CIPFA The Chartered Institute of Public Finance & Accountancy

report

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Board	CIPFA/LASAAC Local Authority Accounting Code Board
Venue	CIPFA Scotland, Edinburgh
Date	4 November 2015
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Subject	Analysis of Responses to Consultation on the 2016/17 Code – Telling the Story

Purpose

To report on the responses to the consultation on the Draft 2016/17 *Code of Practice on Local Authority Accounting in the United Kingdom* and consider the provisions in Code arising from the Telling the Story Consultation.

1 Introduction

1.1 In total there were 89 responses (listed at Appendix A) to the public consultation on the *Telling the Story Improving the Presentation of Local Authority Financial Statements* (*Telling the Story*) consultation and the draft 2016/17 Code. This is a very positive response rate and is the most seen by the Secretariat since the responses to the consultation on the 2010/11 IFRS based Code.

1.2 The responses received are summarised in the remainder of this report. More detailed analysis is provided in Appendix B, section by section, accompanied with the Secretariat's comments and suggestions. Issues of principle are considered in the main body of the report. The statistical analysis of all the responses and individual comments is included in Appendix B. Minor corrections or other minor issues are not included in this analysis but may be included in amendments to the Exposure Draft of the Code.

1.3 Copies of the responses received will be made available to Board members electronically on request. The names of the confidential interested parties responding to the consultation will need to remain confidential. For the avoidance of doubt the body of the report does not refer to the individual entities.

2. Service Reporting Code of Practice (Service Expenditure Analysis), Balancing the Fiscal Position and the Accounting Position and the Adoption of Option 4 in the Appraisal of Options

Background

2.1 This section of the report will focus on the first three questions in the Telling the Story consultation ie:

- the removal of the requirement to report services in the Comprehensive Income and Expenditure Statement (CIES) in accordance with the specifications in the Service Expenditure Analysis (SEA) in Section Three of the Service Reporting Code of Practice (SeRCOP);

- the establishment of the principle of the financial statements balancing the need to report on both the funding (fiscal) performance and accounting performance; and

- adopting Option 4 in the option appraisal ie to include a Funding Analysis which brings together performance reporting for both the funding and accounting frameworks.

Responses to the Proposals

2.2 Appendix B demonstrates that there is broad support for CIPFA/LASAAC's proposals on these three issues. For example, 70 per cent of respondents are in favour of removing the formal link between the CIES and the SEA with 21 percent opposing this view, the remaining respondents not commenting directly on this question. The Society of District Treasurers was in favour of the proposal to introduce the Funding Analysis and commented "*as this is important to aid the readers understanding of the accounts and the true spending and funding position of an authority*".

2.3 The supporting respondents agreed with the views offered by CIPFA/LASAAC in the consultation paper and commented that this would improve accountability, be more transparent and follow the performance framework of the authority. Similar arguments were made for the financial statements to be able to balance the reporting requirements of the funding/fiscal position and the accounting framework. Respondents argued that removing the need to report in the CIES on the basis of the SeRCOP was more meaningful for both local authority members and users of the financial statements as it followed their budget/performance monitoring and other key documents such as their council tax leaflets.

2.4 A small number of respondents including an accountancy body, a police body and an independent consultant took the view that Option 1 should be followed and that the Code should adopt full IFRS.

2.5 The Secretariat supports the inclusion of IFRS in the financial statements as this presents the true economic cost of providing services. However, CIPFA considers that the true economic cost under accounting standards would have substantial impacts on the council tax setting and would create a volatility that would place even more burden on extremely pressurised budgets. The Secretariat would note that the need to bring together both the funding framework and the accounting framework is supported by stakeholders and the majority of respondents to the consultation. It is a more difficult task to bring both these frameworks together but the Secretariat considers that the Funding Analysis is an important step in doing this.

2.6 The remaining respondents disagreeing with the proposals were of the view that they wanted to retain the status quo. This is useful to note and understandable as CIPFA/LASAAC undertook substantial preparatory work on the financial statements before the move to the IFRS based Code. However, the feedback from the preceding simplification and streamlining consultations has been that the financial statements do not reflect the way in which local authorities organise themselves or manage their financial performance. Therefore the Working Group considered that this option was no longer tenable.

2.7 In this latter group were a small number of respondents that considered that they wanted to retain the SeRCOP SEA. Respondents to the consultation considered that this removed the ability of inter-authority comparison and this lead to less transparency. This would also no longer agree with the local government statistical returns (more detail on their views on the removal of the SEA may be found in Appendix B item 1.1). It should be noted that a lack of comparability was also a concern for some authorities supporting the move; however, it is notable that they continued to support the change.

2.8 Most of these issues raised by opponents to change have already been considered by CIPFA/LASAAC. One audit body commented that whilst comparability might have been improved "…*there has been little if any shift towards local authorities amending their ledgers or budgeting systems to bring them into line with that SEA*". The Working Group was also of the view that little use was currently made amongst local authority practitioners of this information. In addition, this did not override the benefits of having a structure in the performance statements which matched the way in which authorities manged their financial performance.

2.9 Two other issues cited by respondents were that the description of directorate of an authority would sometimes mean that the services or functions are not easily understood by the lay user. This was acknowledged in the examples provided in the consultation. If this is the case, authorities will need to provide adequate explanation either in the financial statements themselves, as is demonstrated by the examples, or make adequate narrative descriptions elsewhere in the notes. The second was that authorities are undergoing more frequent restructures and thus will need to restate more often. The Secretariat would concur that if an authority restructures its departments/directorates then the requirements of IFRS 8 *Operating Segments* paragraph 29 would apply, if these restructures have a material effect on the segmental analysis in the CIES. However, this would reflect the economic reality of the situation.

CIPFA/LASAAC is requested to confirm that it is content to follow the approach outlined in its consultation paper ie to remove the direct link with the SeRCOP SEA and pursue Option 4 by introducing the Funding Analysis to local authority financial statements.

3.0 The Funding Analysis

The Positioning of the Funding Analysis

3.1 Question 4 covered two areas; the positioning of the Funding Analysis (ie either in the Narrative Report) or the main financial statements and commentaries on the format of the Funding Analysis. In relation to the first of these issues CIPFA/LASAAC members will be aware that this was the subject of much debate in its June meetings this year. Following the meetings a number of CIPFA/LASAAC members from the auditing community were concerned about including a Funding Analysis which would also be used to discharge the requirements of IFRS 8 in the Narrative Report.

3.2 The majority of respondents to both this question and question 16 supported the provision of the Funding Analysis in the Financial Statements. This related to the audit issues highlighted in items in 4.3 and 17.1. The Funding Analysis is also being used to meet the performance reporting requirements of IFRS 8 and is better located in the main financial statements. The Secretariat has therefore suggested moving the prescriptions on the Funding Analysis to section 3.4 (Presentation of Financial Statements) of the Code from Section 3.1 (Narrative Report) (see CD 1 paragraphs 3.4.2.94 to 3.4.2.97).

3.3 The arguments for including the Funding Analysis in the Narrative Report remain valid ie that more context can be added to the statement and budgetary information can be used to demonstrate performance. It should be noted that there was some but not majority support to include budgetary information with the Funding Analysis (see informal summary at item 5.1 in Appendix B). Therefore the Secretariat suggests that Section 3.1 of the 2016/17 Code recommends that the Narrative Report should add any relevant context to the Funding Analysis and that authorities might consider whether they may wish to include appropriate budgetary information to provide additional context to the Funding Analysis (see CD 1 new draft paragraph 3.1.4.2).

The Format and Description of the Funding Analysis

3.4 A number of respondents indicated that they did not produce budget performance monitoring reports with the same line analysis as the CIES and thus the Funding Analysis and queried how this should be treated. The consultation responses as a whole demonstrated that there are a variety of differences in format. The Secretariat therefore considers that it would be best if the Funding Analysis were further simplified and recommends that it be presented as services lines and other income and expenditure. Thus the lines below services and before the Surplus or Deficit on the Provision of Services (lines b), to e) in the CIES) should be aggregated. The reconciliations would be provided for each of the services lines, for all other operating costs and at the Surplus or Deficit on the Provision of Services line. The proposed new format of the Funding Analysis is provided at Appendix C. Further disaggregation of those lines could take place with the reconciliation at Appendix D. This amalgamation of lines also has the advantage of making the Funding Analysis more accessible to the lay reader.

3.5 A small number of respondents considered that the description "Funding Analysis" did not reflect the statement's function and that this might imply an analysis of funds rather than an analysis of income and expenditure within General Fund balances. The Secretariat concurs that this description might be able to be misinterpreted in this way. It therefore suggests that a description might be General Fund Analysis. However, it is not convinced that this is an appropriate succinct description of the analysis provided. Therefore the Funding Analysis title has been maintained and the Secretariat would welcome the suggestions of the Board for a new succinct description of the analysis.

Other comments on the Funding Analysis

3.6 Question 6 sought views on whether information on the preceding year was necessary for the Funding Analysis. The majority of respondents were in favour of this. This will be necessary if the Funding Analysis is also used to meet the requirements of IFRS 8 and therefore preceding year information will be required.

3.7 A number of bodies and respondents did consider that there needed to be more testing of the statement and this should include relevant users. The Secretariat considers that consultation with practitioners has taken place as members of the Secretariat have discussed this with various groupings and in addition the Working

Group itself considered the statement. In addition, the Secretariat presented the consultation proposals to delegates at the July 2015 Local Government Accounting Conferences.

CIPFA/LASAAC is requested to consider whether it agrees with:

- **the positioning of the Funding Analysis in the main financial statements**
- **the new format of the statement per CD 1 paragraph 3.4.2.95, see Appendix C to this report**
- **the additional recommendations for the Narrative Report in 3.1.2.4.**

CIPFA/LASAAC's views are sought on a new name for the Funding Analysis.

4 Comprehensive Income and Expenditure Statement

Service Analysis on a Total Cost or Direct Cost Basis

4.1 Question 7 of the consultation sought interested parties' views on whether the service analysis ought to be based on total cost or on a direct cost basis. The majority of respondents (of those providing commentary) indicated a preference for a direct cost basis, with 24 per cent recommending total cost. Arguments for direct cost and total cost are set out in items 7.1 and 7.2 in Appendix B. However, it is apparent from the consultation queries and responses that there is no clear definition of direct cost used by local authorities.

4.2 Some respondents including those bodies that represent local authorities suggested that the approach should be flexible and be allowed to take place in accordance with their organisational arrangements. The Secretariat would also note that one authority indicated that it managed its budgetary performance on the basis of the total cost definition. The Secretariat would suggest therefore following the responses that the starting point should be a cost approach which is clearly defined and authorities are used to applying ie the definition of total cost in Section 2 of SeRCOP. The Code would then permit authorities to dis-apply the sections that require overhead apportionment provided that these services are managed as separate corporate directorates and meet the definition of a segment in the Code (see CD 1, paragraph 3.4.2.39).

CIPFA/LASAAC is invited to consider whether it agrees to the proposals for the definition of cost included in the service analysis in the CIES (see CD 1 paragraph 3.4.2.39).

5 Movement in Reserves Statement

Earmarked Reserves on the Face of the Statement

5.1 CIPFA/LASAAC also considered that it was necessary to follow Option 2 set out in the Invitation to Comment (ITC) and streamline the Movement in Reserves Statement as much as possible. The proposals therefore removed the lines for earmarked reserves and their transfers as the earmarking of reserves has no formal status in financial reporting or statute for local government.

5.2 This proposal did not have majority support and some of the respondents were "strongly opposed" to it. The reasons for this are set out in Appendix B item 8.1. One of the reasons is the level of scrutiny that local authority reserves are currently being subject to and that the earmarking of reserves is important as it reflects those resources that have specific commitments related to them. The Secretariat understands the rationale. However, unless those specific commitments need to be provided for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* there is no financial reporting justification to identify this earmarking on the face of a primary financial statement.

5.3 The Secretariat does consider that local authorities will need to clearly set out the financial position for earmarked reserves and particularly to describe the position in relation to why the resources have needed to be earmarked. However, this can be done in the separate earmarked reserves note.

5.4 One authority responded that "*We feel that the Code should permit (but not prescribe) earmarked reserves to be shown in a separate column in the MIRS, if accounts preparers wish to do so. This may indeed be permitted by paragraphs 3.4.2.26 and 3.4.2.27 of the draft Code currently being consulted on*." It is true that if an authority considered that it was material to the presentation of the MiRS then local authorities could consider whether the inclusion of the additional lines for earmarked reserves was necessary to present a "true and fair" view of the statement. This would also be beneficial to encourage authorities to take their own decisions on the financial statements.

CIPFA/LASAAC is invited to consider whether it wishes to add an explicit commentary in paragraph 3.2.4.52 about authorities considering whether they need to add appropriate analysis of earmarked reserves to face of the MiRS (ref CD 1).

Removal of the Surplus or Deficit on the Provision of Services Line from the MiRS

5.5 The majority of respondents agreed with the removal of the Surplus or Deficit on the Provision of Services line from the MiRS and concurred with the commentary in the ITC that the separation of the reserves analysis between Surplus or Deficit on the Provision of Services and Other Comprehensive Income and Expenditure is available because of the split of usable and unusable reserves in the MiRS. A number of respondents also commented on the benefits of simplification of the statement for users. The respondents that disagreed included two firms who considered that it was necessary to include the separate rows to meet the requirements of IAS 1 paragraph 104 d (i) and (ii). CIPFA/LASAAC already considered these requirements when deciding to include these proposals in the ITC and was content with the analysis offered by the split of reserves.

5.6 Five authorities considered that removing the line would make the statement less understandable and told a fuller story of the relationship between the CIES and the usable and unusable reserves (see item 9.3 in Appendix B). The Secretariat is not clear of the advantages of maintaining this line and considers that the information is available in both the CIES and the MiRS. Following the CIPFA/LASAAC's desired approach in Option 2 ie to streamline the MiRS the Secretariat has not changed this approach.

CIPFA/LASAAC is invited to confirm whether it is content that the Surplus or Deficit on the Provision of Services line is removed from the MiRS (ref CD 1).

Other Proposals on the MiRS

5.7 An accountancy body suggested that as the MiRS was the equivalent of the Statement of Changes in Equity and local authorities did not have any share capital that the information in the MiRS could be relegated to a note. The Secretariat does not concur. Equity is defined in the IASB Conceptual Framework as "*the residual interest in the assets of the entity after deducting its liabilities*" and is not defined as share capital. The MiRS is necessary to clarify the disposition of the residual interest in the authority according to the statutory controls as to how it can be applied. The Movement in Reserves Statement shows how:

- the authority has generated and expended resources in the year; and
- the resourcing position is adjusted under statutory rules to show the funds available to be spent at year end.

5.8 The Secretariat would also note that although other public sector bodies do not have share capital they are still required to produce an equivalent statement eg for central government bodies the Statement of Changes in Taxpayers' Equity.

5.9 Appendix B summarises the other proposals most of which were not in accordance with the objectives of the streamlining review. Others might be able to be addressed in application guidance. The Secretariat has not made any further changes to the MiRS

CIPFA/LASAAC is invited to confirm whether it is content with the prescriptions in the Code for more streamlined MiRS (ref CD 1, paragraphs 3.4.2.52 and 3.4.2.53).

Note e) Adjustments between the Accounting Basis and Funding Basis -

5.10 All the commentaries that were provided were relating to Appendix 6 of the ITC and therefore application of Note e) to paragraph 3.4.2.52 and 3.4.2.53 ie Adjustments between the Accounting Basis and Funding Basis. None of the commentaries relate to a requirement for different provisions in the Code. Some of the suggestions required minor changes to the Appendix and therefore for completeness these have been provided at Appendix G.

CIPFA/LASAAC is invited to consider confirm its approach to the note for Adjustments between the Accounting Basis and Funding Basis in paragraph 3.4.2.52 and 3.4.2.53 (ref CD 1).

6 Segmental Analysis

CIES and Funding Analysis Meeting Segmental Reporting Requirements

6.1 Both the Funding Analysis and the CIES include an analysis of the costs of providing services and thus provide a segmental analysis and (as a part of the streamlining agenda the ITC proposed) meet some of the reporting requirements under IFRS 8. Sixty-eight per cent of respondents agreed with this proposal. A number of the negative respondents disagreed because they did not agree with the overall proposal to introduce a Funding Analysis.

6.2 An accountancy body also disagreed (see item 12.7) it commented that "*We understand the driver to reduce detail in the financial statements but are not convinced that this can be achieved by making the I&E and Funding Analysis more detailed and do more than one function*".

6.3 CIPFA/LASAAC and its Working Group were of the view that there was a separate need for both the Funding Analysis and the CIES to include services and measure performance as this is a fundamental part of the financial performance of a local authority. There are therefore already two segmental analyses in the financial statements. A third report of the same information would do nothing to assist the readers of the financial statements. Therefore CIPFA/LASAAC considered it would meet the needs of IFRS 8. This was supported by the majority of respondents as noted in paragraph 6.1 above.

Reports of Profit or Loss per Segment – Paragraph 23 of IFRS 8

6.4 A firm indicated that it considered that the Funding Analysis and the CIES could not meet the requirements of IFRS 8 because of the requirements of paragraph 23 which requires "*an entity shall report a measure of profit or loss for each reportable segment*". IFRS 8 paragraph 23 also states that "*An entity shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss*."

6.5 The ITC and its Appendix addressed this issue directly because it considered that the items of income and expenditure that were listed in the analysis were rarely reported on a segmental basis (these items include for example revenues from external customers, revenues from transactions with other operating segments, interest revenue, interest expense and depreciation and amortisation), with the possible exception of external revenues. The majority of respondents agreed with this view (67%) with five respondents disagreeing. A small number of authorities confirmed that they reported on one of the items, with two authorities indicating that they reported on a segmental basis in accordance with paragraph 23. The firm considered that the analysis within paragraph 3.4.2.92 should be provided on a segmental basis. However, the analysis in paragraph 3.2.4.92 is not included in IFRS 8 and therefore this is not a requirement of the standard.

6.6 The Secretariat considers that the Funding Analysis may still be used as a segmental report and where an authority reports any of the items of income and expenditure in paragraph 23 of IFRS 8 on a segmental basis then it would need to provide a segmental analysis of the item across the segments. This requirement has now been explicitly included at paragraph 3.4.2.93.

6.7 The items in paragraph 23 not included in an authority's segmental analysis will be reported in the new paragraph 3.4.2.43 which is intended to meet the requirements of paragraph 104 of IAS 1.

CIPFA/LASAAC is invited to consider whether it is content with the approach to paragraph 23 of IFRS 8.

Reconciliation from the Funding Analysis to the Comprehensive Income and Expenditure Statement

6.8 Local authorities will also need to reconcile the segmental analysis to profit or loss. This is provided by the first column of the Funding Analysis reconciling to the Surplus or Deficit on the Provision of Service. The Funding Analysis thus meets the requirements of paragraph 28 b) of IFRS 8 (with paragraph 28 a) being provided by the CIES). A listing of the material reconciling items as required by paragraph 28 being provided by Appendix 3 to the ITC (Appendix D to this report). This received the support of the majority of the respondents ie 64 percent. The respondents that did not agree were primarily those that did not support the introduction of the Funding Analysis.

CIPFA/LASAAC is invited to consider whether the Funding Analysis and supporting note demonstrated by Appendix D is able to meet the requirements of paragraph 28 of IFRS 8.

7 Transitional Requirements

Timing

7.1 The ITC proposed that the new arrangements would be introduced in the 2016/17 Code and sought views on issues on the timing of the proposals. The respondents largely supported the introduction from 2016/17 with 63 percent of agreeing with that timeline. However, there the responses included a wide range of views with a confidential respondent considering that the proposals needed a substantial lead-in time. A number of local authorities raised similar concerns and mentioned other competing pressures on local authority accounts preparers, including faster closing and the changes to the measurement of the Highways Network Asset (HNA). These respondents suggested a rage of timings including the lead in time of two years, 2017/18 or one authority even suggesting that the earliest date would be 2018/19.

7.2 In contrast a number of the supporting commentaries considered that the move should be as soon as possible, including allowing adoption for the 2015/16 year. A number of authorities suggested that it was important to move to the 2016/17 year to allow the changes to "bed-in" before the faster closing requirements were introduced.

7.3 The Secretariat would not recommend early adoption to be permitted for the 2015/16 year as this would require restatement of preceding year information for 2014/15 and it is unlikely that application guidance will be ready in time.

7.4 The responses to question 19 summarised at item 19.1 suggest that there are practical preparations and resource implications for local authorities, perhaps the most onerous are for those authorities that also have to prepare for the new measurement requirements for the HNA.

7.5 CIPFA/LASAAC was keen to adopt the changes in the 2016/17 Code and this appears to have support from respondents. However, if CIPFA/LASAAC considers that there should implementation for the 2017/18 Code but permitting early adoption in 2016/17, this would require that the provisions for the changes be included in the 2016/17 Code. Following previous protocols the Secretariat would suggest that this is included in an Appendix to the Code. The current Code Draft includes the changes in the 2016/17 Code ie CD1.

CIPFA/LASAAC is invited to consider which approach it would like to take on the timing of the adoption of changes to the Code.

Recommendations

The Board is invited to consider the individual issues brought to its attention above and consider the items to take forward for approval the 2016/17 and future editions of the Code.

Appendix A List of Respondents

Aberdeenshire Council	Argyll and Bute Council	Barnsley Metropolitan Borough Council
Bournemouth Borough Council	Bracknell Forest Council	Bradford Borough Council
Calderdale Metropolitan Borough Council	Chelmsford City Council	Conwy County Borough Council
Daventry District Council	Derbyshire County Council	Devon and Cornwall Police
Devon County Council	Dyfed Powys Police	Dyfed Powys CFO of the Police and Crime Commissioner
East Ayrshire Council	East Dunbartonshire Council	East Riding of Yorkshire Council
Essex County Council	Flintshire County Council	Glasgow City Council
Guildford Borough Council	Gwynedd Council	Hampshire County Council
Hertfordshire County Council	Inverclyde Council	Kent County Council
Kent Fire and Rescue Service	Kettering Borough Council	Leeds City Council
Leicester City Council	London Borough Camden	London Borough of Hackney
London Borough of Harrow	London Fire and Emergency Planning Authority	Manchester City Council
Melton Borough Council	Metropolitan Police	Milton Keynes Council
Newcastle Under Lyme Council	Newport City Council	North Ayrshire Council
North East Lincolnshire Council	North Hertfordshire Council	North Tyneside Council
Northumbria Police	Rochdale Borough Council	Sandwell Metropolitan Borough Council
Sheffield City Council	Solihull Metropolitan Borough Council	Somerset County Council
South Gloucestershire Council	South Lanarkshire Council	Stirling Council
Stoke on Trent City Council	Suffolk County Council	Surrey County Council
Swale Borough Council	Thames Valley Police	Torfaen County Borough Council
Wakefield MDC	Walsall Council	Wealden District Council
Welwyn and Hatfield Borough Council	West Midlands Police	Westminster City Council
Joint Response from Babergh and Mid Suffolk District Councils	Police and Crime Commissioner for Humberside and Police and Crime	National Police Chief Council sent by South Yorkshire Police

	Commissioner for South Yorkshire - Joint Response	
Police and Crime Commissioner Treasurers' Society	CIPFA, Directors of Finance Scotland Section	Society of District Treasurers'
ICAS	Audit Scotland	National Audit Office
Wales Audit Office	BDO LLP	Grant Thornton UK LLP
Mazars LLP	Arlingclose	Capita
Sandra Goscomb (personal response)	Kevin Dack Independent Consultant	Worth Technical Accounting Solutions Limited
Confidential Authority	Confidential Authority	Confidential Authority
Confidential Authority	Confidential Respondent	

SUMMARY OF CONSULTATION RESPONSES

Note – a group of interested parties best described as professional accounting firms that audit local authorities is abbreviated in this Appendix to firm or "firms"

Service Reporting Code of Practice and the Comprehensive Income and Expenditure Statement

Question		Agree	Disagree	No Comment
1	Do you agree that the net expenditure of continuing operations in the Comprehensive Income and Expenditure Statement (CIES) (known as the net cost of services) should be presented on the basis of the organisational structure of the authority? If not, why not? What alternatives do you suggest?	62 (70%)	19 (21%)	8 (9%)
2	Do you agree that the financial statements should attempt to balance the need to show the true fiscal position of the local authority under proper accounting practices with the funding position?	72 (81%)	8 (9%)	9 (10%)

Question		Option 4	Different Option	No Comment
3	Do you support Option 4 which provides a direct reconciliation between the positions or do you support a different option?	59 (66%)	18 (20%)	12 (14%)

	Issue	**Secretariat Response**
	Question 1– CIES on the Basis of Organisational Structure	
1.1	A number of the respondents that disagreed with the proposals commented: ▪ This would lack comparability between authorities with some extending the argument to this leading to less transparency (one Scottish authority cited that there	Many of these issues have been considered by both CIPFA/LASAAC and the Working Group. Firstly, the Working Group was not clear that the comparisons took place or were used by authorities or the very few users of the financial statements. Secondly, and perhaps more importantly to the Working Group were the advantages and

	Issue	Secretariat Response
	would now be 32 different sets of financial statements for Councils in Scotland).[1] ▪ This was not consistent with the local government statistical returns, for example in England and Wales the Revenue Outturn forms. ▪ For some Council the service analysis would be provided at too high a level for users to understand what the segment analysis meant. ▪ The service aggregations for some authorities would not have meaningful descriptions for lay users. ▪ The CIES would be subject to frequent changes to reflect frequently changing structures whilst the SeRCOP analysis currently provides stability, one authority noting that cabinet portfolios change annually. ▪ SeRCOP service descriptions are well understood and more familiar to the lay user ie it gives a perspective on how much it costs to collect refuse for example in comparison to other authorities. ▪ The SeRCOP structure reflects how local authorities operate under the same statutory framework and on a consistent basis (the respondent noted that a SeRCOP analysis would still allow a Funding Analysis to be produced but not on the basis of the authority's own organisational structure).	improvements in accountability by linking the key performance statement (the CIES) to the way in which authorities budget and manage their performance throughout the year. CIPFA/LASAAC was already aware that the CIES would lose its direct link to individual services in the SeRCOP Service Expenditure Analysis (SEA) and therefore with the statistical returns required across the four UK jurisdictions. The CIPFA Secretariat has met with the four government departments or bodies and they are aware of this change. It will seek to ensure that the provisions of both the Code and SeRCOP emphasise the need for accuracy and the relevant reconciliation to outturn in the CIES. It is acknowledged that if a local authority goes through a substantial restructure then a true and fair view will require the top section (to the net cost of services) of the CIES to be restated in accordance with the provisions in IFRS 8. Where directorate and service descriptions might be considered by an authority to be less meaningful to the users of the financial statements it will be up to the authority to provide adequate description or notes to ensure that the users understand these descriptions. An example of such an approach was provided in the Appendices to the consultation. The Secretariat concurs the description of the services in the SeRCOP SEA is generally understandable to the lay user. **The Secretariat considers that the majority of these issues have been considered by CIPFA/LASAAC and the Working Group and beyond adding clarification on one or two of**

[1] It should be noted that a number of the supportive respondents also cited the lack of comparability.

	Issue	Secretariat Response
	▪ One authority strongly disagreed as it was concerned that it would no longer be able to refer Freedom of Information requests to the financial statements when requests were made for cost per service.	**the issues does not recommend substantial change.**
1.2	An accountancy body suggested a more fundamental approach to changing the financial statements it considered that: "the focus should be on how local authorities apply IFRS as intended, rather than creating and sustaining divergences which add complexity and obfuscation."	CIPFA/LASAAC and the Working Group did consider a move to full IFRS in their option appraisal discussed in the Invitation to Comment (ITC). This was not supported by the Working Group or CIPFA/LASAAC. The accountancy body does not agree with the analysis in the Technical Appendix. However, moving to full IFRS did not receive support from the Working Group.
1.3	An audit body also refuted the analysis of the Working Group in regards to the removal or the SeRCOP SEA in the CIES and provided its own option analysis.	The Secretariat considers that these issues were evaluated by the Working Group.
1.4	The supporting authorities considered that the financial information presented in the same way as the authority's organisational structure will promote accountability as it will be more meaningful to members and users of the financial statements. It will thus allow greater transparency for these users being able to follow performance through budget reports and other external financial reports with the authority's citing consistency with Council Tax Statements. Some authorities stated that this will make	**CIPFA/LASAAC is invited to note this summary.**

	Issue	Secretariat Response
	the year end accounts quicker and easier to prepare.	
1.5	A number of respondents considered that the proposals should allow reports based on a subjective analysis.	This option was proposed to the Working Group; however, it did not support any proposals for the CIES to be analysed on the basis of a "nature of expenses" analysis in IAS 1. This was because local authorities have always sought to report services in their "primary" performance statement as the provision of services to its locality is the main function or raison d'etre. This conclusion was also the conclusion of the working groups that developed the first IFRS based Code in 2010/11.This also is unlikely to meet the requirements of IFRS 8. It is recommended that this be clarified in the Code.
1.6	An authority supporting the move noted that the proposal retains the current analysis of the 'surplus / deficit on the provision of services' into the key corporate components of the CIES "We do not report to management on this basis of these components, and so the new presentation will still not enable direct comparisons to be made between the Statement of Accounts and the information in our budget book and budget monitoring reports etc (the comparisons will be made more easily than at present though). " The authority believes that if it is necessary to retain the five component parts of the Comprehensive Income and Expenditure Statement referred to, it would probably be necessary for it to establish another accounting structure in its general ledger to accommodate the alternative presentation. A number of other authorities noted	A number of other authorities commented on this issue and this was an issue that CIPFA/LASAAC touched upon itself when considering the surplus or deficit on the provision of services. It is recommended therefore that the Funding Analysis be analysed over two components those costs charged to services and those costs not charged to services. This will simplify the Funding Analysis (see CD 1 paragraph 3.2.4.95 and Appendix C).

	Issue	Secretariat Response
	that they did not budget precisely in line with the line analysis of the CIES.	
	Question 2 – Balance Fiscal Position and Accounting Position	
2.1	An accountancy body commented: “This combination means that the financial statements are trying to do too much; the impact of this is a need to reconcile the funding and accounting requirements in one document. This drives complexity and given its legislative basis, is a significant obstacle to streamlining local authority accounts and making them more user friendly. It also distorts the financial position.” A CFO for a PCC and an independent consultant endorsed this view.	The Working Group did not consider that it wished to progress with Option 1 which did take into account that in the longer term that there would need to be consideration of the removal of the legislative requirements for taxation purposes.
2.2	A local authority was concerned that the additional Funding Analysis was an additional reporting requirement, thus adding clutter to the accounts.	CIPFA/LASAAC did consider this. However, the Funding Analysis replaces the segmental reporting note and in a streamlined, more user friendly manner. Therefore there should not be a net addition to the reporting requirements.
2.3	A respondent considered that the preferred option was to remain with the status quo.	The CIPFA/LASAAC and the Working Group considered this but decided this not to be a tenable option as was discussed in the ITC and supporting Appendices.
2.4	A respondent considered much of the information that would be provided in the Funding Analysis would be provided in the explanatory foreword. Another respondent noted that the current segmental reporting analysis included the relevant information.	The Working Group was aware that this information might at least in part be provided in the explanatory foreword but it considered that most of the analyses did not fully bring together both the fiscal and accounting frameworks. The Secretariat would note that it had seen a few examples which attempted similar reconciliations. However, the Funding Analysis was considered to put this on a more formal, consistent footing.

	Issue	Secretariat Response
2.5	An independent consultant considered that "the Council's statutory funding positions are two separate pieces of financial information with different purposes and a different basis of compilation. Therefore they should be reported separately. Trying to combine the two in a single set of accounts simply adds to the length and complexity of the document and tends to confuse readers."	This does not accord with the views of CIPFA/LASAAC in the consultation papers.
2.6	The positive respondents generally supported the views in the consultation paper.	**No further action.**
	Question 3 – Option Appraisal	
3.1	A number of respondents (including a firm considered that the status quo should be retained). One of the respondents indicated that best practice should recommend that narrative content of the explanatory foreword to effective set out the funding position. A small number of authorities considered that the Movement in Reserves Statement and/or the segmental reporting note provided the same information and therefore status quo should be maintained with a focus on improving the presentation of these statements.	The Secretariat recognised in its analysis of the options that there were many benefits of retaining the status quo. There had been substantial research and outreach events to develop the financial statements on the move to the IFRS based Code and the current statements do comply with IFRS. However, the Working Group and CIPFA/LASAAC wanted to develop options which brought together the fiscal and accounting reporting frameworks in such a way as to be accessible to the lay user. **CIPFA/LASAAC is invited to note these responses.**
3.2	A firm commented that although it saw the merit in option 4: "in our view there are some issues to address to ensure that the Funding Analysis achieves the objectives set. Before proceeding with Option 4 we would like to see some further outreach work undertaken by CIPFA which demonstrates that the identified	The Secretariat in considering the original project plan allowed for further testing of the final option. However, it would be difficult to undergo further outreach events and meet the publication timescales for the 2016/17 Code. Some outreach work did take place in the July technical update day where the Secretariat discussed the formats of the statements and the new

	Issue	Secretariat Response
	objectives would be achieved."	Funding Analysis with delegates and more will take place at the November conferences. **CIPFA/LASAAC's views are sought on whether there needs to be more outreach events before the Funding Analysis is included in the Code**.
3.3	A firm commented: "As the Funding Analysis is a non-IFRS based statement, nor required by regulation, we do not consider that the Funding Analysis should form part of the statement of accounts but be published alongside it (in line with the requirements of the narrative statement in the Accounts and Audit Regulations 2015). "	The objective of the Funding Analysis is outside of IFRS. However, as is discussed in later questions the outcomes are also coterminous with an approach to meeting the needs of IFRS 8 *Operating Segments* and therefore would need to be a part of the financial statements. **The Secretariat recommends no further action.**
3.4	An accountancy body was concerned that the complexity of local authority accounting is significantly driven by specialist adaptations and the legislative drivers which are unique to that sector. It suggested that the needs of general accounts users' needs greater emphasis. The accountancy body considered that the way in which the legislation is drafted has therefore created a dual purpose as the financial statements have a funding position and an accounting position and therefore the financial statements have to do too much. The accountancy body considered that priority should be given to amending the primary legislation to remove the significant barrier to simplification. It commented that it was not persuaded by the disadvantages of Option 1 cited in the option analysis in the Invitation to Comment (ITC) and its Appendices.	The Secretariat supports the inclusion of IFRS in the financial statements as this presents the true economic cost of providing services. However, CIPFA considers that the true economic cost under accounting standards would have substantial impacts on the council tax setting and would create a volatility that would place even more burden on extremely pressurised budgets. **The Secretariat recommends no further action.**

Funding Analysis

Question		Agree	Disagree	No Comment
4	Do you agree that a Funding Analysis should be prescribed by the Code and included in the narrative report that accompanies local authority financial statements to provide a link between the IFRS based financial reporting requirements and the statutory funding requirements for taxation and rent setting purposes? If not, why not? What alternatives do you suggest?	61 (69%)	16 (18%)	12 (13%)
5	Do you consider that it would be useful to require budgetary information in the Funding Analysis? Please provide the reasons for your response.			

		No comparator information	Yes Comparator information	No comment
6	Do you consider that the Funding Analysis should include comparator information? Please give a reason for your answer including any alternatives you consider might achieve the objective of telling the story of local authority financial performance.	32 (36%)	42 (47%)	15 (17%)

	Issue	**Secretariat Response**
	Question 4 – Funding Analysis in Narrative Report	
4.1	An accountancy body considered that there would be value in a: "short summary at the organisational level in the Management Commentary/ Narrative Statement but do not agree that the full Funding Analysis should be part of the Code."	The issue of whether the Funding Analysis should be included in the Narrative Report or the main financial statements is an issue were there are a number of perspectives that need to be considered. CIPFA/LASAAC and the Working Group saw substantial benefits in the inclusion of a Funding

	Issue	Secretariat Response
		Analysis.
4.2	An authority commented: "This proposal is clearly contrary to the intention of the Accounts and Audit Regs in requiring a 'narrative statement', and raises the obvious question of whether it would in fact be legal to include such a table in the Narrative Report. It raises the spectre of councils having to get legal advice on whether or not the Code contradicted statute." "In terms of its position within the accounts, we feel that the Funding Analysis should come after the main financial statements, as it is essentially providing additional information to help the user in understanding the main statements. It could be given the status of a subsidiary statement like the Collection Fund, or it could simply be an explanatory note to the main statements. " "Turning to the proposed format given in the consultation documents, the main problem is that the starting point shown would not be recognisable to stakeholders. The starting position needs to be simply the breakdown of the outturn position as it is reported, i.e. the breakdown across services. The transfer of some items down to Other operating expenditure, etc. would then need to be shown in an additional second column. If it is to be of any use, the new statement must show the transition between, say, the reported outturn position for Adults Social Services and the figure included for it in the I&E account. "	The Secretariat does not consider that it would not be legal to include such a table in the Narrative Report/ Statement as the Code has provided guidance on what is included in the explanatory foreword since the move to the IFRS based Code, though ultimately this would be decided by the courts. It would also be very difficult to decide on whether it would be legal as the Accounts and Audit Regulations 2015 do not specify the objective of its prescribed Narrative Statement. It only specifies what it should include in terms of performance per regulation 8 (2) and does not state that the Narrative Statement should be limited to this. In an interesting comparison to this response one of the firms is of the view that the Funding Analysis requirements should be prescribed by the Code and included in the Narrative Report. It is likely that the Funding Analysis should be included as a note to the main financial statements though its order and prominence in the statements could be determined by the authority. It is likely that the format of the Funding Analysis would need to be more structured than is outlined by the authority to reconcile to the CIES.
4.3	In addition to the above commentary a number of arguments were put forward to suggest that the Funding Analysis should be included in the main financial	Following the decisions of the Board at its 10 June 2015 meeting a number of CIPFA/LASAAC members (principally from the audit

	Issue	Secretariat Response
	statements. These included: ▪ The Funding Analysis is recommended as an alternative presentation to meet the requirements of IFRS 8 and therefore is best placed in the main financial statements. ▪ The Funding Analysis remains a technical note and therefore is better placed in the main financial statements. ▪ It was more useful to include the Funding Analysis with the main financial statements as a part of the bridging the gap between the two frameworks and appropriate cross references can be made for any budgetary analyses with the outturn reported in the funding analysis. ▪ A firm commented that it was: "our initial view that by prescribing that the Funding Analysis forms part of the financial statements within the Code of Practice it would be scoped into the true and fair opinion on the Statement of Accounts (as required by s4 of the Local Audit and Accountability Act 2014) regardless of the position it is presented".	community) highlighted misgivings about including a note/analysis which met the requirements of IFRS 8 in the narrative report and the complexity of the audit arrangements that would arise from this proposal. Whilst the information in the Funding Analysis would be usefully combined with budget commentary it would be difficult to add more detail to the Funding Analysis itself and for it to be easily accessible to the lay reader and therefore the Secretariat would not recommend including budget information in the Funding Analysis itself. The Secretariat considers that the Funding Analysis should be included in the main financial statements as a note (as CIPFA/LASAAC had previously decided that it should be an "analysis" and not a funding statement). The Secretariat recommends that the Funding Analysis should be included in a note to the financial statements. In a model suggested by an authority ie, where any budgetary commentary, context or comparisons can be included in the narrative report with appropriate cross reference to the Funding Analysis.
4.4	Some respondents considered that the placement of the Funding Analysis in the narrative report or the main financial statements could be a choice for authorities.	The Secretariat considers that it would be clearer for authorities if the Code specifies whether the Funding Analysis is included in the main financial statements or the narrative report. Also see the response in item 4.3 above per the reporting requirements for IFRS 8. However, it would be for the authority to decide how much cross referencing or information it needed to supplement the Funding Analysis in the Narrative

	Issue	**Secretariat Response**
		Report.
4.5	A firm commented that further guidance was necessary: “the column headed ‘Expenditure Chargeable to the General Fund’ is required to be presented based on the organisational structure of the local authority. However, not all local authorities will include some items that are chargeable to the General Fund within their organisational structure and budgetary information to members. It is unclear to us where such charges should be included and whether it is a matter of simply using an ‘other income and expenditure’ line. One such item that might not be included in budget information presented to members is depreciation.”	See response to item 1.5 above.
4.6	A firm commented: “…we are struggling to see how the FA presents information in a more understandable format than is already the case under the existing financial reporting framework”. “If anything, we find the analysis, in combination with that which will still be required in the CIES, MIRS and the MIRS adjustment note, to be confusing and potentially duplicates information already obtainable from the core statements and the associated notes.”	More clarification has been provided. However, as the bringing together of the fiscal and accounting frameworks in the Funding Analysis covers similar ground to the accounting and regulations adjustments line this will lead to some duplication. Such duplication also existed in the previous segmental reporting note. Also it is important to note that the Funding Analysis focuses on income and expenditure reported to services under the two frameworks and not the same analysis as the Movement in Reserves Statement.
	Question 5 Funding Analysis and Budgetary Information	
5.1	The response sheet did not provide a drop down box to agree or disagree with this response as this question was meant to be narrative. However, some of the respondents did attempt to give yes or no responses. Therefore the Secretariat has endeavoured to follow the responses and summarise the percentage of respondents that considered that the Funding Analysis should provide budget information. However, the Secretariat would highlight that these are very rough	

	Issue	Secretariat Response
	estimates as a large percentage of responses were not clear. **Twenty- four per cent** of respondents considered that the Funding Analysis should include budget information, with **37 per cent** considering that it should not and the remainder **39 per cent** either not commenting or not providing a clear response. In addition the Secretariat would note some of the rationale for not providing budgetary information was provided included in the positive responses.	
5.2	The respondents answering positively for inclusion of budgetary information commented that: ▪ this tied the Funding Analysis into the rest of the management commentary; ▪ this was similar to reports they had already tried to include in their Explanatory Foreword/Management Commentary; ▪ it adds context to the funding analysis; and ▪ the budget that should be included is the one established for Council Tax setting purposes.	These all provide useful rationale for including budgetary information at the very least alongside the Funding Analysis outturn information. However, see responses in 5.3 below.
5.3	A number of both the positive and negative respondents to this question asserted that the addition of budgetary information would add too much detail for users to understand. Some of the respondents indicated that they could use the outturn information for the general fund in the Funding Analysis (and /or cross reference to the Funding Analysis in the main financial statements) for comparison purposes.	This accords with the Secretariat's own views and proposals.
5.4	Respondents answering negatively commented: ▪ This information was already included in the Explanatory Foreword/Management Commentary.	Many of these points are also relevant and therefore the Secretariat does not recommend that the Funding Analysis includes budgetary information. It is recommended that the Narrative Report recommends that authorities should add appropriate budgetary

	Issue	Secretariat Response
	▪ They did not consider it beneficial for budgets to be agreed on a line by line basis with their auditors. ▪ Local authorities should have the freedom and flexibility to present their budget information in their narrative reports in a way in which best suits their readership. ▪ That budgets are revised throughout the reporting year and therefore there would be debate about which budget would be most effective in demonstrating financial performance.	commentary to provide context to the Funding Analysis by means of cross reference.
5.5	An authority commented: "…it would appear that Telling the Story has attempted to throw a host of new requirements into the accounts process in the hope that the user will perhaps somewhere in the midst of all the information presented be able to find something which meets their requirements. We remain concerned that the additional work required to an already time consuming and expensive process will lead to more costly accounts and a longer closure process with little to gain from it."	This is a complex area where CIPFA/LASAAC and the Working Group have sought to provide the best mechanism to bring the two performance frameworks together. **CIPFA/LASAAC is invited to note this comment.**
5.6	An authority commented: "We believe that the column 'Expenditure Chargeable to the General Fund and HRA Balances' per the Funding Analysis could be used as the basis for a separate table in the narrative report/management commentary which compares the expenditure to budget. A budget comparison table and narrative in the Management Commentary, and the Funding Analysis in the Financial Statements, would demonstrate the link	This accords with the Secretariat's views on a recommended approach to reporting the Funding Analysis in the narrative report.

	Issue	Secretariat Response
	between the budget, the expenditure reported to management and the expenditure reported in the CIES."	
5.7	One authority commented: "I think some more thought needs to be given as to whether this note works. To my understanding the current proposed format of the 'Funding Analysis' does not hang together because it ignores movements on earmarked reserves. The example assumes that the surplus/deficit on the I&E less the various IFRS accounting adjustments gives you the net movement on the GF/HRA balances but in reality it doesn't. "	The Secretariat does not consider that earmarked reserves need to be included in the Funding Analysis. See more commentary on earmarked reserves at 8.2 below.
5.8	The same authority commented that it considered that the Funding Analysis implies more a breakdown of sources of finance and suggests that the analysis should be described as a "Funding and Expenditure Analysis". A second respondent considered that the name of the statement did not reflect its function.	The Secretariat considers that it is possible that the term "Funding Analysis" may be misunderstood but is not clear that the suggestion offered by the respondent is a better alternative. It has retained the term Funding Analysis for current drafts of the Code and is seeking CIPFA/LASAAC's views on an alternative name for the Funding Analysis.
5.9	An audit body commented: "It is not appropriate for budget information to be included in financial statements which are subject to a 'true and fair' audit. The potential for budgetary information being included in the Funding Analysis which is defined as a financial statement (Q16) is therefore of concern".	This is similar to the debates had by CIPFA/LASAAC members both before and after 10 June 2015 meeting. This issue would be overcome by the Secretariat's proposals to include the Funding Analysis in the financial statements.
	Question 6 Funding Analysis and Comparative Information	
6.1	The majority of respondents supported	This concurs with the Secretariat's

	Issue	Secretariat Response
	the provision of comparative information.	views, particularly if the Funding Analysis is necessary to meet the requirements of IFRS 8.
6.2	The respondents providing negative responses commented that comparator information will reduce the readability of the Funding Analysis, including comments that it would make the statement more complicated and therefore reduce accessibility. Linked with this would be the number of columns required again, reducing readability and understandability.	The Secretariat concurs that this might be an issue but considers that inclusion of preceding year information for general fund purposes would be the limit of additional information that the Funding Analysis would be able to sustain and maintain its readability.
6.3	A substantial number of respondents were concerned that due to austerity and for other reasons local authority structures were frequently subject to restructuring thus requiring more frequent restatement.	This would need to accord with the requirements of IFRS 8 to present a "true and fair" view of the Funding Analysis and the segmental analysis in the CIES.
6.4	Respondents supporting the provision of preceding year information in the Funding Analysis commented that: ▪ this accords with the other statements, notes and normal accounting conventions, and ▪ a firm commented: "financial performance should be seen in the context of how the financial performance has changed year on year. Therefore comparative information is a key element of such an analysis". This latter point was echoed by a number of respondents including authorities.	The Secretariat would concur with this analysis.

Comprehensive Income and Expenditure Statement

Question		Direct Cost	Total Cost	No Comment
7	Do you consider that the CIES segmental analysis should be provided on the basis of direct costs or on a total cost basis7 (both in accordance with the accrued costs of these services as required by IFRS)? Please give a reason for your answer.	37 (42%)	20 (22%)	32 (36%)

	Issue	**Secretariat Response**
	Question 7 – CIES and Direct Cost or Total Cost	
7.1	The respondents supporting the service analysis in the CIES being costed on a direct cost basis indicated that this basis: ▪ provides a clear understanding of the services of the authority as it is consistent with the way in which services operate; ▪ provides transparency as central support services costs are reported on the face of the CIES; ▪ accords with the budgetary processes of the authority and therefore the performance management of the authority; ▪ should save time and therefore costs as the costly apportionment requirements are removed, a number of authorities citing that this would make it easier for faster closing; and ▪ would simplify the Funding Analysis.	The Secretariat was aware that there were arguments both for and against each costing approach. It opted for the direct cost methodology as this accorded with the arguments cited in this column but largely the cost benefits were considered by the Secretariat.
7.2	Respondents supporting the service analysis being costed on a total costs basis indicated that this basis: ▪ Presented the full or true cost to council tax payers of providing the	These arguments support the use of total cost which is an approach which has been used by authorities (and largely in their statistical returns) for some time. The Secretariat concurs that these are the benefits of a total

	Issue	Secretariat Response
	services to service recipients. ▪ Allows better comparison between authorities. ▪ Was consistent with the way in which government statistical returns eg the English and Welsh Revenue Outturn (RO) forms are compiled. ▪ Reduces year on year fluctuations where support services might change. Additionally a number of authorities indicated that this was how they reported to management. One commenting that this would be costly to unpick.	cost approach.
7.3	A number of queries from authorities makes it clear that there is not one definition of direct cost: ▪ Some authorities requested clarifications on direct and indirect recharges. ▪ Some suggested that the definition would be based on controllable or non-controllable budget definitions. ▪ Others considered that this would be excluding central recharges. ▪ One authority indicated that it was structured with three directorates with each directorate including support services. ▪ One authority commented that its property services department included all depreciation charges.	The Secretariat considered that there might be some matters of interpretation but it is clear from the queries and the responses to the consultation that there will not be one consistent definition of direct cost across authorities. (See item 7.6 below).

	Issue	Secretariat Response
7.4	A firm responded that: "the CIES segmental analysis should be provided on a direct rather than total cost basis as that would reflect the accountability arrangements during the year. It is also relatively common that one Directorate eg Resources, Corporate Services etc would largely be eliminated from the analysis if reported on a total cost basis. As suggested in the consultation, we would expect capital costs such as depreciation and impairment to be recognised against the relevant service."	The Secretariat concurs with the spirit of this response.
7.5	An authority commented: "charging for services and their cost recovery and setting Council Tax budgets for special expenses (and the HRA if we had one) where we will not be apportioning out the support costs. In relation to fees and charges, won't this have an adverse impact upon our justification of recovering our total cost: have the panel considered this issue? "	The changes to the Code amend the link between the CIES and the SEA in SeRCOP however, they do not alter the relationship with SeRCOP that whenever reports of total cost are required reference would need to be made to SeRCOP. The Secretariat will ensure that this is clear in the Code.
7.6	A number of respondents including those respondents representing local authorities considered that there should be flexibility over the costing approaches. A firm commented that authorities should be required to disclose the costing basis.	Following from the comments about the difficulties in defining the direct cost of the service and the recommendations of a number of respondents that the position should be flexible to ensure that local authorities can report based on their organisational arrangements, it is recommended that the cost allocation process should start from the definition of total cost in SeRCOP where formal definitions are available and that relevant sections of this might be dis-applied in certain circumstances to reflect the organisational structure of the authority.

Movement in Reserves Statement

Question		Agree	Disagree	No Comment
8	Do you agree that the transfers to earmarked reserves need not be presented in the MiRS? If not, why not? What alternatives do you suggest?	32 (36%)	41 (46 %)	16 (18%)
9	Do you agree with the proposed MiRS format based on the Total Comprehensive Income and Expenditure? If not, why not? Please give a reason for your answer.	61 (68%)	14 (16%)	14 (16%)
10	Do you have any further proposals for streamlining the Movement in Reserves Statement?			
11	Do you agree with the proposals for change in relation to note e) required by paragraph 3.4.2.53? If not, why not? What alternatives do you suggest?	52 (58%)	6 (7%)	31 (35%)

	Issue	**Secretariat Response**
	Question 8 – MiRS and Earmarked Reserves	
8.1	A substantial number of respondents considered that the earmarked reserve line should be retained in the Movement in Reserves Statement. Some they strongly argued that this should be the case and that this was a "false simplification". The arguments were essentially three fold and these are considered in the following rows. One authority argued that this was technically correct but that it did not show the true position.	See below.
8.1 a)	It is misleading to amalgamate them with General Balances which serve a different purpose and doing so leaves the reader confused as to the amount	The position of earmarked reserves is not statutorily different in Scotland, England or Wales. It is earmarking a proportion of the General Fund Balance.

	Issue	Secretariat Response
	of funding earmarked for particular future expenditure, and that which is generally available to the Authority.	This has been verified with colleagues in DCLG and has been clarified in LAAP Bulletin 99 *Local Authority Reserves and Balances.* The earmarking of reserves has no formal status in financial reporting either on a statutory basis or under IFRS. One Council considered that this move did not take into account financial commitments. However, unless these commitments need to be provided under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* then these commitments do not need to be reported in a statement which shows the movements in the statutorily established reserves of the authority. The previous inclusion of earmarked reserves within this statement risked overstating the status of reserves.
8.1. b)	This issue is of a high profile in the current economic environment and that users of the accounts need to understand the nature of the reserve	The Secretariat concurs that this is a high profile issue within local authority financial statements and is content that appropriate narrative is included in a separate note to adequately describe the nature of the reserves ie to specify the need to earmark these reserves for future spending. The note can make it clear only a portion of the General Fund balance has been set aside to support specific future spending needs. It is content also that this note is given sufficient prominence in the financial statement to reflect the impact and the restrictions may have on future expenditure.
8.1. c)	Without the transfers this would not reconcile to the General Fund balance.	The transfers do not need to be included the General Fund balance as by definition includes earmarked reserves and is already reported in the Movement in Reserves Statement.
8.3	An authority commented: “It is of interest how much has been set aside from current year resources	The Secretariat concurs that this is of interest to the users of the financial statements and by no means

	Issue	Secretariat Response
	to meet future expenditure, and indeed how much funding set aside in previous years has been used to support current year expenditure. This information should be disclosed. ”	underestimates its importance. This can be demonstrated in the financial statements in the relevant note which can be given due prominence by the authority.
8.4	An accountancy body stated that: “Earmarked reserves do not need to be separated out. The focus should be on the financial position.”	The Secretariat concurs with this response.
8.5	Other respondents commented that the removal of earmarked reserves would mean that the statement would be less complicated.	The Secretariat concurs with this response.
8.6	An authority commented: “We feel that the Code should permit (but not prescribe) earmarked reserves to be shown in a separate column in the MIRS, if accounts preparers wish to do so. This may indeed be permitted by paragraphs 3.4.2.26 and 3.4.2.27 of the draft Code currently being consulted on?”	The Secretariat concurs that if an authority considered that the presentation of earmarked reserves was deemed by an authority to be material to the presentation of the MiRS then an authority could decide to include the movement if it thought it relevant to a true and fair presentation of the financial statements.
	Question 9 MIRS and the Total Comprehensive Income and Expenditure Line	
9.1	One authority commented: “Having one line for Total Comprehensive Income, rather than splitting out the income into several lines, is unlikely to cause any issues as the information is available on the face of the CIES. This is an efficient way of reducing the number of lines required as no information is lost in the aggregation of the 2 separate lines.” This was supported by a number of authorities positively responding to this proposal.	This was the rationale that the Secretariat considered when seeking opportunities to streamline the MiRS.
9.2	Another authority responded:	The Secretariat would note these

	Issue	Secretariat Response
	"It is helpful to use Total Comprehensive I&E as the user will more naturally move from the foot of the CIES to the MIRS. However, it would be useful to have some narrative explanation that the adjustments between accounting and funding basis include both those detailed in the note to the Funding Analysis (Appendix 3) and the total of Other Comprehensive Income and Expenditure (in fact it may be helpful for OCIE to be included in the Funding Statement)."	comments and concurs that there might be an opportunity to add further narrative explanation to the adjustments between accounting and funding basis.
9.3	One authority responded: "However this separation currently serves the useful purpose of clearly showing that the gains and losses in the final section of the I&E account do not affect spendable reserves. (In other words, removing it would make the statement less understandable not more understandable)." Four other authorities that did not support the proposals gave similar reasoning to this respondent.	The statement provided by the respondent is interesting though it is not clear about the advantage of demonstrating that a transaction is not affected. The description of usable reserves should be sufficient. There is a cost benefit trade-off between this point and making the MiRS simpler by removing one row. A number of respondents noted that this was only saving one row (and respondents made a similar comment to the removal of the earmarked reserves row). However, a combination of both these proposals removes three lines from a seven line statement thus resulting in a 43 per cent reduction in the length of the statement.
9.4	Three of the audit bodies and a firm supported the proposals for change. Two firms considered that the reporting requirements in IAS 1 paragraph 106 d) i) and ii) should be explicitly maintained. With a third firm commenting: "The existing format provides a clear link between the three sections of the CIES and how those sections affect usable and unusable reserves."	CIPFA/LASAAC was aware of the requirements of the IAS 1 paragraph 106 d) i) and ii) which requires the statement of changes in equity to analyse profit and loss and other comprehensive income separately. This is normally in interpreted across sectors to require separate rows. It decided on a move which was consistent with the spirit of IAS 106 (d) because as the columnar analysis of the usable and unusable reserves automatically separates the movements between the Surplus and Deficit on the Provision of Services and

<table>
<tr><th></th><th>Issue</th><th>Secretariat Response</th></tr>
<tr><td></td><td></td><td>Other Comprehensive Income and Expenditure. CIPFA/LASAAC is invited to consider whether it is content with its position as set out in the Invitation to Comment.</td></tr>
<tr><td></td><td colspan="2">Question 10– Further proposals</td></tr>
<tr><td>10.1</td><td>An accountancy body responded.

“The focus of the Statement is to show movements in equity. Local authorities do not have share capital so we question whether there is a need to produce a direct equivalent [of the IAS 1 Statement of Changes in Equity]. (There may be some share capital held in subsidiaries, but at the consolidated level of the local authority, these would be classed as investments).”

“ … We would prefer to see the information communicated by the MIRS to be presented as a note to the accounts or in an appendix, not a separate Statement. “</td><td>The Secretariat does not concur. Equity is defined in the IASB Framework for the Preparation and Presentation of Financial Statements as “the residual interest in the assets of the entity after deducting its liabilities” and is not defined as share capital. The MiRS is necessary to clarify the disposition of the residual interest in the authority according to the statutory controls as to how it can be applied.

The Movement in Reserves Statement shows the movement in net worth of the authority. It also demonstrates the particular structure and the statutory reporting consequences of the current financial reporting framework. CIPFA/LASAAC’s original intention in the ordering of the statements was to present a narrative thread through the financial statements. The Movement in Reserves Statement shows:

▪ how the authority has generated and expended resources in the year; and
▪ how the resourcing position is adjusted under statutory rules to show the funds available to be spent in particular ways at year end.

Local authorities are, however, permitted to report in a different order to support their own narrative thread and the proposals in the Code Draft have changed the recommended order in which the statements are presented.

The Secretariat would also note that other public services entities also have an equivalent statement eg in Central</td></tr>
</table>

	Issue	Secretariat Response
		Government departments the Statement of Changes in Taxpayers' Equity.
10.2	An authority commented "Could Capital Receipts and Grants be combined into [one column]"? Another authority suggested accumulating capital items.	CIPFA/LASAAC argued in its consultation paper that the statutory nature of the usable reserves also means that to comply with the intention of the requirements of IAS 1 (ie to show movements in the components of equity) it is necessary to include all the identifiable usable reserves on the face of the statements as each has separate statutory purposes. Therefore the Secretariat would argue that it would not be reasonable to combine these two reserves in the MiRS.
10.3	Two police bodies stated "The MiRS should include movements in all reserves – however the detail could appear in the notes." A confidential respondent considered that it considered that there needed to be a statement which provided the total movement of reserves of the authority.	The Secretariat agrees and this is a Code requirement already. The MiRS summarises the total movement in reserves of the authority and some authorities do chose to present their unusable reserves on the face of the MiRS. However, the Secretariat has sought to streamline the MiRS in accordance with the feedback by previous consultations and Option 2 identified by the Working Group.
10.4	An authority commented: "Perhaps it would be of benefit to a reader to make stronger links between information provided in the Funding Analysis and the Note to the Funding Analysis and the MIRS and its Technical Note - MIRS Adj between Acc and Funding basis. Appendices as presented don't make that clear."	This is a useful comment. The Secretariat does not consider that this would necessarily be a point for the Code but could consider augmenting the examples.
10.5	A police body commented: "This table shows all movements for both usable and unusable reserves in a complete table. This would remove the	See response at 10.3.

	Issue	Secretariat Response
	need for all of the usable and unusable reserves notes to the accounts thus streamlining the accounts document. As this is a large detailed table it could be separated into usable and unusable reserves and shown across two pages to improve presentation.”	
10.6	A firm commented that: “…we consider that improvements could be made by providing additional explanation of the terminology used and adjustments made to aid the user in understanding the statement.”	The Secretariat has attempted to make terminology in the examples more user friendly and will continue to do this.
10.7	In the proposals and independent consultant provided an alternative Funding Analysis which did not provide a reconciliation between the Funding Analysis and the CIES but indicate where lines are the same in narrative flags and provided some useful cross references to notes on the MiRS. An authority included a CIES which proposed a subjective analysis with a matrix of services analysed across the statement. The latter was interesting but the Secretariat considers that it included too much detail, could not be reconciled to a Funding Analysis and did not present preceding year information for the service analysis.	
	Question 11 MiRS, Note e) Adjustments between the Accounting Basis and Funding Basis	
11.1	A confidential respondent commented: “We would suggest that the technical note provided at Appendix 6 to the ITC could be further simplified, both in terms of minimising the use of technical language and the level of detail included. One suggestion would be to group the adjustments in this note into three main categories; those relating to accounting for property plant and equipment; those relating to accounting for pensions; and all others grouped into one. This would in our view provide sufficient information for a reader, with the more detailed breakdown provided as part of the working papers supporting the note. “	There could be alternative aggregations to the one shown in Appendix 6. However, it is not clear how the three aggregations suggested in this note might be linked together and also show the movements between reserves. The level of aggregation would be subject to the decisions taken by authorities on the needs of the users of the financial statements.

	Issue	Secretariat Response
11.2	An authority commented: "I agree with some level of aggregation, but the example in Appendix 6 still shows 16 rows, compared to 18 in the Code, so it doesn't appear to be hugely simplified. The statement needs to fit easily and clearly with the other statements (particularly appendices 2 and 5) and I would be tempted not to be prescriptive in terms of presentation. Appendix 6 shows a total for "Adjustments to the CIES". However, this is misleading as some of the figures included under the heading "Adjustments between revenue and capital resources" are themselves adjustments to the CIES."	This note is substantially smaller than the notes seen in the review of the financial statements (also see for example comment at item 11.3 below). This includes the line items where there may be significant decisions made by the authority on the statutory reversals. The last point is agreed and therefore the application guidance in Appendix 6 has changed the headings.
11.3	An authority commented: "The note to the Movement in Reserves Statement is currently detailed (running to several pages) and is difficult to explain to the lay reader. The proposal to simplify this note by aggregating the adjustments will therefore help to streamline the accounts and make them more accessible to the lay reader. "	For note for CIPFA/LASAAC the same respondent made minor comments about the detailed entries and these have been amended in the Appendix (G).
11.4	A firm commented: "We agree with the proposals in 3.4.2.53. We recommend that CIPFA provides additional guidance, perhaps through a LAAP Bulletin, to give practical advice on how individual lines might be aggregated in practice to achieve a presentation similar to that in Appendix 6."	The Secretariat will refer this issue to the Local Authority Accounting Panel (LAAP).
11.5	We are comfortable that the individual entries in the MIRS adjustment note do not have to be separately disclosed as	The Secretariat concurs with these comments and will recommend that appropriate guidance is provided by

	Issue	Secretariat Response
	long as: ▪ they are adequately disclosed in other parts of the financial statements (e.g. within the unusable reserves notes); and ▪ the statements comply with the requirements of 3.4.2.26 of the ED and do not aggregate material items that have different natures or functions.	LAAP.

Segmental Analysis

Question		Agree	Disagree	No Comment
12	Do you agree that the segmental reporting requirements under IFRS 8 for the income and expenditure of the Authority will be met under the proposals for change ie in the Comprehensive Income and Expenditure Statement and the Funding Analysis, both of which include a segmental analysis based on how a local authority is structured ie its directorates/departments or service structure? If not why not? What alternatives do you propose?	61 (68%)	15 (17%)	13 (15%)
13	Do you agree that local authorities rarely present income and expenditure listed in paragraph 23 of IFRS 8 to Decision Makers on a segmental basis? If not why not? Please give a reason for your answer	60 (67%)	5 (6%)	24 (27%)
14	Do you agree that the CIES and the Funding Analysis under the new proposals provide a reconciliation of the local authority equivalent of the total of the reportable segments' revenues to the entity's revenue and the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax	55 (62%)	10 (11%)	24 (27%)

	expense (tax income) and discontinued operations per IFRS 8? If not, why not? Please give a reason for your answer.			

		Yes	No	No comment
15	Do you consider that the reconciliation "Adjustments to add expenditure or income not chargeable to Council Tax or Rents and the removal of transactions which are only chargeable under statutory provisions" demonstrated in Appendix 3 is able to clearly demonstrate the main reconciliation adjustments to the users of local authority financial statements? If not, why not? What alternatives do you propose?	57 (64%)	15 (17%)	17 (19%)

		Part of the Financial Statements	Other option	No comment
16	Do you consider that even though the Funding Analysis is presented in the Narrative Report it should remain a part of the financial statements to meet the requirements of IFRS 8? If not, why not? Please give a reason for your answer.	43 (48%)	25 (28%)	21 (24%)

17	If you agree that the Funding Analysis should be a part of the financial statements though included in the Narrative Report, are there any reporting or audit issues you consider that CIPFA/LASAAC should be aware of which need to be referred to the appropriate regulatory bodies? Please give a reason for your response.

	Issue	**Secretariat Response**
	Question 12 – Segmental Reporting Needs Met By CIES and Funding Analysis	
12.1	An audit body commented: "We do not agree that the funding statement should be included within	The Secretariat concurs that the funding analysis should be included in the financial statements and that the requirements of

	Issue	Secretariat Response
	the financial statements and therefore subject to audit. The funding statement is a useful tool within the narrative reporting guidance and its location there allows the helpful inclusion of budgetary information which would not be subject to audit. We therefore think that the requirements of IFRS 8 will still need to be discharged within the statement of accounts.”	IFRS 8 should be discharged within the statement of accounts. However, it considers that the funding analysis discharges these responsibilities.
12.2	A firm commented: “Per para 23 'An entity shall report a measure of profit or loss for each reportable segment…... An entity shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit. In our view, the list that was outlined in the original Code para 3.4.2.92 should be reported for each segment where it is included in the SDPS. An authority focussed on the same element of paragraph 23.	The Secretariat notes the requirements of paragraph 23 of IFRS 8 and CIPFA/LASAAC cited the paragraph in the consultation paper. What this quote leaves out is the nature of expense analysis provided by paragraph 23 which is substantially different to that in paragraph 3.4.2.92 of the 2015/16 Code (the Secretariat is not clear why paragraph 3.4.2.92 has a different analysis but considers that it might be because this paragraph was also trying to meet the requirements of IAS 1 paragraph 104 on a nature of expenses disclosure). We note that paragraph 23 states “or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit.” The IFRS 8 analysis of income and expenditure includes items such as depreciation which the consultation supposed was not reported to the Chief Operating Decision Makers (CODM) of the Authority on a segmental basis and therefore cannot be provided in a segmental analysis. It was noted that this was with the possible exception of material segmental income from external customers (see Appendix 7 paragraph 75). However, this is considered further in question 13 below. The items that are not normally included in an authority’s segmental analysis but are included in reports to the CODM are included in ED

	Issue	Secretariat Response
		paragraph 3.4.2.42 to meet the requirements of IAS 1.
12.3	An authority commented: "The proposals do identify income and expenditure, but I do not see where there is any broad analysis of these (e.g. grants; fees and charges; pay; non pay) as required under IFRS? Therefore there will still be a requirement for an operating segments subjective analysis."	As noted above IFRS 8 does not require a segmental analysis of employee expenses – see IFRS 8 paragraph 23. IAS 1 (paragraph 104) requires a nature of expenses analysis which would include employee expenses but does not require this on a segmental basis.
12.4	An audit body that did not agree with the removal of the link with the SEA in SeRCOP offered and alternative proposal. "An interpretation or adaptation will also be required if our alternative proposal, ie that the Funding Statement provide a SeRCOP based analysis and the CIES provides a subjective analysis. The Funding Analysis, though not a financial statement, would provide a local analysis."	CIPFA/LASAAC is invited to note this response.
12.5	A number of the respondents not agreeing with the proposal disagreed as they did not agree with the proposal for a Funding Analysis or preferred other options for change to the financial statements ie principally Options 1 or 5.	CIPFA/LASAAC is invited to note these responses.
12.6	An accountancy body commented: "We do not believe that the requirement to meet IFRS 8 Operating Segments will be met by a new Funding Analysis and a segmented I&E, nor is it their purpose. Conflation contributes to complexity. We understand the driver to reduce detail in the	The reporting requirements for the service element of the CIES and the Funding Analysis did not derive directly from the need to meet the requirements of IFRS 8 but from an authority's need to report in the financial statements in accordance with the way in which they operate. Local authorities operate on a service basis and therefore the objectives of both these statements accord with those of

	Issue	Secretariat Response
	financial statements but are not convinced that this can be achieved by making the I&E and Funding Analysis more detailed and do more than one function."	IFRS 8. There will be a segmental analysis in both of these statements. It would be confusing for the reader to produce yet another segmental analysis for another purpose in the financial statements and therefore in line with the streamlining agenda the Secretariat considers that it is necessary to remove duplicated information. The Secretariat concurs with the conflation issue as previously the segmental reporting requirements in the Code were trying also to meet the requirements of IAS 1 for a nature of expenses note (see IAS 1 paragraph 104) to the CIES as well as the segmental reporting requirements.
	Question 13 Income and expenditure analysed in accordance with Question 13 Expenditure Analysis per Segment – Application of paragraph 23 of IFRS 8	
13.1	A number of authorities responding welcomed the proposals as in line with previous consultation responses the segmental reporting disclosures were described as not useful to the users of the financial statements with one authority noting that the note served "no real purpose". A number commented that the current segmental reporting requirements in the Code were time consuming to provide with very little value.	The assumption in question 13 that authorities rarely reported information detailed in paragraph 23 of IFRS 8 received substantial support from respondents.
13.2	A small number of authorities considered that they did report some of the income and expenditure items referred to in paragraph 23 on a segmental basis. Examples included: ▪ depreciation ▪ interest to their corporate departmental segment (though the authority considered it not to be material) and ▪ revenue to external customers.	The Secretariat was surprised at some of these comments, with the exception of revenues from contracts with customers. The Secretariat considers that the proposals can still be continued but has augmented the Draft Code's provisions in relation to paragraph 23 of IFRS 8 (see CD 1 paragraph 3.4.2.94).

	Issue	Secretariat Response
	Two authorities indicated that they followed paragraph 23 of IFRS 8.	
	Question 14 Funding Analysis Provide Reconciliation to CIES	
14.1	A firm commented: "We do not consider that the Funding Analysis meets the requirements of IFRS 8 as it is not considered to be part of the financial statements but do not think that this is necessary to meet IFRS 8 requirements as the information is provided in the CIES."	The Secretariat proposes that the Funding Analysis should be a part of the financial statements.
14.2	An authority commented: "The Funding Analysis only reconciles total net expenditure for funding purposes back to the Comprehensive Income and Expenditure Statement."	This is the requirement of IFRS 8.
14.3	An authority commented: "I don't feel I am able to express a view on the compliance with IFRS 8 but it is clear that the Funding Analysis/CI&ES format is not the format in which information is presented to the CODM in respect of many corporate items for most authorities. In respect of figures presented, this would not presently be the exact equivalent of table 1 of the current segmental analysis."	This would be a concern but does not appear to be consistent with the majority of other responses. The Secretariat presumes that "Table 1" is the application guidance provided by CIPFA in its Code Guidance Notes. This has been subject to substantial criticism in this consultation, the earlier simplification and streamlining consultations and the annual consultations on the Code.
14.4	A number of the respondents disagreed as they did not agree with the proposals for a Funding Analysis or preferred to remain with the current arrangements ie Option 5.	The Secretariat would repeat that many respondents did not see that the current segmental reporting arrangements were useful to the users of the financial statement.
	Question 15 Does Appendix 3 provide appropriate reconciliation between the Funding Analysis and the CIES?	

	Issue	Secretariat Response
15.1	A number of the respondents disagreed as they did not agree with the proposals for a Funding Analysis or preferred to remain with the current arrangements ie option 5.	The Secretariat invites CIPFA/LASAAC to note these comments.
15.2	Two authorities commented that the reconciliation was not as effective as the note on the adjustments between the accounting basis and funding basis. One respondent considered that there was a lot of narrative commentary another considering the information should be presented in a table. A further respondent highlighted that the Appendix used technical terms such as the MRP.	The nature of this reconciliation is different from the line items in MiRS. The narrative commentary was intended to explain the nature of the adjustments. Authorities could include the reconciliation in a table but it is not clear that all the adjustments would be easily understood without some narrative explanation. Whilst the narrative does use terms such as MRP it is considered that these items should be covered in a glossary to an authority's financial statements.
15.3	A firm commented: "Although we consider that the note in Appendix 3 highlights the nature of the statutory adjustments, the detail will be depend on what the authority's segments report (ie the outturn per the organisational structure). We consider it is possible that authorities may take different approaches to financial performance reporting that may include for example capital items. Therefore the requirements in the Code will need to enable authorities to prepare the note based on their specific circumstances."	The Secretariat concurs that authorities will need to tailor the reconciliation to their own circumstances and transactions. Appendix 3 provides one format for what the Secretariat considers are likely to be the main reconciling items.
15.4	An authority commented: "It might be easier for the lay reader to make the link between the two notes if the Funding Analysis note contains a column to match each line in the Movement in Reserves Statement note. This would increase the complexity of the	The Secretariat can see the argument for linking the two, however, this outcome would not be accessible to the lay reader.

	Issue	Secretariat Response
	Funding Analysis note though (particularly when comparative data for the previous year is added too).”	
	Question 16 Funding Analysis in the Narrative Report or the Financial Statements	
16.1	The majority of respondents indicated that the Funding Analysis should be in the financial statements. Their reasoning for this was either that it was an important part of demonstrating performance or accountability and/or that it could be used to meet the requirements of IFRS 8.	The Secretariat concurs and considers that the Funding Analysis should be a part of the financial statements and can be used to meet the requirements of IFRS 8.
16.2	Some respondents considered that the funding statement might be more useful in the narrative report to ensure that this was able to be compared against budget and that appropriate context could be provided in the narrative report. Others respondents provided similar commentaries that were provided in the responses to question 4.	The Secretariat agrees that the Narrative Report could include useful context and/or budgetary information for the Funding Analysis. The Secretariat suggests that the Code recommends that authorities cross refer to the Funding Analysis and provide budgetary comparison where appropriate (See CD 1, paragraph 3.1.4.2).
	Question 17 Issues that Arise	
17.1	An audit body commented: “The financial statements are audited and are covered by the 'true and fair' opinion. The management commentary is not covered by the true and fair opinion. Instead it is read by auditors so they can express an opinion as to whether the information given in the management commentary is consistent with the financial statements. It is also read for auditors to identify any information that is apparently materially	The Secretariat considers that the Funding Analysis is best placed in the financial statements.

	Issue	Secretariat Response
	incorrect based on, or materially inconsistent with, the knowledge acquired by auditors in the course of performing the audit. Having part of the management commentary covered by the 'true and fair' opinion and part covered by the 'consistency' opinion would be confusing for users and would not assist their understanding of either financial reporting or the audit process.”	

Transition

Question		2016/17	Other Date	No Comment
18	Do you consider that the proposed changes to the financial statements should be effective in the 2016/17 Code? Please 15 give reasons for your answer.	56 (63%)	19 (21%)	14 (16%)
19	What do you consider to be the practical effects of the proposals for local authority accounts preparers?			

	Issue	Secretariat Response
	Question 18 – Transition Date	
18.1	A confidential respondent commented: “Although we support the aim of the consultation to simplify local government accounts, we believe that local government bodies will require a two year lead in time from the date the guidance is published to implementation date. Therefore the date we would suggest implementation should be required will be dependent on this.” This respondent also added that authorities were only first aware of the	The Secretariat’s original timetable did allow for some lead in time. CIPFA/LASAAC was of the view that the changes could take place in the 2016/17 year. CIPFA/LASAAC may wish to consider whether or not the proposals need outreach event or further testing including the possibility of engaging users in these outreach opportunities or testing.

	Issue	Secretariat Response
	detail of these proposals in this consultation, that there were and substantial changes proposed for the Highways Network Asset when the timetable to close the accounts was imminently to be brought forward. A number of authorities supported this viewpoint considering that there would need to be adequate time to prepare with a number citing the changes to the Highways Network Asset. Two of these authorities suggested implementation in 2017/18 and one suggesting the earliest date for implementation would be 2018/19.	
18.1	In contrast to the above summary the majority of respondents considered that 2016/17 to be a suitable implementation date. A number of authorities considered that it would be best to implement and "bed in" the changes before the early accounts closure deadline. Some authorities were keen to take forward what they considered to be such a positive step. With one authority noting that this should be "as soon as possible". Members of the audit community were more cautious of early adoption.	These responses accord with the approach by the Board. The Secretariat would comment that it may be a safer option to adopt in 2017/18 permitting early adoption as the relevant application guidance may not be available for 2015/16.
	Question 19 Practical Issues	
19.1	Practical issues cited include: ▪ Resource issues relating to staff ie additional workload and retraining (a number of respondents noting that this was during a time of resource restraint and preparation for faster closing); ▪ Systems, report writing for new outputs (a number of respondents noted that dual/ parallel processes would need to be maintained for government statistical reports); ▪ New working papers to be prepared ▪ Restatement of comparatives ▪ Preparation of stakeholders, eg audit committees.	

	Issue	Secretariat Response
19.2	An authority stated: "An important part of the financial statements should be simpler to prepare, saving time when this is at a premium. It may also make the accounts easier to explain to the lay person."	

Appendix C

Funding Analysis

This analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

20X1/20X2	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement [1]
	£000	£000	£000
People Directorate (Children's and Social Services)	47,385	898	**48,283**
Neighbourhoods (Highways and Housing Services including the Housing Revenue Account)	5,928	1,409	**7,337**
Business Change (Planning and Economic Development Services)	31	223	**254**
Corporate and Central Services	19,358	833	**20,191**
Net cost of services	72,702	**3,363**	**76,065**
Other income and expenditure	(72,658)	(1,019)	**(73,677)**
Surplus or deficit	**44**	2,344	**2,388**
Opening General Fund and HRA Balance at 31 March 20X0	**(25,247)**		
Less Deficit on General Fund and HRA Balance in Year	**44**		
Closing General Fund and HRA Balance at 31 March 20x1	**(25,203)**		

[1] Income and Expenditure recognised in accordance with generally accepted accounting practices can be seen in the Comprehensive Income and Expenditure Statement on page [..]

Analysed between General Fund and HRA Balances[2]	General Fund	HRA	Total
Opening General Fund and HRA Balance at 31 March 20X0	(22,118)	(3,129)	(25,247)
Less Deficit / (Surplus) on General Fund and HRA Balances in Year	148	(104)	44
Closing General Fund and HRA Balance at 31 March 20x1	(21,970)	(3,233)	(25,203)

[2] An analysis of the movements on the HRA balance may be found in the Movement on the Housing Revenue Account Statement [on page …]. Further examination of the split of General Fund and HRA balance can be seen in the Movement in Reserves Statement on Page […]

Appendix D

Note to the Funding Analysis[3]:
Items to adjust General Fund to add Expenditure or Income not Chargeable to Taxation or Rents and Remove Items which are only Chargeable under Statute

Adjustments to lines in the Comprehensive Income and Expenditure Statement	Adjustments for Capital Purposes (Note 1)	Net change for the Pensions Adjustments (Note 2)	Other Differences (Note 3)	Total Adjustments
	£000	**£000**	**£000**	**£000**
People Directorate (Children's and Social Services)	280	618	-	**898**
Neighbourhoods (Highways and Housing Services including the Housing Revenue Account)	720	648	41	**1,409**
Business Change (Planning and Economic Development Services)	60	163	-	**223**
Corporate and Central Services	140	693	-	**833**
Net Cost of Services	**1,200**	**2,122**	**41**	**3,363**
Other expenditure (i)	750	-	-	**750**
Financing and investment income and expenditure (ii)	(750)	(50)	(50)	**(850)**
Taxation and non-specific grant income and expenditure (iii)	(844)	-	(75)	**(919)**
Other income and expenditure from the Funding Analysis				**(1,019)**
General Fund or HRA Balance (surplus)/Deficit	**356)**	**2072**	**(84)**	**2,344**

Adjustments for Capital Funding and Expenditure Purposes[4]

1) Adjustments to General Fund Balances to meet the requirements of generally accepted accounting practices, this column adds in depreciation and impairment and revaluation gains and losses in the services line and for:

[3] This note provides a reconciliation of the main adjustments between the Funding Statement to the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement.
4 This narrative commentary provides an explanation of the major adjusting items necessary to reconcile the Funding Analysis Surplus or Deficit on the General Fund to the Surplus or Deficit on the Provision of Services.

i) **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

ii) **Financing and investment income and expenditure -** the statutory charges for capital financing ie Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

iii) **Taxation and non-specific grant income and expenditure** – Capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net change for the removal of pension contributions and the addition of pension (IAS 19) related expenditure and income

2) Net change for the removal of pension contributions and the addition of IAS 19 *Employee Benefits* pension related expenditure and income:

- **For services** this represents the removal of the employer pension contributions made by the authority as permitted by statute and the replacement with current service costs and past service costs.

- For **Financing and investment income and expenditure** - the net interest on the defined benefit liability is charged to the CIES.

Other Differences

3) Other Differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- The charge **for services** here is a statutory adjustment for a financial instrument relating to a decision by services to issue soft loans to community organisations. Soft loans are loans below market rates.

- For **Financing and investment income and expenditure** the other differences column recognises adjustments to General Fund for the timing differences for premiums and discounts.

- The charge under **Taxation and non-specific grant income** and expenditure represents the difference between what is chargeable under statutory regulations for Council Tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

Appendix E

Comprehensive Income and Expenditure Statement[5]

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation [or rents]. Authorities raise taxation [and rents] to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both in the Funding Analysis and the Movement in Reserves Statement.

Comprehensive Income and Expenditure Statement 20X0/X1	Gross Expenditure	Gross Income	Net Expenditure
	£000	£000	£000
People Directorate (Children's and Social Services)	74,297	(26,014)	48,283
Neighbourhoods (Highways and Housing Services including the Housing Revenue Account)	46,025	(38,688)	7,337
Business Change (Planning and Economic Development Services)	11,624	(11,370)	254
Corporate and Central Services	24,021	(3,830)	20,191
Cost of Services	**155,967**	**(79,902)**	**76,065**
Other operating expenditure	2,218	-	2,218
Financing and investment income and expenditure	11,340	(2,359)	8,981
Taxation and non-specific grant income and expenditure	-	(84,876)	(84,876)
(Surplus) or Deficit on Provision of Services			**2,388**
(Surplus) or deficit on revaluation of Property, Plant and Equipment assets			(36,597)
(Surplus) or deficit on revaluation of available for sale financial assets			(101)
Actuarial gains/losses on pension assets/liabilities			(8,444)
Other Comprehensive Income and Expenditure			**(45,142)**
Total Comprehensive Income and Expenditure			**(42,754)**

[5] The service analysis provides the total direct costs of providing the services.

Appendix F

Movement in Reserves Statement

This statement shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into 'usable reserves' (ie those that can be used to fund expenditure or reduce local taxation) and other 'unusable' reserves. The Movement in Reserves Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax [or rents] for the year. The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve* £000	Major Repairs Reserve** £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 20X0	**22,118**	**3,129**	**10,065**	**1,600**	**450**	**37,362**	**329,667**	**367,029**
Movement in reserves during 20X0/X1								
Total Comprehensive Income and Expenditure	**(2,783)**	**395**	**–**	**–**	**–**	**(2,388)**	**45,142**	**42,754**
Adjustments from income & expenditure charged under the accounting basis to the funding basis	2,635	(291)	(750)	-	-	1,594	(1,594)	-
Increase or (Decrease) in 20X0/X1	**(148)**	**104**	**(750)**	**-**	**-**	**(794)**	**43,548**	**42,754**
Balance at 31 March 20X1 carried forward	**21,970**	**3,233**	**9,315**	**1,600**	**450**	**36,568**	**373,215**	**409,783**

***Capital Fund Scotland**

**** Applicable in England Only**

Appendix G

Technical Note: An Analysis of the Movement in Reserves Statement Adjustments between the Accounting Basis and Funding Basis

20X1/20X2	**Usable Reserves**				
	General Fund Balance £000	**Housing Revenue Account £000**	**Capital Receipts Reserve £000**	**Major Repairs Reserve £000**	**Capital Grants Unapplied £000**
Adjustments to Revenue Resources					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:.					
▪ Pensions costs **(transferred to (or from) the Pensions Reserve**)	X	X	-	-	-
▪ Financial instruments **(transferred to the Financial Instruments Adjustments Account**)	X	X	-	-	-
▪ Council Tax and NDR **(transfers to or from Collection Fund Adjustment Account**)	X	-	-	-	-
▪ Holiday pay (**transferred to the Accumulated Absences Account**)	X	X	-	-	-
▪ Equal pay settlements (**transferred to the Unequal Pay/Back Pay AC**)	X	X	-	-	-
▪ Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure **(these items are charged to the Capital Adjustment Account (CAA)**:	X	X	-	-	X
Total Adjustments to Revenue Resources	**X**	**X**	**-**	**-**	**-**
Adjustments between Revenue and Capital Resources					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	X	X	(X)	-	-
Administrative costs of non-current asset disposals **(funded by a contribution from the Capital Receipts Reserve)**	(X)	(X)	X	-	-
Payments to the Government housing receipts pool **(funded by a transfer from the Capital Receipts Reserve)**	(X)	-	X	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	X	-	(X)	-
Statutory provision for the repayment of debt (**transfer from the Capital Adjustment Account**)	X	X	-	-	-
Capital expenditure financed from revenue balances (**transfer to the CAA**)	X	X	-	-	-
Total Adjustments between Revenue and Capital Resources	**X**	**X**	**X**	**(X)**	**-**
Adjustments to Capital Resources					
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	X	-	-
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	X	-
Application of capital grants to finance capital expenditure	-	-	-	-	X
Cash payments in relation to deferred capital receipts	-	-	(X)	-	-
Total Adjustments to Capital Resources	**-**	**-**	**X**	**X**	**X**
Total Adjustments	**X**	**X**	**(X)**	**(X)**	**(X)**