

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”

IFRS 16 Leases

B2. Service Concession Arrangements: Measurement of the Liability

Question	Option 1	Option 2	No Comment
<p>2 Which option do you consider would be most appropriate to reflect the measurement of the service concession arrangement liability:</p> <ul style="list-style-type: none"> option 1 - measurement of the liability under the provisions of IFRS 16 <i>Leases</i>, or option 2 - retention of the current IAS 17 <i>Leases</i> measurement provisions? <p>Please provide a reason for your response including the technical financial reporting provisions and the practical impacts of both options. Please provide the relevant detail related to the practical impacts eg if there are additional costs involved it would be useful to CIPFA/LASAAC to understand or be provided with an estimate of these costs.</p>	<p>12 (50%)</p>	<p>7 (29%)</p>	<p>5 (21%)</p>
	2021/22 Code	2022/23 Code	No Comment
<p>3 If option 1 is chosen when do you think those changes should be implemented:</p>	11	7	6

<ul style="list-style-type: none"> • in the 2021/22 Code ie with the full implementation of IFRS 16 or • in the 2022/23 Code <p>Please provide a reason for your response including the technical financial reporting provisions and the practical impacts of both options.</p>	(46%)	(29%)	(25%)
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	Issue	Secretariat Response	Risk Analysis
	<p>B.2. Service Concession Arrangements: Measurement of the Liability</p> <p>Question 2 Measurement of the Service Concession Arrangement Liability</p>		
2.1	<p>The largest number of respondents (but not a majority) were in favour of option 1 (measurement of the liability like a lease liability under IFRS 16 <i>Leases</i>). The reasons provided included:</p> <ul style="list-style-type: none"> • as IAS 17 <i>Leases</i> was no longer an extant standard and therefore as time moved on it would be more difficult to use the provisions of that standard. 	<p>NA these arguments support option 1 from a conceptual and practical basis.</p>	<p>High – service concession arrangements are high value, high profile arrangements. Increasing the value of these liabilities could have a substantial impact on the balance sheet. It will be important that CIPFA LASAAC is assured that this is a proper measurement of the liability.</p>

	Issue	Secretariat Response	Risk Analysis
	<ul style="list-style-type: none"> • most PFIs are renegotiated at least once during the contract term and IAS 17 does not provide any guidance on this issue. A firm also commented on the guidance available under IFRS 16 <i>Leases</i> which could be used for service concession arrangements. • symmetry with IFRS 16, with a treasury management advisor respondent indicating that this was a more holistic approach. An audit firm noted that this would simplify the accounting treatment for service concession arrangements by removing the 'mirror image' treatment for IFRIC 12 • One audit firm indicated that the work involved in changing a local authority financial model for the PFI scheme should be relatively low. 		
2.2	<p>A number of respondents appeared to strongly preferred option 2, comments including:</p> <ul style="list-style-type: none"> • One of the most regular comments was in relation to the cost and 	<p>CIPFA LASAAC has been aware that local authorities and some other respondents have argued that there will be a cost on transition and on an annual basis. Some respondents argue that the costs outweigh the benefits of the change. It might be the</p>	<p>High – service concession arrangements are high value, high profile arrangements. Increasing the value of these liabilities could have a substantial impact on the balance sheet. It will be important that CIPFA</p>

	Issue	Secretariat Response	Risk Analysis
	<p>increased workload for local authorities because of the changes and particularly referring to the prospects of annual remeasurements where indexation was included. Additional workload on transition to IFRS 16 was also cited. Note that this issue was also remarked upon by local authorities supporting option 1, although their view was that the costs were outweighed by the benefits of any changes.</p> <ul style="list-style-type: none"> • A number of respondents indicated that service concession arrangements are scoped out of IFRS 16. • maintenance of and consistency of accounting treatment. <p>An authority and an independent consultant also commented:</p> <ul style="list-style-type: none"> • the nature of service concessions is that they are a combination of the purchase of an asset and the delivery of services. Therefore, the element of the unitary charge which repays the liability is akin to borrowing to finance the purchase of an asset. 	<p>case that to allow some management of the cost an appropriate lead in time is allowed for any changes.</p> <p>Some redrafting will be required if option 1 is chosen to ensure there is not a scope conflict because service concession arrangements are scoped out of IFRS 16. Noted though that as IFRIC 12 <i>Service Concession Arrangements</i> only applies to operators, it is arguable that the IFRS 16 scope exclusion does include the arrangements for grantors. The commentary on the nature of the service concession arrangement being the purchase of an asset bundled with service provision does align to the way in which section 4.3 is drafted.</p>	<p>LASAAC is assured that this is a proper measurement of the liability.</p>

	Issue	Secretariat Response	Risk Analysis
	<ul style="list-style-type: none"> <li data-bbox="331 325 896 651">• given that service concession arrangements almost all include an inflator factor, then if IFRS16 was applied this would mean an annual re-measurement of the liability, which does not mirror the reality of a service concession which is that it is the purchase of an asset with the provision of services bundled with it. <li data-bbox="331 699 896 911">• for older contracts establishing data on which to undertake such a re-measurement exercise could prove challenging in some cases as the financial models may not be available. <li data-bbox="331 959 896 1326">• the skill-sets to understand and recalculate service concession arrangements tend to be in short supply and are likely to involve additional cost both in terms of fees to specialists to undertake this type of work and audit fees to undertake technical review by the external auditor. This does not seem to be good use of public money, 		

	Issue	Secretariat Response	Risk Analysis
	particularly when service concessions are outside the scope of IFRS16.'		
2.3	A treasury management firm and a group of authorities commented that if option 2 were to be retained the provisions of section 4.3 (Service Concession Arrangements: Local Authority as Grantor) of the Code should be expanded to include commentary on the treatment of modifications to service concession arrangements. The treasury management advisor noted that some propose an IFRS 9 <i>Financial Instruments</i> treatments for modifications.	The Code has not included provisions for service concession arrangement modifications since 2009/10. It is arguable if option 2 is continued that suitable provisions should be included to assist local authorities.	High – service concession arrangements are high value, high profile arrangements. Increasing the value of these liabilities could have a substantial impact on the balance sheet. It will be important that CIPFA LASAAC is assured that this is a proper measurement of the liability.
2.4	One independent consultant who supported option one enquired about the conceptual basis of the change. Questioning when the indexation would apply. Suggesting that CIPFA LASAAC (or CIPFA) should provide guidance on this.	It is likely that guidance will be needed to cover this issue.	High – service concession arrangements are high value, high profile arrangements. Increasing the value of these liabilities could have a substantial impact on the balance sheet. It will be important that CIPFA LASAAC is assured that this is a proper measurement of the liability.
2.5	One authority noted that this could have an impact on its prudential indicators and highlighted the costs of transition. The	The move to measuring under option 1 will have an impact on an authority's prudential indicators if there is any change in the	High – service concession arrangements are high value, high profile arrangements. Increasing the

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	<p>authority noted that due to the statutory position:</p> <p>'the write down of the liability will be part of capital financing adjustment and will be included in the MRP charge. This means that really the financing cost will still be charged to revenue but in a different way so there is no overall impact on the bottom line.'</p>	<p>liability. If the liability changes then the carrying amount of the asset will increase or decrease to recognise the change. This will impact on the Capital Financing Requirement. These changes should be manageable without significant impact on the practical arrangements for capital financing. However, the changes may not necessarily be revenue neutral because an increase in the asset carrying amount might qualify as capital expenditure and be met from capital receipts.</p>	<p>value of these liabilities could have a substantial impact on the balance sheet. It will be important that CIPFA LASAAC is assured that this is a proper measurement of the liability.</p>
2.6	<p>A treasury management advisor noted that the Code should allow for local authorities to be able to use materiality when they make their assessment of the impact of annual remeasurements.</p>	<p>The materiality provisions of the Code will allow for this.</p> <p>No further amendments to the Code.</p>	<p>Medium – although the provisions of the Code should be able to accommodate any materiality judgements made by local authorities, this can be an issue of difficulty between auditors and local authorities.</p>
2.7	<p>A firm supporting option 1 commented:</p> <p><i>'We also recommend that CIPFA alters the current Code Paragraph 4.3.2.23 concerning when authorities cannot meaningfully estimate the implicit interest rate. This paragraph inherits the current provisions which are that the authority must apply its nominal cost of</i></p>	<p>If option 1 is followed the Code will need to be updated to require local authorities to use their incremental borrowing rate if the implicit rate cannot be determined.</p> <p>Amendment made to Code Draft at paragraph 4.3.2.23.</p>	<p>High – service concession arrangements are high value, high profile arrangements. Increasing the value of these liabilities could have a substantial impact on the balance sheet. It will be important that CIPFA LASAAC is assured that this is a proper measurement of the liability.</p>

	Issue	Secretariat Response	Risk Analysis
	<p><i>capital rate, whereas IFRS 16 requires an estimate of the lessee's incremental borrowing rate. This latter rate is that which the borrower would pay to borrow the amounts necessary to fund a similar asset over a similar term and with a similar security. IFRS 16's provision would therefore require authorities to apply a rate that is more specific to the arrangement and may therefore differentiate it from other funding sources including PWLB. This differentiation would in our view more closely reflect the transaction's underlying substance, which is that the operator obtains bespoke funding for it and reflects the risk that the operator accepts in the arrangement.'</i></p>		
2.8	<p>A firm also provided detailed commentary on why option 1 is supported. This is set out in an Annex to this Appendix.</p>	<p>One of the key messages from the firm's response is the assumption that some respondents make ie that service concession arrangements are a means of deferred purchase for an asset combined with the payments for provisions of services and that indexation was intended to cover the cost of services (this could be seen to be aligning with the way in which the Code's provisions were originally drafted as</p>	<p>High – service concession arrangements are high value, high profile arrangements. Increasing the value of these liabilities could have a substantial impact on the balance sheet. It will be important that CIPFA LASAAC is assured that this is a proper measurement of the liability.</p>

	Issue	Secretariat Response	Risk Analysis
		<p>financing arrangements for the asset are unchanged when they have been established). However, a firm appears to be challenging this conceptually indicating that:</p> <p><i>'Our experience suggests that the proportion of indexed unitary charge in PFI operator financial models is there solely to optimise the overall funding solution and the indexed element rarely if ever derives either directly or indirectly from assumptions for lifecycle and facilities management costs.'</i></p> <p>In this case an element of indexation would be relevant to reassessing the liability.</p> <p>The firm also comments that full retrospective treatment is desirable.</p> <p>(see comments in 2.9)</p>	
2.9	<p>The Secretariat would note that there is more of a balanced view on which accounting treatment is most appropriate. The consultation responses appear to be introducing substantial differences in approach relation to the treatment of service concession arrangements. The Secretariat would recommend that a working group of experts on accounting for service concession arrangements be established to ensure that the final treatment appropriately measures the liability.</p>		<p>High – service concession arrangements are high value, high profile arrangements. Increasing the value of these liabilities could have a substantial impact on the balance sheet. It will be important that CIPFA</p>

	Issue	Secretariat Response	Risk Analysis
			LASAAC is assured that this is a proper measurement of the liability.
	<i>Question 3 – Timing of Adoption</i>		
3.1	<p>A number of local authorities including an audit firm were of the view that implementation of these changes if option 1 is chosen would require implementation in 2022/23. The rationale including:</p> <ul style="list-style-type: none"> • allowing time to make the changes and understanding the impact and practical application of IFRS 16. • this was additional workload in addition to that of the full implementation of the leasing standard to an authority's portfolio of leases one authority stating: 'the longer we leave this the better!' • this would allow appropriate guidance to be prepared • authorities will have a year longer to remain compliant, when they are 	<p>It is recognised that there will be both costs and additional reporting burdens to local authorities as a result of this change. As one auditor pointed out such impacts will occur when local authorities are still recovering from the resourcing impact of the pandemic.</p>	<p>High – this appears to be a substantial change for local authorities. Indications are that they will need time to understand both the technical and the practical aspects of this change.</p>

	Issue	Secretariat Response	Risk Analysis
	currently managing substantial issues.		
3.2	Fifty per-cent of respondents supported implementation in 2021/22 with respondents indicating that it was useful to align with the implementation of IFRS 16. One authority and a treasury management advisor providing the same response stating that IFRS 16 was issued in 2016 and that local authorities will have had six years to prepare for the adoption of the standard.	No further comments.	High – this appears to be a substantial change for local authorities. Indications are that they will need time to understand both the technical and the practical aspects of this change.
3.3	A number of respondents indicated that adoption would depend on when the FReM implemented the changes to service concession arrangements with one audit body stating, <i>'unless central government defer implementation until 2022/23.'</i> Another authority noted that the response would need to consider the impact of Whole of Government Accounts.	Where possible and in accordance with local authority circumstances the Code will align with the provisions and the timings of the approach in the FReM.	High – this appears to be a substantial change for local authorities. Indications are that they will need time to understand both the technical and the practical aspects of this change.

B3. Aspects of the Public Sector Interpretation for Leases at Nil Consideration, a Nominal Amount, or at a Peppercorn	
4	What are your views on the accounting for commercial contractual arrangements which include a lease at a peppercorn or nominal lease payment? Are such arrangements covered properly by the interpretation in the Code ie which is to account for the right-of-use asset in the same way as a donated asset? Please give a reason for your response.
5	Are you aware of examples of such arrangements in local government or any other bodies that follow the reporting requirements of the Code? Do you consider that the interpretation would apply to such arrangements? Please provide the reasons for your response.

	Issue	Secretariat Response	Risk Analysis
	B.3. Aspects of the Public Sector Adaptation for Leases at Nil Consideration, a Nominal Amount, or at a Peppercorn		
	Question 4 Views on accounting for commercial peppercorn or nominal lease payment		
4.1	A small number of authorities and two of the audit firms appear to agree that if an asset is leased on the basis of a peppercorn and not on commercial terms that the arrangements in Appendix F cover the transaction.	No further comments.	High – Overall this issue is important because public sector interpretations will need to be seen to be working for local authorities.

	Issue	Secretariat Response	Risk Analysis
4.2	<p>Two local authorities and a treasury manager indicate that <i>'If such an arrangement is on commercial terms, then either the fair value of the right-of-use asset is zero, or there are other non-cash transfers of value taking place which should also be accounted for.'</i></p> <p><i>The Code could clarify that the fair value may be zero in which case there will be no donated asset income to recognise.</i></p>	<p>The Code treats such assets as donated assets. It is likely that most land and buildings would have a value though that value may need to be arrived at using a cost-based measurement under IFRS 13 Fair Value Measurement. The Code risks misleading local authorities if such a commentary is made.</p> <p>Recommend no further change is made to the Code.</p>	<p>Medium – the fair value measurement provisions will be able to accommodate the measurement of most land and buildings.</p>
4.3	<p>A number of respondents sought further guidance on examples of commercial terms or the measurement requirements for leases at a peppercorn.</p>	<p>It is difficult to include detailed guidance in the Code without being aware of the nature of such transactions. Guidance could be considered for the Code Guidance Notes.</p> <p>Recommend no further change is made to the Code.</p>	<p>Medium - transactions should be able to be covered by the Code Guidance Notes.</p>
4.4	<p>A local authority and an independent consultant provided the same response indicating that the Code assumes that the donated asset has a material fair value. They note:</p> <p><i>'No evidence has been put forward to indicate that assets leased in by local</i></p>	<p>During consideration of the Transport for London Transactions the Secretariat was not clear on the research which was undertaken on the interpretation. It appeared that it followed the approach in the FReM. However, it is likely that land and buildings will be able to be measured even if it is a cost-based measurement.</p>	<p>Medium – it is important that CIPFA LASAAC understands the impact of interpretations used for the rest of the public sector on the Code. There, does, seem to be a consensus that non-commercial leases at a peppercorn (or nominal or nil amount) are in substance donated assets. Fair value measurement provisions should be</p>

	Issue	Secretariat Response	Risk Analysis
	<p><i>authorities at nominal rents have anything other than a nominal value. `</i></p> <p><i>`Therefore, some research should be undertaken to investigate:</i></p> <p><i>(a) whether there are many examples of assets leased in by local authorities at nominal rentals; and</i></p> <p><i>(b) what the value of the underlying assets;</i></p> <p><i>before extending the scope of IFRS16 in this way under the Code.'</i></p> <p>Both respondents raise concerns about requiring the 'grossing up' of the donated assets and the need for them to be valued citing the Redmond Review's commentary on asset valuations.</p>	<p>CIPFA LASAAC and the rest of the public sector have established that measuring property plant and equipment at current value provide better information for stewardship and accountability rather than a cost-based measurement.</p> <p>Recommend no further change is made to the Code.</p>	<p>able to accommodate the measurement of these donations.</p>
4.5	<p>One treasury manager noted:</p> <p><i>`However, we are seeing an increasing number of income strip (or similar) arrangements which involve simultaneous granting of leases, some of which may be peppercorn. In these instances, recognition of an asset may not give a true reflection of the</i></p>	<p>The provisions of SIC 27 <i>Evaluating the Substance of Transactions in the Legal Form of a Lease</i> have been replaced by IFRS 16. Commercial transactions which were previously assessed under SIC 27 should be able to be evaluated under the provisions of IFRS 16.</p>	<p>Medium – IFRS 16 will be able to cover transactions where treatment was previously under SIC 27.</p>

	Issue	Secretariat Response	Risk Analysis
	<p><i>substance of the transaction. SIC-27 currently requires authorities to consider the substance of arrangements involving a lease as a whole and many of the commercial peppercorn leases may fall within this. As SIC-27 will not apply when IFRS 16 is implemented, additional guidance in the Code on any similar substance over form considerations (under IFRS 16 or otherwise) required for arrangements involving a lease would be useful.'</i></p>	<p>It may be useful, however, if the Code is clear that the treatment of leases at a peppercorn or at a nominal or nil consideration are in substance donated assets.</p> <p>[Note that this commentary does not assess whether local authorities should undertake such transactions].</p> <p>Recommend no further change is made to the Code.</p>	
4.6	<p>An independent consultant comment that: '<i>Our reading of the Agreed Provisions on IFRS 16 was that the interpretation applied to leases where the only consideration was a peppercorn rent. If a scheme is commercial, then the peppercorn will be complemented by a premium or other consideration that can be accommodated within the lease accounting treatments. Paragraph 4.2.2.21 could be clarified to confirm that "lease payments" includes upfront payments and receipts in kind and is not restricted to rentals.'</i></p>	<p>The Secretariat is not clear that this clarification will meet assist practitioners.</p> <p>Recommend no further change is made to the Code.</p>	<p>Medium – other clarifications will be added to clarify that the interpretation relates only to transactions that are in substance donations of assets.</p>

	Issue	Secretariat Response	Risk Analysis
4.6	The Secretariat would note that the addition at paragraph 4.2.2.48 introduced an internal inconsistency in the Code between the treatment of donated assets and the treatment of assets leased at a peppercorn. It has added ' <i>where fair value cannot be obtained at a cost that is commensurate with the benefits to users of the financial statements, current value shall be used as a proxy.</i> ' If an asset cannot be measured at fair value, then it will not be able to be measured at current value. Both measurement options in such cases will need to use a cost-based measurement (ie Depreciated Replacement Cost) and therefore the referral to current value is superfluous and inconsistent with the Code's requirements for donated assets in section 2.3. The Secretariat has removed this provision from section 4.2.2.48.		Medium – internal inconsistencies within the Code lead to confusion in accounting treatment therefore it is appropriate to remove these. It is notable that the provisions in section 2.3 adequately provide for the measurement of donated assets.
	Question 5 Examples		
5.1	Most local authority respondents, an audit body, and audit firm and a treasury management advisor indicated that they were not aware of local authority lessee arrangements for a peppercorn or a nominal or zero contribution where the transactions are commercial.	This is reassuring as this provides reasonable coverage.	High – Overall this issue is important because public sector interpretations will need to be seen to be working for local authorities.
5.2	An authority and an independent consultant referred to the potential for ransom strips to be at a peppercorn.	It is possible that these are commercial transactions if they include leases where payment is at a peppercorn nominal or zero contribution.	High – Overall this issue is important because public sector interpretations will need to be seen to be working for local authorities.

	Issue	Secretariat Response	Risk Analysis
5.3	<p>A treasury management advisor commented:</p> <p><i>'Some authorities may have issues in relation to income strip (or similar) arrangements which could involve a peppercorn lease. As these are all different, it is not possible to comment on how many may be affected. We would encourage any authority that has such an arrangement to raise this as part of this consultation.'</i></p>	<p>No authorities have raised these transactions as an issue.</p> <p>[Note that this commentary does not assess whether local authorities should undertake such transactions].</p>	<p>High – Overall this issue is important because public sector interpretations will need to be seen to be working for local authorities.</p>
5.4	<p>One audit firm commented:</p> <p><i>'The provisions currently read as if commercial leases would not apply the Code adaptation. If the intention of CIPFA/LASAACs is to require all leases (commercial and non-commercial, containing peppercorn rent or nominal lease payments) to apply to the public sector, the rationale should be more explicit in the Code'.</i></p>	<p>The Secretariat agrees with this commentary and suggests for relevant references to the treatment of peppercorn rents that it is made clear that this is a non-commercial transaction where its substance is such that the lease is a donation of an asset.</p>	<p>Medium - if this treatment limits the interpretation to non-commercial transactions which in substance are donated assets then the commercial transactions should be able to be covered by the provisions of IFRS 16.</p>

B4. COVID-19-Related Rent Concessions: Amendments to IFRS

Question	Agree	Disagree	No Comment
6 Do you agree with the approach to the adoption of COVID-19-Related Rent Concessions: Amendments to IFRS 16? If not, why not? What alternatives would you suggest?	15 (62%)	4 (17%)	5 (21%)

	Issue	Secretariat Response	Risk Assessment
	B4. COVID-19-Related Rent Concessions: Amendments to IFRS Question 6 – Approach to COVID-19 Related Rent Concessions		
6.1	The majority of respondents support the inclusion of the amendments indicating that it followed the standard and was a useful practical expedient. A number of respondents indicated that they did not think that this would have a material impact on local authority financial statements, or that they did not think that the relevant transactions would take place.	NA	Low – including the provisions adopts the standard and the consultation responses indicate that this is not a regular or material transaction.
6.2	An authority and an advisor considered that as this transaction was unlikely to occur significantly for local authorities and even if it did would not be material that the Code could rely on the adoption	This is a possibility and on a marginal basis the Secretariat is of the view that it is worth including these amendments to IFRS 16 subject to appropriate endorsement to	Low – although it would be a cleaner solution on a drafting basis to not include the provisions including them may assist some practitioners if such transactions do occur.

	Issue	Secretariat Response	Risk Assessment
	of IFRS 16 as amended and no specific provisions needed to be included in the Code.	assist local authorities with such transactions. No further amendments recommended.	
6.3	An authority and an independent consultant disagreed with the amendment in this form because this adds complexity to the transition arrangements.	Although this is an amendment to the standards the amendments include practical expedients for the transactions. It will also be an extant part of the standard until 30 June 2021. No further amendments recommended.	Medium to low – again based on the commentary that this is not a regular transaction.
6.4	One authority welcomed the practical expedient and requested that CIPFA/LASAAC consider extending the period of application.	It is not clear that such concessions will last beyond 30 June 2021. If they do they are likely to be more prevalent in the commercial world and it is likely the IASB will extend the provisions if this is the case. No further amendments recommended.	Medium – if the amendment and the practical expedient is still necessary then there is a risk that the IASB will not extend the application date.

C. Exposure Draft C: Amendments to Accounting Standards

C1 & C2. Interest Rate Benchmark Reform

Question	Agree	Disagree	No Comment
7 Do you agree with the approach to the adoption Interest Rate Benchmark Reform (Phase 1): Amendments to IFRS 9, IAS 39 and IFRS 7? If not, why not? What alternatives would you suggest?	17 (71%)	2 (8%)	5 (21%)
8 Do you agree with the approach to the Interest Rate Benchmark Reform (Phase 2): Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16? If not, why not? What alternatives would you suggest?	17 (71%)	2 (8%)	5 (21%)

	Issue	Secretariat Response	Risk Assessment
	C1. Interest Rate Benchmark Reform (Phase 1): Amendments to IFRS 9, IAS 39 and IFRS 7		
	Question 7– Approach to adoption of IBOR Phase 1		
7.1	The majority of respondents agreed with the approach outlined in the consultation response and agreed that this transaction will not apply to local authorities with comments including that local authorities do not generally undertake hedging transactions.	NA	Low – such transactions do not generally take place in local authorities where they do, they would follow the standard.

	Issue	Secretariat Response	Risk Assessment
7.2	A local authority and an independent consultant providing the same response indicated that this should be scoped out for local authorities given CIPFA LASAAC's comments in its strategic plan about the relevance of the financial instruments standards.	Although not likely to affect local authorities (see row 7.1) if such transactions do occur this is likely to assist local authorities in properly reporting such transactions. Applying this amendment in this way is not at odds with CIPFA LASAAC's Strategic Plan.	Low – such transactions do not generally take place in local authorities where they do, they would follow the standard.
7.3	An audit firm suggested ' <i>CIPFA/LASAAC might wish to consider referring to the amendments to ensure practitioners refer to the updated standards if hedge accounting applies.</i> '	This will be referred to in Appendix D which lists all the amendments to standards adopted by the Code.	Low – such transactions do not generally take place in local authorities where they do, they would follow the standard.
C2. Interest Rate Benchmark Reform (Phase 2): Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16			
Question 8 – Approach to the Adoption of IBOR Phase 2			
8.1	The majority of respondents supported the approach in the Code ITC. Comments included that such transactions are unlikely to occur regularly in local authorities.	NA	Low – such transactions do not generally take place in local authorities where they do, they would follow the standard.
8.2	Three authorities and a treasury management advisor providing the same response indicated that 'authorities with investments in floating rate notes are the most likely to be affected by the reform'.	It is recognised that these transactions take place. Local authorities should be able to follow the requirements of the standard.	Low – such transactions do not generally take place in local authorities where they do, they would follow the standard.

	Issue	Secretariat Response	Risk Assessment
	Another treasury advisor considered that the amendments related to replacement issues.		
8.3	A local authority and an independent consultant providing the same response indicated that this should be scoped out for local authorities given CIPFA LASAAC's comments in its Strategic Plan about the relevance of the financial instruments' standards.	See response to point 7.2	Low – such transactions do not generally take place in local authorities where they do, they would follow the standard.
8.4	An audit body and an audit firm are of the view that there should be a reference to the amendments to the standards in the Code.	The amendments are included in the ED of the Code to ensure that the amendments are clearly referenced and to assist with transitional reporting requirements.	Low – such transactions do not generally take place in local authorities where they do, they would follow the standard.
8.5	An audit firm considered that examples should be included in the Code Guidance Notes.	It is not clear from the consultation responses that the transactions are frequent enough to require that guidance is provided in the Code Guidance Notes. This issue can be referred to LAAP.	Low – LAAP will be able to assess whether specific guidance is required for the transactions covered by the amendments.

C3. IPSAS 41 Financial Instruments

Question	Agree	Disagree	No Comment
9 Do you agree with that the Code does not need to be changed substantially for IPSAS 41 <i>Financial Instruments</i> (and only needs to be updated for the change from IPSAS 29 to IPSAS 41)? If not, why not? What alternatives would you suggest?	21 (88%)	0	3 (12%)
	2021/22 Code	2022/23 Code	No comment
10 Do you consider that this change should be made to the 2021/22 Code or to the 2022/23 Code? Please give a reason for your response.	15 (63%)	2 (8%)	7 (29%)

	Issue	Secretariat Response	Risk Assessment
	C3. IPSAS 41 Financial Instruments		
	Question 9. Approach to Adoption of IPSAS 41		
9.1	There were only two substantial comments on the changes which recognise the replacement of IPSAS 29 <i>Financial Instruments: Recognition and Measurement</i> with IPSAS 41 <i>Financial Instruments</i> . One authority commented that it 'hope that the Code provisions	In accordance with the comments made by the treasury management advisor the changes to the Code only reflect that IPSAS 29 has been replaced by IPSAS 41. The classification and measurement provisions of the Code have not been changed. It	Low – changes are only to reflect the replacement of IPSAS 29 by IPSAS 41.

	Issue	Secretariat Response	Risk Assessment
	<i>relating to Fair Value through profit or loss and Fair Value through other comprehensive income and expenditure will still be available to local authorities...'. A treasury management advisor also commented We are aware that whilst amortised cost is referred to in IPSAS 41 the definition of fair value through profit or loss and fair value through other comprehensive income are different ..., we see no reason to change the IFRS9 definitions used in The Code. We can see no difference in how fair value and expected credit loss are dealt with when we reviewed IPSAS41. We would therefore agree with the view that The Code only needs to be updated for the change from IPSAS29 to IPSAS41.</i>	may be useful to confirm that as there are no changes to the Code's measurement and recognition provisions as a result of this change.	
	Question 10 – Date of Adoption of IPSAS 41		
10.1	The majority of respondents indicated that as the changes to the Code are minor then they could be applied in 2020/21.	The Secretariat would agree with this response though is of the view that this may be reinforced with the suggested change in 9.1	Low – but it will be useful to reinforce that there are no changes in measurement provisions in accordance as outlined in 9.1.
10.2	A small number of respondents were concerned that there might be changes in measurement so suggested deferral to 2022/23. One authority indicated that as there were no substantial changes that it	See 9.1 and 10.1.	Low – but it will be useful to reinforce that there are no changes in measurement provisions in accordance as outlined in 9.1.

	Issue	Secretariat Response	Risk Assessment
	did not matter when it was adopted so suggested 2022/23.		

C4. IPSAS 42 Social Benefits

Question	Agree	Disagree	No Comment
11 Do you agree with the proposed changes to the Code for the impact of IPSAS 42 Social Benefits? If not, why not? What alternatives would you suggest?	16 (67%)	0	8 (33%)
	2021/22 Code	2022/23 Code	No comment
12 Do you consider that this change should be made to the 2021/22 Code or to the 2022/23 Code? Please give a reason for your response.	15 (63%)	3 (12%)	6 (25%)

	Issue	Secretariat Response	Risk Assessment
	C4. IPSAS 42 Social Benefits Question 11. Reference to IPSAS 42 in the Code		

	Issue	Secretariat Response	Risk Assessment
11.1	The majority of respondents supported this change and commentaries confirmed that this was unlikely to apply to local authorities.		Low – IPSAS 42 leads to very little change in the definition of social benefits already included in the Code.
11.2	An audit body, an audit firm and a treasury management advisor asked CIPFA LASAAC to consider whether housing benefits may be a social benefit. Another authority enquired whether social care payments were included.	This may also include council tax benefits. IPSAS 42 excludes benefits which are payments for services and therefore the Secretariat is of the view that these are not included within the definition of social benefits. No further change recommended.	Low to medium – see 11.1 above though there is some scope for misinterpretation – inclusion of commentary in the Code Guidance Notes may be useful.
11.3	An audit firm recommended that the change be included in the Code Guidance Notes to confirm that this would not have an impact on local authority accounting.	The change will be able to be reflected in the Code Guidance Notes	Low to medium – see 11.1 above though there is some scope for misinterpretation – inclusion of commentary in the Code Guidance Notes may be useful.
Question 12 – Date of Adoption of IPSAS 42			
12.1	The majority of respondents supported adoption in 2021/22. This was supported by comments that the proposed changes meant no substantial change to the accounting requirements of local authorities (as local authorities did not	No further comments.	Low to medium – see 11.1 above though there is some scope for misinterpretation.

	Issue	Secretariat Response	Risk Assessment
	have transactions which met the definition of social benefits).		
12.2	A small number of authorities, an audit body and a treasury management advisor considered that 2022/23 to be the appropriate time to adopt the changes if this meant changes to local authority accounting.	Although the Secretariat is of the view that local authorities do not have transactions which meet the definition of social benefits CIPFA LASAAC may wish to test this via a consultation process.	Low to medium – see 11.1 above though there is some scope for misinterpretation

D. Exposure Draft D: Augmentations to the Code's Provisions

D1. Sources of Estimation Uncertainty

Question	Agree	Disagree	No Comment
13 Do you agree with the proposed changes to the Code to include additional reference to the guidance in IAS 1 <i>Presentation of Financial Statements</i> on sources of estimation uncertainty? If not, why not? What alternatives would you suggest?	15 (63%)	4 (16%)	5 (21%)

	Issue	Secretariat Response	Risk Assessment
	D1. Sources of Estimation Uncertainty		
	Question – Augmentation of Approach for Estimation Uncertainty		
13.1	The majority of respondents supported this with commentaries that this would be helpful.	No further comments.	Medium – This is an important disclosure particularly with the effects of the COVID -19 pandemic.
13.2	One authority was of the view that this is already covered sufficiently by the Code and the Code Guidance Notes.	The Code Guidance Notes have been reviewed for this part of IAS 1 and the CIPFA Bulletin 05 Closure of the 2019/20 Financial Statements covered this issue in substantial detail.	Medium – This is an important disclosure particularly with the effects of the COVID -19 pandemic.
13.3	One authority was of the view that if the changes were implemented that the Code needed to be explicit with regard to the reporting requirements. An audit firm included a similar requirement and indicated that instead of cross reference that the provisions of IAS 1 should be included in the Code.	The requirements of the standard are covered already in the Code which includes the requirements of paragraph 125. Additional provisions in the Code will add more detail to the Code and could obscure the main provisions. CIPFA LASAAC has previously expressed that it wished to focus on the main provisions of the standards.	Medium – This is an important disclosure particularly with the effects of the COVID -19 pandemic.
13.4	A firm mentioned its annual commentary that the Code should be drafted on a similar basis to the Government’s Financial Reporting Manual (the FreM) and include only the occurrences when the Code diverted from IFRS. It also	There is no substantial evidence that the main users of the Code want to adopt a FReM like approach. Local authorities have indicated that they wish the Code to contain the principal prescriptions for their financial reporting requirements though it is	Medium – This is an important disclosure particularly with the effects of the COVID -19 pandemic.

	Issue	Secretariat Response	Risk Assessment
	considered that this was an area which could be improved for local authorities. It commented that if the current proposals were included the cross reference should be up to paragraphs 133 of IAS 1 <i>Presentation of Financial Statements</i> .	acknowledged that its structure could be reviewed. The Secretariat agrees that the amendments to the Code should be extended to paragraph 133 of IAS 1.	

Annex A Response of A firm to Questions 2 and 3

EXTRACT FROM RESPONSE FOCUSSED ON DISSENTING VIEWS AND RECOMMENDATIONS FOR THE WAY FORWARD

1. *IFRS 16 specifically does not apply to service concessions and so the Code should not treat them as containing embedded leases:* our view is that this non-application is present to ensure a hierarchy of standards applicable to long term arrangements for financing assets, which has been present in UK public sector accounting practice for PFI projects since the adoption of IFRS principles in 2008. This hierarchy specifically caters for a contradiction between lease accounting and service concession when considering the residual interest. Under IAS 17 a lessee could conclude that it had an operating lease when it has an option to purchase the residual on expiry which it need not exercise. In comparison the same provision under IFRIC 12 applies the second IFRIC 12 test and hence practitioners could account for economically identical arrangements differently by choosing to apply the then present lease accounting standards. Excluding PFIs from lease accounting therefore simply removes this contradiction, which arose under IAS 17 because, lease classification under IAS 17 applies a risk and reward model which is at variance with IFRIC 12's controls basis. Now that IFRS 16 applies a controls basis for determining whether a lease is present, lease accounting and service concession accounting now align much more closely and so there is no specific reason to scope PFIs out of IFRS 16.
2. *Recalculating the liability should not be necessary for cash flow changes:* IFRS 16 paragraphs 42(b) and 43 require this for cash flow changes arising from indexation and if CIPFA requires this, authorities would comply by applying indexation to cash flow changes that they do not allocate to services. IFRS 16 also requires lessees to *apply* the contra to any such changes to the right of use asset carrying value, meaning that further direct adjustments to reserves or the General Fund are unlikely to be necessary.
3. *Service concessions differ to leases and are equivalent to borrowing:* this dissenting view may be consistent with a financial liability approach, but CIPFA has already rejected this approach as too complex. Further, the suggestion that practitioners assign part of the unitary charge to a fixed rate annuity has two fundamental problems in our view:
 - a. Allocating part of a unitary charge part of which changes with indexation is arithmetically impossible while also accurately measuring the fair value of non-separable services. The current method for non-separable services has the virtue of reflecting the transaction's underlying substance by separately identifying the amounts that the operator charges the authority for facilities management and lifecycle maintenance. Replacing it with a method that assumes the financing is a fixed annuity risks allocating costs of finance to services and removes the transparency that arises from the current method. The statement that "this is standard annuity accounting" may therefore cause materially misleading results for users of financial statements.

b. The proposal matches the current method for projects in which all services are separable; such transactions are economically substantively different to projects including material non-separable services and hence altering it would remove this distinction from authorities' financial statements.

4. *Cost and other practical issues:* we had shared these concerns in response to a previous CIPFA consultation on the same subject. Now that IAS 17 will no longer be extant, we believe that the change is necessary. Further, most authorities in our experience will have sufficient records from existing accounting models applying IAS 17 to allow a meaningful estimate on a fully retrospective basis. Authorities will also need to recalculate their leases under IFRS 16's methodology and so we expect the incremental cost of this change for PFIs to be low. We believe that CIPFA should consider carefully the suggestion that the Code applies a rebuttable presumption not to recalculate the lease liability when cash flow changes only arise through indexation; we expect IFRS 16 models for leases to be able to accommodate such calculations.
5. *Projects with indexed and unindexed unitary charge:* this response is erroneous in assuming that the indexed element of such projects corresponds to services. Our experience suggests that the proportion of indexed unitary charge in PFI operator financial models is there solely to optimise the overall funding solution and the indexed element rarely if ever derives either directly or indirectly from assumptions for lifecycle and facilities management costs. Again, the treatment arising from this erroneous proposition risks materially misleading results.

Recommendation

We recommend that CIPFA requires authorities to measure PFI liabilities under IFRS 16. This approach should require a rebuttable presumption that authorities apply this change fully retrospectively because they should have the necessary information in their existing IAS 17 accounting models for this. The information necessary for a fully retrospective approach will include:

1. Unitary charge cash flows from the project's inception to the current balance sheet date
2. Timing of asset recognition (assuming this matches when the asset first becomes available under the payment mechanism)
3. Estimates of services and lifecycle maintenance values
4. Values for actual indexation and lifecycle maintenance episodes
5. Incremental effects of changes including benchmarking, project variations or refinancing on unitary charge

Authorities should hold all this information, but if not, a modified retrospective approach that sets the IFRS 16 liability opening value to match the IAS 17 closing value brought forward will in our view be acceptable.