

## CIPFA LASAAC Strategic Plan – Analysis of Responses

## CIPFA LASAAC's Strategic Plan

	Response	Secretariat Comment
9	Do you have any comments on the topics that CIPFA LASAAC's strategic plan should prioritise including the topics to be considered by the FRHub? Please set out the rationale for your response.	
9.1	<p>An authority agreed with the priorities for the Financial Reporting Hub (FRHub) set out in the consultation paper. It also noted that focussing on making financial reporting concise and coherent was a priority.</p> <p>Another authority suggested against a backdrop of rising audit fees and reduced resources to prepare the accounts that it would like the streamlining of the accounts to be a priority. A further authority commented that:</p> <p><i>'We would therefore support permanent changes that will simplify and streamline the accounts and the subsequent audit process without affecting the validity of the financial statements.'</i></p> <p>The authority also commented that it welcomed the Redmond Review's recommendation for a separate standardised taxpayer funding statement but was disappointed that it was not to form part of the Narrative Report.</p> <p>Another local authority supported a summarised version of the accounts that are published focussing on the key areas that general readers of the accounts are interested in.</p>	<p>The Secretariat would note that the work programme of both CIPFA LASAAC and FRHub will focus on the effective presentation of the key messages of the financial statements.</p> <p>Taking into account the Board's and FRAB's messages on high quality financial statements there will be limitations on how much simplification or streamlining that will be able to be achieved, largely the Secretariat is of the view that streamlined accounts will be best achieved by an authority's consideration of materiality.</p> <p>The Secretariat would support the authority's comments on the production of summarised financial information in the financial statements.</p>
9.2	An authority would strongly encourage work on Group Accounts.	Agree per the comments in the consultation paper.
9.3	A representative body indicated that the priorities looked reasonable but would wish to engage further with CIPFA LASAAC in due course, in particular on further opportunities to simplify the accounts in order to simplify the local audit process and help alleviate some of the current problems.	See response to 9.1 it is argued though that the financial statements should not be linked to improving the local audit framework except in the emergency approach to the local audit issues. It is noted that the Code follows IFRS like much of the rest of the public sector.
9.4	A treasury management advisor considered that the FRHub would benefit from membership of external advisors and auditors. It suggested that there needs to be more illustrations on Group Accounts transactions.	The FRHub will include external auditor membership and consider Group Accounts.
9.5	<p>An authority made the following comments on the priorities outlined in the consultation paper:</p> <ul style="list-style-type: none"> <li>Group Accounts - consolidation of subsidiary companies adds little value to the user of local authority accounts. It masks the</li> </ul>	Group Accounts – it is agreed that there is potential for the Group statements to not present fairly either the local authority's or the subsidiaries' performance effectively. This has been mentioned in earlier

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	<p>company's performance due to the differences between financial statements.</p> <ul style="list-style-type: none"> <li>• Pension Fund Accounts – the separation is sensible - Pension Funds have their own committees and requirements of an annual return.</li> <li>• IFRS 16 disclosures – there is a need to ensure that disclosures are relatable and informative to the reader.</li> </ul>	<p>comments on CIPFA LASAAC's strategic plan.</p> <p>The other two options will be considered under the strategic plan and the work of the FRHub.</p>
9.6	<p>An accounting institute commented: <i>We recommend that CIPFA LASAAC continues to follow the topics under discussion by the IASB and Financial Reporting Advisory Board (FRAB) and issues updates annually in line with final pronouncements. We strongly encourage CIPFA LASAAC and the FRHub to prioritise the development of sustainability reporting guidance, and to work closely with the IPSASB in this regard.</i></p>	<p>CIPFA LASAAC will do this as routine parts of its work.</p>
9.7	<p>An audit body commented: <i>'asset valuation is an area of the accounting code where the requirements are perhaps not as well understood by local authority finance staff as they could be. We suggest that further guidance would be helpful for local authorities on determining the appropriate frequency of valuation exercises and how to provide sufficient appropriate evidence that the carrying amounts of assets not revalued in year are not materially different from the current value.'</i></p> <p>The audit body also suggested that the area of statutory adjustments should be reconsidered. It was of the view that statutory adjustments are the primary cause of much of the complexity in local authority annual accounts. It suggested that CIPFA/LASAAC prioritise exploring a better way than adjusting the General Fund balance to reflect the impact of that mitigation.</p>	<p>There is extensive guidance in the Code Guidance Notes and additional guidance in the form of reminders in last year's In addition, this featured in last year's Finance Advisory Network and the <a href="#">CIPFA Bulletin 10: Closure of the 2021/22 financial statements</a></p> <p>The Secretariat would note that the area of the adjustments required by statutory provisions is not within CIPFA LASAAC's gift. It would note that these are essential to remove the volatility or other inappropriate impacts of IFRS-based accounting (eg the difference between current value depreciation and historical cost depreciation) on the local authority General Fund and therefore their impact on council tax or deliver policy objectives. (Note these are only examples). The Code can though consider the effective presentation of the adjustments.</p>
9.8	<p>An auditor commented: <i>CIPFA should consider adding a review of local authority performance reporting to the list. The front end of an annual report for a listed entity will very quickly establish the important messages management want to deliver from the accounts. By contrast it is often a lot harder for the user of a set of local authority accounts to glean key messages from them. Accordingly, the user is less likely to easily understand the financial performance and position of an authority.</i></p> <p>As part of a general review of performance reporting, it would be helpful if CIPFA could</p>	<p>Although not the same as private sector entities it is important that the key messages of the local authority financial statements are communicated clearly and early in the combination of the financial statements and the narrative report, and this may be assisted by the introduction of summary financial information.</p> <p>Key performance information was in the past established by performance frameworks such as the Comprehensive Performance Assessment Framework for local authorities in England. It is suggested that CIPFA LASAAC may not</p>

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	establish and promote Key Performance Indicators (KPIs) in local government (e.g., aimed at specific users such as taxpayers and housing tenants). They should cover measures of financial performance and strength, be recognisable from one entity to another, and used consistently over time to show a trend in performance.	be best placed to establish these but could discuss them with government.
9.9	An authority which noted the current work programme of the FRHub commented: <ul style="list-style-type: none"> <li>• In addition, it would be helpful to focus on infrastructure assets.</li> <li>• As per Q1, a focus on the potential to reduce the length &amp; complexity of the financial statements would be helpful. We agree that key messages should be communicated more clearly, but this will add to the amount of information presented and therefore the time taken to produce.</li> <li>• It also noted it supported the Good Governance Review.</li> </ul>	There will be significant work on infrastructure assets. It is agreed that this could increase workload at least in the short term and may impact on the quantum of disclosures.
9.10	An authority commented: <i>'Our concern at present is that the proposals seek to move financial reporting forward at a time when many external auditors and local authority accounts preparers are finding compliance with current reporting timescales challenging, as evidenced by the volume of outstanding financial statement audits. We are therefore of the view that the overriding priority must be to improve both the timeliness and quality of financial reporting before implementing further changes.'</i>	Any new initiative is likely to require at least some initial additional workload to assess the new reporting requirements so the Secretariat would welcome CIPFA LASAAC's views on this and the timing of the Strategic Plan.
10	Do you have any suggestions for how CIPFA LASAAC and the FRHub might be able to assist local authority accounts preparers in communicating the key messages in the financial statements to the users of the accounts, including the provision of summary financial information?	
10.1	An authority commented: <i>'we failed to understand why Redmond Review was proposing a separate standardised taxpayer funding statement when the Narrative Report presents the ideal means of providing this. One of the main purposes of the Statement of Accounts is that all the information that is required by the users of accounts should be contained in one document.'</i> A few other authorities agreed with this with some suggesting that the Code could specify a minimum format with others noting that local authorities should have flexibility to do report their own circumstances. On the other hand, another authority commented	The Secretariat would agree that summary financial information in the financial statements could respond to many of the issues raised by the Redmond Review and provide an alternative response to the objectives of the standardised statement of information and costs (standardised statement). This could either specify minimum reporting requirements or formats depending on final decisions made but this should offer sufficient flexibility to be able to present local circumstances. It is agreed that the Redmond standardised statement nor summary

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	<p>That the Redmond Review does not appear to reduce the actual length of the accounts. It will be interesting to see the proposed format.</p> <p>Another authority commented:  <i>it will not be possible to produce a single document that will meet the needs of all user groups. That is, it seems almost inevitable that wider readership is only likely to be achieved if summary financial information is produced and published alongside the 'technical' financial statements.</i></p> <p><i>It is also important that the financial reporting information does not seek to incorporate too much non-financial performance data that may detract from the key messages on financial performance, especially if the non-financial performance data is already reported elsewhere and/or that would be better presented separately.</i></p>	<p>financial information will reduce the length of the accounts.</p> <p>It will be useful if summary financial information is produced alongside the financial statements. Further debate is likely to be necessary on KPIs but it will be important not to detract from the key messages in the financial statements.</p>
10.2	<p>A treasury management advisor said:  <i>'the inclusion of summary financial information in the narrative report to convey the key messages is fine, however this approach extends further the statement of accounts document with areas being replicated and with prospect of further new content such as the environment or sustainability reporting also going into the narrative report it is possible the narrative report will lose its focus on key messages.'</i></p>	<p>CIPFA LASAAC will need to consider the balance of information provided with the financial statements.</p>
10.3	<p>An authority commented:  <i>'Streamlining the accounts will make them more accessible and understandable to the public, removing the need for summary information.'</i></p>	<p>The Redmond Review did not concur with this. Although CIPFA LASAAC and the FRHub will need to work extensively to ensure that the key messages are as readily understood as possible and this will improve understandability, it is unlikely, they will be able to be fully understood by the lay reader and another mechanism is likely to be necessary.</p>
10.4	<p>An authority commented:  <i>'The information included in the narrative section is the choice of the local authority. But more clarity and examples of best practice would be useful, especially if you want to bring in information on sustainability. Any summary financial information needs to be clearly defined and must ensure that it does not increase the burden on already stretched resources. Summary financial information should be consistent with what has already been presented throughout the year.'</i></p>	<p>The Secretariat agrees with the messages of this statement but as noted previously it will be very difficult to avoid increasing the resource burden at least initially for any new initiative. But would note commentary at roe 10.8 from an audit firm who indicated that outturn should not be reported.</p>
10.5	<p>An accounting institute commented that it encouraged CIPFA LASAAC to continue its work in this area whilst related central</p>	<p>The Secretariat considers that additional guidance on this area can be included in the year end CIPFA Bulletin.</p>

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	<p>government activity is on hold that work needs to advice. It noted that the narrative report should include the impact of the COVID-19 pandemic, the Ukraine Crisis, the cost-of-living crisis and inflation. The institute commented that it and that it strongly advocated for CIPFA LASAAC and the FRHub to provide clear and comprehensive guidance on:</p> <ul style="list-style-type: none"> <li>• Disclosure of local authorities' risk management processes in response to these events and how management sought to mitigate the pressures on public funds;</li> <li>• Disclosure of local authority additional financial assistance to the local economy in response to these events in an unbiased, factual manner; and</li> <li>• Disclosure and explanation of market risk and how these pressures affected the local authority's financial investment recognising that many users of a local authority's financial statements may not have a financial background.</li> </ul>	
10.6	<p>Further guidance on what summary financial information is expected to be included would be helpful. Summary financial information is already included in the Management Commentary and unnecessary duplication should be avoided.</p>	See response to 10.1
10.7	<p>An audit body commented: <i>'We do not support the Redmond recommendation for a separate standardised statement of service information. We believe that such a statement would be costly and inefficient and consider it to be a distraction from the strategic aim of seeking to improve the annual accounts. Instead, we support a greatly enhanced Narrative Report that includes relevant summary information and uses plain language to explain the key messages from the financial statements in terms that members of the public can understand. We recommend that CIPFA/LASAAC progress those enhancements as a priority. The successful implementation of these enhancements would mean that a separate statement envisaged by Redmond would be unnecessary.'</i></p>	<p>Although CIPFA supported the standardised statement, the Secretariat does not disagree with the commentary that an enhanced narrative report could perform most of the functions of a standardised statement as proposed by the Redmond Review.</p>
10.8	<p>An auditor encouraged CIPFA to progress on its work with the summarised financial statements. It also commented that it repeated its response to the 2021/22 Code, which recommended that performance reporting could be improved by:</p> <ol style="list-style-type: none"> <li>a. Requiring the Comprehensive Income and Expenditure Statement (CIES) to be reported on a consistent format from body to body so that income and expenditure is</li> </ol>	<p>The Secretariat would note that</p> <ol style="list-style-type: none"> <li>a. the 2016/17 Telling the Story reviewed raised the issue of whether a nature of expenses format to the CIES could be suggested and this was categorically rejected by the consultation and outreach processes. Local authorities are not driven by income raised but</li> </ol>

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	<p>directly comparable from one body to another. If the CIES reported income and expenditure by nature, for example. When looking at financial performance readers need to understand where income has come from and what it has been spent on. This information is currently obscured in local authority accounts.</p> <p>b. Requiring the Narrative Report to focus on and explain the performance disclosed in the CIES rather than focussing on outturn reports.</p> <p>c. Where the Narrative Report also discloses outturn figures that have been reported internally, it should explain they are unaudited and provide a clear reconciliation to the audited amounts in the CIES. This could be achieved by moving the Expenditure Funding Analysis (EFA) to the Narrative Report. Moving the EFA to the narrative report would reduce the audit burden.</p> <p>To assist local authority accounts preparers, CIPFA could helpfully produce a good example narrative report which included:</p> <ul style="list-style-type: none"> <li>• relevant local authority KPIs (as noted in our response to Q9) derived from information already available within the accounts that does not add burden to practitioners</li> <li>• summary of important financial information in the audited statements (perhaps over a longer time frame for key areas - say 5 years) and</li> <li>• an example of sustainability reporting in accordance with the FREM.</li> </ul>	<p>expenditure on services. Income isn't unimportant but is not as important as service performance.</p> <p>b. There needs to be a summary of the performance as presented in the CIES but CIPFA LASAAC's views are sought on outturn.</p> <p>c. The Board debated at length including the EFA in the narrative report. It was decided that its importance was such that it should be in the financial statements (and also because it met the IFRS 8 <i>Operating Segments</i> reporting requirements) and not solely additional information on the performance statements.</p> <p>It is not clear that CIPFA LASAAC should opine on KPIs even if the information is available in the financial statements. The relevant summary information would need to be debated. See body of report for sustainability reporting.</p>

## Sustainability Reporting

Question	Agree	Disagree	No Comment
11 Do you agree that sustainability reporting should be added to CIPFA LASAAC's strategic plan? If not, why not? What alternatives would you suggest?	13 (65%)	3 (15%)	4 (20%)

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11	Do you agree that sustainability reporting should be added to CIPFA LASAAC's strategic plan? If not, why not? What alternatives would you suggest?	

11.1	<p>The majority of respondents agree that sustainability reporting should be included in the CIPFA LASAAC strategic plan indicating:</p> <ul style="list-style-type: none"> <li>• this was a pervasive issue</li> <li>• it is a both a wide and complex issue and direction should be given to local authorities</li> <li>• many local authorities had declared climate emergencies.</li> </ul>	No further comments.
11.2	<p>An authority commented on the need for attention to be given to how the accounting systems will cope with these requirements.</p> <p>It noted the FReM contains a substantial section on sustainability reporting and for uniformity across the public sector it would prefer any CIPFA guidance to be consistent with this. The authority noted that the government was <a href="#">consulting on</a> the mandatory disclosure of climate risks in LGPS disclosures.</p>	<p>See main report. CIPFA LASAAC's terms of reference do not explicitly include sustainability reporting. Therefore, discussion including with governments across the UK is needed on whether its terms of reference need to be widened and whether legislative support is necessary.</p> <p>Subject to the decision and if CIPFA LASAAC's terms of reference were to include sustainability reporting then the Secretariat would not seek to deviate from the FReM but that this should be subject to ensuring that the reporting requirements reflected local government context and reporting need.</p>
11.3	<p>Three respondents noted the ISSB work on sustainability reporting.</p> <p>An accounting institute noted that it encouraged CIPFA LASAAC to develop guidance in the first instance, aligned to the guidance drafted by IPSASB, with a view to adopting this guidance into the Code as implementation progresses globally. It recommended CIPFA LASAAC works closely with the IPSASB in this regard, recognising the work already performed by Task Force on Climate-related Financial Disclosures (TCFD), the ISSB and EFRAG.</p> <p>An audit firm agreed with this view indicating that CIPFA LASAAC should not delay. It added that central government is a driver of climate improvement and local government should be part of setting the tone. The private sector is currently ahead of the public sector as listed companies are being required to comply with the reporting framework developed by the TCFD. The audit firm noted that local government was behind the curve – while recognising the LGPS consultation.</p>	The Secretariat does not disagree with this subject to the decisions in the main body of the report and that there needs to be a lead in period for local authority adoption of any sustainability reporting requirements.
11.4	<p>One council acknowledged that sustainability reporting is of increasing importance, but with authorities missing publication deadlines and workload increasing due to local audit difficulties, it is not a suitable time to report on more things, which will undoubtedly make the audit even more difficult.</p>	The Secretariat recognises that there will be resource issues which will need to be considered when reviewing the decisions on sustainability reporting.

	The authority questioned whether CIPFA LASAAC had any views on whether the benefits of sustainability reporting would outweigh the costs.	
11.5	One council that disagreed indicated that if the information was important that the accounts would not be the best medium. A council that agreed was of the view that, it was not yet convinced of the benefits and feasibility of incorporating sustainability reporting into the financial statements, particularly given the stringent reporting timelines and the breadth of information included.	There may need to be a debate about where sustainability reports are provided but this information is regularly reported as documents which accompany the financial statements.
11.6	One authority noted the importance of sustainability reporting but indicated that this needed to be aligned with the streamlining agenda for local authority accounts.	CIPFA LASAAC and the Financial Reporting Hub will consider the various mechanisms for improving the presentation of the key messages in local authority financial statements.

Q12. Do you have any suggestions for how CIPFA LASAAC or CIPFA should support local authorities with reporting the impact of the environment or sustainability, reporting in the local authority financial statements or accompanying reports (eg the narrative report)? Please set out the rationale for your response.

List of suggestions:
CIPFA LASAAC should await the outcome of preliminary work undertaken by International Sustainability Standards Board (ISSB) before looking at UK local authority specific issues. Another respondent suggested that CIPFA LASAAC should engage with ISSB and IPSASB on this issue.
A respondent considered that the FRHub will be key in influencing how local authority financial statements can best present the impact of the environment and sustainability on local authority financial performance, financial position and cash flows in their financial statements.
An accounting institute commented the introduction of ESG reporting will likely have an equal, if not greater, impact on local authority reporting than the transition to IFRS compliance in the last decade. We recommend CIPFA LASAAC provides comprehensive guidance on the implementation of ESG reporting, its concepts, principles and measurement bases to ensure the UK public sector can provide meaningful insight to its stakeholders.
CIPFA LASAAC should encourage local authorities to ensure that sustainability issues are adequately covered in their financial statements and narrative reporting under existing standards.
An audit body commented that guidance from CIPFA could helpfully include case studies and set out a road map of recommended steps towards better sustainability reporting. It noted that the Financial Reporting Council carried out a thematic review of climate change-related considerations in the private sector and issued a suite of reports in November 2020. It recommended that guidance from CIPFA sets clear expectations that local authorities should describe matters such as: <ul style="list-style-type: none"> <li>• the 'net zero emissions' targets, including whether these are aspirational, or currently pursued and factored into budgets and business plans</li> <li>• performance against previously announced targets, and explain any changes in targets from the previous year</li> <li>• the impact of the local authorities' activities on the environment, as well as the specific risks that climate change gives rise to the principal risks and uncertainties facing the authority which relate to climate change, and any significant impacts on the business model.</li> </ul>

<p>An audit firm commented that CIPFA should:</p> <ul style="list-style-type: none"> <li>• Make sustainability reporting mandatory in line with the FREM (possibly initially for larger authorities and those that have declared a climate emergency).</li> <li>• Set out minimum reporting requirements of the FREM in a guidance paper. Include a good example of sustainability reporting in a proforma narrative report.</li> <li>• Ensure the Code stays up to date with the rest of the public sector in relation to sustainability reporting.</li> </ul>
<p>An authority suggested the development of a checklist: one authority suggested a template. Guidance on areas suggested in the consultation paper should be provided. CIPFA should provide guidance to valuers on how sustainability reporting will be factored into climate change. Additionally, CIPFA should provide guidance on carbon offsetting activities.</p>

## Format and Structure of the Code

	Response	Secretariat Comment
13	Do you have any comments on CIPFA LASAAC's preliminary objectives for reviewing the structure or format of the Code? Please set out the rationale for your response.	
13.1	A Treasury Management Advisor and an authority indicated that: <i>'...consideration should be given on how the statements may be decluttered and facilitate the removal of reporting requirements that are not material to the reader and stakeholders'.</i>	The Secretariat is unclear that this should be an objective for the format and structure of the Code. This is more of a function for the content and for the work of the strategic plan on this topic.
13.2	An accounting institute commented: <i>'We encourage CIPFA LASAAC to continue to triage emerging issues affecting local authority accounting to support its central government, local government, and audit firm stakeholders. We encourage CIPFA LASAAC to make specific reference to IPSASB pronouncements in its objectives, similar to the approach adopted by FRAB.'</i>	This is already implicit in CIPFA LASAAC's work including its operations and its membership.  The Secretariat would note that IPSASB's pronouncements are included in the memorandum of understanding between the relevant authorities as a part of the hierarchy. The memorandum states: <i>'The manuals and the Code shall be prepared using EU-adopted IFRS. Where appropriate, the manuals and the Code can then refer to International Public Sector Accounting Standards (IPSAS) and UK accounting standards issued by the Accounting Standards Board.'</i> (Note that this is now UK adopted IFRS).
13.3	An audit body noted: <i>'We believe that the accounting code could be clearer about the specific provisions in IFRS standards that the code adapts or interprets (e.g. by specifying applicable paragraph references).'</i>	The Code is drafted following the structure of the relevant standard and where necessary cross reference is made significantly more cross referencing may make the Code more complex to read and understand so a balance will need to be sought.
13.4	A firm agreeing with the objectives suggested consideration needed to refer to Group Accounts because of their prevalence.	It may be useful to consider the approach to that chapter of the Code, though the views of CIPFA LASAAC are sought. For

		example, local authorities have been entering into increasingly complex financial instruments and so it might be useful for more emphasis to be placed there.
13.5	An authority noted its preference for using the PDF of the Code but noted that it understood the need to utilise functions in electronic platforms.	It is anticipated that the electronic platform will continue to produce PDFs.
13.6	An authority agreeing with the objectives in the consultation paper noted that its previous suggestions for bringing together the Code Guidance Notes and the Code	See previous responses on this issue.