

# Report

**To:** CIPFA LASAAC Local Authority Accounting Code Board

**From:** Sarah Sheen, CIPFA, Acting Head of Standards Setting on Behalf of the Task and Finish Group for Infrastructure Assets

**Date:** 7 June 2023

**Subject:** Strategic Work Plan Items for Consultation

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## Purpose

The purpose of this report is to consider CIPFA LASAAC's strategic work plan focussing particularly on the items to be considered in the consultation.

## 1. Introduction

- 1.1 This report will consider the items to be considered in CIPFA LASAAC's strategic work plan and their progress. It will particularly focus on the items that need to be considered in the consultation documents.
- 1.2 The following table outlines the projects currently in the work plan.

**Table 1: Summary of Strategic Work Plan Items**

Project	Brief Description Including Timing
<b>Project 1</b> – Annual Update of the Code	See item 07 on the agenda – normal timing for the 2024/25 Code. <i>Project Lead: Steven Cain</i> <i>Timing complete with normal timing of Code development for 2024/25</i>
<b>Project 2</b> – Infrastructure Assets Long-Term Solution	Short-term solution complete CIPFA LASAAC has decided at its 27 April meeting that it wants to move to a DRC basis. <i>Project Lead: Sarah Sheen (and new technical manager)</i>

	<p><i>Timing: Separate consultation date of issue to be confirmed.</i></p>
<p><b>Project 3A – Narrative Reporting – Performance Reporting and Summary Financial Information</b></p>	<p>Prioritised project on summary financial information and the improvement of performance information – see below. Initial outline of proposed approach included in the 2024/25 Code consultation which will also consider timing of implementation.</p> <p><i>Project Lead: Sarah Sheen</i></p> <p><i>Timing: complete with normal timing of Code development for 2024/25 but full implementation the following year</i></p>
<p><b>(Project 3B – Second stage narrative reporting review paused).</b></p>	<p>Some work was commenced on the research issue into local authority narrative reports, but resource issues have meant that that was put on hold.</p> <p><i>Project Lead: TBC</i></p> <p><i>Timing: TBC</i></p>
<p><b>Project 4 – Implementation of IFRS 17 Insurance Contracts</b></p>	<p>Implementation of IFRS 17 in the 2025/26 Code also see item 07.</p> <p><i>Project Lead: Steven Cain</i></p> <p><i>Timing: complete with normal timing of Code development for 2024/25 but implementation in the 2025/26 Code.</i></p>
<p><b>Project 5 – Better Reporting</b></p>	<p>This covers numerous items including the presentation of statutory adjustments.</p> <p>This work is currently being carried out by the Better Reporting Group which has held an initial meeting. The Secretariat would suggest that the following are priority items:</p> <ul style="list-style-type: none"> <li>A. IFRS 16 Leases disclosures – <b>initial consideration commenced.</b></li> <li>B. Presentation of statutory items/adjustments to <b>commence June TBC 2023</b>, and</li> <li>C. Group Accounts <b>timing TBC.</b></li> </ul> <p>Note a more detailed description of these projects was available in CL 08 03 2023 from the Board’s March meeting.</p> <p>The Better Reporting Group held its inaugural meeting on 11 May 2023 and agreed these projects and timings, but it is seeking to increase membership and a Chair, <b>and the Secretariat would welcome CIPFA LASAAC’s views on this.</b></p> <p>Also note the separate roundtables on the users of the accounts in a joint project with CIPFA and the ICAEW.</p>

	<p><b>Prioritise items A and B above – discuss timings with the Group following its research.</b></p> <p><i>Project Lead: Alan Bermingham</i></p> <p><i>Timing: per Bullets above</i></p>
<p><b>Project 6 – Horizon Scanning</b></p>	<p>This work will principally be carried out by the <b>Accounting and Financial Reporting Forum (AFRF)</b>, but <b>CIPFA LASAAC</b> will also review at each meeting.</p> <p>CIPFA Secretariat also attends relevant auditor meetings to try and pre-empt issues arising. <b>(Regular meetings with audit bodies).</b></p> <p><i>Project Leads: Steven Cain and Sarah Sheen</i></p> <p><i>Timing: As necessary and for most meetings.</i></p>
<p><b>Project 7 – Sustainability Reporting</b></p>	<p>CIPFA LASAAC to consider international changes to sustainability reporting frameworks and their potential impact on the Code.</p> <p>On behalf of CIPFA LASAAC, CIPFA Secretariat to discuss with government including the devolved administrations the approach to sustainability reporting.</p> <p><b>CIPFA LASAAC to receive regular updates note item 12 on the agenda.</b> Guidance has been produced by the Sustainability Forum.</p> <p><i>Timing: TBC.</i></p>
<p><b>Project 8 – Review of Structure and Format of the Code</b></p>	<p>Review of structure and format of the Code to align with needs of users and CIPFA’s new electronic platform – see below.</p> <p>Options for approaches in the 2024/25 Code consultation. Approach to development to align with the development of the CIPFA electronic delivery platform and consideration of options for presentation of the information.</p> <p><i>Project Leads: Sarah Sheen and Steven Cain</i></p> <p><i>Timing: included in the Invitation to Comment (ITC) for the 2024/25 Code publication for the 2025/26 Code</i></p>
<p><b>Project 9 – Materiality</b></p>	<p>CIPFA LASAAC decided at its March 2023 meeting that it wanted to add a project on materiality to its strategic work plan at its last meeting.</p> <p>It is suggested that this includes a review of the Code’s provisions on materiality which will follow over the summer but also to support other work in the local audit system on materiality which CIPFA is already proposing.</p> <p><i>Project Leads: Sarah Sheen and Steven Cain</i></p> <p><i>Timing: TBC following review over summer 2023.</i></p>

**CIPFA LASAAC Members are invited to consider the summary of its strategic work plan and whether it would wish to update it in any way.**

**CIPFA LASAAC Members are invited to suggest new members and provide proposals for the Chair of the BRG.**

## **2. CIPFA LASAAC Updated Strategic Work 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 Work 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 part.
- 2.3 At the same time nine 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. The additional items of the Strategic Work Plan included in the ITC are shaded in purple.

**CIPFA LASAAC Members are invited to provide any commentary on the impact of the strategic work plan on local authority accounts preparers and local auditors.**

## **3. Project 3A Narrative Reporting – Performance Reporting and Summary Financial Information**

- 3.1 CIPFA LASAAC has agreed to take forward this project as a priority. This had support by a few respondents to the consultation but particularly by an audit body who said *'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.'*
- 3.2 CIPFA also made a similar recommendation in its response to the Redmond Review.
- 3.3 The Invitation to Comment includes a discussion on what should be included in the Narrative report focussing on performance and summary financial information. The overview of performance takes the approach used in the FRoM on the performance overview adjusted for local authority circumstances and aligned to the current structure of the elements of the narrative report. This particularly prioritises the needs of the lay user. For further detail on the description please see the ITC.
- 3.4 The summary financial information focusses on service performance but also on a high-level summary of capital expenditure and finance so includes the summary financial position. This also includes the main financial elements of financial performance and position suggested by the Model standardised statements of service information and cost which accompanied the Redmond Review recommendations. This is except for information on group accounts or commercial activities which while they are important to local authority performance may be difficult to explain to the lay user. This might instead include information based on the financial risks faced by local authority undertakings in commercial activities and this is the suggestion included in the Exposure Draft.
- 3.5 Scottish local authorities are not required to follow the Code's prescriptions on the narrative report and instead follow the requirements of Scottish Government circular 5/2015: [The Local Authority Accounts \(Scotland\) Regulations 2014 – Management Commentary](#). It is therefore

suggested that Scottish local authorities are instead invited to provide the overview of performance and summary information. The Scottish Government might be interested in updating their guidance on this in future years and can follow the provisions of the Code.

- 3.6 CIPFA LASAAC members are invited to comment on whether there are any other issues which need to be considered either in the overview of performance or summary financial information.

**CIPFA LASAAC is requested to confirm whether it is content with the overall approach in the ITC to introduce an overview of performance and summary financial information.**

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

- 4.1 The review of the format and structure of the Code is an important part of the future development of the Code. It therefore the ITC focusses on several areas which could potentially be improved and/or where there have been differences of opinion. The ITC focusses and builds on areas a nascent CIPFA LASAAC worked group which was established to look at this topic identified. The ITC therefore includes questions for stakeholders on the following:

- **Accessibility** – does the Code’s structure and format allow its provisions to be both easily understood and usable.
- **Approach to content of IFRS as adapted or interpreted for the public sector context** – different views have been expressed on the approach to this in the Code, some commentators have indicated that an approach more akin to the [FReM](#) where the detailed provisions of standards are not presented should be pursued. Alternatively other commentators have preferred a continuation of the current approach in the Code which does provide detailed text regarding IFRS implementation. The ITC seeks views on the best approach.
- **Adaptations and interpretations** are an important element of the Code’s provisions. The ITC indicates that CIPFA LASAAC wishes to understand if adaptations and interpretations of standards affecting application for UK local government are clearly presented and easily identified in the Code.
- **Structure of the Code** – the ITC sets out the current and possible future structures to the Code the future structure is intended to be more accessible to accounts preparers and auditors based on the format of the accounts and the statements which accompany them.
- **Statutory Accounting Provisions** – these are currently included in most sections and chapters of the Code many emanate from the same legislative prescriptions, but all of these will be subject of the statutory adjustment line in the Movement in Reserves Statement. These could therefore be simplified and included in the new chapter on the MiRS. This might have the additional benefit of improving the understandability of how the Code applies the statutory adjustments.

**CIPFA LASAAC members are invited to consider the approach in the ITC to redrafting the Code and whether there are other issues it would request stakeholders to consider.**

#### **5. Sustainability Reporting**

- 5.1 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 empathises 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.

- 5.2 CIPFA has developed an initial guide on this area, [Public sector sustainability reporting: time to step it up](#) issued in April 2023. It also has a dedicated webpage on the topic [Sustainability reporting in the public sector](#).
- 5.3 At its March 2023 meeting the Board agreed to the following suggested 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 – it is suggested that the effectiveness review can consider whether this should be added to the Terms of Reference. It is also suggested that the timetable for implementation should be considered against the approach of the rest of the public sector. This is likely to require separate consultation due to the breadth of the topic.
  - Request that the Secretariat keeps it updated on international and central government developments – see item 12.
  - Set up a sub-group of the Board to consider the implementation of Sustainability Reporting – the Secretariat would request volunteers at the meeting.
- 5.4 It is likely that any developments on Sustainability Reporting in the Code would need to be subject of a separate consultation, but the Secretariat would seek CIPFA LASAAC's views on whether it would like to include any direct commentary in ITC.

**CIPFA LASAAC members are invited to consider the approach in the ITC to Sustainability reporting and the actions in 5.3.**

#### **Recommendations**

**CIPFA LASAAC Members are invited to consider the report and whether there are any additional issues/topics it considers should be included in the ITC.**