

Report

To: CIPFA LASAAC

From: Sarah Sheen, CIPFA Acting Head of Standard Setting

Date: 9 March 2023

Subject: Delivery of CIPFA LASAAC's Updated Strategic Plan

Purpose

The purpose of this report is to consider the approach to prioritising and delivering on the CIPFA LASAAC Strategic Plan

1. Introduction

- 1.1 This report outlines the plans for the delivery of the CIPFA LASAAC Strategic Plan following the outcomes of the consultation. CIPFA LASAAC has agreed the following eight items for its Updated Strategic Plan. Note these have been reordered for ease of reference.

Project	Brief Description Including Timing
Project 1 – Annual Update of the Code	See item 07 on the agenda – normal timing for the 2024/25 Code. <i>Project Lead: Steven Cain</i>
Project 2 – Infrastructure Assets Long-Term Solution	Short-term solution complete Decision at single issue meeting for long-term solution – note this must be in place by April 2024. <i>Project Lead: Sarah Sheen (and new technical manager)</i>
Project 3 – Narrative Reporting – Performance Reporting and Summary Financial Information	Prioritised project on summary financial information and the improvement of performance information.

(Second stage narrative reporting review paused).	<p>Some work was commenced on research issue into local authority narrative reports, but resource issues have meant that that was put on hold.</p> <p>Initial outline of proposed approach included in the 2024/25 Code consultation which will also consider timing of implementation.</p>
Project 4 – Implementation of IFRS 17 Insurance Contracts	<p>Implementation of IFRS 17 in the 2025/26 Code</p> <p>Project Lead: Steven Cain</p>
Project 5 – Better Reporting	<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. The Secretariat would suggest that the following are priority items</p> <ul style="list-style-type: none"> A. IFRS 16 <i>Leases</i> disclosures, B. Presentation of statutory items/adjustments, and C. Group Accounts. <p>Also note the separate roundtables on the users of the accounts in a joint project with CIPFA and the ICAEW.</p> <p>(Note that the Secretariat would suggest that to align with this priority that the permanent Group the FRHub would be renamed the Better Group or BRG.</p> <p>Prioritise items A and B above – discuss timings with the Group following its research.</p>
Project 6 – Horizon Scanning	<p>This work will principally be carried out by the Accounting and Financial Reporting Forum (AFRF), but CIPFA LASAAC will also review at each meeting.</p> <p>CIPFA Secretariat also attends relevant auditor meetings to try and pre-empt issues arising. (Regular meetings with audit bodies).</p> <p>Project Leads: Steven Cain and Sarah Sheen</p>

Project 7 – Sustainability Reporting	<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 regular updates. Guidance to be produced on this issue by Accounting and Financial Reporting and Sustainability Forums.</p>
Project 8 – Review of Structure and Format of the Code	<p>Review of structure and format of the Code to align with needs of users and CIPFA's new electronic platform.</p> <p>Options for approaches in the 2024/25 Code consultation. Approach to development to align with the development of the CIPFA e-learning platform and consideration of options for presentation of the information.</p>

2. CIPFA LASAAC Updated Strategic Plan – Overall Approach

- 2.1 CIPFA LASAAC will be aware that several respondents to the consultation on the Code noted the impact that significant change to reporting requirements would have on local authority finance teams. The 2024/25 Code will introduce IFRS 16 *Leases*, and this will be followed in the 2025/26 Code with the long-term solution for infrastructure asset reporting. Both could have a substantial increase in the reporting burden for many authorities and will require some work by most.
- 2.2 Even changes to the Code which will both benefit the presentation of the accounts and that might ease the reporting burden is likely in the short-term to lead to additional work by finance teams in local authorities and by auditors. The Secretariat would therefore suggest that the Updated Strategic Plan will need to balance the timing of the changes suggested against their benefits and any potential resource burden. The remainder of the report attempts to do this, but the Secretariat would seek the Board's advice on the proposals.
- 2.3 At the same time eight projects is also significantly more than would normally be anticipated for Code development in any one year. The rows shaded in grey, in the above tables are necessary for Code development and are discussed at other items on the CIPFA LASAAC's This report will consider the development programme for other items in the Updated Strategic Plan.

3. Project 3 Narrative Report - Performance Information and Summary Financial Information

Project Description

- 3.1 The Secretariat is of the view that this is an important project which will promote both the accountability and transparency of local authority financial statements and the information which accompanies them. There were supportive comments on this in the consultation.

An authority commented:

'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.'

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.

An audit body commented:

'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.'

- 3.2 The Secretariat is of the view that this project can at the very least be a pre-cursor to the introduction of a standardised statement of service information and cost recommended by the Redmond Review. It will also allow for a better understanding of the performance (including the financial performance of the authority) and of the financial statements. If successful there are clear arguments that it might remove the need for a separate statement.

Project Timing

- 3.3 It is suggested that as a prioritised project that the work should commence this year and that an initial consultation is undertaken alongside that of the 2024/25 Code. Implementation may be able to be initially voluntary though this too should be subject to consultation.

Project Lead

- 3.4 Sarah Sheen – Acting Head of Standard Setting – members of the Board are invited to act as a sounding board for project development.

4. Project 5 – Better Reporting

Project Description

- 4.1 The focus of all CIPFA LASAAC's Updated Strategic plan is to lead to high quality financial reporting, and this aligns to CIPFA LASAAC's vision which is included in Annex A for ease of reference.

- 4.2 The BRG is intended to both seek good and best practice but also to support the work of CIPFA LASAAC's Updated Strategic Plan.
- 4.3 Early work to prepare for the establishment of the BRG included a workshop of interested local government practitioners and the Group considered that the priorities for the BRG should be Group Accounts, IFRS 16, disclosures and assumptions and a statement of intent on narrative reporting. The BRG's priority is to focus on disclosures though potentially it can prioritise assumptions in next year's plans. IFRS 16 has been included as BRG- Project A and narrative reporting is a separate project on the Updated Strategic Plan.
- 4.4 There are three projects that the Secretariat would suggest that the BRG looks at which were all featured in the consultation on CIPFA LASAAC's Strategic Plan.

Table 1: Detailed Project Description and Timing for the BRG Projects

Project Title	Description	Timing
BRG Project A: IFRS 16 Presentation and Disclosure	<p>This project should assist local authorities with their implementation of IFRS 16 and the Secretariat is of the view that it should prioritise approaches to prepare and present the information required by IFRS 16.</p> <p>Guidance has already been issued by CIPFA in this area in the publication - IFRS 16 Leases, A Guide for Local Authority Practitioners. This publication has recently been updated to be published alongside the 2022/23 Code Guidance Notes and will provide guidance those authorities voluntarily implementing IFRS 16 as of 1 April 2022.</p> <p>BRG will be able to consider application in the rest of the public sector and the private sector and whether the example disclosures can be augmented with a particular focus on the narrative areas.</p>	<p>As this will be implemented in the 2024/25 financial statements – augmented guidance to be approved by the AFRF will need to be available in the October/November of 2023. This will therefore be the priority project in terms of timescales. The Secretariat recommend this commences in April 2024.</p>
BRG Project B: Presentation of Statutory Items/Adjustments	<p>Probably one of the most significant areas for adding complexity to local authority financial statements is that of statutory adjustments.</p> <p>There is one line in the primary statements (the Movement in Reserves Statement (MiRS)) which is supported by a reconciliation note and the note setting out the movements in unusable reserves. Although the principle of statutory adjustments is often described as being unique in local government statements. However, notes or statements reconciling</p>	<p>This is an important project it is therefore suggested that the project commences in June 2023 with initial reports to be available by the November 2023 meeting of CIPFA LASAAC.</p>

Project Title	Description	Timing
	<p>the budgetary framework to the accounting one is a feature of other parts of the public sector. For example, central government has a separate statement the Statement of Parliamentary Supply which provides a similar function to the statutory adjustments line in the MiRS.</p> <p>The Expenditure and Funding Analysis is also cited as leading to additional reporting requirements, but this was intended to bridge the statutory reporting basis and the accounting basis and followed stakeholder feedback in preceding consultation. To ensure the statement is useful the EFA also provides the segmental reporting requirements under IFRS 8 <i>Operating segments</i> (including the reconciliations required under that standard). It is possible that some of the reconciliations in the EFA and the MiRS could be combined and at least one or both reconciliations simplified. It is suggested that the BRG could consider options for better presenting both these notes in a way which better communicates to the users of the financial statements.</p>	
BRG Project C: Group Accounts	<p>There were numerous comments about the approach to Group Accounts in the consultation and not just in relation to the Updated Strategic Plan. Group Accounts on the introduction to the IFRS-based Code were perhaps not as prevalent as they now are and several commentaries on previous iterations of the CIPFA LASAAC Strategic Plan have focused on the efficacy of the Group Accounts arrangements (as required by standards) to appropriately reflect local government performance. BRG will need to carefully consider its objectives for is project C.</p>	<p>Suggest that BRG consider a project outline for this project in November 2023 to report to CIPFA LASAAC and the AFRF on its outlined approach in March 2024.</p>

Project Lead

4.5 Alan Bermingham - Technical Manager – as lead on the work of the BRG.

5. Project 7 – Sustainability Reporting

Project Description

- 5.1 CIPFA LASAAC will be aware that a priority has been consideration of work on Sustainability Reporting. Sustainability Reporting is likely to be a priority reporting task for all public sector entities. In November 2021 the IFRS Foundation established a new institute the International Sustainability Standards Board (ISSB) – the intention is for the ISSB to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions.
- 5.2 At the same time IPSASB has prioritised Sustainability Reporting and considering the urgency of the issue decided to commence the scoping of three projects – 1) General Requirements for Disclosure of Sustainability-related Financial Information, 2) Climate-Related Disclosures, and 3) Natural Resources – Non-Financial Disclosures (Note that this is in parallel with the development of financial reporting guidance proposed in its Consultation Paper, Natural Resources).
- 5.3 Central Government is also developing plans for public sector Sustainability Reporting.
- 5.4 Sustainability Reporting is not a dedicated subject of CIPFA LASAAC's Terms of Reference but could be added if CIPFA LASAAC considered it appropriate – though the Secretariat considers that there should be a dedicated and separate discussion of the topic if that were to be the case.
- 5.5 CIPFA LASAAC has already decided that it wishes to be regularly updated on Sustainability Reporting and it is a standing item on the agenda. Note that a few respondents to the consultation considered that CIPFA LASAAC should urgently commence the introduction of local authority financial reporting to this area as soon as possible. Although the Secretariat very much emphasises with this view it will be important that CIPFA LASAAC takes a considered approach on this as this will significantly increase the reporting burden for local authorities.
- 5.6 CIPFA is also developing an initial guide on this area, and this will be circulated to CIPFA LASAAC for information in due course.
- 5.7 The Secretariat would suggest the following work plan:
- Consider CIPFA LASAAC's approach to the introduction of Sustainability Reporting to its Updated Strategic Plan including timescales for possible implementation and adding to its Terms of Reference
 - Request that the Secretariat keeps it updated on international and central government developments.
 - Set up a sub-group of the Board to consider the implementation of Sustainability Reporting.

Project Timing

- 5.8 It is suggested that the CIPFA LASAAC sub-group will want to establish a timetable for the project and that it the Group is established as soon as possible to decide this.

Project Leads

- 5.9 Sarah Sheen – Acting Head of Standard Setting and CIPFA LASAAC sub-group.

6. Project 8: Update the Format and Structure of the Code

Project Description

- 6.1 The Code consultation outlined the objectives. These have been updated as a part of consultation and are repeated in the Annex to this report for ease of reference. Note that an important commentary from local authority accounts preparers to the consultation was that it considered that the Code should be the primary source for local authority financial reporting.
- 6.2 This did not appear to support the views of some commentators who consider that the Code should be more like the FReM, be reduced in length and require direct reference to standards. The Secretariat would note that direct reference to IFRS will not be able to be avoided as the Code is not able to accommodate the full detail of standards, particularly in areas of complex application.
- 6.3 The Secretariat would suggest that options for change be presented to respondents and their views be sought on the benefits of various approaches.
- 6.4 The consultation also outlined:
- there was encouragement to support local authorities, local auditors and central government to 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 should be a part of the restructure
 - 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 considers that this should be a part of the review and CIPFA LASAAC should seek views on this issue as such an approach could also be applied to other areas of the Code including for example financial instruments.
- 6.5 The Secretariat would 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).
- 6.6 CIPFA LASAAC is aware that CIPFA is introducing its electronic platform for delivery (which will include the Code) so the functionality of that platform is being assessed. CIPFA will prioritise consideration of what this might be for the Code and a e-version of the Code will be developed. However, it is likely that a full restructure and reformatting of the Code will need to be developed alongside the development of CIPFA's electronic platform.

Project Timing

- 6.7 The Secretariat would recommend consulting on options for change to the Code in the consultation papers for the 2024/25 Code and aim for a first draft of the new Code to be developed for 2026/27 ie following the introduction of the new reporting provisions for infrastructure assets.

Project Lead

- 6.8 Steven Cain, Secretary.

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

Next Stages

6.9 CIPFA LASAAC is invited to consider the comments and the update of its strategic plan.

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.

CIPFA LASAAC's Vision

UK local authority annual accounts should be widely recognised as an exemplar for clear reporting of the financial performance and position of complex public sector bodies. Users of accounts should be able to access the information they want to help them to understand the finances of an authority and to take practical and informed decisions.

Objectives for the Review of the Code

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 can 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 can 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).