CIPFA\

The 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom

Invitation to Comment

LASAAC

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PART 1 – SUMMARY

Invitation to Comment

Introduction

1. Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper practices'. This includes, for the purposes of local government legislation, compliance with the terms of the **Code of Practice on Local Authority Accounting in the United Kingdom** (the Code), prepared by the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC). The Code is reviewed continuously and is issued annually.

2. Under the oversight of the Financial Reporting Advisory Board, CIPFA/LASAAC is able to issue mid-year updates to the Code. However, this will only be done in exceptional circumstances.

3. The edition of the Code that is applicable for a financial year is normally based on accounting standards in effect on 1 January prior to the start of the financial year. For the 2021/22 Code, this means the UK endorsed accounting standards with an effective date of 1 January 2021 or earlier will need to be taken into account[1].

4. This Invitation to Comment (ITC) sets out CIPFA/LASAAC's proposals for developing the new edition of the Code (the 2021/22 Code) to apply to accounting periods commencing on or after 1 April 2021 (Part 2 of this ITC). An overview (Part 1) summarises the areas being consulted on. Part 3 of this consultation focuses on the CIPFA/LASAAC strategic plan and asks questions of stakeholders.

The consultation process

5. Where CIPFA/LASAAC is interested in specific issues, consultation questions have been included in the ITC. However, CIPFA/LASAAC also welcomes responses to individual questions or areas if these are of specific interest to a stakeholder, and comments on any aspect of the draft 2021/22 Code. In order to assess comments properly, CIPFA/LASAAC would prefer respondents to support comments with clear evidence, reasons and, where applicable, preferred alternatives.

6. Responses to this ITC will be regarded as on the public record and may be published on the CIPFA website unless confidentiality is specifically requested. Copies of all correspondence and an analysis of responses may be provided to the Financial Reporting Advisory Board.

7. A copy of the Exposure Drafts of the 2021/22 Code in PDF format can be downloaded from the CIPFA website.

8. To assist interested parties in responding to the consultation, a response form (in Word format) is attached. We would be grateful if respondents to the consultation could use this form as this will speed up the analysis.

[1] The 2021/22 Code now applies standards adopted for UK application under the terms of The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 (SI 2019/685).

9. Responses are required by **23 October 2020** and may be sent, preferably e-mailed, to:

cipfalasaac@cipfa.org

Or by post to:
The Secretary
CIPFA/LASAAC Local Authority Accounting Code Board
c/o Policy and Technical Directorate
CIPFA
77 Mansell Street
London
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(For ease of handling, emailed responses using the Word document form provided are preferred.)

10. The following tables provide an overview of the areas where stakeholder feedback would be particularly appreciated:

PART 1 – SUMMARY

Invitation to Comment 1

The consultation process 1

Part 2: Impact of the Redmond Review

Part 3: 2021/22 Code – Consultation Feedback Request

A. Changes to the Accounting Standards Endorsement Process 7

B. Exposure Draft B: The Adoption of IFRS 16 Leases in the 2021/22 Code* 9

B1. Areas Subject to Further Consideration for the Adoption of IFRS 16 Leases in the Code 9

B2. Service Concession Arrangements: Measurement of the Liability 10

B3. Aspects of the Public Sector Adaptation for Leases at Nil Consideration, a Nominal Amount or at a Peppercorn 13

B4. COVID-19-Related Rent Concessions: Amendments to IFRS 16 14

C. Exposure Draft C: Amendments to Accounting Standards 15

C1. Interest Rate Benchmark Reform (Phase 1): Amendments to IFRS 9, IAS 39 and IFRS 7 15

C2. Interest Rate Benchmark Reform Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 15

C3. IPSAS 41 Financial Instruments 17

C4. IPSAS 42 Social Benefits 17

D. Exposure Draft D: Augmentations to the Code's Provisions 18

D1. Sources of Estimation Uncertainty 18

E. Standards Previously Consulted on 20

E1. Definition of a Business: Amendments to IFRS 3 Business Combinations 20

F. IFRS 17 Insurance Contracts 21

F1. IFRS 17 Insurance Contracts (Future Implementation in the Code) 21

* Housing Revenue Account Housing Tenancies and Leasing [Note this is subject of a separate consultation paper anticipated to be issued in October]

Part 4: Consultation questions relating to Cipfa/LASAAC's Strategic Plan

Background 23
CIPFA/LASAAC's Work on its Strategic Plan 24
The Future Strategy for the Development of the Code 24
Presentation of Financial Performance and Position 25
I. Further Guidance / Open Feedback 26

Part 2: Impact of the Redmond Review

Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting by Sir Tony Redmond

11. CIPFA/LASAAC had prepared its Invitation to Comment (ITC) on the Code with a publication date of 11 September 2020. The recommendations of the **Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting** by Sir Tony Redmond (Redmond Review) were issued on 8 September 2020 and therefore this ITC and particularly the section on the CIPFA/LASAAC **strategic plan** [opens to pdf] in Part 4 is not likely to reflect the impact of the recommendations of the Review.

12. The principal recommendations in the Review relating to local authority financial reporting are:

    - *A standardised statement of service information and costs be prepared by each authority and be compared with the budget agreed to support the council tax/precept/levy and presented alongside the statutory accounts.*
    - *The standardised statement should be subject to external audit.*
    - *The optimum means of communicating such information to council taxpayers/service users be considered by each local authority to ensure access for all sections of the communities.*
    - *CIPFA/LASAAC be required to review the statutory accounts, in the light of the new requirement to prepare the standardised statement, to determine whether there is scope to simplify the presentation of local authority accounts by removing disclosures that may no longer be considered to be necessary.*

13. CIPFA/LASAAC's own vision statement underpins clear reporting of the financial performance and position of local authorities. It requires that users of accounts should be able to access the information they want to help them to understand the finances of an authority and to take practical and informed decisions. In principle therefore CIPFA/LASAAC supports the recommendations of the Redmond Review. However, the Board has not been able to consider in detail the impact that the recommendations will have on its plans for the development programme for the Code and for its **strategic plan**.

14. Chapter seven of the Redmond Review report (*Financial reporting in local government)* provides the principal commentary relevant to the development of the Code, but there are other commentaries which are also important to financial reporting and which have an impact on transparency and accountability. CIPFA/LASAAC would therefore seek stakeholders' views on the recommendations and the commentaries in the Redmond Review report and how they consider that this would impact on local authority financial reporting and CIPFA/LASAAC's **strategic plan** for the development of the Code.

Impact of the Redmond Review

Q1	CIPFA/LASAAC would welcome stakeholders' views on the impact of the recommendations and other commentaries of the Redmond Review on local authority financial reporting and the **strategic plan** for the development of the Code.

Part 3: 2021/22 Code – Consultation Feedback Request

A. Changes to the Accounting Standards Endorsement Process

15. To date the Code has been based upon EU endorsed IFRS standards in line with the rest of the public sector and UK companies that follow IFRS. As was noted in the consultation on the 2020/21 Code, in the event of UK withdrawal from the European Union this framework would no longer be directly applicable. During the transition period, UK companies follow EU adopted IFRS.

16. The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 No. 2019/685 repeal the International Accounting Standards (IAS) Regulation so that it will not apply to the UK and introduce a new legal term 'UK-adopted international accounting standards' for International Financial Reporting Standards (IFRS) as adopted by the UK.

17. The Regulations particularly amend the Government Resources and Accounts Act 2000 to replace references to International Accounting Standards with UK-adopted international accounting standards. The Government Resources and Accounts Act 2000 provides the primary legislative basis for the Whole of Government Accounts (and supports substantial areas of public sector reporting).

18. The Regulations therefore have direct relevance to the development of the Code as the Code is developed under the auspices of the Government's Financial Reporting Advisory Board (FRAB) and where possible aligns itself with the Government's Financial Reporting Manual (the FReM) and UK public sector financial reporting. CIPFA/LASAAC will continue to follow the endorsement process for the rest of the public sector.

19. The Regulations will give powers to the secretary of state to endorse new or amended standards, and to delegate this responsibility to a body. It is CIPFA/LASAAC's understanding that the intention is to delegate these functions to a new independent UK endorsement body. The Endorsement Board is currently being established. During the establishment of the Board, the staff are undertaking endorsement activities with the support of FRC infrastructure and resources. The secretary of state for the Department for Business, Energy and Industrial Strategy will endorse and adopt IFRS from the end of the transition period until the Endorsement Board is ready to take on its functions and they have been delegated. The intention is to delegate the functions and powers in early 2021.

20. The endorsement process will apply to all UK companies that currently apply EU-adopted IAS in their consolidated or individual accounts. During the EU transition period, (11pm on 31 January 2020 to 11pm on 31 December 2020), entities will continue to apply EU-adopted IAS. For the end of the transition period:

    - entities with financial years beginning on or before 31 December 2020 but ending after that date, continue to apply EU-adopted IAS.
    - entities with financial years beginning after 31 December 2020, apply UK-adopted IAS.

21. As noted last year, recognition of this is allowed for in Chapter 1 (Introduction) of the Code through a footnote indicating:

> *In the event of the UK withdrawing from the remit of the EU-endorsement framework, the Code will apply standards adopted for UK application under the terms of The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 (SI 2019/685).*

22. Once the position is formalised, relevant changes will be made to the text of paragraph 1.2.7 in the Code to recognise the new endorsement process.

B. Exposure Draft B: The Adoption of IFRS 16 Leases in the 2021/22 Code

Introduction

23. CIPFA/LASAAC is committed to the adoption of IFRS 16 *Leases* for local authorities. To assist local authorities with their preparations to adopt the new standard, CIPFA/LASAAC has included a separate Appendix to the 2020/21 Code (Appendix F), which includes its agreed approach to date in relation to the adoption of IFRS 16. This Appendix is also included with the consultation documents.

24. Appendix F presents, in the 2020/21 Code, CIPFA/LASAAC's agreed position for its deferred effective date, ie 1 April 2021 (note that this will also be the date of initial application for local authorities). The transitional provisions in Appendix F are also presented for the 2021/22 financial year. Local authorities, except for Transport for London, will not be able to adopt these agreed provisions prior to this date, ie early adoption is not permitted.

25. The provisions in Appendix F will be included in the 2021/22 Code on adoption of the standard, ie including:

- a new Section 4.2 (Leases) based on the provisions of IFRS 16
- principal consequential amendments to other sections of the Code
- references to the standard and other minor changes to the Code as a result of the adoption of the standard.

B1. Areas Subject to Further Consideration for the Adoption of IFRS 16 Leases in the Code

26. There are, however, four areas relating to the adoption of IFRS 16 which are subject to further consideration:

- **The treatment of housing revenue account tenancy agreements under leasing standards**. Currently this is treated in Appendix F as being outside the scope of IFRS 16 and the treatment of housing tenancy agreements is not explicitly addressed in the 2020/21 Code. FRAB has queried this approach and further consideration is being given to accounting for housing tenancies under leasing standards. This will be the subject of a separate single-issue consultation which will be issued in November 2020.
- **The measurement of the service concession arrangement liability** – CIPFA/LASAAC is seeking views on the most appropriate approach to the measurement of this liability (note that this was subject to review in the consultation on the 2020/21 Code).
- Whether **the interpretation, which specifies the accounting requirements for leases at peppercorn (or lease payments for nominal or nil consideration),** by following the principles in the Code for the treatment of donated assets, is appropriate for some local government transactions.
- Changes to **IFRS 16 for COVID-19 related rent concessions** issued by the IASB in May 2020.

B2. Service Concession Arrangements: Measurement of the Liability

27. The consultation on the implementation of IFRS 16 requested views on the approach to the measurement of service concession arrangement liabilities. The proposals set out that these liabilities should be measured in accordance with the IFRS 16 lease liability requirements. While a small majority were supportive, there was significant concern expressed regarding the challenges of applying IFRS 16 liability measurement to service concession (PFI/PPP) arrangements. A second consultation last year outlined similar considerations and reviewed the options in more detail.

28. CIPFA/LASAAC considered three options for the measurement of the service concession arrangement liability:

    - measurement as a financial liability – it was of the view that this would pose significant challenges including:
        - classification of the financial instrument
        - the possibility that some elements may include a derivative (dependent on circumstances) potentially leading to some 'fair value through profit or loss' treatments
        - the requirement for recalculation of an amortised cost liability as cash flow forecasts change, and
        - the recognition of gains or losses in the Surplus or Deficit on the Provision of Services as these arise
    - measurement using the IAS 17 *Leases* measurement provisions – CIPFA/LASAAC noted that the use of a standard that was not extant was not desirable, particularly in the longer term
    - measurement in accordance with the IFRS 16 measurement of the lease liability.

29. CIPFA/LASAAC concluded in last year's consultation that the service concession arrangement liability should be measured using the (measurement) provisions of the lease liability in accordance with IFRS 16. This was based on the conclusion that there was no suitable or appropriate alternative to adoption of IFRS 16 for the measurement of the liability. CIPFA/LASAAC therefore proposed a pragmatic implementation of the IFRS 16 liability measurement model.

30. CIPFA/LASAAC recognised that application of IFRS 16 measurement will have practical implications for local government. Typically, the recalculation of lease liabilities can arise from a reassessment (eg a change in the lease payments under the existing clauses in the contract of the lease) or modification (eg a change in the clauses of the contract). CIPFA/LASAAC considered the potential materiality of liability remeasurement for service concession arrangements. Modelling indicated that the materiality would be particularly dependent on specific circumstances such as any applicable indexation arrangements, the term of future cash flows, and other factors.

31. Respondents to the consultation supported the proposed approach in the Exposure Draft last year. Twenty-nine respondents supported the proposals with seven dissenting respondents.

32. The dissenting respondents indicated:

Outline of dissenting views

- IFRS 16 specifically does not apply to IFRIC 12 arrangements [IFRS 16 para 3] and that service concession arrangements do not therefore meet the criteria for treatment as embedded leases.
- Re-measurement of the liability should only occur where contract changes arise, not for cash flow changes which were subject to assessment in establishing the initial liability ("little is to be gained by reassessing the liability for changes in estimates").
- Views that service concession arrangements are different to lease arrangements under IFRS 16, and that measuring the liability should seek to reflect the purchase of the whole asset (in most scenarios) as equivalent to borrowing. It was suggested that "Part of the PFI unitary charge is separated out and treated like a repayment on a fixed rate loan" and "As this is standard annuity accounting, we consider that the Code can just ask for this, without a reference to IFRS".
- Concerns about cost were raised, and that the change would not be commensurate with the benefits to users of the financial statements.
- Other practical issues were raised relating to the remeasurement of the financial models.
- Based on the above a respondent suggested "a rebuttable presumption that no recalculation would be required where the change is simply actual indexation differing from that assumed in the financial model".
- One respondent considered that "unitary charges of many arrangements consist of an indexed and an unindexed element with an assumption in the model that the unindexed element relates to the lease element … It would therefore be erroneous to remeasure the liability in these circumstances when the unitary charge has an indexation element applied to the service element only."

33. CIPFA/LASAAC considered these views and decided not to make any changes to the measurement of the liability for the 2020/21 Code. This approach was particularly because it was informed that HM Treasury had decided not to change the measurement provisions in the 2019/20 and 2020/21 Financial Reporting Manuals (at that juncture the 2020/21 FReM would have adopted IFRS 16).

34. Following the deferral of the adoption of IFRS 16, no changes to the measurement provisions have been included but, as IAS 17 will not be extant in the 2021/22, Code specific provisions based on IAS 17 have been included in section 4.3 of Appendix F.

35. It should be noted that some respondents cited the issue of maintaining consistency with other public sector bodies for Whole of Government Accounts purposes.

36. CIPFA/LASAAC is aware that HM Treasury is considering similar issues to that of local authorities. CIPFA/LASAAC will seek, where possible, to ensure that this position is aligned to that of the in the FReM.

37. CIPFA/LASAAC would therefore seek the views on two options:

- option 1 – measurement of the liability under the provisions of IFRS 16, or
- option 2 – retention of the current IAS 17 measurement provisions.

38. CIPFA/LASAAC would welcome views on responses on both the technical aspects of each option and the practical impacts of each of the options for change. CIPFA/LASAAC has included an Exposure Draft of the provisions with the measurement of the liability under the provisions of IFRS 16. The approach for no change is included in Appendix F of the 2020/21 Code.

39. Following commentaries about the practical impact of the move to measuring the liability under the provisions of IFRS 16, CIPFA/LASAAC would also like to consider the timing of these changes, eg would it be useful to give local authorities with PFI/PPP contracts a further year before changing the provisions in the Code for the measurement of the liability ie until the 2022/23 Code?

B2. Service Concession Arrangements: Measurement of the Liability

Q2 Which option do you consider would be most appropriate to reflect the measurement of the service concession arrangement liability:

- option 1 – measurement of the liability under the provisions of IFRS 16 *Leases*, or
- option 2 – retention of the current IAS 17 *Leases* measurement provisions?

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.

Q3 If option 1 is chosen when do you think those changes should be implemened:

- in the 2021/22 Code ie with the full implementation of IFRS 16 or
- in the 2022/23 Code.

Please provide a reason for your response including the technical financial reporting provisions and the practical impacts of both options.

B3. Aspects of the Public Sector Adaptation for Leases at Nil Consideration, a Nominal Amount or at a Peppercorn

40. The adoption of IFRS 16 in the Code will include an interpretation where assets which are leased for nil consideration, a nominal amount, or at a peppercorn are treated as being analogous to donated assets in Section 2.3 (Government and Non-Government Grants) of the Code. This would require the right-of-use asset to be initially recognised at fair value and then subsequently measured in accordance with the requirements for the relevant class of assets in Section 4.1 of the Code.

41. CIPFA/LASAAC has decided to review an element of that interpretation where some stakeholders have raised concerns about contractual arrangements under commercial terms which include a peppercorn lease. Consideration of the application of the public sector interpretation raises questions around measurement of the value of the right-of-use assets, and this may in turn raise questions as to whether the interpretation appropriately reflects these arrangements. CIPFA/LASAAC would be interested in stakeholders' views whether any clarification to the Code is required, or whether additional guidance is needed.

42. Options might include amending the Code to be clear that this interpretation would only apply to cases where, in substance, the lease arrangement involves a donated asset, or might provide additional guidance on the treatment of certain concessionary leases including measurement of the right-of-use asset. CIPFA/LASAAC would be interested to understand whether local authorities or other bodies that are required to follow the Code may have contractual arrangements which raise similar issues and their views on what the approach to the adaptation should be.

B3. Aspects of the Public Sector Adaptation for Leases at Nil Consideration, a Nominal Amount, or at a Peppercorn	
Q4	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.
Q5	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.

B4. COVID-19-Related Rent Concessions: Amendments to IFRS 16

43. The IASB issued *COVID-19-Related Rent Concessions: Amendments to IFRS 16* in May 2020. The amendments to the standard provide lessees with an exemption (a practical expedient) from assessing whether a COVID-19-related rent concession is a lease modification.

44. A lessee is only allowed to do this if certain conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change
- any reduction in lease payments affects only payments originally due on or before 30 June 2021, and
- there is no substantive change to other terms and conditions of the lease.

45. The amendments apply to periods commencing before the Code has adopted the standard but CIPFA/LASAAC is of the view that this may still apply to local authorities and therefore has included reference to the amendments in Exposure Draft B.

B4 COVID-19-Related Rent Concessions: Amendments to IFRS 16	
Q6	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?

C. Exposure Draft C: Amendments to Accounting Standards

C1. Interest Rate Benchmark Reform (Phase 1): Amendments to IFRS 9, IAS 39 and IFRS 7

46. The IASB published Interest Rate Benchmark Reform (Phase 1): Amendments to IFRS 9, IAS 39 and IFRS 7 in September 2019. Interest rate benchmarks such as interbank offered rates (IBORs) play a significant role in global financial markets. The benchmarks underpin many financial products. The amendments have been issued as Phase 1 of the ongoing reform of interest rate benchmarks across the world.

47. These Phase 1 amendments are unlikely to substantially effect local authorities as the amendments will only affect those entities that apply the hedge accounting requirements of IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement* (the latter standard does not apply to local authorities). The amendments apply to hedging relationships directly affected by interest rate benchmark reform.

48. The amendments modify hedge accounting requirements so that, when performing prospective assessments, an entity is required to assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument is based is not altered as a result of the interest rate benchmark reform. The amendments are effective for annual periods beginning on or after 1 January 2020. They were endorsed by the EU after 1 January 2020 and thus will apply to the 2021/22 Code.

49. As this amendment is unlikely to apply to local authorities, no amendments will be made to the Code.

C1. Interest Rate Benchmark Reform (Phase 1): Amendments to IFRS 9, IAS 39 and IFRS 7

Q7	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?

C2. Interest Rate Benchmark Reform Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

50. After issuing the Phase 1 amendments, the IASB started Phase 2 of its project, and in August 2020 issued further amendments to IFRS Standards. Phase 2 amendments cover issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate.

51. The Phase 2 amendments include:

- changes to contractual cash flows — the changes to IFRS 9 *Financial Instruments* include a practical expedient that enables an entity to account for a change in the contractual cash flows that are required by the reform by updating the effective interest rate to reflect, for example, the change in an interest rate benchmark from IBOR to an alternative benchmark rate. Changes are also made to IFRS 16 *Leases*.
- hedge accounting — an entity will not have to discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge meets other hedge accounting criteria (these amendments are not anticipated to affect local authorities), and
- disclosures (amendments to IFRS 7 *Financial Instruments: Disclosures*) – an entity will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates.

52. CIPFA/LASAAC is not aware that the changes to IFRSs 9, 7 and 16 will have a substantial impact on local authorities, though is of the view that some transactions could be affected by the change and in those cases the amendments to the standard will apply. This might include complex financial instruments such as loan contracts with lender option borrower option (LOBO) clauses, and PFI/ PPP or lease transactions. Therefore, for the avoidance of doubt CIPFA/LASAAC is proposing to include appropriate reference to the amendments to the standards in Sections 7.2.4 (Amortised Cost Measurement) and 7.3.2 (Financial Instrument: Disclosures). Changes are also proposed to the new leasing provisions under IFRS 16 at the end of the new section 4.2 Leases.

53. CIPFA/LASAAC would be interested to know whether stakeholders agree with this approach to adopting the amendments to the standard.

54. CIPFA/LASAAC would note that the amendments are effective for those periods after 1 January 2021 and therefore proposes to include them in the 2021/22 Code, though this will be subject to the UK endorsement process. The FRC consultation **UK Endorsement Criteria Assessment on the IASB's amendment Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)** indicates the following:

- The UK leaves the EU at the end of the transition period on 31 December 2020.
- Until the end of the transition period, the European Commission will continue to endorse IFRS for use in the UK.
- If the EU endorses the Phase 2 Amendments before the end of the transition period, UK companies will be able to apply them as EU law will still apply.
- If the EU does not endorse the Amendments before the end of the transition period, UK companies will be required to apply the UK-adopted Amendments. Due to the uncertainty in timing of EU adoption of the Amendments, work is being undertaken to ensure the UK is ready to undertake adoption, in early January 2021, if necessary.

As it is CIPFA/LASAAC's intention to follow the UK process if UK endorsement is after 1 January 2021 then (subject to the final confirmation of the endorsement process in the Code) these changes will not apply to the 2021/22 Code.

55. The amendments are applied retrospectively though entities are not required to restate comparative information.

C2. Interest Rate Benchmark Reform (Phase 2): Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

Q8	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?

C3. IPSAS 41 Financial Instruments

56. The IPSASB issued IPSAS 41 *Financial Instruments* in June 2018. This is fully aligned with IFRS 9, while also including modifications for situations which arise in the public sector which do not arise for profit seeking entities. The effective date for the standard is 1 January 2022. Earlier adoption is encouraged. CIPFA/LASAAC is also seeking views on the implementation date for the proposed changes to the Code.

57. As the Code has already adopted IFRS 9, any amendments to the Code should only need to focus on those public sector modifications which it already adopts, ie to concessionary loans (also known as 'soft' loans). In addition, the Code currently refers to the IPSAS standards not being updated for IFRS 9 and this comment can now be removed.

58. IPSAS 41 requires that concessionary loans are recognised in the same way as in the Code. The recognition and measurement principles in the new standard are the same as the approach used in IPSAS 29 which it replaces (and on which the provisions of the Code were based). The only drafting change is that comparison is also made to originated credit impaired loans. The recognition and measurement provisions are unchanged. CIPFA/LASAAC therefore proposes not making any change to the Code for concessionary loans except for changing the references in paragraph 7.1.1.1 from IPSAS 29 to IPSAS 41.

C3. IPSAS 41 Financial Instruments

Q9	Do you agree with that the Code does not need to be changed substantially for IPSAS 41 *Financial Instruments* (and only needs to be updated for the change from IPSAS 29 to IPSAS 41)? If not, why not? What alternatives would you suggest?
Q10	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.

C4. IPSAS 42 Social Benefits

59. The IPSAB issued IPSAS 42 *Social Benefits* in January 2019. It has an effective date of 1 January 2022 and earlier adoption is encouraged. CIPFA/LASAAC is also seeking views on the implementation date for the proposed changes to the Code. IPSAS 42 provides guidance on accounting for social benefits expenditure. IPSAS 42 defines both social benefits and social risks. It includes a general approach to recognition, measurement and disclosures of social benefits. It also includes an insurance approach to the accounting for social benefits, which entities are permitted to use if certain conditions are met.

60. The delivery of social benefits to the public is generally an issue for governments, and accounts for a large proportion of their expenditure. IPSAS 42 defines social benefits as cash transfers paid to specific individuals and/or households to mitigate the effect of social risk and address the needs of society as a whole. Specific examples include state retirement benefits, disability benefits, income support and unemployment benefits.

61. Generally, the accounting requirements for social benefits will not apply to local authorities and therefore CIPFA/LASAAC does not intend to substantially amend the Code for the introduction of the IPSAS. There is one reference in the Code to social benefits in paragraph 8.2.1.3 where social benefits are excluded from the scope of section 8.2. CIPFA/LASAAC proposes to amend this paragraph by referring directly to IPSAS 42 rather than by including the description of social benefits which was based on the text in IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. This follows the approach in the consequential amendments to IPSAS 19. These minor changes are demonstrated in Exposure Draft C.

C4. IPSAS 42 Social Benefits

Q11	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?
Q12	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.

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

D1. Sources of Estimation Uncertainty

62. The COVID-19 pandemic has had a substantial influence on local authority statements of account/annual accounts and is likely to impact on financial reporting in 2019/20, 2020/21 and possibly even 2021/22. This is particularly important when reporting on sources on estimation uncertainty.

63. Paragraph 3.4.2.91 of the 2020/21 Code sets out the reporting requirements for local authorities in accordance with IAS 1 *Presentation of Financial Statements*, paragraph 125 extracted below:

> **3.4.2.91** A local authority shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:
>
> a) their nature, and
>
> b) their carrying amount as at the end of the reporting period.

64. The Code includes all the relevant reporting requirements ie by including the provisions of paragraph 125. However, paragraphs 126, 127 and 129 provide additional guidance that might assist local authorities in their decisions on what should be disclosed under the requirements of

paragraph 3.4.2.91. Paragraph 126 provides commentary on estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. The Code and IAS 1 requires disclosure of those sources of estimation uncertainty:

- which are the most complex and subjective judgements that have the most significant effects on the amounts recognised
- where the assumptions and other sources of estimation uncertainty are only those where there is a significant risk of material adjustment to the assets and liabilities within the next year.

65. Paragraph 129 also includes examples of the types of disclosures where estimation uncertainty might apply.

66. The Code does not need reference to paragraphs 126, 127 and 129 for them to apply to local authorities. However, as these reporting requirements have become increasingly relevant, CIPFA/LASAAC proposes including an explicit cross reference to them in paragraph 3.4.2.91 of the Code.

D1. Sources of Estimation Uncertainty

Q13	Do you agree with the proposed changes to the Code to include additional reference to the guidance in IAS 1 *Presentation of Financial Statements* on sources of estimation uncertainty? If not, why not? What alternatives would you suggest?

E. Standards Previously Consulted on

E1. Definition of a Business: Amendments to IFRS 3 Business Combinations

67. The IASB published *Definition of a Business: Amendments to IFRS 3* in October 2018. It is effective from 1 January 2020. The amendments to the standard were not adopted in time for EU adoption by 1 January 2020 and therefore the proposals for amendment have been taken forward into the development programme for the 2021/22 Code.

68. In summary the amendments to IFRS 3:

- specify that acquired activities and assets must include an input and substantive process that combined can contribute to the creation of outputs
- refine definitions to focus on goods and services provided to customers. It removes a reference to an ability to reduce costs
- add guidance and illustrative examples, for instance relating to the assessment of a 'substantive process'
- add an optional, simplified assessment test where effectively the acquisition relates to a single identifiable asset (or group of similar identifiable assets).

69. The application of the amendments is prospective for new acquisitions.

70. CIPFA/LASAAC considers that the amendments may affect specific cases prospectively. No substantive amendments to the Code are proposed. No requirement for adaptation or interpretation for local government application have been identified.

F. IFRS 17 Insurance Contracts

F1. IFRS 17 Insurance Contracts (Future Implementation in the Code)

71. IFRS 17 *Insurance Contracts* has been issued. Following consultation by the International Accounting Standards Board on amendments to IFRS 17, it now has an effective date of 1 January 2023.

72. The IASB is clear that this standard is designed for insurance companies. In its fact sheet it indicates:

    IFRS 17 applies to insurance contracts. Although this means that IFRS 17 affects any company that writes insurance contracts, such contracts are generally not written by companies outside of the insurance industry. (IASB, May 2017)

73. Application of the standard's criteria may be complex and could be potentially extensive for any entity needing to follow its provisions. It is possible that some local authority arrangements may be included in its scope. CIPFA/LASAAC is participating in a working group established by HM Treasury to consider early implementation issues. Current work is focused on scope and the extent to which the public sector may have contracts meeting the relevant criteria.

74. Highlights of the standard include:

- An insurance contract is one in which the issuer accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder:
    - significant insurance risk is, a risk, other than a financial risk, transferred from the holder of the contract to the issuer (ie from the policyholder to the insurer). Significant insurance risk is measured only by reference to the scale of the potential compensation. The probability of the event occurring is not considered ie even an extremely unlikely event can be a 'significant insurance risk' and require to be treated under IFRS 17
    - insurance risk excludes financial risk[2]
    - any new risk created by the contract for the entity or the policyholder is not insurance risk. Clarity of whether an existing risk is being retained by the issuer or is being passed to the third party may be required.
- For the purposes of IFRS 17, an insurance contract may be included within a wider contract ie IFRS 17 may apply to contracts which are not specifically titled as insurance contracts and/or are not considered to be primarily concerned with 'insurance'.
- A number of exclusions are specified where other standards are considered to be applicable[3].

[2] Financial risk is defined in IFRS 17 as "risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, currency exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract."

[3] Examples include warranties provided which fall under IFRS 15 Revenue from Contracts with Customers, liabilities recognised under IAS 19 Employee Benefits, contingent lease payments and residual value guarantees under IFRS 16 Leases, contingent payments under IAS 38 Intangible Assets, Leases and financial guarantee contracts under IFRS 9 Financial Instruments (unless specified otherwise), and some 'fixed fee' services.

- financial guarantee contracts are excluded from the scope of the standard, unless the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts.

75. Insurance contracts between group members (eg parent and subsidiary) would require recognition but may require elimination on consolidation in Group Accounts.

76. CIPFA/LASAAC consulted last year on initial identification of local government practices which should be considered in the early scoping work. This will assist in consideration of whether there are specific local government factors which would support adaptation or interpretation of the requirements.

77. The following types of arrangements were suggested by respondents to the consultation, indicating that they may come into the scope of the standard.

Text Box 1: Types of Arrangements Suggested by Respondents

- Pension guarantees.
- Mutual insurance arrangements.
- Economic development support arrangements potentially involving the underwriting of losses or compensation for specific events.
- Insurance arrangements where the authority is acting as an intermediary eg by arranging insurance for properties and charging tenants for the insurance.
- Guarantees provided when schools convert to academy status.
- Warranties or assurances provided in respect of goods or services)it is acknowledged that these arrangements might come within the scope of the Code's adoption of IFRS 15 *Revenue from Contracts with Customers*).

78. Currently the Code treats IFRS 4 *Insurance Contracts* as being a standard that has limited application to local authorities. CIPFA/LASAAC would be interested in stakeholders' views on the types of arrangements listed above, any others missing from the list and the incidence of such transactions. CIPFA/LASAAC will establish an outreach project with stakeholders to discuss these types of transactions and consider the approach to implementation of IFRS 4 *Insurance Contracts* in the Code.

F1. IFRS 17 Insurance Contracts (Future Implementation)

Q14	Please provide commentary on the arrangements outlined in Text Box 1, why they might be considered to be within the scope of IFRS 17 and give an indication of the incidence and materiality of such transactions.

Part 4: Consultation questions relating to Cipfa/LASAAC's Strategic Plan

CIPFA/LASAAC Strategy: Clarity and Streamlining

Background

79. CIPFA/LASAAC maintains its priorities for review of the Code to ensure it aligns with its vision statement and its **strategic plan** [opens to pdf].

80. CIPFA/LASAAC's vision statement, which provides a basis for Code development and direction is:

UK local authority annual accounts should be widely recognised as an exemplar for clear reporting of the financial performance and position of complex public sector bodies. Users of accounts should be able to access the information they want to help them to understand the finances of an authority and to take practical and informed decisions.

81. The review promotes transparency and assurance, supports the reporting of financial sustainability and intends to build public trust by providing clear and relevant information. This is generally referred to as streamlining which focuses on:

- the understanding the needs of the principal users of the accounts and the financial information they require to take effective decisions
- improvement in the clarity of the key messages in the accounts by removing unnecessary detail, and
- the approach to the presentation of the financial information so that users can better understand the financial position, performance and cash flows of the authority.

82. CIPFA/LASAAC's **strategic plan** is based on the following three key themes:

- Ensuring that the key messages in the statement of accounts/annual accounts are clearly articulated (ie streamlining referred to in the previous paragraph)
- engaging with stakeholders to raise awareness and understanding
- reviewing its operations to ensure it can deliver its vision.

83. This ITC continues CIPFA/LASAAC's plans for its approach to its strategic plan implementation but, as this year the COVID-19 pandemic has impacted on the time available for local authority financial professionals to be able to respond to the consultation, the changes to the Code for 2021/22 only focus on the changes necessary for effective financial reporting under the Code's regulatory regime. However, CIPFA/LASAAC wants to maintain a focus on its strategic plan, so this section of the consultation paper will focus on the investigatory questions of key aspects of that plan. It seeks views on good practice which might arise from the necessity in response to

the pandemic.

CIPFA/LASAAC's Work on its Strategic Plan

84. CIPFA/LASAAC has already undertaken substantial work on its strategic plan it has:

- issued an on-line survey to users in the summer of 2019, including the public, other users of financial statements, preparers, auditors and professional expert communities (eg valuers and actuaries), regarding their views on the annual accounts and the Code. A **summary of the survey feedback** is available on the CIPFA website.
- issued during summer 2019 a discussion paper on the **potential for differential reporting requirements**, to inform longer term potential legislative and Code changes which support proportionate financial reporting requirements. CIPFA/LASAAC is considering the responses to that consultation, which were not conclusive.
- actively engaged with relevant stakeholder communities and groups, for example by attending relevant meetings where requested and by inviting guests to attend CIPFA/LASAAAC meetings
- invited at any time, open comment and suggestions via **cipfalasaac@cipfa.org** (please note that this is not an advice or technical enquiries response service).

The Future Strategy for the Development of the Code

85. At the end of summer 2019, CIPFA/LASAAC issued a discussion paper the **future strategy for the development of the Code of Practice**. This included consideration of specific areas raised by stakeholders, to explore the factors which should influence the Code's requirements. CIPFA/LASAAC wishes to continue to develop the outcomes proffered as a result of the consultation. The following points arose from the consultation, which it would like to explore in more detail with stakeholders:

- **summary of taxpayer funding** – some responses queried whether placement in the narrative report of a summary of taxpayer funding would be useful to the users of local authority financial statements. It was suggested that any increase in reporting on this should lead to a reduction in requirements in other parts of the statement of accounts/annual accounts
- in relation to the **primary statements** there was little support for a nature of expenses analysis on the face of the primary statement (ie a subjective analysis). There was a split between those respondents that considered that performance should be considered on a taxpayer funding approach and those who considered it should be on an accounting basis form of reporting
- the **Expenditure and Funding Analysis (EFA) note** - most respondents felt the EFA could be improved or moved within the annual accounts to provide more clarity
- **capital accounting** – there was little support to replace statutory charges with depreciation. Some responses commented on potentially inappropriate application of materiality
- **pensions accounting -** generally retention of IAS 19 *Employee Benefits* was supported by respondents, but they were of the view that the full disclosure requirements were excessive for the users of local authority financial statements
- **financial instruments** – responses were split between those regarding the requirements as needing to reflect sometimes complex instruments and those who regarded them as onerous. Some respondents regarded existing disclosure practices as excessive

- **Group Accounts -** responses differed regarding how beneficial the respondents felt group accounts were for the users of local authority financial statements, with support for a wider discussion and consideration of requirements noted.

86. CIPFA/LASAAC would seek the views of stakeholders on the areas highlighted above arising from last year's discussion paper.

The Future Strategy for the Development of the Code

Q15	What are your views on including a summary of taxpayers funding in the narrative report? Please comment on whether you consider that there would be an impact on the reporting requirements for the statement of accounts/annual accounts. Please provide the reasons for your response.
Q16	What are your views on the reporting of performance on local authority financial statements? Could reporting in the Comprehensive Income and Expenditure Statement be improved? Please provide a reason for your response.
Q17	What are your views on the Expenditure and Funding Analysis Note? Please provide commentary on its role within local authority financial statements and any improvements you wish to suggest. Please provide the reasons for your response.
Q18	Do you agree with the respondents to the discussion paper that there is no need to change the general approach to capital accounting, but that the application of materiality to the disclosure requirements would benefit from a review? Please provide a reason for your response.
Q19	Do you agree with the respondents to the discussion paper that there is no need to change the general approach to accounting for pensions but that the disclosure requirements would benefit from a review? Please provide a reason for your response.
Q20	What are your views on the reporting requirements for financial instruments? If you consider that the reporting requirements are excessive, could you please indicate areas or requirements which you consider need to be reviewed.
Q21	Do you consider that Group Accounts are useful to the users of local authority financial statements? Please provide the reasons for your response.

Presentation of Financial Performance and Position

87. CIPFA/LASAAC would welcome any views on its **strategic plan** [opens to pdf]. However, it considers that local authorities might, due to the reduced resources available to spend on presentation of local authority accounts as a result of the pandemic, have had to come up with innovative solutions to present local authority financial performance and position both in the accounts and in the narrative report. CIPFA/LASAAC would therefore welcome any commentary from stakeholders on whether they have been able to identify best practice in this area.

Presentation of Financial Performance and Position

Q22	Do you have any examples of good practice on the presentation of financial performance and financial position in local authority financial statements or any of the accompanying reports (including the narrative report)? Please set out why you consider that this is good practice and the benefits and disbenefits of the approach used.

I. Further Guidance / Open Feedback

88. CIPFA/LASAAC would be interested to hear respondents' views on whether there are any areas within the Code, or as a result of policy developments, where additional guidance or improvements to the Code could be developed. This will help to inform the development programme for future editions of the Code, or where relevant, be referred to the Local Authority Accounting Panel.

89. CIPFA/LASAAC would also wish to remind stakeholders that comments or suggestions regarding the Code can be submitted to **cipfalasaac@cipfa.org** at any time. Please note that this is not an advice or enquiries service.

Further Guidance

Q23	Are there any areas within the Code where additional guidance or improvements to the Code would be helpful? Please support your answer by giving details of the amendments you would suggest.

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