

report

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Committee	CIPFA/LASAAC
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Subject	Development of 2012/13 Code of Practice on Local Authority Accounting

The purpose of this report is to seek the views of CIPFA/LASAAC members regarding the changes that will be required to the Code of Practice on Local Authority Accounting for 2012/13.

1 Introduction

- 1.1 The first IFRS-based Code of Practice on Local Authority Accounting, which applies to 2010/11, was published in December 2009. CIPFA/LASAAC will consider a report seeking approval of the 2011/12 Code elsewhere on this agenda. This report seeks the views of CIPFA/LASAAC members regarding the changes that will be required to develop the 2012/13 Code.
- 1.2 The 2011/12 Code has been developed to incorporate any known legislative changes; to incorporate changes in relation to pronouncements by CIPFA and other bodies; and to incorporate new accounting standards that have a mandatory commencement date of 1 January 2011 or earlier. The Code has not been developed to incorporate other accounting standards ahead of their effective date. This approach reflects a desire to allow local authorities a period of stability.
- 1.3 It is recommended that a similar approach is applied in developing the 2012/13 Code. However, CIPFA/LASAAC has undertaken to review the requirements for providing a commentary on the financial statements. Local authorities currently produce an explanatory foreword to the statement of accounts that is perhaps less detailed than the management commentary provided in other sectors. It is proposed to review these requirements in light of the FReM requirements, private sector practice, and guidance which is expected to be issued by the IASB by December 2010. CIPFA will shortly issue a consultation on wider stakeholder reporting, and CIPFA/LASAAC may wish to take this into account in developing the requirements for a management commentary.
- 1.4 CIPFA/LASAAC has previously indicated that it may wish to consider whether to adopt the requirements of IFRS 9 ahead of the effective date of 1 January 2013. IFRS 9 is being developed in phases, and CIPFA/LASAAC has previously indicated that it would wish to implement a completed standard rather than introduce amendments over a number of years. The EU has also indicated that it is likely to

adopt the standard once it is complete rather than as individual phases are approved. The remaining phases of IFRS 9 are expected to be issued by the end of the second quarter of 2011.

1.5 This report sets out those known legislative requirements, pronouncements and accounting standards that the Secretariat propose to incorporate into the 2012/13 Code. CIPFA/LASAAC members are asked for their initial views on these proposals, and to suggest any other items which, in their view, should be incorporated into the 2012/13 Code.

1.6 This report also provides details of developments being undertaken and which are expected to be relevant to the development of the Code for 2013/14 or later years.

2 Changes in Legislation

2.1 The following table outlines the legislation that is expected to impact on the 2012/13 Code.

Legislation	Expected Dates	Expected Impact on Code
Accounts and Audit Regulations (England) – consolidation	March 2011	Mainly a consolidation exercise, although some inconsistencies are expected to be resolved. Approval of the accounts by members may be amended.
Officer remuneration disclosure (Scotland)	March 2011	Disclosure of officers' remuneration in Scotland will need to be amended to reflect the requirement to produce a remuneration report.
Separate audit of pension funds (Scotland)	March 2011	Pension fund accounts will not be included with the authority's main accounts, and will be subject to a separate audit. The code will need to be updated to reflect this.
Review of Housing Revenue Account (England)	During 2011	Communities and Local Government has announced that it is proposing to replace the existing HRA system. Details of the new system will be announced as part of the spending review and will be included in the Localism Bill. It is expected that any new system will commence in 2012/13.
Tax Increment Financing	During 2011	The coalition Government has announced plans to allow local authorities to borrow against expected future locally raised business rates income. In Scotland, Edinburgh City Council is reported to have agreed to pioneer TIF. TIF may require changes to the Prudential Code as well as the Code of Practice on Local Authority Accounting.

2.2 At this stage, the Secretariat is not aware of any other definite proposals for legislative changes that will affect the development of the Code for 2012/13 or later years, but will keep the situation under review.

3 Other Guidance

3.1 CIPFA will shortly issue a consultation on wider stakeholder reporting. It is recommended that the proposals contained within this consultation are reflected in the considerations of the management commentary / explanatory foreword, alongside the requirements of the FReM and the guidance that is expected to be issued by the IASB by December 2010.

3.2 HM Treasury has issued guidance on sustainability reporting. CIPFA/LASAAC will need to consider whether to require sustainability reporting in the statement of accounts, either in the management commentary / explanatory foreword or in the notes to the accounts, and if so, whether this should be incorporated into the 2012/13 Code.

3.3 CIPFA/LASAAC will also need to consider whether to incorporate the requirements of the Code of Practice on Infrastructure Assets into the 2012/13 Code. An update on this project is included elsewhere on the agenda.

3.4 At this stage, the Secretariat is not aware of any other definite proposals for other guidance that will affect the development of the Code for 2012/13 or later years, but will keep the situation under review.

4 Accounting Standards

4.1 The 2011/12 Code, considered elsewhere on this agenda, incorporates standards that have been issued with an effective date of 1 January 2011 or earlier. The only standard that has been issued with an effective date later than 1 January 2011 is IFRS 9, which has an effective date of 1 January 2013. However, as discussed above, the IASB is developing this standard in phases, and a complete standard has yet to be issued.

4.2 Further standards are expected to be issued before the development of the Code is complete, and will need to be addressed in the 2012/13 Code if their effective date is 1 January 2012 or earlier, and they are adopted by the EU prior to the Code being approved. The projects being considered by the IASB and that CIPFA/LASAAC may need to address are set out in the table below. If the effective date of the standards is after 1 January 2012, it is proposed to consider the standards for inclusion in the 2013/14 edition of the Code.

Proposed Standard	Expected Issue Date	Expected Code Year
Consolidation - replace IAS 27 & SIC 12	Q4 2010	2012/13
Derecognition of Financial Instruments (IAS 39 and IFRS 7)	Q3 2010	2012/13
Fair Value Measurement (but may not be adopted in public sector)	Q1 2011	2012/13
Financial Statement Presentation – Other Comprehensive Income	Q4 2010	2012/13

Proposed Standard	Expected Issue Date	Expected Code Year
Joint Ventures	Q4 2010	2012/13
Defined Benefit Plans (amendments expected to be in line with existing Code requirements)	Q1 2011	2012/13
Annual Improvements 2011	Q2 2011	2012/13
Rate Regulated Activities (if applicable)	H2 2010	2012/13
Insurance Contracts	Q2 2011	2012/13 or 2013/14
Liabilities (IAS 37)	H1 2011	2012/13 or 2013/14
Revenue Recognition	Q2 2011	2012/13 or 2013/14
IFRS 9 (classification and measurement of financial liabilities; amortised cost and impairment; hedge accounting; and offsetting assets and liabilities as separate phases)	Q4 2010 – Q1 2011	2013/14 unless adopted early
Financial Statement Presentation – IAS 1 and IAS 7 replacement	Q4 2011	2013/14
Financial Statement Presentation – Discontinued Operations	Q4 2011	2013/14
Financial Instruments with characteristics of equity	Q4 2011	2013/14
Deferred Taxes: Recovery of Underlying Asset (expected that Code will cross reference only)	H2 2011	2013/14
Leases	Q2 2011	No earlier than 2013/14
Consolidation - Investment Entities (unlikely to apply to local authorities)	Not known	No earlier than 2013/14
Emissions Trading Schemes	H2 2012	2014/15
Termination Benefits	Not Known	Not Known

- 4.3 The IPSASB is only considering one standard that will affect the Code, although the work being undertaken on the conceptual framework will also inform the Code, particularly in respect of the measurement of assets. The IPSASB is currently considering responses to *ED 43 Service Concession Arrangements: Grantors*, and a standard may be issued in the first half of 2011. Depending on the effective date, this might be relevant to either the 2012/13 or 2013/14 Code development. However, if the standard remains consistent with the current UK treatment of these schemes, CIPFA/LASAAC may wish to consider early adoption if the effective date would otherwise require implementation in 2013/14.

5 Further Issue

- 5.1 At its June meeting, CIPFA/LASAAC agreed to defer consideration regarding the appropriate guidance for smaller joint committees and similar bodies, pending further analysis by the Audit Commission.
- 5.2 It is now expected that Communities and Local Government will amend the threshold in the Accounts and Audit Regulations, with bodies under the threshold following the Financial Reporting Standard for Smaller Entities (FRSSE).
- 5.3 It is recommended that any changes to the Accounts and Audit Regulations are reflected in the Code, and that discussions are held with other jurisdictions regarding their intentions for smaller bodies.

6 Development Programme

- 6.1 A further report will be brought to the February / March 2011 meeting of CIPFA/LASAAC. This will update the information in this report and seek approval for the developments to be incorporated into the 2012/13 Code. CIPFA/LASAAC will be asked to approve the 2012/13 Exposure Draft and Invitation to Comment at its meeting in June/July 2011. Sections of the Code will be circulated electronically prior to this meeting to enable CIPFA/LASAAC to give early consideration to some of the issues that will need to be considered.

Recommendation

CIPFA/LASAAC is asked to:

Agree which developments are provisionally to be incorporated into the 2012/13 Code.