

simplifying and streamlining the presentation of local authority financial statements

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PREFACE

“Telling your Own Story”

In my previous life as a Chief Financial Officer (CFO) I recall a member of the Audit Committee at the local authority apologising for asking “silly questions”. The “silly questions” as she referred to them were anything but. This particular member was representing the very person our accounts should be of interest to, our local taxpayers and service users. I use the term ‘of interest to’ advisedly; it would be naïve to expect the full set of accounts to be accessible to all.

It is undeniable that elements of the financial statements are complex and possibly difficult to understand but this is because local authorities are large, diverse multifunctional bodies with complex transactions. IFRS is here to stay and it has had an important role in exposing some of the long term liabilities on local governments’ balance sheets, as did UK GAAP before it. The pensions standard might be viewed by some as limited in that it measures the liability at a point in time but nobody can deny it has exposed the funding gaps in some schemes.

If we accept that the accounts are necessarily complex in some areas, does that mean that we should accept that they can be inaccessible to huge swathes of our stakeholders? My own view is that this would be the greatest mistake CFOs could make. Our accounts are just that our accounts. Recently a more experienced CFO laid down a challenge to CIPFA; if CFOs step up to the mark and take ownership of the presentation of their accounts including having discussions with auditors, will CIPFA/LASAAC play its part in taking a more radical look at the simplification agenda.

CIPFA and CIPFA/LASAAC have been working to try and move forward the simplification work; publishing *Financial Statements; A Good Practice Guide for Local Authorities* and updating ‘*How to Tell the Story*’ that together assist CFOs in removing clutter and explaining the IFRS based accounts. Whilst both publications recognise that more can still be done on cutting clutter, the publications also accept that there is strong argument for reviewing the IFRS based accounts. In CIPFA/LASAAC’s earlier consultation on simplification a clear message came across that the Comprehensive Income and Expenditure Statement (CIES) and Movement in Reserves Statement (MiRS) were the key areas that the sector would like to see reviewed. Taking this on board CIPFA/LASAAC is keen to take a more fundamental look at these statements. The format of the CIES is largely determined by IFRS but there is a key question around the Code’s segmental reporting requirements, whilst there is potentially more freedom around the format of MiRS.

This consultation is purposefully broad; we do not want to restrict the debate unnecessarily. We are actively seeking new ideas that will help to return the financial statements to its rightful place as a reflection of each individual authority’s performance. This matter, as it carries the weight of independent verification through audit should form an important part of accountability. Can we better align the CIES to the way individual authorities operate, and can we

use MiRS to clearly show the impact of decisions on the authority's general fund balances?

In doing so this gives an opportunity to improve accountability to the local taxpayer and service users. As you take a well-earned break from budgets and accounts, allow your mind to drift and think about what the financial statements would look like if you felt as though the local authority really took on ownership of them and they clearly demonstrated an authority's individual performance please then share your thoughts with colleagues and of course CIPFA. Between us we could make a real difference.

Alison Scott
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Request for comments and feedback

1. We are consulting on the simplification and streamlining of the presentation of financial statements/statutory accounts, to better meet the needs of users, based on a clear understanding of the purpose of those accounts, and to remove unnecessary burdens from local authority accounts preparers.
2. Even though the reporting requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) are bound within the confines of the adapted IFRS based requirements of the Code we would encourage interested parties to be both creative and challenging (to those boundaries) in their responses to ensure that local authority financial statements are able to clearly represent local authority performance.
3. Please provide feedback by **19 September 2014** via email to simplification@cipfa.org. If you require your response to be treated as confidential please indicate this clearly on the response itself.

Consultation on simplifying and streamlining the presentation of local authority financial statements

- Q1 How do you consider that reporting of the performance of local authorities might be improved within the Comprehensive Income and Expenditure Statement?
- Q2 Do you consider that reporting performance of the authority might be improved by reporting the costs of services in accordance with the management structures of the individual authority rather than the service headings in Section 3 of *SeRCOP*? What do you consider to be the potential barriers to this?
- Q3 If you consider that the reporting of services in the Comprehensive Income and Expenditure Statement should be changed, how do you consider that *SeRCOP* might need to be updated to streamline the reporting of statutory service based returns?
- Q4 How do you consider that reporting of the performance of local authorities might be improved within the Movement in Reserves Statement?
- Q5 A line in the Movement in Reserves Statement provides a reconciliation between the accounting requirements stipulated in the IFRS-based Code and the statutory reporting requirements for the charges for taxation and rent setting purposes. How do you consider the analysis provided by this statement or related notes might be improved for this reconciliation? What do you think currently obscures the key messages for the users of the financial statements?
- Q6 Are there statutory reversals currently used to mitigate the impact of proper accounting practice on the general fund that are no longer material and could potentially be removed?
- Q7 CIPFA has been encouraging local authorities to 'take a red pen' to immaterial disclosures in the accounts. It has also issued its publication *Financial Statements; A Good Practice Guide for Local Authorities*. Are there areas that CIPFA or CIPFA/LASAAC could provide more guidance to assist local authorities with this?
- Q8 What do you consider is the best approach to "Tell the Story" of local authority performance ie what form and type of narrative report should accompany the financial statements. It would be helpful if interested parties consider their responses in the light of the requirements of the Local Authority Accounts (Scotland) Regulations 2014 and the proposed Accounts and Audit (England) Regulations 2014.

Background to the Consultation

4. Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper practices'. This includes, for the purposes of local government legislation, compliance with the terms of the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code), prepared by the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC). The Code is reviewed annually.
5. With effect from the 2010/11 Code, it has been based on International Financial Reporting Standards (IFRS), adapted as necessary for the public sector. At the same time as this change, it came under the oversight of the Financial Reporting Advisory Board (the FRAB), which reviews the need to adapt IFRS, as well as the Code's consistency with the Government Financial Reporting Manual (the FReM). However, the statutory requirements for determining an authority's financial position for council tax setting remain, and can be significantly different. Local authority financial statements therefore include complicated adjustments that convert accounting outturn to the funding requirement.
6. Last year CIPFA/LASAAC consulted on simplifying and streamlining the presentation of local authority financial statements. CIPFA/LASAAC would like to take this opportunity to thank respondents for their detailed consideration of the questions
7. The three high level messages from respondents were:
 - agreement with the consultation that local authority accounts have a tendency to be too long and are often burdened with too much detail
 - it was difficult to identify traditional local authority measures of performance ie movements on General Fund and HRA balances, and
 - there were a number of challenges to the application of the segmental reporting requirements and some of the reporting requirements of the *Service Reporting Code of Practice* (SeRCOP)
8. Following the respondents' comments on the consultation and comments made by other stakeholders CIPFA/LASAAC decided to prioritise the second stage of the review on the performance statements ie the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement.
9. The main messages in the Comprehensive Income and Expenditure Statement are driven by IFRS. However, there are options for reviewing how the resources of local authority services are reported, particularly, relating to the top section of the Statement (ie the Surplus and Deficit on the Provision of Services). An option might be, for example, to move to reporting the service costs of the authority following the management structures that the authority uses to deliver services. Other options may be evident to interested parties.
10. This then calls into question how the segmental reporting disclosure requirements and the needs of other statutory service based returns might best be served and how this might impact on the prescriptions of the *Service Reporting Code of Practice*. CIPFA/LASAAC and the Local Authority Accounting Panel (LAAP) would welcome interested parties' views on how this might be best achieved if the reporting requirements for the Comprehensive Income and Expenditure

Statement and segmental reporting change. Any changes would need to ensure that the statutory reporting requirements for the statistical returns required by government would continue to be met, although not necessarily on the face of the CIES.

11. The Movement in Reserves Statement has been subject to the most criticism since the move to the IFRS-based Code. This Statement aims to show:
 - how the authority has generated and expended resources in the year;
 - how the resourcing position is adjusted under statutory rules to show the funds available to be spent at year end; and
 - the extent to which available funds have been earmarked for specific purposes.
12. The need to reconcile the resourcing requirements with the statutory rules for taxation and rent setting purposes has long been an issue which has added complexity to the reporting of local authority performance. CIPFA/LASAAC considers that this, the note that accompanies the Movement in Reserves for the reconciliation of the statutory reporting requirements and the consideration of options for improving the complexity of the Statement should be subject to an in depth review. The review will also consider opportunities to provide better narrative explanations to support the Movement in Reserves Statement.
13. Interested parties will be aware that the Local Authority Accounts (Scotland) Regulations 2014 were laid before the Scottish Parliament on 7 July 2014 and are due to come into force on 10 October 2014¹. The Accounts and Audit (England) Regulations² have recently been subject to a consultative process. Both sets of Regulations have raised the issue of narrative reporting.
14. Consideration of narrative reporting alongside the segmental reporting requirements and the format of the Comprehensive Income and Expenditure Statement would bring into play the final element of improving accountability and the effective reporting of performance. CIPFA/LASAAC will also take into the review any relevant lessons from the International Integrated Reporting Pilot that CIPFA is undertaking.

¹ A copy of the regulations can be found at <http://www.legislation.gov.uk/ssi/2014/200/contents/made>

² The consultation which has now closed is available at:
<https://www.gov.uk/government/consultations/local-audit-regulations>