

Report

To: CIPFA LASAAC

From: Sarah Sheen, CIPFA Secretariat Advisor

Date: 10 June 2021

Subject: CIPFA LASAAC Strategic Plan – Project 2 Improving the Presentation of Local Authority Financial Statements – Project Plan

Purpose

The purpose of this report is to ask CIPFA LASAAC to consider and approve the Project Plan for Project 2 Improving the Presentation of Local Authority Financial Statements as a part of its Updated Strategic Plan.

Report

1. Introduction

- 1.1 CIPFA LASAAC agreed its updated strategic plan at its 3 March 2021 meeting. This included Project 2 Streamlining.
- 1.2 The Secretariat would note that in a similar way that CIPFA LASAAC decided in its Telling the Story Review that perhaps the title of this project might give the wrong impression to external stakeholders, the Secretariat has given the project a new title. This was because either streamlining or simplifying the accounts might give focus the project on the wrong issues ie what matters is that the useful financial information included in the accounts is presented in a way in which is able to be communicated to its key stakeholders. The project has therefore been renamed *Improving the Presentation of Local Authority Financial Statements*. The project plan is attached to this report at Appendix 1.
- 1.3 The attached project plan sets out an overview of the project structure. It includes:
- Introduction and background
 - Project Rationale
 - Objectives of the Project
 - Outline of the Project

- Project Impact
 - Project Milestones, and
 - Staff and Resources
- 1.4 Importantly project 2 has been divided into three sub projects, the first two are within the full scope of CIPFA LASAAC's work.
- 1.5 The first focusses on one of the main issues cited by a number of stakeholders and stakeholder groups as leading to the complexity of local authority accounts ie the presentation of statutory adjustments.
- 1.6 The second aligns to the issues raised by the Redmond Review and focuses on the performance of the authority and specifically on presenting the key messages in the financial statements in a way which is easily communicated to the lay person.
- 1.7 The third which will be set up as a permanent sub-group in CIPFA's governance structure with representatives from CIPFA LASAAC, and the Local Authority Accounting Panel. It will also consider other stakeholders concerned about the effective presentation of the key messages of local authority accounts. This group, the financial reporting hub (FRHub) will consider and review issues and themes and develop and seek out best practice in local authority financial reporting (see Appendix 1 for more detail)).
- 1.8 CIPFA LASAAC's views are sought the project plan.

Recommendations

CIPFA LASAAC is invited to consider and approve the attached project plan.

Project 2 – Improving the Presentation of Local Authority Accounts

Project Introduction and Background

CIPFA LASAAC has acknowledged that there are relatively frequent commentaries that local authority accounts are overly complex and lengthy and cannot be easily understood by the council tax payer.

The [Independent review into the oversight of local audit and the transparency of local authority financial reporting](#) (the Redmond Review) also mentioned the complexity of local authority accounts with particular reference to the ability of the layperson to understand its key messages. This led to the recommendation to introduce a separate standardised statement of service information and costs to communicate the key messages to council tax payers and service users.

Local authorities are large complex entities undertaking increasingly diverse and complex activities to serve their local tax payers. The largest local authorities are equal to the size of large multinational companies that use IFRS though it is recognised that not all authorities are that size (this issue may also be subject of a project to be considered in Phase 2 of the Strategic Plan ie differential reporting).

CIPFA LASAAC is of the view that as a part of the public sector accounting framework it would not be desirable to move from a resource basis (IFRS) of accounting. From a conceptual viewpoint this is the best form of financial reporting to properly recognise the income, expenditure, assets, liabilities and reserves, thus properly measuring performance and financial sustainability, this recognises the true economic cost of decisions.

CIPFA LASAAC is of the view that local authority accounts are not dissimilar to other public sector and private sector accounts. The main financial statements (the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statements) follow IFRS though the Comprehensive Income and Expenditure Statement includes a segmental analysis in the statement.

The Movement in Reserves Statement also follows the reporting format of a Statement of Changes in Equity but it does include a single adjustment line to agree the resource basis back to the funding basis.

Although the matters of detail for this adjustment line can be numerous (statutory provisions have developed since 2003 and have been updated on a regular basis during this period) and the individual transactions can sometimes be complex largely the two principles behind this adjustment line are very simple. This line adjusts the timing of recognition of income and expenditure or adjusts the recognition of capital and revenue items in line with statutory permissions or requirements. This allows local authorities to arrive at the General Fund balance. Similar reconciliations are performed in central government. A reconciliation of this adjustment line is required by the Code.

Perceptions arise that it is the statutory position or the adjustments that make the accounts complex and lengthy this can be considered by the review. CIPFA would note that since the move to IFRS there has been one line in the primary statements to deal with the statutory position and one reconciliation note. The transactions are also reported in the statutory reserves.

This was extended in 2016/17 following the 2014 and 2015 Simplification and Streamlining and 'Telling the Story' reviews when the Expenditure and Funding Analysis was introduced to further

analyse the statutory adjustments on a service basis as feedback was generally that local authorities were of the view that their performance is measured on a statutory funding basis. The Expenditure and Funding Analysis (EFA) was intended to be a bridge between the funding position and the statutory position. There have been disparate views on the usefulness of the EFA, however, whether in support or against the EFA this note had not added to the length of the accounts because it has replaced the segmental reporting disclosures under IFRS 8 *Operating Segments*.

The length of local authority accounts is, not therefore, substantially driven by the need to adjust the resource position to the statutory position. It is arguable that the statutory adjustments have had some impact on complexity, but other sectors have a different regulatory position from the financial reporting position.

CIPFA LASAAC would note that like all standard setters it can expect that the users of local authority accounts are required to understand local authorities and financial reporting. It would be very difficult to meet the needs of the lay user, particularly in that information that these users may want to understand is 'at a glance'.

To meet these information needs CIPFA LASAAC had previously decided to include summary information in the Narrative Report. It is suggested that this is pursued as a priority as a part of project 6 but with reference to any work on the standardised statement of service information and costs as recommended by the Redmond Review.

Project Rationale

CIPFA LASAAC is aware that some stakeholders are of the view that the financial statements are overly complex. This project will be addressing theme A in CIPFA LASAAC's Strategic Plan (ie ensuring the presentation of the key messages is clearly articulated) and will consider options (undertaking an options appraisal) for improving the key messages.

It is also clear that the statement of accounts while written for service users and resource providers (see also project 1) is not written for the lay person and therefore consideration needs to be made of how to communicate with these users (this is subject of the Redmond Review standardised statement of service information and costs). Note that the Redmond Recommendation suggested that this statement be compared service information and costs compared to the budget agreed at council tax (and not to present the full basis of outturn reported at council tax setting stage) though it is anticipated that any actions to take this forward would be subject to a consultative process.

However, the perception that the complication arises from the statutory adjustments and a way of presenting this adjustment that minimises complexity will need to be addressed. CIPFA LASAAC has been reviewing its position on Simplification and Streamlining since 2014. As noted above this culminated in its Telling the Story review which led to substantial changes in 2016/17 Code. Since then CIPFA LASAAC has undertaken a review in 2019 of the major parts of statutory accounting, this was first taken forward in its consultation on the strategic plan: [future strategy for the development of the Code of Practice](#) which was considered by CIPFA LASAAC in March 2020. In April 2020, a streamlined update to the 2019/20 Code (and simplified reporting requirements for the 2019/20 accounts) were presented to CIPFA LASAAC principally to meet COVID pressures, but these were not taken forward by the Board. This was followed by a further consultation on its Strategic Plan in its September consultation on the Code, outcomes of this consultation were considered by CIPFA LASAAC in its second November meeting.

This option appraisal will resolve issues for the aforementioned interested user but may not address this for the layperson and therefore the first stage of project 6 will also be brought forward ie presenting information from the financial statements in an accessible way which addresses financial performance and financial sustainability needs to be introduced in an overview section on performance.

The above will not address all perceived issues of complexity and therefore it is suggested that a new project be established, led by CIPFA, which addresses this and seeks the best ways of communicating the key messages of the financial statements and that a permanent working group be established as the Financial Reporting Hub (FRHub).

All three projects are intended to improve accessibility and understandability of the key messages of the accounts to the users and the layperson and therefore improve transparency and accountability.

Objectives of the Project

The objective of the project aligns with theme A of CIPFA LASAAC's strategic plan. CIPFA LASAAC is of the view that the accounts are the cornerstone of local authority accountability. The overall objective of this project is to ensure that the key messages are communicated to users.

The objectives of this project are therefore to ensure that:

- the financial performance and financial position of the authority including the impact of the funding position are effectively presented to its users
- the layperson can understand these key messages in an easily accessible concise form.
- excellence in financial reporting is consistently promoted so that users understand the breadth and depth of the useful financial information included in the financial statements.

Outline of the Project

The project will therefore be in three parts, the first two under the full auspices of CIPFA LASAAC the third being led by CIPFA but supported by CIPFA LASAAC and Local Authority Accounting Panel members but also by stakeholders that have expressed an interest in the issues raised.

Project 2a) this will consider alternatives in an appraisal of different options to improve the presentation of the statutory adjustments and how to ensure that the key messages of financial performance are communicated to users. CIPFA would note that standard setters take at least a minimum two years to develop standards and often substantially longer than that with appropriate notice of the effective date. New alternatives will need to be subject to proper option appraisal and ideally tested in pilot authorities of different sizes. It is anticipated that consideration of these alternatives will be able to be outlined by September 2021 and finalised by the March 2022 meeting subject to pilot authorities' availability – see below for project timetables. Testing would be able to be continued during the consultative process and it is suggested that at least a four-month consultation period is made available (subject to the number of changes that are proposed). Ideally this should be followed by a shadow year and/or a year's notice of an effective date.

This part of the project will seek alternatives and consider whether the information presented to explain the statutory adjustments and the supporting reconciliations can be presented in a way which ensures that clutter is minimised. It will also consider the suggestions of earlier consultation responses and CIPFA's response to the Redmond Review for the different alternative approaches. Project 2a) will also consider the use of the Expenditure and Funding Analysis [note that if this note is

removed then it will be replaced with something very similar to meet the reporting requirements of IFRS 8 *Operating Segments*].

Project 2b) The summary will consider the principles of the performance overview in central government's annual report and accounts and should provide enough information so that the lay user should have no need to look further into the rest of the annual report and accounts, unless they were interested in further detail or had specific accountability or decision-making needs. This could include summary financial information as set out in CIPFA's call for evidence to the Redmond Review (as reviewed by CIPFA LASAAC).

As set out in CIPFA's response to the Redmond Review (as reviewed by CIPFA LASAAC), it is of the view that, subject to stakeholder feedback, a summary of the financial statements should provide:

a high-level overview and description of the authority

a focus on financial performance, sustainability, and resilience, including, for example:

- performance of budgets, particularly service budgets, against outturn
- levels of reserves including a commentary on the adequacy of reserves
- the council tax position
- any key financial risks

summary performance information including an overview of the business model

the performance of any major capital grants.

appropriate summaries of the key financial statements that present:

- significant changes in income and expenditure/assets and liabilities and reserves
- any significant changes to statutory reports of performance.

explain in lay terms the difference between the accounting position and the funding position.

Project 2c) will be a CIPFA led project. It will establish a Financial Reporting hub (FRHub) which will be a permanent working group with members of CIPFA LASAAC and LAAP and other members of stakeholder groups that have expressed an interest in local authority accounts presentation. This hub will have a heavy website presence and will report quarterly but will also include members of other stakeholder groups that have demonstrated an interest in improving the presentation of local authority accounts.

This working group will report on a regular basis (quarterly) and both seek out and promote best practice looking at common themes and practical solutions. So, for example, it will focus on the presentation of the primary statements, methods used to consider materiality to remove clutter, the presentation of complex areas in the financial statements such as financial instruments, pensions, property, plant and equipment and effective narrative reporting. Where relevant this group will report to CIPFA LASAAC if it finds areas where changes should be made to the accounts.

Impact

The main impact of this project is to ensure that the accounts effectively play their primary role in accountability and transparency to ensure that the key messages of the accounts are accessible to users as defined in the Code but also to the layperson and other key stakeholders interested in the information in the accounts.

This should also have an impact on the stakeholders to the Redmond Review by ensuring transparency and accountability.

It will also mean further alignment to the Government's Financial Reporting Manual in terms of Narrative Reporting.

All the projects will also impact on accounts preparers in terms of achieving accountability but project 2c) is aimed at improving the perceptions of local authority accounts preparers about the information included in the accounts and its complexity but also about the usefulness to local authorities.

This project will need to align with project 1 *Materiality*, particularly with any changes with the definition or clarifications on the users of the accounts. As noted above it will also take forward an element of project 6 Narrative Reporting.

Project Milestones and Resources

Project Milestones (2a)	Dates
CIPFA LASAAC agree the project brief and discuss issues arising	June 2021
Review issues arising	June – September 2021 (CIPFA LASAAC Meeting in September)
Review consultation paper and proposed changes to the Code	March 2022
Issue consultation paper	May 2022
Consultation period	May 2022 to September 2022
Review comments on consultation paper	October to November 2022
Discuss changes to the Code and impacts including where necessary pilot authorities	November 2022 to January 2023
Issue shadow requirements with effective date for 2024/25 year	April 2023
Consultation paper issued in line with normal timescales to the 2024/25 Code to confirm final changes.	Mid July to beginning of October 2023

Review comments on consultation paper	October to November 2023
Approve final changes to the Code	November 2023
Implement in 2024/25 Code	April 2024

Project Milestones (2b)	Dates
CIPFA LASAAC agree the project brief and discuss issues arising	June 2021
Review issues arising	June – September 2021 (CIPFA LASAAC Meeting in September)
Issue consultation paper	October 2021
Consultation period	October 2021 to early January 2022 (3 months)
Review comments on consultation paper	February 2022
Discuss changes to the Code and impacts including where necessary pilot authorities	March 2022
Approve changes to the 2022/23 Code	April 2022
Implement in 2022/23 Code	April 2022

Project Milestones (2c)	Dates
Agree the Terms of Reference for the Financial Reporting Hub (FRHub)	June 2021
Agree membership for the FRHub	June – July 2021
First meeting of FRHub	End July 2021
Agree principles for addressing topics for FRHub (See IFR4NPO project)	End July 2021
Agree workplan for FRHub (using starting point established above)	September 2021

Set up webpages for FRHub	September – October 2021
First report from FRHub consulting on work programme)	November 2021
FRHub also to consider establishing a user reference group	End July

Staff and Resources

CIPFA LASAAC Volunteers Lucy Hume and Christine Golding

Projects 2 a) and 2b)) Staff Lead Sarah Sheen

Project 2c) Staff Leads Sarah Sheen, Alan Bermingham

Project 2 c) Membership of FRHub TBC