

Report

To: CIPFA LASAAC

From: Sarah Sheen, CIPFA Secretariat Advisor

Date: 15 June 2022

Subject: Development of the Consultation on the 2023/24 Code

Purpose

The purpose of this report is to consider an initial draft of the consultation papers (Invitation to Comment and Exposure Drafts) to develop the 2023/24 Code

1. Introduction

- 1.1 This report presents an initial draft of the consultation papers (Invitation to Comment (ITC) and Exposure Drafts (EDs) for the 2023/24 Code. These are attached to this report.
- 1.2 The Secretariat would note that these are early drafts of the ITC and EDs for CIPFA LASAAC to consider and debate but that this has therefore largely caught up on the normal annual consultation paper process and timetable used by CIPFA LASAAC.
- 1.3 The ITC and, where relevant, EDs present the proposed approach to Code development and covers:
 - a stable platform for the Code and IFRS 16 *Leases* deferral
 - accounting for infrastructure assets
 - changes to standards for 2023/24
 - legislative changes
 - IFRS 17 *Insurance Contracts*
 - CIPFA LASAAC's strategic plan, and
 - further guidance.
- 1.4 Note that the last section is normally included in the ITC to seek whether there are any areas where further guidance or amendments to the Code might be required.

2. IFRS 16 Leases Deferral, a Stable Platform for the Code and Accounting for Infrastructure Assets

- 2.1 CIPFA LASAAC will be aware that it took the extremely difficult decision in April to defer IFRS 16. This was a pragmatic approach to avoid adding to the reporting/resource burden for both local authority accounts preparers and (local) auditors because of the already severe delays in the publication of audited financial statements. It will be aware that this was not a unanimous decision but one which was marginally approved by the majority of Board members.
- 2.2 Having taken this difficult decision the Secretariat is of the view that making any unnecessary changes would be contradictory to CIPFA LASAAC's objective for that issue. Therefore, and to maintain this approach, the Secretariat would recommend the consultation is framed from this perspective and that any changes proposed are those which are necessary in accordance with the development processes for the Code ie changes in standards and legislative changes. The first section of the ITC describes this approach and reminds stakeholders what this will mean for the 2023/24 Code and outlines the approach for the deferral of IFRS 16.
- 2.3 This section of ITC also covers the work of the Task and Finish Group on infrastructure assets. Board members will recollect that at its meeting in April to approve the issue of the consultation it was suggested that the consultation paper should specify that the temporary solution should be extended to 2023/24. The longer-term solution is more difficult to arrive at and is likely to need to be presented in the form of an option appraisal where the consequences of the changes will need to be fully assessed. This will also align with a stable platform.
- 2.4 Additionally, the ultimate solution will need to consider any consequences of the HM Treasury thematic review which it is understood will not report until autumn 2022. While the Secretariat is not suggesting that the consultation on infrastructure assets will not take place until then it is suggested that any proposals for change may not be able to be implemented until the 2024/25 Code.

CIPFA LASAAC's views are sought on the approach in the ITC on the stable platform and commentary on IFRS 16 deferral and accounting for infrastructure assets.

3. Changes to Standards

- 3.1 Section 4 of the report takes the normal approach in Code consultation papers to the adoption of accounting standards or amendments to accounting standards. The ITC outlines the potential impact of the amended standards on local government reporting for the following:
- Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, Definition of Accounting estimates – these amendments are intended to help entities distinguish between accounting policies and accounting estimates.
 - Amendments to IAS 1 *Presentation of Financial Statements*, Disclosure of Accounting Policies – these amendments are intended to help accounts preparers in deciding which accounting policies to disclose in their financial statements.
 - Amendments to IAS 12 *Income Taxes*, Deferred Tax relating to Assets and Liabilities arising from a Single Transaction – these amendments relate to assets and liabilities arising from a single transaction and amend the narrow scope of the initial exemption in paragraphs 15 and 24
 - Amendments to IFRS 3 *Business Combinations*, Reference to the Conceptual Framework – as was noted in an email to the Board on 31 May 2022 these amendments

were not included in the consultation process for the 2022/23 Code. The amendments have therefore been included in the 2023/24 Code consultation. Reference to the Conceptual Framework amend IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework (though see also the ITC for further detail).

- 3.2 The ITC suggests that all these amended standards should be implemented in the Code and does not suggest the need for any adaptations or interpretations.
- 3.3 The amendments to IASs 1 and 8 are likely to assist local authorities to communicate the key messages in their financial statements. The Exposure Drafts take the approach that they are included in some detail in the Code.
- 3.4 The amendments to IAS 12 and IFRS 3 are unlikely to significantly impact on local authority reporting and will not require explicit amendment to the Code. Other than listing in Appendices C and D.

CIPFA LASAAC's views are sought on the approach in the ITC and Exposure Drafts for changes to standards.

4. Legislative changes

- 4.1 The ITC suggests that there will need to be amendments to the Code for the following legislative issues.
- Amendments in England to the Accounts and Audit Regulations 2015 for the changes to financial reporting deadlines. Note that these regulations have been subject to a consultative process, but the final regulations have (at the time of drafting) yet to be issued
 - The impact of the time-limited legislative specifications in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (and equivalent Welsh Regulations) with respect to the changes for Fair Value Gains and Losses on Pooled Investments (England and Wales) – note the specifications are anticipated to expire at the end of 2022/23
 - The impact for the end of the time limited specifications in legislation for a separate reserve to manage deficits for the Dedicated Schools Grant – again this legislation is expected to expire at the end of 2022/23.
- 4.2 Note that as the changes to the regulations have 1) not been issued or 2) any further government announcements on the ending of the time limited amendments been issued then currently no Exposure Drafts have been provided for these three changes.

CIPFA LASAAC's views are sought on the approach in the ITC on to changes to standards and whether Exposure Drafts are necessary as largely these are likely to represent factual changes only.

5. IFRS 17 Insurance Contracts

- 5.1 The ITC includes a separate section on IFRS 17 *Insurance Contracts*. This section summarises previous positions and that this topic has been subject of three previous consultations. It argues that the approach in the Code should not change from that in IFRS 4 *Insurance Contracts* ie that this is a standard that is included in Appendix A ie it has limited application in local authorities.

- 5.2 The ITC also considers that even though it is likely to have limited application in local authority accounts it is likely to still be useful to follow the stable platform approach and not introduce this change until the rest of the public sector do so ie in 2025/26.

CIPFA LASAAC's views are sought on the approach in the ITC to the implementation of IFRS 17 in the Code.

6. CIPFA LASAAC's Strategic Plan

- 6.1 This is subject of a report at item 8 on the agenda. Further amendments may be needed to this section following CIPFA LASAAC's deliberations.

7. Social Benefits

- 7.1 It was suggested at CIPFA LASAAC post FRAB meeting on 13 April 2022, that consideration would be given to amending the description of the Code's provisions on this issue. Currently there appears to be no case for proposing any changes but the Secretariat will update the Board at its the meeting.

8. Next Stages

- 8.1 The following stages will be required to issue the consultation documents:
- the Secretariat will amend the early draft following review commentaries from the Board,
 - ITC and Exposure Drafts can be submitted to 30 June 2022 to FRAB for its advice
 - ITC and Exposure Drafts to be submitted to PFMB for approval for issue
 - publication of 2023/24 Code consultation mid July 2022
 - consultation to close approximately 7 October 2022.

Recommendations

The Board is invited to consider and review the early drafts of the ITC and Exposure Drafts and whether there are any additional topics that should be included and comment on the next stages.