

# Report

**To:** CIPFA LASAAC

**From:** Sarah Sheen, CIPFA Standard Setting Manager

**Date:** 09 November 2022

**Subject:** Outcomes of the Consultation on CIPFA LASAAC's Strategic Plan

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## Purpose

**The purpose of this report is to consider the results of the consultation on CIPFA LASAAC's strategic plan including sustainability reporting and the format and structure of the Code**

## 1. Introduction

1.1 This report outlines the consultation outcomes for the CIPFA LASAAC Strategic Plan. There is overall support for:

- the direction of the plan
- the work of the Financial Reporting Hub (FRHub)
- that there should be work on sustainability reporting, and
- the objectives for the review of the format and structure of the Code.

However, there are calls for simplification or streamlining (instead of the focus of improving the presentation of the key messages in the financial statements though arguably the two are similar), for improved performance reporting and support for summary financial information in introductory parts of the financial statements. There is also notable commentary about the resources available and therefore the capacity of local authority accounts preparers to be able to meet the requirements of Code changes.

1.2 A summary of the CIPFA LASAAC Strategic Plan is provided in Annex A to this report.

## 2. Strategic Plan and Financial Reporting Hub

2.1 The consultation noted that CIPFA LASAAC's Strategic Plan would focus on ensuring that the key messages of the financial statements are communicated to their users. It also noted that the FRHub had on its work plan Group Accounts, separation of the pension fund from the

local authority financial statements and IFRS 16 disclosures (following the Streamlining Workshop the notes for which are held at Annex B to this report) and was considering work on the presentation of the collection fund and associated disclosures. Overall, the respondents seemed to support this but offered several themes in addition. These are outlined in the following table (more detail is provided in Annex C):

**Table 1: Comments on the Strategic Plan**

<b>Suggestions</b>	<b>Comment</b>
<p><b>A few local authorities and other stakeholders suggested that CIPFA LASAAC’s Strategic Plan would look to ‘simplify’ or ‘streamline’ local authority financial statements.</b></p>	<p>It is important that the Strategic Plan and the work of FRHub focuses on effectively presenting the key messages of the financial statements. It is unlikely that in the interests of high-quality financial reporting the Board will be able to remove IFRS-based disclosures, particularly taking into account recent discussions on removal of disclosures.</p> <p>It is notable that the precursor meeting to the FRHub ie the working group on streamlining at Annex B prioritised the topics highlighted in the consultation paper rather than the removal of IFRS based disclosures.</p> <p>The Secretariat would suggest that FRHub would be best placed to assist local authorities in taking their own decisions on materiality to streamline local authority accounts.</p>
<p><b>An accounting institute suggested that CIPFA LASAAC should follow the IASB and FRAB topics under discussion and to prioritise the development of sustainability reporting guidance, and to work closely with the IPSASB in this regard.</b></p>	<p>The first suggestion is a part of the CIPFA LASAAC routine work and the second is considered under section 3 of this report.</p>
<p><b>An audit body suggested that CIPFA LASAAC should consider asset valuation and statutory adjustments under its strategic plan.</b></p>	<p>The Secretariat considers that asset valuation is subject to extensive guidance in the Code Guidance Notes and the <a href="#">CIPFA Bulletin 10: Closure of the 2021/22 financial statements</a>. It would also note that asset valuation will include an increased focus in CIPFA LASAAC’s response to the HM Treasury Thematic Review of Operational Property Plant and Equipment.</p> <p>Statutory adjustments are an important part of the local government finance framework and are key to ensuring that the volatility and other impacts of capital finance as necessary are not a significantly additional burden on council tax</p>

	and rent payers, they also address the priorities of government. CIPFA LASAAC may wish to focus on improving the presentation of these adjustments.
<b>An auditor suggesting focusing on performance reporting.</b>	This could be usefully prioritised as a function of the focus on summarised financial information.
<b>An authority noted that infrastructure assets should be added to the strategic plan.</b>	The Secretariat is in full agreement this has been added to the CIPFA LASAAC Strategic Plan as updated in Annex A.
<b>An important comment from an authority is the impact of CIPFA LASAAC's work on the workload of local authorities especially when there are such significant delays in local audit.</b>	The Secretariat fully understands this comment and is extremely sympathetic. It would add that this is against the backdrop of the infrastructure assets issue and the imminent adoption of IFRS 16 Leases and potential future work on sustainability reporting <b>so would be interested in CIPFA LASAAC's views on the timing of its strategic plan.</b>

2.2 The Secretariat would suggest that the work of the FRHub will need to focus on:

- presenting the key messages of the financial statements effectively and thus supporting streamlining
- improving the presentation of the statutory adjustments and focus on performance reporting in the front end of the narrative report.

Additionally, infrastructure assets should be included as a separate project in the strategic plan.

2.3 CIPFA LASAAC's views are sought on the workload issues for local authority accounts preparers and auditors.

**CIPFA LASAAC is invited to consider the augmentations to its updated strategic plan.**

2.4 The consultation sought local authorities' views on how CIPFA LASAAC and the FRHub might help support accounts preparers in communicating the key messages in the financial statements to the users of the accounts, including the provision of summary financial information. The following provides a summary of the key suggestions:

- Several authorities and an audit body indicated that they preferred the provision of summary financial information in the narrative report, however, one authority indicated that if the accounts were streamlined this would remove the need for a standardised statement.
- An accounting institute was keen that FRHub provided guidance on how local authorities will present current risks such as the cost-of-living crisis, inflation and Ukraine in the reports that accompany the financial statements, this work can be done by the Accounting and Financial Reporting Forum in the Year End CIPFA Bulletin – see Annex C row 10.5. **CIPFA LASAAC's views are sought on this issue.**

- An audit firm repeated its comments that the Comprehensive Income and Expenditure Statement should analyse expenditure on a nature of expenses basis and prioritise income. The 2016/17 Telling the Story Review considered this and was very clear that the top half of the CIES should focus on service expenditure in line with how local authorities provide their services. The same firm indicated that the Expenditure and Funding Analysis should be moved to the Narrative Report. CIPFA LASAAC debated this issue in detail (in producing the changes to the 2016/17 Code) and decided against this because of its importance but because the EFA also provides the segmental analysis under IFRS 8 *Operating Segments*.
- The auditor also noted that the Narrative Report should not focus on outturn reports but on performance reported in the CIES and the Code should specify KPIs. The Secretariat considers that the performance in the CIES should be featured in the narrative report but would be interested in CIPFA LASAAC's views on outturn information.

More detail is provided in Annex B.

- 2.5 The Secretariat is of the view that there is support from the consultation to consider the provision of summary financial information and improving performance reporting in the front end of the Narrative Report and has included this in explicitly in the Strategic Plan. The Secretariat would seek volunteers from the Board to act as a sounding board for this project.

**CIPFA LASAAC is invited to comment on the outcomes of the consultation particularly with the provision of summary financial information and improving performance reporting in the front end of the Narrative Report and has included this in explicitly in the Strategic Plan.**

### 3. Sustainability Reporting

- 3.1 CIPFA LASAAC's consultation included two questions on whether its strategic plan should consider sustainability reporting. The vast majority of respondents took the view that it should. One respondent disagreed, and another two raised concerns with one noting that this would add further resource burdens and impact on resources of both local authorities and auditors under the local audit framework.
- 3.2 Although CIPFA LASAAC's Terms of Reference refer to the consideration of issues relating to any information which is provided with local authority financial statements, including commenting on the application of relevant best practice. They do not explicitly refer to sustainability reporting. In addition, CIPFA LASAAC's authority across the regulatory framework in the UK normally refers to accounting practice.
- 3.3 CIPFA LASAAC will be aware that the International Sustainability Standards Board (ISSB) is a dedicated separate standard setting board. It was created at COP 26 in Glasgow on 3 September 2021. IPSASB consulted in the summer with on creating global public sector specific reporting standards. However, IPSASB appears not to be setting up a dedicated board to progress its work on global public sector specific reporting standards. The key global financial reporting standard setting bodies have consulted separately on their approaches to sustainability reporting.
- 3.4 The various accounts and audit regulations across the UK also do not refer to specifically to sustainability reporting though (as the consultation argues) sustainability reporting should be included in the narrative report/management commentary in Scotland. It might be the that sustainability reporting needs legislative support to be taken forward in the Code.

- 3.5 The Secretariat would note that government is key to deciding on these developments. Government is separately consulting on proposals to require Local Government Pension Scheme (LGPS) administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). The Welsh Government has also issued its [Welsh Public Sector Net Zero Carbon Reporting Guide](#) which is applicable to local authorities in Wales (and the rest of the public sector) for the 2021/22 reporting period though the Secretariat is of the view that this Guide does not require that this information is published with the financial statements.
- 3.6 The Secretariat would note that like IPSASB CIPFA LASAAC is uniquely qualified to consider the standard setting process for local government but also considers that it is necessary to discuss the issue first with DLUHC, the devolved administrations across the UK and HM Treasury and whether there would be a need for this to be supported in statutory provisions.
- 3.7 The consultation responses indicated that there is broad support for CIPFA LASAAC to consider sustainability reporting in its strategic plan. They also provided the following comments:
- encouragement to CIPFA LASAAC to develop guidance aligned to that of IPSASB
  - an audit firm indicated that CIPFA LASAAC should not delay in moving forward on this issue
  - a number of authorities commented on the resource burden on the introduction of sustainability reporting especially for complex entities like local authorities
  - an authority and a firm suggested that the Code should be consistent with the FReM
  - an authority challenged whether the statement of accounts was the best medium for sustainability reporting.
- More detail is provided in Annex C.
- 3.8 The consultation responses included numerous useful suggestions for how CIPFA LASAAC or CIPFA should support local authorities with reporting the impact of the environment or sustainability, reporting including:
- further encouragement to work with IPSASB and consider the work of the ISSB
  - indications that FRHub would be best placed to take forward much of the work
  - local authorities should be supported in ensuring that their financial statements include the impact of the environment and climate change
  - consideration of the approach of the Financial Reporting Council's thematic review of sustainability reporting for local authority circumstances
  - mandatory sustainability reporting (possibly for larger authorities and those that have declared climate emergencies)
  - the potential for disclosure checklists and templates
  - guidance for valuers on the impact of the climate in their valuations
  - guidance on carbon offsetting activities.
- More detail is provided in Annex C.
- 3.9 The Secretariat considers that it can consider these activities and suggestions but that first there needs to be a discussion with government as outlined in paragraph 3.6.

**CIPFA LASAAC's views are sought on the comments on sustainability reporting in the consultation and the Secretariat's proposals to consult with government their views on whether and how sustainability reporting should be taken forward.**

#### **4. Format and structure of the Code**

- 4.1 The Code consultation outlined the objectives for the review of the format and structure of the Code particularly considering that CIPFA is assessing the process for moving to an electronic platform. These are repeated in Annex A for ease of reference. Again, there was overall support for CIPFA LASAAC's plans with the following additional comments:
- the Code should focus on decluttering the accounts – the Secretariat is of the view that this is more about the content of the Code and the work of the FRHub
  - there was encouragement to support local authorities, local auditors and central government and include IPSASB pronouncements – the Secretariat is of the view that the first is implicit and the second is covered by [the relevant authority memorandum of understanding \(terms of reference\)](#) hierarchy at a paragraph 19
  - that the Code could be clearer about the specific provisions in IFRS standards that the Code adapts or interprets – this can be considered though the Code should be structured to assist with this.
  - an audit firm was of the view the prevalence of local authorities having interests in other entities meant more emphasis should be put on this in the Code – the Secretariat would seek CIPFA LASAAC's views on this issue as such an approach could also be applied to other areas of the Code including for example financial instruments.

Annex B provides more detailed analysis of the consultation responses.

- 4.2 The Secretariat will add that the objectives of the Code should accord with the relevant authority working group Memorandum of Understanding and will ensure that it is clear about the provisions of standards that it adapts or interprets and refer to the relevant authority memorandum of understanding (though is of the view that this is covered in objective 6).

**CIPFA LASAAC's views are sought on the objectives for the review of the format and structure of the Code.**

#### **5. Next Stages**

- 5.1 CIPFA LASAAC is invited to consider the comments and the update of its strategic plan and following a discussion on resources with the new Director of Public Financial Management a timetable for delivery of that plan will be presented to the Board at its next meeting.

#### **Recommendations**

**The Board is invited to consider and review the issues raised in the above paper and the Annexes and provide any comments on CIPFA LASAAC's Updated Strategic Plan.**

**Table 2 CIPFA LASAAC’s Updated Strategic Plan – 2022 - 2025**

<b>Project</b>	<b>Commentary</b>	<b>Status</b>	<b>Time period</b>
Project 1 – <i>Sustainability Reporting</i>	<p>CIPFA LASAAC to consider international changes to sustainability reporting frameworks and their potential impact on the Code.</p> <p>CIPFA LASAAC to review the consultation responses to the ISSB and IPSASB consultations.</p> <p>On behalf of CIPFA LASAAC, CIPFA Secretariat to discuss with government including the devolved administrations the approach to sustainability reporting.</p> <p>CIPFA LASAAC to receive updates. Guidance to be produced on this issue by Accounting and Financial Reporting and Sustainability Forums.</p>	<b>Commencing</b>	<b>Likely to be medium to long-term.</b>
Project 2 – <i>Improving the Presentation of Local Authority Financial Statements</i>	<p>This covers numerous items including the presentation of statutory adjustments.</p> <p>Some of this work could be subject to debate by the Financial Reporting Hub (FRHub) and be considered by representatives from treasurer’s societies (see streamlining workshop commentary and Annex C). The consultation set out topics such as Group Accounts, IFRS 16 and Pension Fund Disclosures.</p>	<p><b>CIPFA LASAAC to consider the presentation of statutory adjustments</b></p> <p><b>FRHub to consider the</b></p> <ul style="list-style-type: none"> <li>• <b>Presentation of the Key Messages</b></li> <li>• <b>Group Accounts and</b></li> <li>• <b>IFRS 16 Leases</b></li> </ul>	<b>As the FRHub is a Standing Working Group of the Accounting and Financial Reporting Forum – this work will be ongoing.</b>
Project 3 – <i>Annual Development</i>	See agenda item CL 08 11 22	<b>Code Draft to be received after the</b>	<b>By February 2024</b>

<b>Project</b>	<b>Commentary</b>	<b>Status</b>	<b>Time period</b>
<i>Programme for the 2023/24 Code</i>		<b>decisions taken at agenda item 8.</b>	
<b>Project 4 – the Reporting of Infrastructure Assets</b>	CIPFA LASAAC has already approved the Draft of the Code Update for the Temporary Solution. This has been approved by PFMB and at the time of drafting this report is being considered by LASAAC.  See report at item CL 07 11 22.	<b>Update to the Code being finalised</b>  <b>Ongoing project on longer term solution</b>	<b>By April 2024</b>
<b>Project 5 – Implementation of IFRS 17 Insurance Contracts</b>	See CL 08 11 22.	<b>Ongoing</b>	<b>By February 2026</b>
<b>Project 6 – Horizon Scanning</b>	CIPFA Secretariat has raised the issue of having discussions with auditors to avoid urgent/emergency consultations  This work will principally be carried out by the Accounting and Financial Reporting Forum, but CIPFA LASAAC will also do this.	<b>Ongoing</b>	<b>Ongoing</b>
<b>Project 7 – Narrative Reporting and Performance Reporting</b>	Prioritised project on summary financial information and the improvement of performance information.  Some work was commenced on research issue into local authority narrative reports, but resource issues have meant that that was put on hold.	<b>On hold but will recommence in early 2023</b>	<b>Initial Report – March 2023</b>

### **CIPFA LASAAC’s Objectives for the Review of the Format and Structure of the Code as Updated**

CIPFA LASAAC’s objectives for the review are that it:

1. promotes CIPFA LASAAC’s objective to promote high-quality financial reporting and specifically its vision statement and strategic themes and in accordance with [the](#)

**relevant authority memorandum of understanding (terms of reference)** (see Annex A)

2. ensures that its users are able to understand how local authorities can achieve the reporting of a true and fair view of its financial position, performance and cash flows
3. supports local authorities in ensuring that they are able to communicate the key messages of the financial statements to local authority users of the financial statements
4. is the principal source of local government financial and narrative reporting including the reporting of financial performance
5. is structured so that its provisions are readily accessible to its users
6. clearly sets out where local government circumstances (and therefore reporting requirements) differ from both the private sector and in some cases the rest of the public sector, so ensuring that the adaptations and interpretations of UK adopted IFRS are readily understood
7. identifies all of the reporting requirements for local authorities across the UK (including separate statutory reporting requirements for each of the devolved administrations and England).