CIPFA The Chartered Institute of Public Finance & Accountancy

report

CL 06 11-16

Board	CIPFA/LASAAC Local Authority Accounting Code Board
Venue	CIPFA, Mansell Street, London
Date	9 November 2016
Author	Sarah Sheen, Technical Manager, Local Government Financial Reporting
Subject	Analysis of Responses to Consultation on the 2017/18 Code (excluding IFRSs 9 and 15)

Purpose

To report on the responses to the consultation on the Draft 2017/18 *Code of Practice on Local Authority Accounting in the United Kingdom* and seek approval of the 2017/18 Code (excluding IFRSs 9 and 15).

1 Introduction

1.1 In total there were 47 responses (listed at Appendix A) to the public consultation on the draft 2017/18 *Code of Practice on Local Authority Accounting in the United Kingdom*. This is a positive response rate. However, it is a fall from the response rate achieved last year. The Secretariat following the same publication approaches as in previous years including articles in Public Finance, Spreadsheet, writing to the Treasurers Societies, the CIPFA Finance Advisory Network Service subscribers, newsletters etc. The Secretariat also informed the relevant bodies as required under CIPFA/LASAAC's Terms of Reference.

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

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

2 Narrative reporting

Specific requirements for narrative reporting to be included in the Code

2.1 The majority of respondents supported the approach to narrative reporting and agreed that specific requirements should be included in the Code.

2.2 One of the dissenting respondents was of the view that the Narrative Report should only have a financial focus. A second dissenting respondent stated that the Narrative Report should not introduce any more mandatory requirements than those required by statute (for English Authorities) ie the Accounts and Audit Regulations 2015. The Secretariat considers that there should be appropriate emphasis on the statutory requirements but the narrower focus suggested by these two respondents does not agree with the CIPFA/LASAAC view that the Narrative Report should have a wider focus on the local authority as an organisation covering corporate strategies, principal risks etc and be consistent with other sectors, including other public and public benefit sectors. In addition the Regulations refer to "resources" and not merely "financial resources" suggesting a wider reporting framework.

2.3 A firm responded that it understood that there could be no prescriptive format but thought that the wording in paragraph 3.1.1.4 could still be interpreted as recommendations rather than requirements for local authorities to follow. The Secretariat notes this point but considers such an approach would move away from a principles based approach. It would also note that this is consistent with the approach in the FRC Guidance on the Strategic Report (Financial Reporting Council, June 2014).

CIPFA/LASAAC is invited to consider the issues raised above and whether it agrees with the overall approach to specification of the narrative reporting requirements in Section 3.1 of the Code.

Principles based approach to narrative reporting

2.4 The majority of respondents supported a principles based approach to narrative reporting with one respondent commenting that the '*the principles are wide ranging and give preparers the opportunity to include all key issues relevant to the organisation*'.

2.5 An authority and a firm commented that the Annual Governance Statement should provide enough information on governance and therefore 'governance' should not be required in the Narrative Report. The Secretariat would concur that the Annual Governance Statement should provide enough information on governance. However, in order to provide a complete picture of the authority it ought to be referred to in the Narrative Report and this may be achieved by appropriate cross-referencing. The Secretariat has made minor clarifications to assist with this.

2.6 An authority that disagreed with the approach considered that too little emphasis was given to the statutory requirements (for England) for narrative reporting. It considered that financial performance and financial position should be included as separate elements in the list in paragraph 3.1.1.4. The Secretariat would note that using a principles based approach did move away from the more detailed approach in the Update to the 2015/16 Code and the 2016/17 Code. The Secretariat considers that this is a matter of emphasis and would note that financial position and financial performance are featured explicitly in the body of paragraph 3.1.1.4. The Secretariat does not consider that financial performance and financial position need to be considered as separate elements and that to be adequately covered under the new framework they might cross a number of the different elements listed in paragraph 3.1.1.4.

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

2.7 A firm and an authority were of the view that more emphasis on local authority specific circumstances could be included in the principles and elements. The Secretariat concurs, and has increased the emphasis on service issues in the principles as these are the main operational focus for local authorities.

CIPFA/LASAAC is invited to consider whether enough local authority specific emphasis has been included.

2.8 A firm noted that the FReM includes an overarching principle requiring an overview for the lay reader in its strategic report. The Secretariat did consider this in the original drafting of the provisions for CIPFA/LASAAC's June meeting. This was replaced by the principles based approach following the elements in the International Integrated Reporting Council's framework. This is not intended to be prescriptive in form but a framework under which a local authority can report. The Secretariat has therefore not included this additional prescription in the Code.

CIPFA/LASAAC is invited to consider whether they agree with this approach.

2.9 Appendix B includes a number of items of detail at rows 2.2, 2.3, 2.8 to 2.10. The Secretariat would refer CIPFA/LASAAC to these items.

CIPFA/LASAAC is requested to agree all the amendments to Section 3.1 of the Code (ref CD1).

2.10 The ITC sought the views of interested parties about the type of guidance which should be provided to support local authorities in drafting their narrative reports under the new principles based approach. Appendix B rows 3.1 to 3.6 provides a summary. These include a range from the traditional approach for application guidance on the Code eg via the Code Guidance Notes and/or providing illustrative examples of good practice. The Secretariat will reflect on these and will feedback to CIPFA/LASAAC at their March meeting.

3. Going Concern Basis of Accounting

3.1 The majority of respondents concurred with the general approach in the Code ie that a local authority cannot report on any other basis than a going concern basis as it cannot decide to liquidate itself or to cease operating as local authorities throughout the United Kingdom are only created or discontinued by statutory prescription.

3.2 Whilst agreeing with the going concern basis of reporting, a firm considered that local authorities still need to consider whether there is any material uncertainty that the body itself cannot continue as a going concern for at least 12 months after the balance sheet date (see IAS 1 *Presentation of Financial Statements,* paragraph 25). The Secretariat does not concur following the rationale set out in the Invitation to Comment, '*for local authorities the statutory framework means that there can be no material uncertainties related to events or conditions that can cast significant doubt upon their ability to continue to report on a going concern basis'.* To support this, the Secretariat would cite the FRC's *Guidance on the Going Concern Basis of Accounting and Reporting Solvency and Liquidity Risks*

(FRC, April 2016) which refers to the going concern basis of accounting rather than whether an entity will be a going concern (see Appendix B row 4.3).

3.3 A second firm raised a small number of drafting issues see Appendix B (rows 4.4 and 4.5).

CIPFA/LASAAC is requested to agree its approach in the Code for the going concern basis of accounting and specifically the amendments to paragraph 3.4.2.23 (ref CD1).

4. Accounting Policies – Telling the Story of Local Authority Financial Statements

4.1 The majority of respondents supported the approach in the Code ie to remove the list of accounting policies in section 3.4 of the Code. They agreed with the views set out in the ITC that this would encourage local authorities to reflect only those accounting policies that are significant to the authority and represent their local circumstances.

4.2 A number of respondents indicated that the reduced list of disclosures risked excluding an accounting policy which might be significant to an individual authority. The Secretariat concurs and recommends removing the list from section 3.4 in its entirety. The Secretariat would note that the individual sections of the Code set out the accounting policies which are relevant to local authorities and has added appropriate commentary on this issue at the beginning of paragraph 3.4.2.87. The Secretariat has also added reference to paragraph 121 from IAS 1 which makes it clear that there may also be other accounting policies which may need to be included in accordance with section 3.3 and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* This is to ensure that accounts preparers understand the range of accounting policies that need to be considered.

4.3 A number of detailed issues were also raised. These are considered in rows 5.3 and 5.5 to 5.7 in Appendix B. A firm raised a drafting issue related to the disclosure of significant judgements (see row 5.8 in Appendix B). The Secretariat does not concur with the comments but has added additional clarification to assist accounts preparers at paragraph 3.4.2.86.

CIPFA/LASAAC is requested to agree the amendments to the Code for the accounting policies (ref CD3).

5. Accounting and Reporting by Pension Funds – Transaction Costs

5.1 CIPFA/LASAAC has been keen to include the disclosure on transaction costs for pension fund investments in the Code. As this disclosure is only relevant to administering authorities the Secretariat recommends that the Board considers only those respondents that provided an agree/disagree response. When analysing those 22 responses, 15 responses (68 percent of respondents) supported the inclusion of this disclosure as a requirement in the Code. Seven respondents (32 percent) disagreed.

5.2 A group of respondents (including a number of pension funds and an independent consultant) provided very similar responses and were of the view that this proposal was not consistent with the publication issued by CIPFA in July 2016, *Accounting for Local Government Pension Scheme Management Expenses*. They were of the view that this might cause confusion between the different reporting requirements. CIPFA/LASAAC is aware that this publication provides a recommended disclosure framework for management expenses.

5.3 CIPFA/LASAAC agreed that the Code should refer accounts preparers to having 'due regard' for the CIPFA Guidance. The publication includes transactions costs as part of its sub-classifications. Therefore, generally, this publication is not inconsistent with the proposal to require reporting of transaction costs. However, on review the Secretariat has discovered there is a minor area where it is inconsistent as the CIPFA Guidance does not require reporting of transaction costs for investment properties as these are included within the asset cost. The Secretariat is of the view that this is incorrect. Capitalisation does not prohibit the reporting of transaction costs. The *Financial Reports of Pensions Schemes, A Statement of Recommended Practice* (2015) (the 2015 Pensions SORP) includes all transaction costs in its recommended disclosure. These respondents were also of the view that the Code should mandate the disclosure provisions of this publication.

5.4 A response from a firm was directly at odds with this group of respondents. The firm disagreed that there should be any form of transaction cost or investment management expenses disclosure (recommended or mandatory). It was also of the view that the aims of the CIPFA guidance on Local Government Pension Scheme Management Expenses to achieve transparency and consistency in the identification of such costs have not yet been achieved. It appears that the firm based this commentary on its discussions with audit clients (see Appendix B row 6.2). This firm also commented that it did not understand why the Code specifically isolates transaction costs.

5.5 CIPFA/LASAAC will be aware that the rationale for including this disclosure was based on concern about the transparency of pension fund management expenses generally and that the only recommendation in international or UK Generally Accepted Accounting Practice is the recommended disclosure in the 2015 Pensions SORP. This has the added advantage that transaction costs are also already defined in International Financial Reporting Standards ie in IAS 39 *Financial Instruments*; *Recognition and Measurement* and IAS 40 *Investment Property*. The Secretariat would not recommend extending the Code's provisions any further at this juncture, taking into account the level of debate about the understanding of the definitions of costs for the wider pension fund management expenses.

5.6 The Code Draft for the amendments to the Code in relation to pension fund transaction costs has been drafted based on CIPFA/LASAAC's previously held view that it wanted to make the recommended disclosure at paragraph 6.5.5.2 mandatory. It would, however, seek CIPFA/LASAAC's perspective on whether any of the debate described in paragraphs 5.2 to 5.5 above on the ability to define the relevant costs has any impact on this view. For example, the Board might wish to retain the current recommended disclosure.

CIPFA/LASAAC is requested to consider the Code Draft on the pension fund transaction costs disclosure and confirm whether it wishes maintain its approach to require the disclosure (ref CD11).

6 Review and Restructure of Chapter One (Introduction)

6.1 The majority of respondents supported the review of the chapter one (Introduction) which has been restructured to reflect the requirements of each jurisdiction. A respondent commented that it enabled authorities to easily understand the requirements of their jurisdiction. A small number of specific drafting points were raised and these are covered in rows 7.2 and 7.3 of Appendix B.

7 Narrow Scope Amendments

IAS 7 Statement of Cash Flows (Disclosure Initiative)

7.1 The majority of respondents supported the inclusion of this amendment to require local authorities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities in the Code.

7.2 Four respondents (including an independent consultant) who disagreed with the proposals indicated that they did not consider that the information intended for investors was a relevant consideration for local authorities. They also considered that this could lead to duplication. The Secretariat does not concur. It can see no case for adaptation or interpretation. This does also not agree with CIPFA/LASAAC's views stated in the ITC ie '*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 of going concern reporting*'.

7.3 A firm recommended that this disclosure should be included within the Code's provisions on the Cash Flow Statement. The Secretariat concurs and has moved this disclosure to paragraph 3.4.2.81.

CIPFA/LASAAC is requested to agree the proposed amendments to the Code for IAS 7 *Statement of Cash Flows (Disclosure Initiative*) (ref CD5).

IAS 12 Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses)

7.4 The majority of respondents agreed with the proposal to include the amendments to IAS 12 *Income Taxes* which clarify how to account for deferred tax assets related to debt instruments measured at fair value.

7.5 There were no substantive comments on these amendments to the Code. The amendment (which will only relate to Group Accounts) will be listed in Appendix D (New or Amended Standards Introduced to the 2017/18 Code) subject to EU adoption.

CIPFA/LASAAC is requested to agree the proposed amendments to the Code for *IAS 12 Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses).*

8 Legislative Issues

Cities and Local Government Devolution Act 2016 – Accounting for Combined Authorities

8.1 A large number of respondents did not respond to this question. For those that did respond the majority considered that the approach set out in the ITC for the reporting requirements for combined authorities ie that specific provision did not need to be included in the Code was appropriate. Some respondents also indicated that they considered that the issues that might arise can be addressed by the relevant form of application guidance.

8.2 A firm, however, raised the issue of the provisions in section 2.5 of the Code (Local Government Reorganisation and Other Combinations) and considered that there were discrepancies with the Government's Financial Reporting Manual (the FReM). The Secretariat would note that the introduction of the provisions in the Code followed a review of the new provisions in the FReM and were considered by the Government's Financial Reporting Advisory Board (FRAB).

8.3 Both the Code and the FReM permit transfers by merger and by absorption accounting. The FReM restricts merger accounting, indicating that it should be applied at the group level for bodies applying the FReM ie between central government bodies (FReM paragraph 4.2.6). The Code permits transfers by merger for local government bodies with other local government bodies, this being at a similar level or 'tier' to the group for local government entities. This was also considered important as some police bodies under the restructuring for the Police Reform and Social Responsibility Act 2011 considered that this form of combination was best reported under merger accounting. However, the Code is very clear that this is a rare occurrence and that '*the local government entity* [must] *consider that in substance for a true and fair presentation the financial statements would be best presented as if the entity had always existed in its newly combined form*' (Code, paragraph 2.5.2.4)

8.4 Paragraph 4.2.9 of the FReM requires that '*All other transfers of function between public sector bodies should be accounted for as Transfers by Absorption*.' To ensure consistency with the FReM, the Code does not permit merger accounting when there is a transfer to or from a public sector entity outside of local government (see Code paragraph 2.5.2.4). The Secretariat is therefore of the view that there is no discrepancy between the FReM and the Code and that this section of the Code only reflects local government circumstances. The Secretariat will include minor amendments to section 2.5 to ensure that the consistency between the FReM and the Code is reinforced.

CIPFA/LASAAC is invited to agree with the position set out by the Secretariat above.

The Housing and Planning Act 2016

8.5 The ITC considered that the mechanism for making payments to the secretary of state under the Housing and Planning Act 2016 for high value social housing is very similar to that for the payments made by local authorities to the housing capital receipts pool and therefore the payments would be recognised in the Other Operating Expenditure line of the Comprehensive Income and Expenditure Statement. The ITC set this out as a principle as the relevant secondary legislation to take forward these proposals had not been issued. The Secretariat understands that this legislation has not yet been issued. The relevant legislation is referred to in report CL 10 11-16.

CIPFA/LASAAC is invited to note the comments above.

The Housing Revenue Account (Accounting Practices) Directions 2016

8.6 The Exposure Draft of the 2017/18 Code reflected the changes in the statutory disclosure requirements as a result of the Housing Revenue Account (Accounting Practices) Directions 2016 (English Authorities). The ITC did not include a question as these amendments were factual. A firm commented that they concurred with the Exposure Draft proposals.

CIPFA/LASAAC is invited to note the comments above (ref CD 6).

The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 and other Scottish Statutory Provisions

8.7 The Exposure Draft of the 2017/18 Code reflected the changes in the statutory reporting requirements as a result of the introduction of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016. The majority of respondents agreed with the approach set out in the ITC and the Exposure Draft. However, statutory guidance was issued following the approval for issue of the ITC and therefore the Code Draft has been further reviewed to include the relevant references. Comments have also been provided by the Scottish Government.

CIPFA/LASAAC is invited to approve the changes to the Code Draft for the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 and other Scottish statutory provisions (ref CD7)

9 The Community Infrastructure Levy

9.1 A query on the provisions on the Community Infrastructure levy (CIL) led to a brief review of the relevant provisions in section 2.2 of the Code. The Secretariat has therefore made clarifications to paragraph 2.2.3.8 of the Code where CIL charges to be applied to fund capital expenditure have been received prior to the commencement of the development to align the treatment of the levy with the treatment of grants and other contributions in section 2.3 of the Code.

9.2 The Secretariat also took the opportunity to clarify the treatment of any revenue expenditure under CIL as amendments to the Community Infrastructure Levy Regulations 2010, have expanded the definition of what the levy may be spent on which for example includes maintenance of relevant infrastructure. Although the Code’s provisions covered this issue the Secretariat has taken the opportunity to make ensure that the Code’s provisions explicitly refer to revenue expenditure.

CIPFA/LASAAC is invited to approve the changes to the Code Draft for the Community Infrastructure Levy (ref CD10)

10. Further Areas Question

10.1 There are a number of items which respondents consider may need further amendment to the Code, in Appendix C. These include:

- Additional guidance on disclosures (see row 2).
- Clarification on the segmental analysis of income and expenditure (see row 3)
- Clarification of the status of the Expenditure and Funding Analysis (see row 4)
- The treatment of cash and cash equivalents (see row 6).
- The treatment of third party income in service concession arrangements (NB this has been considered by the Board numerous times) (see row 8).
- Whether further commentary is needed on the view that PWLB rates are market rates for local authorities (see row 10).

- The approach to the disclosure on pension fund investment risk concentrations at paragraph 6.5.5.1 m) (see row 14).

10.2 A firm also used the opportunity to comment on the approach to drafting the Code and a number of respondents also encouraged CIPFA/LASAAC to consider all opportunities for cutting clutter in local authority financial statements. The Secretariat's response is outlined in rows 12 and 13.

CIPFA/LASAAC is invited to consider whether it agrees with the courses of action outlined in Appendix C.

11. Draft 2017/18 Code

11.1 In addition to the above issues, further changes will need to be made to the 2017/18 Code to bring it up to date, as follows:

- Appendix C is updated for changes in accounting policies: disclosures in the 2016/17 and 2017/18 financial statements (this is fully updated so no tracked changes are included **(see CD12)**).

- At the end of each section, areas which have been updated substantially will be noted whilst those which have not changed will be described as such.

- A number of minor amendments identified as a result of the consultation process or final review will be corrected by the Secretariat.

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

Recommendations

CIPFA/LASAAC is invited to consider the individual issues brought to its attention above and consider the 2017/18 Code for approval.

Appendix A

List of Respondents

Aberdeenshire Council	Basingstoke and Deane Borough Council	Bedford Borough Council
Brentwood Borough Council	Calderdale Metropolitan Borough Council	Cheshire Pension Fund
Conwy County Borough Council	Daventry District Council	Devon County Council
East Ayrshire Council	East Riding of Yorkshire Council	Essex County Council
Glasgow City Council	Guildford Borough Council	Inverclyde Council
Kent County Council	Leeds City Council	London Borough of Hillingdon
Merseyside Pension Fund	North Lanarkshire Council	Plymouth City Council
Preston City Council	Rochdale Council	Sheffield City Council / Sheffield City Region Combined Authority
South Lanarkshire Council	Stockport Metropolitan Borough Council	Suffolk County Council
Surrey County Council	Torfaen County Borough Council	West Midlands Pension Fund
West Yorkshire Pension Fund / City of Bradford Metropolitan District Council	West Yorkshire Police/PCC	The Financial Accounting Team at Lancashire County Council
Audit Scotland	Wales Audit Office	BDO LLP
Ernst & Young LLP	Grant Thornton UK LLP	KPMG LLP
Arlingclose Limited	Capita Asset Services	Worth Technical Accounting Solutions Ltd
Personal Response Julian Olszowka	Four confidential respondents	

SUMMARY OF CONSULTATION RESPONSES

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

Narrative Reporting

Question		Agree	Disagree	No Comment
1	Do you agree that specific requirements for narrative reporting should be incorporated into the Code? If not, why not? What alternatives do you suggest?	28 (60%)	3 (6%)	16 (34%)
2	Do you agree with the principles based approach to narrative reporting and those areas proposed for inclusion in the Code? If not, why not? What alternatives do you suggest?	27 (57%)	3 (6%)	17 (36%)

Question	
3	What do you consider would be the best approach to providing guidance to local authorities on the Narrative Report? Please provide an explanation for your response.

	Issue	**Secretariat Response**
	Question 1– Specific requirements for narrative reporting to be incorporated into the Code	
1.1	The majority of respondents agreed that specific narrative reporting requirements should be included in the Code. One noted that having *'specific requirements included in the Code provides a consistent framework for authorities to follow for narrative reporting*.' A firm responded that '*it should communicate the authority's main objectives and strategies and the principle risks and its performance in achieving these. As there has been no requirement to prepare an annual report in local government, in our view, narrative reporting is an area where local authorities are behind their public*	No comments, except to note that the comment from the firm contradicts two of the responses from authorities that disagreed with this approach (see row 2.1 below). **No changes proposed to the Code Draft.**

	Issue	Secretariat Response
	sector counterparts such as local health bodies and government departments and agencies.’	
1.2	Two authorities disagreed with the approach, one setting out that: *’the narrative report should have a financial emphasis, and whereas context is important, the Code seems to concentrate exclusively on that’*. The second authority stated that: ‘The *Code should not introduce any mandatory requirements over and above the statutory requirement to comment on "financial performance and economy, efficiency and effectiveness in the use of resources". Additional areas should be presented as suggested for inclusion (i.e. areas that authorities 'may wish to include' not 'should include*').’	The Secretariat understands the point and there should be sufficient emphasis on the statutory reporting requirements. However, CIPFA/LASAAC was of the view that a narrative report should also cover a wider range of issues consistent with other sectors. The Secretariat would also comment that the Accounts and Audit Regulations 2015 refer to “resources” and not solely “financial resources” so therefore the reporting framework has a wider in scope than financial issues. **CIPFA/LASAAC’s views are sought on this issue.**
1.3	A respondent referred to the possibility that a wider range of issues would expand the length of the financial statements. Whilst another referred to the resource issues included in preparing a narrative report which covered a wider range of issues.	The Secretariat would comment that any guidance would refer to the need to ensure that any narrative report should be concise. Guidance will also refer to the need to consider the narrative report relatively early in the production of the financial statements. **No changes proposed to the Code Draft.**
1.4	A firm responded that they understood that there can be no prescriptive format but the wording in paragraph 3.1.1.4 could still be interpreted as providing only recommendations rather than requirements for authorities as to the content of the narrative report.	The Secretariat notes this point and notes that there can be no prescriptive format and that this is in line with both a principles based approach and takes a similar approach to the FRC *Guidance on the Strategic Report*. **No changes proposed to the Code Draft.**
	Question 2 - A principles based approach to narrative reporting	

	Issue	Secretariat Response
2.1	The majority of respondents supported a principles based approach, with one respondent commenting that '*the principles are wide ranging and give preparers the opportunity to include all key issues relevant to the organisation*.' A firm commented that as it is important that narrative reporting '*is tailored and specific to an authority and the year in question*.'	No comments. **No changes proposed to the Code Draft.**
2.2	Although in agreement with the overall approach, one authority raised the issue whether this conflicts with the principle of comparability.	The Secretariat would comment that in line with the Board's views the key principle would be to ensure that the narrative report portrayed the individual circumstances of each local authority. **No changes proposed to the Code Draft.**
2.3	An authority raised the issue of whether there should be a principle included for '*devolution/independence/Brexit*.'	The Secretariat would concur that these issues should be addressed in a narrative report and would be covered in areas such as the external environment and/or risks and opportunities. However, these issues would be picked up in application guidance and not the principles based approach in the Code. **No changes proposed to the Code Draft.**
2.4	An authority and a firm considered that governance is covered by the Annual Governance Statement, with the firm stating that there '*is a risk that the Governance section (3.1.17) could duplicate the narrative of the Annual Governance Statement. We would suggest that a separate section on governance is not required in the narrative report as that information is already provided in the Annual Governance Statement.'*	The Secretariat concurs that governance is likely to be covered in the Annual Governance Statement. However, it considers in order to provide a complete picture of the performance and operations of the authority governance issues should be referred to in the narrative report. The Exposure Draft (ED) makes it clear that this can be achieved by cross reference to the Annual Governance Statement. **Minor clarifications have been added to paragraph 3.1.1.7.**

	Issue	Secretariat Response
2.5	One authority that disagreed with the approach in the ED considered that it included too little emphasis on the statutory reporting requirements within the Accounts and Audit Regulations 2015. The authority considered that '*financial performance and financial position should be included as separate items in the list given at 3.1.1.4'*. It also referred to the fact that only service risks were referred to and not financial risks.	The Secretariat notes that the principles based approach did move away from the more detailed approach in the Update to the 2015/16 Code and the 2016/17 Code. However, there is more detail under the performance element based on the text in the previous 2016/17 Code (see paragraph 3.1.1.2). The Secretariat considers that this is a matter of emphasis and that the current balance is based on the elements in the IIRC Framework. The Secretariat would note that paragraph 3.1.1.4 does say '*The narrative report should focus on those elements that are material to the understanding of the financial position and performance of the authority*.', The Secretariat therefore considers that these do not need to be separate elements and that commentary on financial performance and financial position may cover more than one element. **CIPFA/LASAAC is invited to consider whether it agrees with the views of the Secretariat.** The Secretariat concurs that financial risks should be referred to in paragraph **3.1.1.9 and has made the appropriate addition to the Code Draft.**
2.6	A firm and an authority referred to some of the elements needing to be more local authority friendly (including for example references to business model) and for there to be a need to refer to services.	The Secretariat concurs that in some areas there needs to be more local authority user friendly terms and more references to services. **Therefore appropriate amendments have been made to paragraphs 3.1.1.6, 3.1.1.8 and 3.1.1.10.**
2.7	A firm noted that '*The FREM includes an overarching principle that is currently missing in the ED "The Overview should be enough for the lay user to have no need to look further*	The Secretariat did consider this approach in its first draft ie before the move to a FReM based approach. However, this was replaced by an approach based on the International

	Issue	Secretariat Response
	into the rest of the annual report and accounts.' It continued its commentary with '*We think that the addition of a similar paragraph in the Code would provide a helpful context to this section. In our view paragraph 3.1.1.5 should, rather than 'recommend' "the structure and content of the narrative report is reviewed annually", require an annual review to ensure that the narrative report is tailored and relevant to the reporting year*.'	Integrated Reporting Framework (IIRC). This approach is intended not to be prescriptive and to give authorities a framework under which to report. The Secretariat does not concur that this additional prescription should be added to the Code. **No changes proposed to the Code Draft.**
2.8	The same firm commented that paragraph 3.1.1.14 includes recommended content which it does not consider should be the purpose of the Code (which should be to set out the requirements rather than guidance or recommendations).	This paragraph refers to the Expenditure and Funding Analysis and the recommendation that an authority may wish to provide additional commentary to provide context for the analysis. This recommendation was explicitly included by CIPFA/LASAAC last year to support the objectives of the Telling the Story review and the important new analysis which has been provided to bring the two performance frameworks together. The Secretariat considers that this paragraph should be retained. If local authorities consider that they do not find this recommendation useful then they will not have to follow it. **No changes proposed to the Code Draft.**
2.9	One authority commented that it was concerned about duplication with other corporate plans.	The Secretariat considers that there should not be a huge amount of duplication. There should not be a repetition of these plans but the narrative report should include a commentary on the delivery or otherwise of the outcomes of the plans. **No changes proposed to the Code Draft.**
2.10	A confidential respondent commented '*The Narrative Report is often the only part that the lay reader of the accounts*	The Secretariat would note that this is a principles based approach and that in drafting the narrative report one of the

	Issue	Secretariat Response
	looks at. It should be simple but effective in conveying a summary of the council's activities. Making it so prescriptive as suggested would make it too technical'.	overriding principles should be that the narrative report should be understandable. The Secretariat considers that this issue may be one best dealt with in guidance. **No changes proposed to the Code Draft.**
	Question 3 – What form should guidance take?	
3.1	A number of respondents considered that guidance should be provided in the usual way, ie either by means of a Local Authority Accounting Panel (LAAP) Bulletin, or via the Code Guidance Notes or specific guidance.	
3.2	Three respondents who provided the same response commented that they considered that no guidance should be given and that authorities be encouraged to keep the Narrative Report fairly short in length and consider alternative forms of presentation.	
3.3	One authority stated '*It would be useful for any guidance to make a clear distinction between what needs to be included in order to satisfy the statutory reporting requirements in each part of the UK, and what further areas CIPFA is encouraging councils to include*.'	
3.4	A number of respondents noted the tension between providing exemplification and the possibility of 'boilerplate' commentaries being provided.	
3.5	A number of respondents indicated that it might be useful to set out a possible structure for a narrative report.	
3.6	One firm commented '*We would welcome written publications that are solely focused on providing scenarios and illustrative examples for each area of the requirements as well as a webinar series which explains the requirements and provides practical considerations (e.g. when should a local authority start preparing their narrative report, who should be involved, why is it important etc).* ' Another suggested that good practice examples may already be available following the requirements in the Accounts and Audit Regulations 2015.	

Going Concern Reporting Requirements

Question		Agree	Disagree	No Comment
4	Do you agree with CIPFA/LASAAC's approach to the going concern requirements in the Code? If not, why not? What alternatives do you suggest?	33 (70%)	2 (4%)	12 (26%)

	Issue	Secretariat Response
	Question 4 – Going Concern Basis of Accounting Reporting Requirements	
4.1	A number of the respondents concurred with the position set out in the ITC that due to the statutory nature of local authorities the basis of preparation for local authorities must be on a going concern basis.	No comments. **No changes proposed to the Code Draft.**
4.2	A firm whilst agreeing with the going concern basis of reporting stated: '*Despite this, local authorities still need to consider whether there is any material uncertainty that the body itself cannot continue as a going concern for at least 12 months from the balance sheet date. If there is a material uncertainty that casts doubt on a local authority's ability to continue as a business, this material uncertainty should be disclosed in line with IAS 1 paragraph 25 which says '….. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and*	The Secretariat does not concur. The Secretariat considers that the requirements of paragraph 25 of IAS 1 are to assess whether or not the entity should report under the going concern basis of accounting and to disclose any uncertainties apparent in the assessment. As stated in CIPFA/LASAAC's ITC '*for local authorities the statutory framework means that there can be no material uncertainties related to events or conditions that can cast significant doubt upon their ability to continue to report on a going concern basis*'. To support this ie that the assessment is for the basis of accounting rather than whether the entity may or not be a going concern, the Secretariat would cite the relevant summary from the FRC's *Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks*[1] which states. '*Accounting standards require directors*

[1] Financial Reporting Council, April 2016

	Issue	Secretariat Response
	the reason why the entity is not regarded as a going concern.' The firm cited the *Department of Health Group Accounting Manual* guidance now in paragraph 4.92 which states: '*Where a DH group body is aware of material uncertainties in respect of events or conditions that cast significant doubt upon the going concern ability of the entity, these uncertainties should be disclosed*.'	*to make an assessment of a company's ability to continue to adopt the going concern basis of accounting in the future. As part of their assessment, the directors should determine if there are any material uncertainties relating to events or conditions that may cast significant doubt upon the continuing use of the going concern basis of accounting in future periods*.' The Secretariat would note that the FReM itself does not include the same paragraph as the Department of Health's guidance. The Secretariat would reiterate CIPFA/LASAAC's concern that the users of the financial statements should fully understand the resource issues faced by a local authority and that an authority should clearly report the events and circumstances it faces and that this should be included in the Narrative Report or as relevant in their liquidity disclosures. **No changes proposed to the Code Draft.**
4.3	A second firm raised the concern that the Code needs to separate the going concern concept from the going concern basis of reporting. The last sentence of 3.4.2.23 should be revised as follows: '*Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the* ***presumption that the accounts should be prepared on a going concern basis***.'	The Secretariat concurs that this provides helpful clarification (the words in bold font in the previous column). **The Secretariat has made the appropriate amendments to the Code Draft.**
4.4	The same firm stated that it *'would also be useful for the Code to cross-refer to the section of Practice Note 10 dealing*	The Secretariat does not concur. The Code is based on financial reporting standards and does not refer to auditing

	Issue	Secretariat Response
	with Going Concern'.	standards. **No changes proposed to the Code Draft.**

Accounting Policies – Telling the Story of Local Authority Financial Statements

Question		Agree	Disagree	No Comment
5	Do you agree with the approach in the Exposure Draft relating to the Code's prescriptions on significant accounting policies? If not, why not? What alternatives do you suggest?	36 (77%)	2 (4%)	9 (19%)

	Issue	Secretariat Response
	Question 5 – Accounting Policies - Telling the Story of Local Authority Financial Statements	
5.1	The majority of respondents supported removing the list of accounting policies from section 3.4, they considered that this would encourage local authorities to avoid a 'boilerplate' approach and ensure that their financial statements reflect only those accounting policies that are significant to their local circumstances.	No comments. **No changes proposed to the Code Draft.**
5.2	A confidential respondent that disagreed with this approach commented: '*The boilerplate approach provides a more structured and comparable set of accounts, so that authorities can be more directly compared*.' It continued: '*Following the stricter NHS approach on this could help reduce the size of a set of accounts*.'	The Secretariat would comment that there is a general consensus amongst accounting commentators that a 'boilerplate' approach should be discouraged. **No changes proposed to the Code Draft.**

	Issue	Secretariat Response
5.3	Four respondents that provided the same response stated that the Code should contain the following principles: • accounting policies should focus on the recognition and measurement of transactions within an authority's accounts • accounting policies should not replicate Code requirements as this is inherent in the Basis of Preparation accounting policy • accounting policies should not set out detailed accounting entries as these are inherent in following the Code • accounting policies should not duplicate what is already disclosed elsewhere in other disclosures. The same respondents noted that the Code referred to significant accounting policies without defining 'significant'.	The Secretariat does not concur. These descriptions of accounting policies are not consistent with the Code or IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Note that some of these views were given by one of the members of LAAP in the review of the Code Guidance Notes and the Secretariat and the review group rejected these comments. The Secretariat does not concur that these principles should be included in the Code as they are not included in accounting standards. The Secretariat would note that the Code's reference to 'significant' follows that in IAS 1 *Presentation of Financial Statements*. **No changes proposed to the Code Draft.**
5.4	A number of respondents indicated that they considered that the list of accounting policies excluded an accounting policy which may be significant to local authority financial statements. Two respondents commented that for this reason and to further discourage standardised responses that the list of accounting policies in the Annex should be removed.	The Secretariat concurs. Although the list was intended to assist local authorities; there is a risk that a list would leave out a policy that may be significant to an individual authority. **The Secretariat recommends that the list be removed.** The Secretariat would note that the individual sections of the Code present a list of the relevant accounting policies and has referred to this in paragraph 3.4.2.87. **The Secretariat has included the relevant commentary in the Code Draft.**
5.5	An authority commented that it would be helpful if the Code commented that the exclusion of accounting policies that are immaterial is acceptable. The respondent responded that this will help discussions with auditors who seem very reluctant to agree to the removal of any information, regardless of whether or not it is	The Secretariat understands this comment but considers that this is covered in the general commentaries on materiality included in Chapter One of the Code. **No changes proposed to the Code Draft.**

	Issue	Secretariat Response
	material/significant.	
5.6	A respondent commented that '*An alternative approach would be to include a summary of the Code's policies on the CIPFA website, and allow local authorities to provide a link to this summary in their own statements of accounts*. '	The Secretariat does not concur. This approach would not ensure that the accounting policies included in the financial statements are those that are significant to the individual local authority's circumstances. **No changes proposed to the Code Draft.**
5.7	Two respondents referred to the provision of the example accounting policies in the Code Guidance Notes promoting a 'boilerplate' approach.	The Secretariat is aware that the use of example accounting policies could lead to a 'boilerplate' approach. However, the Code Guidance Notes are very clear that the example financial statements are only intended to be used for illustration purposes and should be tailored to a local authority's own circumstances. This commentary is repeated in the year end LAAP Bulletin each year. It should be noted that the Secretariat has recommended that LAAP review its example accounting policies for the 2017/18 Code Guidance Notes. **No changes proposed to the Code Draft.**
5.8	A firm agreed with the approach set out in the consultation but commented that: '*we believe that there is a need to clearly separate the disclosure of the significant accounting policies listed in the Annex with the disclosure of the significant judgements that management has made in the process of applying these accounting policies. Paragraph 3.4.2.86 does infer that this disclosure is in addition to the disclosure of significant accounting policies, but this could be made clearer in the Code*.'	The Secretariat does not concur as paragraph 3.4.2.86 does not infer that this is a requirement but replicates the precise provisions from paragraph 123 of IAS 1. However, **to provide additional guidance the Secretariat has added cross reference to paragraph 3.4.2.86 to reinforce the position.**

Accounting and Reporting by Pension Funds – Transaction Costs

Question		Agree	Disagree	No Comment
6	Do you agree that the recommended disclosure at paragraph 6.5.5.2 (in the 2016/17 Code) should be made a required disclosure in the 2017/18 Code? If not, why not? What alternatives do you suggest?	15 (32%)	7 (15%)	25 (53%)

Question 6 - Accounting and Reporting by Pension Funds – Transaction Costs		
	Issue	**Secretariat Response**
6.1	Five respondents produced very similar responses that disagreed with the proposals and noted that they were not consistent with the publication '*Accounting for Local Government Pension Scheme Management Expenses*' issued by CIPFA in July 2016. The respondents said that '*Implementing the current proposal in 2016/17 would be a step backward given the amount of work which has gone into producing the Management Costs guidance, and which has been driven by key stakeholders, namely, the LGA and DCLG'*. They also noted that this could cause confusion. They recommended that instead the Code should require the authorities to follow the specifications of the publication. A sixth respondent who neither agreed nor disagreed provided a response consistent with those above and noted that the guidance is '*widely accepted and supported*' by practitioners. This respondent further noted that there would be a greater need for transparency of management expenses in the '*ongoing initiative to pool investment assets'*.	CIPFA/LASAAC will be aware that the publication in question provides a recommended disclosure framework for pension fund management expenses. This disclosure framework introduces recommended sub-classifications of management expenses for the local government pension scheme. The Secretariat does not agree that the proposals in the consultation are inconsistent with the requirements of the publication (with the exception of the inclusion of transaction costs for investment properties – see row 6.3 below). CIPFA/LASAAC has been aware of this publication and refers to it within its guidance recommending that local authorities have 'due regard' to its provisions. The publication includes transaction costs within the management expenses sub-classifications and this is based on the Code definitions. Therefore generally there should be no inconsistency between the two publications. The Secretariat considers that it may be useful for CIPFA/LASAAC to consider in the future whether it wishes to extend its reporting requirements to

Question 6 - Accounting and Reporting by Pension Funds – Transaction Costs		
	Issue	**Secretariat Response**
		include those in this publication based on local authorities' experience of following the recommendations for a number of years and perhaps experience of other entities reporting management expenses disclosures. However, it would not recommend implementing further at this juncture. This is particularly based on the comments of one of the firms which refers to their response being based on their discussions with their clients (see 6.2 below). The Secretariat concurs with the need for transparency with management expenses. **No changes proposed to the Code Draft.**
6.2	A firm that disagreed with the requirements stated '*In our experience to date, whilst the CIPFA Guidance on Local Government Pension Scheme Management Costs aimed to achieve transparency and consistency in the identification and reporting of such costs, it has not yet done so. In discussion with audit clients, the specific guidance in relation to investment management expenses is considered too simplistic for certain investment management expenses and that further input from practitioners is needed to enable realistic and consistent reporting. In our view until investment management expenses are better understood and addressed, then the Code should neither "recommend" nor "require" disclosures in 6.5.5.2 of the 2016/17 Code, nor should the recommendation be included within the Code Guidance Notes*.'	The Code does not require or recommend local authorities follow the requirements of the CIPFA Guidance. However, the Secretariat would note that the above consultation responses indicate that there has been substantial work with stakeholders on this publication. **The Secretariat would seek CIPFA/LASAAC's views on this issue.**

Question 6 - Accounting and Reporting by Pension Funds – Transaction Costs		
	Issue	**Secretariat Response**
6.3	The same firm commented that it '*is unclear why 6.5.5.2 specifically isolates and requires the disclosure of direct transaction costs from the wider investment management costs included in Accounting for Local Government Pension Scheme Management Expenses, which also includes fund value based management fees, performance fees and custody fees. Should the Code require such disclosures, further details should be provided on the definition of "direct transaction costs" and consideration should be given to whether these costs should be disclosed under "all significant asset classes (ie asset types)" or "meaningful categories" as required in 6.5.5.1g).*'	CIPFA/LASAAC decided to include this disclosure in the 2016/17 Code as it is a recommended disclosure in the *Financial Reports of Pensions Schemes, A Statement of Recommended Practice* (2015) (the 2015 Pensions SORP). Transaction costs for financial assets are based on the definition within IAS 39 *Financial Instruments; Recognition and Measurement.* However, the Secretariat considers that to ensure that this is a consistent definition the word 'direct' should be removed as this is not included in IAS 39. Transaction costs for investment properties should meet the definition of those costs in IAS 40 *Investment Property*. **This clarification has been added to the Code. The Code Draft also now aligns the categorisation of investments with 6.5.5.1 g).** Note that the publication Accounting for Local Government Pension Scheme Management Expenses does not include transaction costs for investment properties in the disclosures. This is incorrect as they still meet the definition of a transaction cost.

Review of the Structure of Chapter One Introduction of the Code

Question		Agree	Disagree	No Comment
7	Do you agree with the approach to restructuring the provisions of Chapter One (Introduction) of the Code? If not, why not? What alternatives do you suggest?	36 (77%)	0 (0%)	11 (23%)

	Issue	Secretariat Response
	Question 7 – Review of Chapter One	
7.1	A number of respondents agreed, commenting that it enabled authorities to easily understand the requirements for their jurisdiction	No comments.
7.2	A Scottish audit body recommended changes to paragraphs 1.3.7 and 1.3.8 to clarify the position with regard to registered charities that fall within section 106 of the Local Government (Scotland) Act 1973.	**These amendments have been included in the relevant paragraphs.**
7.3	An authority noted that the references to unaudited accounts did not convey properly the requirements of the Accounts and Audit Regulations 2015.	The Secretariat would note that it was not the intention that this section of the Code replicates the Accounts and Audit Regulations 2015 but to provide a general overview of the requirements. However, as this is a complex area of the regulations **edits have been made to more closely reflect the requirements of the Regulations – see paragraph 1.4.2**.

Narrow Scope Amendments: IAS 7 *Statement of Cash Flows* (Disclosure Initiative)

Question		Agree	Disagree	No Comment
8	Do you agree with the approach to the adoption of the Amendments to IAS 7 *Statement of Cash Flows* (Disclosure Initiative)? If not, why not? What alternatives do you suggest?	24 (51%)	6 (13%)	17 (36%)

	Issue	Secretariat Response
	Question 8 – the Amendments to IAS 7 Statement of Cash Flows (Disclosure Initiative)	
8.1	An authority suggested the inclusion of rescheduling of debt that does have a cash flow impact and it wondered whether it would be better to have an enhanced financial instruments note that gave a snap shot of the in-year movement and comparative: debt repaid, debt raised, debt rescheduled, together with the change in length of the debt.	Paragraph 44E of the amendments to IAS 7 *Statement of Cash Flows* notes that the disclosure may be provided in combination with disclosures of changes in other assets and liabilities. Therefore if an authority considered it needed to include the disclosure in accordance with the new disclosure objective included in paragraph 3.4.2.81 2) (paragraph 44A of IAS 7) then this would be appropriate. **No changes proposed to the Code Draft.**
8.2	Four respondents including one independent consultant provided exactly the same response which stated '*The objective of the amendment is to provide additional information for investors about future cashflows - this is not a relevant consideration for local authorities.'* *'In any case, all of the proposed additional disclosures are already met in disclosures elsewhere in the Statement of Accounts. Therefore providing additional information in the Cash Flow Statement would just be duplication*.'	The Secretariat does not concur and this also does not does not accord with CIPFA/LASAAC's view provided in the ITC which stated '*Although these amendments are as a response investors [concerns] 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 of going concern reporting*'. If this information is provided in other disclosures it does not need to be repeated to meet this disclosure requirement and therefore there should not be any duplication. **No changes proposed to the Code Draft.**
8.3	A firm recommended that the cash flow statement disclosures should be included with the reporting provisions in the Code on the Cash Flow Statement.	The Secretariat concurs and **proposes moving them to paragraph 3.4.2.81**. This also removes previous duplication between paragraph 3.4.4.1, 12) and

	Issue	Secretariat Response
		3.4.2.80.

Narrow Scope Amendments: IAS 12 Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses)

Question		Agree	Disagree	No Comment
9	Do you agree with the approach to the adoption of the amendments to IAS 12 *Income Taxes* (Recognition of Deferred Tax Assets for Unrealised Losses)? If not, why not? What alternatives do you suggest?	21 (45%)	0 (0%)	26 (55%)

	Issue	Secretariat Response
	***Question 9* – Amendments *to* IAS 12 *Income Taxes* (Recognition of Deferred Tax Assets for Unrealised Losses)**	
9.1	There were no comments that would require a change in approach from that set out in the ITC.	

Cities and Local Government Devolution Act 2016 – Accounting for Combined Authorities

Question		Agree	Disagree	No Comment
10	Do you agree with CIPFA/LASAAC's view that there is no need to amend the Code for the reporting requirements for combined authorities? If not, why not? What alternatives do you suggest?	17 (36%)	2 (4%)	28 (60%)

	Issue	Secretariat Response
	***Question 10* – Cities and Local Government Devolution Act 2016 –**	

	Issue	**Secretariat Response**
	Accounting for Combined Authorities	
10.1	A number of respondents agreed with the proposals and with the possibility that application guidance may need to be provided by CIPFA.	No comments. **No changes proposed to the Code Draft.**
10.2	One confidential respondent disagreed and stated that '*Clarity needs to be given on how the accounts of a combined authority would be done. Therefore the Code needs to have relevant guidance*.'	The Secretariat does not concur. Whilst there needs to be clarity the current provisions in the Code and IFRS cover the relevant issues. Where difficulties may occur it is likely that application guidance will be able to cover the relevant issues. The Secretariat will, however, keep this issue under review. **No changes proposed to the Code Draft.**
10.3	A firm responded that whilst agreeing that there were no specific reasons for provisions for combined authorities it considered that there were discrepancies between the Code and the FReM in relation to section 2.5 (Local Government Reorganisations and Other Combinations). It stated: '*we have been unable to identify the rationale behind the difference. The Code at 2.5.2.2 requires combinations of local authorities or other public bodies to be accounted for as either a transfer by absorption or a transfer by merger, although at 2.5.2.3 it suggests that these are normally transfer by absorption and in 2.5.2.4 that mergers are rare. We do however understand that some combinations may be considering accounting for a transfer by merger*. ' '*The FREM does not appear to allow this choice/ judgement and requires absorption accounting for such*	The Secretariat would note that the provisions of this section of the Code were approved by FRAB. These revisions to the Code followed the review of the relevant provisions in the FReM. The Secretariat would also note for consistency with the FReM that paragraph 2.5.2.4 sets out that '*To ensure symmetrical accounting treatment to the other public sector entity transfer by merger shall not occur when a local government body is transferring to another part of the public sector, ie outside of local government, and vice versa*'. The Secretariat would also note that the structure of local government bodies is different from central government departments. However, there are parallels as the use of merger accounting is permitted is within the same 'tier' of local government entities in a similar way to central government departments in the FReM. When CIPFA/LASAAC

	Issue	**Secretariat Response**
	combinations.' '*We consider that the inconsistency with the FREM should be resolved and that this is particularly important for combined authorities and also for transfers of function between local government and the NHS which are becoming increasingly common. Any difference of accounting treatment between entities as a result of this inconsistency could lead to issues in the Whole of Government Accounts consolidation*.'	decided on whether to permit transfers by merger, there was some experience for police bodies that used this option for the police restructuring into Police and Crime Commissioners and Chief Constables under the Police Reform and Social Responsibility Act 2011. The Code is clear, however, that this is a rare occurrence and could only occur if '*the local government entity considers that in substance for a true and fair presentation the financial statements would be best presented as if the entity had always existed in its newly combined form*'. The Secretariat considers that the combinations that it is aware of are unlikely to meet this criterion. The Secretariat does not consider that this is a difference that should be listed in the Annex as this is not a different accounting treatment but is as a result of the different organisational structures for central and local government. **The Secretariat has included some minor editing of paragraph 2.5.2.4;** this does not change the substance of the provisions in the Code but provides reinforcement to the consistent treatment with the FReM.

The Housing and Planning Act 2016

Question	Agree	Disagree	No Comment

11	Do you agree with the proposed approach to payments made to the secretary of state under the Housing and Planning Act 2016 in the Code? If not, why not? What alternatives do you suggest?	17 (36%)	0 (0%)	30 (64%)

	Issue	Secretariat Response
	Question 11 – The Housing and Planning Act 2016	
11.1	Most of the respondents agreeing with the changes provided no other comments of substance which would require a change from the proposals outlined in the ITC. A firm responded that it agreed with '*the principles set out in the Invitation to Comment however we have not located the draft amendments in respect of the Housing and Planning Act 2016 within the EDs*.'	The Secretariat would note that the approach in the ITC only covered the principles of the amendment as the relevant secondary legislation under the Housing and Planning Act 2016 had not been issued. This has not yet been issued, however, see report CL 10 11 -16 for further information. **No changes proposed to the Code Draft.**

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

Question		Agree	Disagree	No Comment
12	Do you agree with the proposed amendments to the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 and the review of the statutory accounting requirements (for Scottish authorities) included in the Code? If not, why not? What alternatives do you suggest?	11 (23%)	0 (0%)	36 (77%)

	Issue	Secretariat Response
	***Question 12* – The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016**	

	Issue	Secretariat Response
12.1	The respondents confirmed that they considered that the amendments in the Exposure Draft reflected the requirements of the Regulations.	

Areas of Further Guidance

	Comment	Secretariat Response
1	An authority commented: '*With earlier closing, it would be beneficial to all if the year-end LAAP bulletin is issued in early March to give practitioners time to react to any last minute fine tuning to close down as the 2017/18 closedown has Easter falling at the end of March / beginning of April*.'	The Secretariat will refer this issue to the Local Authority Accounting Panel. The Panel is already aware of the issue and there is a tension between trying to ensure that the Bulletin has captured all the relevant and often last minute issues and providing timely advice. **No changes proposed to the Code Draft.**
2	Three respondents (including an independent consultant) commented: '*What the Code lacks in general is an explanation of the principles and objectives for key disclosure requirements. Consequently some preparers of the accounts do not automatically understand what the Code requirements are trying to achieve and instead will attempt to comply with the Code's requirements by rote resulting in consequential boiler plating*.'	The Secretariat considers that this is not an issue for the Code, which does include the relevant disclosure objectives that have been introduced by IFRS, but an issue for application guidance. This is already addressed in the Code Guidance Notes but the Secretariat will consider whether there is any further guidance which might be provided. **No changes proposed to the Code Draft.**
3	An authority commented: *'The 2016/17 Code is a little unclear on the requirement or otherwise for a subjective analysis of income and expenditure at segmental level. Although para 3.4.2.91 says that the segmental reporting requirements should be fulfilled by the I&E account and the EFA, para 3.4.2.95 still requires an analysis of the income and expenditure for each segment shown in the I&E account. It does not explain what level of analysis is required - if not subjective, then what? However neither the I&E account nor the EFA would provide any analysis beyond the level of gross income and expenditure*.'	The wording of paragraph 3.4.2.95 cross refers to the analysis of gross income and expenditure in the Comprehensive Income and Expenditure Statement and the analysis specified by the Expenditure and Funding Analysis. The only full subjective analysis breakdown is now required by paragraph 3.4.2.43 but this is on an authority only basis. This issue has also been covered in application guidance in the Code Guidance Notes. **No changes proposed to the Code Draft.**
4	An audit body commented: '*The 2016/17 code introduced the requirement for expenditure and funding analysis. It would add clarity if the code was more explicit that this analysis should be disclosed in the notes, rather than being a financial or other statement in its own right*.'	The Secretariat would highlight the Expenditure and Funding Analysis is not included in the complete list of financial statements listed at paragraph 3.4.2.17. However, for the avoidance of doubt **the Secretariat will insert the word 'note' at paragraph 3.4.2.97**.

	Comment	Secretariat Response
5	A confidential respondent noted: 'Collaborations and PCC's becoming FRAs'.	The Secretariat has not yet seen any need to change the Code for combinations of Police and Crime Commissioners and Fire and Rescue Authorities but will keep this issue under review. The Secretariat would note that CIPFA has issued application guidance on *Accounting for Collaboration in Local Government*, CIPFA January 2015. **No changes proposed to the Code Draft.**
6	A firm commented: '*3.4.2.14 of the 2016/17 Code requires that "Cash and cash equivalents shall include bank overdrafts that are an integral part of an authority's cash management". The Code does not identify any adaptation to IAS 1 and 7.4.5 requires a financial asset and liability shall be offset and the net amount presented in the balance sheet only when there is a legal right of offset and an authority intends to settle on a net basis or to realise the asset and settle the liability simultaneously. 3.4.2.59 also provides the line items expected in the balance sheet which includes bank overdrafts. As a result, there appears to be a lack of clarity in the Code with regards to the disclosure of overdrafts in the balance sheet*.'	The Secretariat would comment that the provisions in the Code on cash and cash equivalents and provisions on rights to set off all emanate from the relevant standards and cannot see that there is any conflict added by the Code. This is with the exception of the reference to 'overdraft' in the balance sheet. **The Secretariat would recommend changing the reference to 'cash and cash equivalents' in accordance with IAS 1 *Presentation of Financial Statements*.**
7	The same firm commented: '*4.3.4 of the 2016/17 Code requires details of the payments due under service concession arrangements (separated into repayments of liability, interest and service charges): a) within one year, b) within two to five years, c) within six to ten years, and d) in each additional five-year period.* *The current requirement is unclear as to whether these disclosures should include an estimate of the effect of inflation. In our experience unitary payments are almost always subject to indexation and inflation may have a material effect of future commitments. Therefore in our*	The Secretariat considers that the approach to this disclosure requirement would be the same as that for lease liabilities and that this is an issue for application guidance and will refer this to the Local Authority Accounting Panel (LAAP). **Refer to LAAP.**

	Comment	Secretariat Response
	view an estimate of the inflation on future commitments is necessary for a proper understanding of PFI commitments."	
8	The same firm commented: '*4.3.2.19 identifies PFI schemes where the operator is compensated through granting the operator the right to earn revenue from third parties and requires an authority to account for the benefits it's deemed to receive over the life of the contract. The Code does not specify the required treatment although it considered and rejected the approach suggested by IPSAS 32. At that time, CIPFA said that it would consider accounting for third party income at a later date but it does not appear to have done so to date*.	The Secretariat has responded to this issue and question from the same firm for the last few years. The Code does provide a response to this issue and requires that authorities account for such income and liabilities under the Code's general provisions for income recognition and accounting for liabilities. This issue was considered by CIPFA/LASAAC in its deliberations on service concession arrangements at the time. Unfortunately there are two opposing views in international GAAP at the moment; one by the FRC included in FRS 102 and one included in IPSAS 32. **No further action until Section 4.3 is reviewed on the introduction of the leasing standard.**
9	The same firm commented: '4.*11.1.5 extends the scope of proper practice to include the Code of Practice on Transport Infrastructure Assets (now Highways Network Asset (HNA) Code). As we have commented previously, we consider that Code should be more explicit on the requirements and methodologies that preparers need to follow. In our view, requiring compliance with the HNA Code increases risks around clarity of requirements and conflicts between the Code and HNA Code. The bold sections of the HNA Code, detailing the mandatory accounting requirements, still provide significant detail rather than the high level principles and increases the burden on authorities in complying with the Code. We consider that the Code should stand alone in relation to setting out the requirements for the financial statements with preparers referring back to the HNA Code only to consider further technical details or practical implications*."	This issue was raised by the same respondent to the 2016/17 Code consultation. The Secretariat would note that it was always the case the detailed methodologies for measurement would be included in the separate *Code of Practice on the Highways Network Asset* (see minute 5.16 of the November 2015 minutes). **No changes proposed to the Code Draft.**
10	The same firm commented:	This footnote has been an important

	Comment	Secretariat Response
	'A footnote to 2.3.2.16 states that for the purposes of this paragraph "PWLB loans are not loans at below market value for this purpose". This therefore suggests that PWLB loans are considered by CIPFA to be loans at market rate and therefore the recognised at fair value which will be the transaction price. Whilst this may be a valid argument, this judgement may materially affect the initial recognition of these loans at fair value and therefore may justify more explanation than the footnote in the current Code. We also note that this is inconsistent with the current Code Guidance Notes Module 7 B34 series which suggest these loans are not at market rates.'	part of the measurement of soft loans and reflects that for the public sector that loans are available at beneficial rates and effectively provide a lower market rate. The text in the guidance note does not suggest that these loans are not market rates for local authorities but reflect the market rate for the wider economy. **CIPFA/LASAAC is invited to consider whether it wishes to expand the detail of the provisions on PWLB interest rates.** **Note that this position has been held since the 2010/11 Code.**
11	A firm repeated its commentary in its covering letter that it has made over the last number of years that the Code should adopt the approach in the FReM and only include the relevant statutory provisions and adaptations in the Code. For example it stated that: *'The prime examples in the Code consultation this year relate to IFRS 9 and IFRS 15 where there is a mix of rewriting the accounting standard and direct references to the standard. This creates the risk that users of the Code:* • *follow what is set out in the Code, but fail to follow the underlying standard* • *do not fully consider all elements of relevant IFRS where more detailed requirements in the IFRS are not specifically covered by the Code.'*	The Secretariat would refute that any of the new provisions of IFRSs 9 or 15 have been summarised in the Code. The CIPFA/LASAAC Review considered this issue in detail. It decided that its stakeholders preferred the more detailed approach in the Code. However, it agreed to streamline gradually in future years. This way forward was followed in relation to the Group Accounts Standards and IFRS 13 *Fair Value Measurement*. The more complex areas of IFRS 9 eg the expected loss model have been included in more detail from the Standard. The Secretariat would also refer CIPFA/LASAAC to the broad support it has for the approach in the Code to adoption and indeed has had this support for the last couple of years. **No changes proposed to the Code Draft.**
12	The same firm commented in their covering letter: *'We have noted and support CIPFA's attempts to increase responses to the Code consultation and consider that this is important in ensuring that the Code remains relevant to local authority accounts preparers and reflects local developments. Encouraging greater*	The Secretariat would note that CIPFA/LASAAC provides feedback on the responses in two forms which is at least the equivalent of the Department of Heath Manual. Its Appendices to the reports on the consultation analyse the consultation responses in detail. On an annual basis CIPFA/LASAAC also issues its informal commentary on the Code on CIPFA/LASAAC's IFRS-based Code

	Comment	Secretariat Response
	engagement in shaping the accounting framework can only improve the output. In encouraging more responses CIPFA might consider feeding back it's consideration of responses, a good example of this was recently provided by the Department of Health in response to the consultation on the 2016/17 Group Accounting Manual.'	page of the CIPFA website. This informal commentary takes a form similar to the basis of conclusions in IFRS. It is possible that the firm is not aware of this. **The Secretariat will cross refer to the detailed analysis of responses in the next informal commentary on the 2017/18 Code.**
13	The same firm and a number of other respondents requested that CIPFA/LASAAC seek opportunities to cut clutter from local authority financial statements.	**The Secretariat would note that this is an active project for CIPFA/LASAAC.**
14	An associate working on the disclosure checklist for the Pension Fund Accounts stated under separate cover: '*Paragraph 6.5.5.1m of the Code requires that pension funds disclose "Details of any single investment exceeding either 5% of the net assets available for benefits or 5% of any class or type of security". Whilst this reflects the wording of IAS26, the aim of the disclosure is to highlight any concentrations of investment risk. Using the breakdown of the investments in the example accounts as an example, 5% of the net assets would £220m, but 5% of asset class Using the asset classes in Note 14 could be as low as £488k (using 5% of derivatives). This would then skew the disclosure to require pension fund accounts preparers to potentially disclose some very small sums, which would not actually meet the aim of the disclosure which is to highlight concentrations of investment risk. In contrast para 3.17.1 of the Pension SoRP only requires concentration of risk at 5% of net assets*.'	The Secretariat has discussed this with the CIPFA Treasury Management and Pensions Advisor who agrees with this issue. The Secretariat considers that IAS 26 *Accounting and Reporting by Retirement Benefit Plans* is an old standard and it may be better to follow the Pension SORP and current practice on this issue. **It has therefore included the relevant edits in paragraph 6.5.5.1 m) (see CD 11). The Secretariat would welcome CIPFA/LASAAC's views.**