policy by reference to it having a significant effect". He noted that at the IASB's meeting, they discussed accounting policy disclosures and how they could be improved. CIPFA/LASAAC agreed to review the accounting policies in the development programme of the Code.

- **Accounting and Reporting by Pension Funds** transaction costs disclosure – CIPFA/LASAAC agreed that due to the level of scrutiny across sectors of investment management costs that it would consider mandating this disclosure in the 2017/18 Code and has included commentary to that effect in the 2017/18 Code.

CIPFA/LASAAC is invited to comment on the additional items listed in this section for inclusion in the development programme for the 2017/18 Code.

4 Narrative Reporting Update

4.1 CIPFA/LASAAC Members will be aware that some amendments were made to the 2016/17 Code to accommodate the narrative reporting requirements in the Accounts and Audit Regulations 2015. A decision was taken to await the outcomes of the IIRC Pilots before more substantial changes are made. The Secretariat considers that it would, however, be useful to make a full review of the current narrative reporting requirements of the Code in readiness for when any outcomes are available and so that draft requirements are ready for the Board to agree the consultation papers at its June meeting.

4.2 The Secretariat would note that the Code has included an encouragement to follow the provisions on the Strategic Report in the FReM until more substantial provisions are included in the Code. The Secretariat would therefore recommend that the approach to drafting the narrative reporting requirements follow a similar approach to the FReM and are based on best practice across the UK.

CIPFA/LASAAC is invited to comment on its approach to narrative reporting in the 2017/18 Code.

5 Review of Statutory Adjustments

5.1 CIPFA/LASAAC raised the issue of the review of statutory adjustments at its last meeting. The Board reviewed the issue of statutory adjustments in 2014 and included a question (question 6) in the 2014 consultation on the Simplifying and Streamlining the Presentation of Local Authority Financial Statements – see link: http://www.cipfa.org/~/media/files/policy%20and%20guidance/consultations/simplifying%20the%20accounts%20consultation%20final.pdf?la=en.

5.2 The outcomes of the review were included in the Simplification and Streamlining Project - Review of the Financial Statements report. The Secretariat would therefore recommend that this is a more long-term project which could be done in consultation with the UK government administrations.

CIPFA/LASAAC is invited to consider its approach to a review of statutory adjustments.

6 Financial Reporting Developments for the 2017/18 Code

6.1 The following amendments to standards will need to be considered for adoption in the 2017/18 Code.

- IAS 12 *Income Taxes* - The amendments, Recognition of Deferred Tax Assets for Unrealised Losses, clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments to IAS 12 have an effective date of 1 January 2017. This standard is likely only to affect the Group Accounts of a local authority.

- IAS 7 *Cash Flows* - The improvements to disclosures require entities to provide information about changes in their financing liabilities and come as a response to requests from investors for information that helps them better understand changes in an entity's debt. Although these amendments are as a response to investors it is likely that it will be useful to the wider users of local authority financial statements to have more information on local authority debt, especially taken against the backdrop about going concern reporting. The amendments have an effective date of 1 January 2017.

6.2 The following standards may need consideration as they are likely to be issued during the development programme of the 2017/18 Code:

- Classification and Measurement of Share-based Payment Transactions (Proposed amendments to IFRS 2 *Share-based Payment*) **–** these amendments will not apply to local authorities, though they may apply to the Group Accounts.

- Clarifications to IFRS 15 *Revenue from Contracts with Customers*: Issues emerging from the Transition Resource Group for Revenue Recognition discussions. These amendments to guidance on IFRS 15 will apply and may have the same effective date as the IFRS 15 and will need to be considered alongside the Code's adoption of that standard (see section 6).

- *IAS 1 Presentation of Financial Statements*– Current/non-current classification of liabilities. The proposed amendments are designed to improve presentation in financial statements by clarifying the criteria for the classification of a liability as either current or non-current. The proposed amendments do this by:

  - clarifying that the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period, and

  - making clear the link between the settlement of the liability and the outflow of resources from the entity.

CIPFA/LASAAC is invited to note the financial reporting developments which will need to be considered for development in the 2017/18 Code.

6 Other Financial Reporting Items for the Development of the 2017/18 Code

6.1 CIPFA/LASAAC has consulted last 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. Both these standards will require substantial preparation, including securing the availability of new information and potentially systems developments before adoption of the anticipated requirements of the Code (for more information see CL 09 03-16 and 10 03-16). 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.

CIPFA/LASAAC is invited to confirm that its approach agrees with the arrangements outlined above for the adoption of IFRSs 9 and 15 in the Code.

6.2 As with the normal reporting cycle of CIPFA/LASAAC Appendix A to this report sets out the development programmes for the IASB and IPSASB for information on future financial reporting developments.

Recommendation

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

APPENDIX B

Other Accounting Developments

IASB Work Plan	
Standard/Amended Standard	**Timing and comments**
IFRS 16 Leases	CIPFA/LASAAC members might find it useful to access the **Project Summary** for the Standard. IFRS 16 has an effective date of **1 January 2019**. The Standard was issued on 13 January 2016. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer ('lessee') and the supplier ('lessor'). The accounting treatment for lessors has not substantially changed. For lessees, all leases result in an entity (the lessee) obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. For lessees IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise: ▪ assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and ▪ depreciation of lease assets separately from interest on lease liabilities in the income statement.
Insurance contracts.	The Standard is anticipated to be issued within six months – it will not have a significant impact on local authority accounting.
2015 Amendments to IFRS for SMEs	Issued in May 2015. No direct impact on the Code.
IASB Conceptual Framework for Financial Reporting	Consultation concluded in November 2015. The Exposure Draft: a) addressed the following areas that are either not covered, or not covered in enough detail, in the existing Conceptual Framework: ▪ measurement ▪ financial performance (including the use of other comprehensive income) ▪ presentation and disclosure ▪ derecognition, and ▪ the reporting entity. b) clarifies some aspects of the existing Conceptual Framework. For example, it:

	▪ clarifies that the information needed to meet the objective of financial reporting includes information that can be used to help assess management's stewardship of the entity's resources ▪ explains the roles of prudence and substance over form in financial reporting ▪ clarifies that a high level of measurement uncertainty can make financial information less relevant ▪ clarifies that important decisions on, for example, recognition and measurement, are driven by considering the nature of the resulting information about both financial performance and financial position, and ▪ provides clearer definitions of assets and liabilities and more extensive guidance to support those definitions.
IFRS Practice Statement: Application of Materiality to Financial Statements	Currently subject to consultation which will close 26 February 2016. The objective of this project is to help preparers, auditors and regulators to use judgement when applying the concept of materiality. CIPFA/LASAAC members may wish to consider the project snapshot: http://www.ifrs.org/Current-Projects/IASB-Projects/Disclosure-Initiative/Materiality/Exposure-Draft-October-2015/Documents/Snapshot_IFRSPracticeStatement_OCT2015_WEBSITE.pdf
Financial Instruments: Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging	The objective of this project is to develop an approach to better reflect entities' dynamic risk management activities in their financial statements and to enhance the usefulness of the financial information to help users of financial statements to better understand such activities.
Rate Regulated Activities	Many governments regulate the supply and pricing of particular types of activity by entities. These activities usually involve providing goods or services that are considered in that jurisdiction to be essential to customers, including transport services, some types of insurance policies, and utilities such as gas, electricity and water. The IASB has published the Discussion Paper Reporting the Financial Effects of Rate Regulation as part of its active research programme. The Discussion Paper considers the common features of rate regulation and explores which of them, if any, create a combination of rights and obligations distinguishable from the rights and obligations arising from activities that are not rate-regulated. This is unlikely to apply to local

	authorities.
IASB Disclosure Initiative	The objective of this IASB research project is to improve existing guidance in IFRS that helps entities determine the basic structure and content of a complete set of financial statements.
Annual Improvement to IFRSs 2014–2016	This set of annual improvements includes the following amendments to standards: ▪ IFRS 1 *First-time Adoption of International Financial Reporting Standards* - Deletion of short-term exemptions for first-time adopters ▪ IFRS 12 *Disclosure of Interests in Other Entities* - Clarification of the scope of the disclosure requirements. ▪ IAS 28 *Investments in Associates and Joint Ventures* - Measuring investees at fair value through profit or loss on an investment-by-investment basis. This ED has been subject to consultation which closed on 17 February 2016.
Annual Improvements to IFRSs 2015-2017	The issues included in this cycle are: IAS 23 *Borrowing Costs*: Borrowing costs on completed qualifying assets.
Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*	Subject to consultation until 8 February 2016. This is unlikely to impact on local authority accounting.
Clarifications for IFRS 8 *Operating Segments*	Clarifications arising from the post implementation review of IFRS 8. It is likely that the Exposure Draft will be issued within three months.
Fair Value Measurement: unit of account.	This project will now be included in the IFRS 13 post-implementation review.
Proposed Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (Distinction between a change in accounting policy and a change in accounting estimate)	The objective of the proposed amendment is to clarify the existing distinction between a change in accounting policy and a change in accounting estimate. It is anticipated that an Exposure Draft will be issued after six months.
IAS 19 *Employee Benefits* - Remeasurement on a plan amendment, curtailment or settlement	This project is considering the calculation of current service cost and net interest when an entity remeasures the net defined benefit liability (asset) in the event of a plan amendment, curtailment or settlement.
IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements* -	This project considers some transactions involving previously held interests in order to

Remeasurement of previously held interests – Obtaining control or joint control in a joint operation that constitutes a business	determine whether or not previously held/ retained interests should be remeasured.
IAS 40 *Investment Property* - Transfers of investment property	This project considers the application of paragraph 57 of IAS 40 *Investment Property*, which provides guidance on transfers to, or from, investment properties. The amendments are subject to consultation until 18 March 2016.
IASB Research Projects	
Development Stage - The IASB has completed its assessment work and is developing proposals to respond to the problem(s) identified:	
Business Combinations Under Common Control	
Disclosure Initiative Principles of Disclosure	
Financial Instruments: Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging	
Equity Method of Accounting	
Financial Instruments with Characteristics of Equity	
Assessment Stage - These projects are assessing possible practice issues to understand if there is a financial reporting problem and, if so, how to address it	
Discount Rates	
Goodwill and Impairment	
Income Taxes	
Pollutant Pricing Mechanisms	
Post-employment Benefits	
Primary Financial Statements	
Provisions, Contingent Assets and Contingent Liabilities	
IPSASB Projects	
Public Sector Combinations	The objective of the IPSASB's project on public sector combinations is to establish requirements for classifying, recognising and measuring public sector combinations. The consultation period ends on 16 June 2016. An IPSAS is anticipated to be issued in 2017
Social Benefits	The delivery of social benefits to the public is the primary objective of most governments and social benefits often account for a large proportion of a government's budget. There is an

	opportunity for the IPSASB to improve its suite of standards by developing an IPSAS on social benefits. The IPSASB is seeking constituents for their views on the different approaches identified. The objective of the consultation paper was to advance the discussion on accounting for social benefits. The consultation closed on 31 January. An Exposure Draft is anticipated in 2017.
Public Sector Financial Instruments	The objective of this project is to develop accounting guidance for public sector specific financial instruments.
Financial Instruments Update Project	The objective of this project is to issue a revised IPSAS 29 *Financial Instruments; Recognition and Measurement*. The project will also include IPSAS 28 *Financial Instruments: Presentation* and IPSAS 30 *Financial Instruments: Disclosures.*
Employee Benefits (Limited Scope Project)	The objective of this project is to issue a revised IPSAS 25 Employee Benefits which would be converged with the IAS 19. This is subject to consultation with responses due by 30 April 2016.
Revenue/Non-Exchange Expenses	The objective of the project is to develop a standard(s) that provides recognition and measurement requirements applicable to providers of non-exchange transactions, except for social benefits.
Public Sector Measurement	A new project on public sector measurement on the IASB Workplan.
Infrastructure Assets	A new project on infrastructure assets on the IASB Workplan.
Exposure Draft 58, Improvements to IPSASs 2015	ED 58 proposes minor changes as follows: ▪ Consequential amendments arising from the first four chapters of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities ▪ General improvements to IPSASs ▪ Improvements to increase consistency with Government Finance Statistics reporting guidelines, and ▪ Improvements to maintain convergence with IFRS.
Heritage Assets	The objective of this project is to develop accounting requirements for heritage assets. A consultation paper will be developed, that is expected to lead to an exposure draft of proposed revisions to IPSAS 17, *Property, Plant*

	and Equipment and/or other IPSASs. A Recommended Practice Guideline may also result.
Impairment of Revalued Assets	This project proposes to bring property, plant and equipment, and intangible assets on the revaluation model, within the scope of the IPSASB's two standards on impairment—IPSAS 21 *Impairment of Non-Cash-Generating Assets*, and IPSAS 26 *Impairment of Cash-Generating Assets*. The consultation on this project closed on 15 January 2016.
Emissions Trading	A joint project with the IASB.