The Chartered Institute of Public Finance & Accountancy

report

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Venue	CIPFA Scotland, Edinburgh
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Subject	Telling the Story – Impact on the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis Changes to the Code

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To report on the responses to the consultation on the Draft 2018/19 Code *of Practice on Local Authority Accounting in the United Kingdom*, the Secretariat's early review of the application of the changes and the comments from the London Streamlining Group[12] in relation to streamlining the accounts.

1 Introduction

1.1 Six respondents raised issues in relation to the Telling the Story changes to the 2016/17 financial statements (these issues are detailed at Appendix A to this report). In addition the Secretariat has identified two issues relating to local authorities' interpretations of the changes and the impact on the local authority financial statements. CIPFA/LASAAC members have also received[3] a copy of the letters sent to CIPFA and the Department for Communities and Local Government (DCLG) in relation to streamlining of local authority accounts. This report puts forward a number of suggestions which would substantially streamline the financial statements and resolve the issues raised by respondents.

2 Comprehensive Income and Expenditure Statement

2.1 The comments from respondents relating to the Comprehensive Income and Expenditure Statement are on three issues:

- An understanding of the segmental reporting arrangements for the services section of the Comprehensive Income and Expenditure Statement (see Appendix A row 1.3) – the requirements of the Code set out that the service section should be based on how an authority is organised and structured with the assumption that this should reflect the segmental reporting arrangements of the authority. This is

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[1] Note that the letter to CIPFA on Streamlining was supported by London Treasurers and local authority auditors.

[2] The Secretariat would note that this Group is not a formal representative group. The Secretariat welcomes all contributions on streamlining including that of this group. CIPFA and CIPFA/LASAAC would in accordance with our normal practices also need to take into account wider views. This would be particularly relevant in two tier areas. It should also take into consideration the treasurers groups that were involved in the original streamlining work.

[3] By means of an email sent on 18 August 2017.

supported by a clear expectation is paragraph 3.4.2.91 that the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis provide the segmental reporting requirements of the authority.

- Of more concern is the interpretation by local authorities of what their segmental reporting arrangements are – the respondent in Appendix A indicates that this *'creates a huge I&E Statement, Expenditure & Funding Analysis and supporting notes'*. The Secretariat shares these concerns and had already seen examples of this issue in its early reviews of Comprehensive Income and Expenditure Statements with numerous lines within their service sections. The Secretariat considers that this does not streamline the Comprehensive Income and Expenditure Statement and makes it very difficult to read. The Secretariat has included two redacted examples at Appendix B to demonstrate the issue to the Board.

- The other issue that two of the firms raised is that of internal recharges. CIPFA/LASAAC took the decision to include the segmental analysis in the service section of the Comprehensive Income and Expenditure Statement. As is argued in the Secretariat's response in row 1.3 IFRS 8 *Operating Segments* paragraph 25 would allow internal recharges in the segmental analysis. Otherwise CIPFA/LASAAC would have explicitly needed to adapt IFRS 8 to remove the effects of internal recharges. However, this would mean arguably that the top section of the Comprehensive Income and Expenditure Statement would no longer be providing a segmental analysis.

2.2 An independent consultant and an authority suggested that the Comprehensive Income and Expenditure Statement should instead provide a subjective analysis as this was used by other public sector bodies. This is the same suggestion put forward by the London Streamlining Group. A nature of expenses (subjective analysis) was suggested numerous times to the Simplification and Streamlining Working Group meeting in February 2015 and (as has been reported to CIPFA/LASAAC) was rejected in favour of a service analysis based on a local authority's operational structure.

2.3 In light of these comments and interpretation difficulties the Secretariat would suggest a more radical solution initially mooted (but not included in the minutes) by the Chair of CIPFA/LASAAC. This proposal was that local authorities should have one line analysis at the top of the Comprehensive Income and Expenditure Statement (similar to the approach in the commercial sector) for service income and expenditure.

2.4 This proposal would mean the removal of the service analysis and the reporting of gross income, gross expenditure and the net cost of services. The Secretariat considers that this is consistent with the requirements of IAS 1 *Presentation of Financial Statements*.

2.5 The requirements of IAS 1 for the format of the statement of profit or loss and other comprehensive income are specified in paragraph 82 which sets out the minimum line analysis. For ease of reference this and other relevant paragraphs are extracted in Appendix C to this report. IAS 1 requires only that revenue and finance costs etc are reported on the face of the statement. IAS 1 encourages, but does not require, further analysis within the statement (see paragraphs 99 to 104 at Appendix C). The Secretariat considers that a functional analysis as demonstrated by paragraph 103 would not meet the reporting needs of local authorities as their performance is not predicated by the cost of sales. The Secretariat would also highlight that paragraph 3.4.1.4 of the Code sets out that the Code adopts the function of expenses interpretation in IPSAS 1 *Presentation of Financial Statements ie* that the function of expense analysis is equivalent to an analysis of expenditure by service. However, this approach would maintain the issue of having a segmental report on the face of the statement and what should be reported under IFRS 8.

2.6 Following the Chair's suggestion the Secretariat would propose amendments to the Comprehensive Income and Expenditure Statement which presents in its top section a one line analysis of gross expenditure and gross income resulting in the Net Cost of Services. This would meet the requirements of IAS 1 and produce a streamlined Comprehensive Income and Expenditure Statement. The segmental analysis would be able to be provided as a separate note discussed in the next section of this report. An example of how this would be presented is included in the Annex (Item 1) to this report. Note that this presentation is based on financial information from a set of local authority financial statements for the 2016/17 financial year.

CIPFA/LASAAC is invited to consider the approach outlined by the Secretariat.

2.7 One of the respondents considered that it would be useful if paragraph 22 of IFRS 8 is included explicitly in the Code to ensure that the service segments are adequately described. The Secretariat concurs and considers that to improve a local authority's understanding of the requirements of IFRS 8 it may be useful to augment the Code's provisions on establishing service segments.

CIPFA/LASAAC is invited to consider whether the Code's provisions on IFRS 8 should be augmented as described in paragraph 2.7.

3 Expenditure and Funding Analysis

3.1 The consultation responses also included comments on the Expenditure and Funding Analysis. These are set out in Appendix A (see rows 1.1 to 1.5). The London Streamlining Group considered that the Expenditure and Funding Analysis should be replaced as it is effectively replicating the Comprehensive Income and Expenditure Statement. An independent consultant with similar comments made by an authority (which was one of the Group of London Treasurers' authorities) stated that the intention of the '*Expenditure and Funding Analysis disclosure to reduce the amount of financial reporting of performance by local authorities and was intended to reflect the information reported to management of local authorities. In practice few if any local authorities report this information to management of local authorities. Therefore instead of simplifying the accounts this has added another reporting requirement on an already over-burdened statement of accounts with little benefit*.'

3.2 When developing the Expenditure and Funding Analysis one of its primary purposes was to respond to the frequent comment that local authority financial performance was based on what was chargeable to council tax and housing rents and not that reported under IFRS GAAP. The Expenditure and Funding Analysis was therefore intended to bring the two performance frameworks (ie the funding basis and IFRS GAAP) together. The consultation in 2015 was based on this premise and the consultation suggested that this framework would also meet the reporting requirements of IFRS 8 *Operating Segments*. Appendix A row 1.4 sets out that this was supported by a substantial number of respondents.

3.3 Two firms contend that local authorities' segmental analyses (which should be based on how performance is reported for resource allocation to the Chief Operating Decision Maker) is not the same as the budget requirement for the General Fund. They suggest that a five columnar approach to the Expenditure and Funding Analysis would be required to first reconcile from local authority management accounts to the General Fund and then to the Comprehensive Income and Expenditure Statement.

Examples of the presentation of a five column Expenditure and Funding Analysis is provided in Appendix D.

3.4 The Secretariat would comment that:

- this would not meet one of the main objectives of the Expenditure and Funding Analysis ie that it would be a simple statement that could be easily understood by the lay user.

- this is trying to bring together three separate performance frameworks ie local authority management accounts, taxation and IFRS GAAP as adopted by the Code. This in itself overly complicates the note.

- the Secretariat would contend that a principal element of a local authority accountability framework is the setting of the local authority budget which establishes the amount to be funded from council tax.

The Secretariat is therefore of the view that this should be the cornerstone of local authority performance management and is unclear why this does not generally accord with the segmental analysis (as earlier feedback had indicated that it did). Therefore it would recommend that the primary aim of the Expenditure and Funding Analysis is to demonstrate performance in accordance with taxation ie on the basis of General Fund Balances. The Secretariat would also note that other authorities were able to include a three column approach – examples are provided in Appendix D to this report.

CIPFA/LASAAC's view is sought on whether it considers that the segmental reporting base should be on the basis of the accounting framework for General Fund Balances ie taxation.

3.5 Following on from its recommendation that the reporting of financial performance for the segmental analysis should be based on the reporting requirements for taxation (ie what is chargeable to the General Fund) the Secretariat considers that this should be the basis for the approach to adoption of IFRS 8. Paragraph 23 of IFRS 8 requires that entities provide a segmental analysis of profit or loss for each reportable segment. On a basis of General Fund Balances this would represent the first column of the current Expenditure and Funding Analysis ie Net Expenditure Chargeable to General Fund Balances for each of an authority's reportable segments. The Secretariat considers that to demonstrate how an authority arrives at a Surplus or Deficit on the General Fund Balance this analysis should also include non-segmental income and expenditure. The new note would therefore only include the first column of the current Expenditure and Funding Analysis as is demonstrated in the Annex (Item 2).

3.6 The removal of the service analysis in the Comprehensive Income and Expenditure Statement also has substantial consequences for the Expenditure and Funding Analysis. This removes the need to reconcile to a line analysis in the Comprehensive Income and Expenditure Statement. In terms of the IFRS reporting requirements IFRS 8 paragraph 28 requires that a reconciliation of the '*total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations*'. Therefore the Surplus or Deficit on the General Fund Balance will need to be reconciled to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. This reconciliation is already provided in the first two columns of the Movement in Reserves Statement and therefore the Secretariat considers that to reduce the need for an additional note and to avoid duplication a column (total revenue reserves) should be added to provide a total for these two columns. This would also mean a total for capital reserves will need to be added. The proposed changes to the Movement in Reserves Statement are provided in the Annex (Item 3).

3.7 The Secretariat has presented the Movement in Reserves Statement including an option which reinstates the split of the two elements of the Comprehensive Income and Expenditure Statement so that the Surplus or Deficit on the Provision of Services is explicitly identified or has included the current row analysis which only includes total Comprehensive Income and Expenditure. The same information is available in the second option but there is no reference to the Surplus or Deficit on the Provision of Services.

3.8 IFRS 8 paragraph 28 also requires all material reconciling items to be separately identified and described. Again these reconciling items are already included in the current Movement in Reserves Note to explain the adjustments from accounting basis to the funding basis. The Secretariat is of the view that a separate note is not required but additional columns need to be added to that note. This will again ensure that there is no duplication. This is demonstrated in the example note to explain the adjustments – the Annex (Item 4).

3.9 The Secretariat would summarise that the recommendations for change result in:

- a substantially simpler and streamlined Comprehensive Income and Expenditure Statement
- a substantially simpler and streamlined analysis of expenditure under general fund reporting provisions
- removal of the detailed adjustments note for the segmental reporting requirements
- additional columns for the Movement in Reserves Statement and the note to the MIRS.

CIPFA/LASAAC is invited to consider the Secretariat's proposals for change to the Expenditure and Funding Analysis.

3.10 The Secretariat would note that the new analysis would not appear to meet the description of an Expenditure and Funding Analysis and would suggest that the note is described as an Analysis of Service Expenditure.

CIPFA/LASAAC is invited to consider the Secretariat's proposals for change to the title of the Analysis of Service Expenditure.

3.11 The positioning of the Expenditure and Funding Analysis in the financial statements was an issue raised by one of the respondents. The Secretariat has also received similar anecdotal feedback. Additionally there is a TIS on line discussion[4] on this issue.

3.12 CIPFA/LASAAC in its debates about the Expenditure and Funding Analysis was clear that it was a very important note intended to be read by lay users but also used as a bridge between the comments on local authority budgets and finances in the Narrative Report. It therefore needs to be easily accessible to the lay user. CIPFA/LASAAC also wanted to allow a local authority to decide the positioning of the note in accordance with its understanding of its individual reporting needs. Therefore the Code sets out that '*the Expenditure and Funding Analysis shall be given due*

[4] See https://www.tisonline.net/discussionforum/default.asp?view=forum&forum=13&subject=12302#dfhome

prominence in the financial statements in accordance with the needs of local authority users[5]. CIPFA/LASAAC agreed the text in *Understanding Local Authority Financial Statements* which states that …*'it could be placed before the main statements, to accompany the Comprehensive Income and Expenditure Statement, or even included as the first note*'. The Code Guidance Notes[6] take a similar stance with the example financial statements including the analysis before the four core statements.

3.13 The Secretariat would note that IAS 1 does not prevent a note from being presented this way and therefore this is not an adaptation. The Secretariat would also note that a similar statement for Central Government Departments, the Statement of Parliamentary Supply was deemed to be so important to the users of central government financial statements that it was moved to be included in the Accountability Report in the Annual Report and Accounts.

3.14 The Secretariat would recommend therefore that the Code clarifies the choices that local authorities have following CIPFA/LASAAC's stated position above and explicitly include those examples in the Code.

CIPFA/LASAAC is invited to agree the approach outlined above in relation to the positioning of the Expenditure and Funding Analysis or the proposed Analysis of Service Expenditure.

4 Next Steps

4.1 The Secretariat has seen a significant number of Expenditure and Funding Analysis notes with five columns and was aware of most of the issues raised in relation to the Comprehensive Income and Expenditure Statement. The Secretariat was already concerned about the interpretation of some local authorities in relation to their segmental analysis and the five column approach to the Expenditure and Funding Analysis. The Secretariat would also highlight the substantial work of the London Streamlining Group on this issue requesting changes.

4.2 The Secretariat would, however, comment that there were only six responses to the Code consultation that raised issues about the Telling the Story changes to the 2016/17 Code. The Secretariat would seek CIPFA/LASAAC's views on their assessment of need for change as there is a risk that local authority accounts preparers may be resistant to another set of substantial changes so quickly following the changes introduced in 2016/17. The Secretariat would also note the substantial support for the proposals in the consultation in the summer of 2015.

CIPFA/LASAAC is invited to provide its views on the need to make changes to the Code.

4.3 As there were only six respondents that raised issues in relation to the changes to the 2016/17 Code (the Telling the Story amendments) it will also be important to have a wider analysis of the impact of the changes. If the Board agrees with this comment there needs to be a call for evidence from the local authority community on whether the changes have achieved their objectives. This could be in the form of a questionnaire or other form of outreach activity.

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[5] See 2017/18 Code paragraph 3.4.2.95

[6] *Code of Practice on Local Authority Accounting in the United Kingdom Guidance Notes for Practitioners 2016/17 Accounts*, CIPFA, December 2016.

CIPFA/LASAAC is invited to consider whether it agrees that an impact assessment on the Telling the Story amendments and what form that assessment should take.

4.4 If CIPFA/LASAAC supports the suggestions above the Secretariat considers that the proposed changes to the Comprehensive Income and Expenditure Statement are so substantial that they should be subject to consultation. In theory the changes could be subject to consultation in early December with a return date for early February following the initial timescales proposed for the consultation on IFRS 16 *Leases*.

4.5 The second issue would be the effective date for the changes. The Secretariat is concerned about some local authority approaches to the segmental analysis on the face of the Comprehensive Income and Expenditure Statement ie particularly in relation to the number of lines that some authorities are including and considers that it would be advantageous for these changes to be introduced as soon as possible. This could mean a 2017/18 financial year. In theory the proposals do not introduce new information requirements and therefore this should not require substantial preparation so this should be achievable. However, it would be important to assess local authorities desire to make another set of changes in such a short timescale.

4.6 Alternatively therefore CIPFA/LASAAC might consider an option to implement on a longer timescale ie for inclusion in either the 2018/19 Code (or later) but allowing authorities to adopt the changes earlier.

4.7 The Secretariat would note the issues raised by one of the firms that suggested that outreach activities should take place (the firm commented that it had made the same suggestion in its response to the original consultation). The Secretariat did raise this issue in the Appendices to the report on the Telling the Story changes to the 2016/17 Code. However, CIPFA/LASAAC had substantial support from the consultation responses to proceed with implementation in the 2016/17 year. The Secretariat therefore recommends that if CIPFA/LASAAC wishes to proceed with the proposed changes it should consult specifically on implementation seeking views on whether interested parties consider outreach events are needed before adopting the changes and the timing of implementation.

CIPFA/LASAAC is invited to consider paragraphs 4.1 to 4.5 above and confirm:

- **whether it wishes to consult on the proposed changes in December or at a different date**
- **whether it is content that the relevant consultation papers specifically feature a section on implementation including potential outreach activities**
- **its preferred timetable for implementation.**

5 Other Issues Raised by the London Streamlining Group

Accounting for Statutory Overrides

5.1 The London Streamlining Group proposed that a statement of local taxation be produced in local authority financial statements. Although not explicitly stated this would mean removal of the accounting entries for the statutory adjustments from local authority financial statements. This issue was explicitly considered in the review of options by the CIPFA Simplification and Streamlining Working Group and

CIPFA/LASAAC at the meetings in February and March 2015 when considering options for changes to the 2016/17 Code and was later rejected by the CIPFA Group.

CIPFA/LASAAC is invited to note this issue.

Financial Instruments and Employee Benefit Disclosures

5.2 The London Streamlining Group suggested that a number of the pension disclosures could be omitted, as could some of the risk disclosures under IFRS *7 Financial Instruments: Disclosures.* This view was also provided by an independent consultant and a local authority (which is a member of the Group) in the 2018/19 Code consultation responses. The Secretariat would note that CIPFA/LASAAC consulted on this issue in the 2013/14 Code on the introduction of the June 2011 changes to IAS 19 *Employee Benefits* and decided not to adapt any of the reporting requirements. Also when considering the changes to the Code on credit risk CIPFA/LASAAC did not have an appetite to reduce the new disclosures proposed by the amendments to IFRS 7 on the adoption of IFRS 9 *Financial Instruments*.

5.3 The Secretariat would also point out that recent amendments to the Code have also reminded local authority accounts preparers they should consider materiality when meeting particular disclosure requirements.

CIPFA/LASAAC is invited to note the comments above and consider whether it wants to revisit its decisions on pensions and financial instruments disclosures.

Exit Package Disclosure

5.4 The London Streamlining Group proposed that the exit package disclosure is removed. This on the basis that termination benefits are required to be reported under IAS 19. The Secretariat would note that this is not a disclosure requirement under IFRS but it is a disclosure requirement which is used across the UK public sector. The Secretariat would invite CIPFA/LASAAC to consider whether it wishes to review the need for this disclosure as it is not required by IFRS.

5.5 The Secretariat would note that as with Scotland and Northern Ireland it would be open to the relevant government administrations as to whether they might explicitly require disclosures for exit packages as they do for remuneration.

CIPFA/LASAAC is to consider whether it wishes to review the need to include the exit package disclosure in local authority financial statements.

Trading Operations and Agency Service Disclosures

5.6 The London Streamlining Group proposed the disclosures on trading operations and agency services could be removed from the Code as did respondents to the 2018/19 Code consultation (see row 1.7). These disclosures have been retained as they have a specific use for Scottish local authorities and to reflect any trading operations that may still operate in local authorities. If local authorities do not use trading operations or they are not material to local authorities' financial statements then they would not need to feature in local authority financial statements. However, the Secretariat considers that it might be beneficial to consult on the usefulness of these disclosure requirements in the development programme for the 2019/20 Code.

CIPFA/LASAAC is invited to consider whether it wishes to review the need to include the Trading Operations and Agency Service Disclosures in local authority financial statements.

Housing Revenue Account and Collection Fund

5.7 An authority raised the issue of the inclusion of the Housing Revenue Account and the Collection Fund in local authority financial statements. The Secretariat would support their removal as this information (though valuable) does not have to be included in local authority financial statements. However, their inclusion in the financial statements is governed by statutory prescription and therefore is an issue for the DCLG or relevant government administration.

Materiality

5.8 An authority and an independent consultant sought more guidance on materiality. There is a substantial section both in the Code and the Code Guidance Notes on this issue and the Secretariat is unclear at this juncture of what more support it can provide. The Secretariat would highlight, however, that the Materiality Practice Statement has been issued by the IASB. The Secretariat is still considering its application to local authority financial statements but would seek CIPFA/LASAAC's views on this issue.

CIPFA/LASAAC's views are sought on the approach to materiality in the Code which has already been augmented. Its views are also sought on the application of the Materiality Practice Statement to local authority financial statements.

Recommendation

CIPFA/LASAAC is invited to consider the individual issues brought to its attention above and consider its approaches to the issues raised.

Appendix A

Comments on the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis

	Issue	**Secretariat Response**
1.1	An authority commented: *'We have had a lot of debate with auditors this year, about the placement of the Expenditure and Funding Analysis - ie where is should sit in the accounts? Could clarity be given to this - some feel it should be part of main statements, whilst others feel it is a note. Also clarity as to the segmental part of the EFA. We understood that materiality was key to this, but yet again our auditors had an issue with this and we had to prepare a further note.'*	The Expenditure and Funding Analysis is a note. However, CIPFA/LASAAC very clearly wanted to allow local authorities to be able to take their own decisions on the positioning of this note taking into account the needs of the users of their financial statements. This could mean that it would precede the core statements (to act as a link between the budgeted information in the Narrative Report) and the IFRS GAAP measures of performance. Alternatively, it could be provided alongside the Comprehensive Income and Expenditure Statement or as the first note. These comments were agreed by CIPFA/LASAAC in the *Understanding Local Authority Financial Statements* publication. Note that IAS 1 *Presentation of Financial Statements* does not prevent entities from producing the notes to the financial statements in any particular order.
1.2	An authority commented: *'Following the introduction of the 'Telling the Story' recommendations, remove the requirement to have the headings in the I&E Statement the same as budget monitoring reports. At [the authority] budget monitoring is done at a service level at the request of senior leaders to help breakdown silo thinking. This creates a huge I&E Statement, Expenditure & Funding Analysis and supporting notes. We understand that it is to present information in a format that people are familiar with but it should be down to practitioners to determine the best headings to uses to make the accounts simpler for users to understand.'*	This comment identifies one of the concerns of the Secretariat in the interpretation of the reporting requirements of the segmental analysis. The Secretariat is of the view that local authorities may need to take a more nuanced approach to their segmental reporting requirements under IFRS 8 *Operating Segments*. However, this is not the only authority that has taken this approach and Appendix B contains a number of redacted examples where there are a large number of lines in an authority's Comprehensive Income and Expenditure Statement. The large number of service lines in the Comprehensive Income and Expenditure Statement means that rather than streamlining the Statement it makes it more difficult to read. It should be noted that the Secretariat has not been able to ascertain how wide spread an issue this might be.

	Issue	Secretariat Response
1.3	A firm commented: ***'Comprehensive Income and Expenditure Statement (CIES)*** *It would be helpful if the Code was more specific about the requirements for what should be included within the service lines of the CIES*.' 'Currently, para 3.4.2.38 requires gross *expenditure, gross income and net expenditure of continuing operations to be analysed by service. The para goes on to say "Authorities shall present the service analysis on the basis of the organisational structure (including, where relevant, corporate support services) under which local authorities operate and shall include costs for those services in accordance with 3.4.2.39". '* *'Income and expenditure are in turn defined in 2.1.2.28 and 2.1.2.29. CIPFA will be aware that it is our view, and the view of other professional firms, that the definition of income and expenditure means that internal recharges (which do not affect recognised assets, liabilities or reserves) should be excluded from any line within the CIES. This view is contrary to the view advocated by CIPFA.* *Should CIPFA maintain their view then we would expect the definition of income and expenditure in 2.1.2.8 and 2.1.2.29 to be revised. We highlight that this will then be a departure from fundamental IFRS principles.'* *'In addition to the above, we would welcome the addition of a specific disclosure requirement in the Code which would meet the requirement of IFRS 8.22. We would expect this would explicitly require local authorities to describe each of their segments within their organisation structure as this often isn't clear solely from the name of the segment.'* **Expenditure and Funding Analysis (EFA)** *'As per our consultation response at the time the EFA was introduced we recommend CIPFA undertake some outreach work to consider whether the addition of the EFA has achieved its objectives.* *In practice we have seen that, whilst the service lines by name agree to the narrative report, the figures presented*	The intention of the changes to the 2016/17 Code was to include an authority's segmental analysis (as defined in IFRS 8) on the face of the Comprehensive Income and Expenditure Statement to promote accountability. Paragraph 25 of IFRS 8 states that: '*The* ***amount of each segment item reported shall be the measure reported to the chief operating decision maker*** *for the purposes of making decisions about allocating resources to the segment and assessing its performance.* ***Adjustments and eliminations made in preparing an entity's financial statements and allocations of revenues, expenses, and gains or losses shall be included in determining reported segment profit or loss only if they are included in the measure of the segment's profit or loss that is used by the chief operating decision make****r.*' If what is reported to the CODM for the allocation of resources is effectively a business arrangement between the corporate departments and the other service segments (and the financial outcomes of those arrangements are in turn reported to the CODM) then the income and expenditure in the top section of the Comprehensive Income and Expenditure Statement will include expenditure and income incurred for other segments within the corporate departments and the (other) service segments will include expenditure that has been charged for, in respect of their use of the corporate departments services. The net cost of services will, however, be the same under either arrangement. The definition of income has not been changed. However, this is not the same as segmental income and it is to be expected that this is made clear in the accounting policies and narrative accompanying the analysis. The Secretariat considers that it may well be worthwhile explicitly adding in the requirements of IFRS 8 paragraph 22 in accordance with the proposals by the firm.

	Issue	Secretariat Response
	rarely agree. This is because the narrative report, being based on management reporting, may quite reasonably include items that are not proper charges for the purpose of IFRS and equally are not a statutory adjustment. A possible solution to this would be to require a 'five column' EFA which shows: *i) Income and expenditure chargeable to the CIES* *ii) Adjustments between accounting and statutory funding basis (iii-i)* *iii) Income and expenditure chargeable to the general fund* *iv) Adjustments between statutory charges and management accounts (v-iii)* *v) Management accounts.*	The Secretariat did raise the issue of outreach events in the Appendix to the relevant report and discussed the timing of the adoption of the Telling the Story changes. However, the Board *with the support of the majority of respondents* decided to move apply an adoption date of 2016/17. Prior to the adoption of the changes to the 2016/17 Code feedback from numerous sources indicated that local authorities measure their performance not on the basis of IFRS GAAP but on the basis of what is chargeable to taxation. A substantial majority in the original consultation (72 (81%)) of the respondents agreed 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. Although a lower rate the majority (61 (68%)) of respondents agreed 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 the changes to the Comprehensive Income and Expenditure Statement service section and the Funding Analysis (which was based on expenditure chargeable to the General Fund), both of which include a segmental analysis based on how a local authority is structured ie its directorates/departments or service structure. The Secretariat contend that the segmental analysis of services should be on a General Fund basis and would seek to investigate with CIPFA/LASAAC why this might not be the case. The Expenditure and Funding Analysis was intended to be simple statement which was supposed to be easily readable by the lay user. The five column analysis includes three performance frameworks and although not the most complicated note in the financial statements, it no longer meets the criteria that it can be used by the lay user.

	Issue	Secretariat Response
1.4	A firm commented: *'Internal recharges - It is incorrect for local authorities to include internal trading income and expenditure with other directorates in the CIES. The CIES must comply with the Code's definition of income and expenditure (Code paras 2.1.2.28 & 29). Internal recharges do not meet the definitions of income and expenditure because they are not an inflow/outflow of economic benefits to/from the authority as a whole (whose financial performance it is that is being recorded) and they do not result in an increase/decrease in reserves. Therefore, internal recharges should be excluded from the CIES and they may appear as reconciling items in the EFA or another segmental disclosure note. Practitioners have found the wording in Code paragraphs 3.4.2.38(a) and 3.4.2.39 confusing and we suggest that it is clarified. The headings used for cost of services in the CIES should be based on the authority's organisational structure. Presenting the service analysis on the basis of organisational structure is not the same as management internal reporting.* *'Expenditure and Funding Analysis (EFA) - Our experience of practitioners preparing the EFA is that many authorities do not actually report to management in line with what is expected in the first column of the EFA. Therefore, some authorities have prepared five column EFA's - the first column includes what is reported to management, the second column includes adjustments (for example, internal trading adjustments) to get to the column which shows income and expenditure chargeable to the General Fund (the first column prescribed in the Code for the EFA) and then the fourth and fifth columns are those prescribed by the Code as columns two and three respectively. It would be helpful if the Code clarified how the segmental reporting requirements could be met through the EFA and that the first column should reflect management information.'*	See the arguments in 1.2 above. It is not incorrect to use formal internal trading income in the Comprehensive Income and Expenditure Statement. The Secretariat concurs that this would not meet the definitions of income and expenditure in those paragraphs of the Code but it does meet the segmental reporting requirements in paragraph 25 of IFRS 8. Though as noted earlier this should be presented clearly as segmental income in a local authority's accounting policies and notes. The wording of paragraph 3.4.2.38 a) was intended to give some direction to local authorities in support of their segmental reporting arrangements. However, the objective of these changes was to allow the reporting requirements on the face of the Comprehensive Income and Expenditure Statement to align with how a local authority reports its performance internally to its management. Paragraph 3.4.2.91 indicates that the top section of the Comprehensive Income and Expenditure Statement should provide the segmental analysis. For comments on the EFA see 1.2 above.

	Issue	Secretariat Response
1.5	An independent consultant and an authority provided largely similar responses and commented (note these comments are very similar to the comments from the London Treasurers): '*The 2017/18 Code introduced the Expenditure and Funding Analysis disclosure to reduce the amount of financial reporting of performance by local authorities and was intended to reflect the information reported to management of local authorities. In practice few if any local authorities report this information to management of local authorities. Therefore instead of simplifying the accounts this has added another reporting requirement on an already over-burdened statement of accounts with little benefit. Instead the Code should follow the analysis adopted by the NHS, charities, housing and universities to report the CIES on the basis of the subjective analysis and revert to the segmental analysis previously reported under the Code.* *In addition as part of this process for "Telling the Story", whilst I agree with the measurement requirements of IFRS, I seriously question the extent to which disclosures required by IFRS are relevant to local authorities in the UK. A lot of the disclosures required under IFRS are not adding anything to the understanding of a local authority's financial performance or position. For example:* *(i) many of the risk disclosures required under IFRS7 for financial instruments whilst relevant to a bank are not relevant to a local authority and* *(ii) the disclosures required to support the IAS19 figures whilst relevant to a company with its own defined benefit scheme are not relevant to local authorities participating in multi-employer pension funds, where they have minimal control over investment policy and asset allocation, which is becoming even more distant from local authorities with the development of asset pools*.	The Secretariat is not clear about this response. As the General Fund is the basis under which local authorities set Council Tax on an annual basis then it is not clear from an accountability perspective why this is not reported to management. The option of reporting a nature of expenditure (a subjective) analysis was offered to the Simplification and Streamlining Working Group and rejected in favour of a service/segmental analysis in February 2015. Note that CIPFA/LASAAC was not keen to reduce the reporting requirements on the adoption of the approaches to the changes to IFRS 7 as a result of the adoption of IFRS 9. Additionally although explicitly included in the consultation on the changes to the 2013/14 Code which introduced new disclosure requirements as a part of the adoption of the June 2011 changes to IAS 19 *Employee Benefits,* CIPFA/LASAAC chose not to reduce or adapt any of the disclosure requirements. Authorities currently have the discretion to consider materially and are encouraged to omit or streamline information that does not contribute to the understanding of the financial statements.

	Issue	Secretariat Response
1.6	The same authority and independent consultant providing largely similar responses and for example commented: '*Guidance would be appreciated on how to de-clutter the accounts without compromising on meeting code requirements; and also on improvements to processes that form the basis of producing the final accounts. This will benefit all authorities as deadlines continue to shorten.* *Instead of being left to auditors to determine materiality levels, further guidance from CIPFA on how the concept should be applied would help to minimise disclosures.* *In including all possible disclosures in an example set of accounts, authorities and their auditors feel pressured to replicate them. Whilst there is recognition that most eventualities should be covered, an example of a de-cluttered set of accounts in the guidance notes should be included along with an explanation*.'	The Code Guidance Notes already include substantial guidance for local authorities. It is very difficult to provide detailed advice and thresholds as the application of the guidance is will always need to be individual to a local authority's circumstances. The IASB has issued its Materiality Practice Statement[7] and the Secretariat is currently considering its usefulness to local authorities. It would welcome CIPFA/LASAAC's views on this issue. The Secretariat would also note it would be for the authority and not the auditors to set the accounting policies in their financial statements including that of the materiality thresholds for an authority's financial statements. **CIPFA/LASAAC is invited to note these comments and provide any views on the approach to the Materiality Practice Statement.**
1.7	The same independent consultant and authority also commented: '*Paragraphs 3.4.4.1 (2) and (3) of the Code require local authorities to make disclosures about nature, income and expenditure of trading operations and agency arrangements. Much of these disclosures relate back to the 1980s when there were concerns about the extent of local authority trading and undertaking work for other bodies. These specific disclosure requirements have been superseded by more principles-based reporting under the Code such as segmental reporting, related party disclosures; group accounting and financial instrument reporting. Therefore these specific disclosures could be deleted in favour of the more general principles-based disclosures in the Code*.'	These disclosures have been retained as they have a specific use for Scottish local authorities and to reflect any trading operations that may still operate in local authorities. If local authorities do not use trading operations or they are not material to local authorities' financial statements then they would not need to feature in local authority financial statements. However the Secretariat considers that it might be beneficial to review the usefulness of these disclosure requirements in the development programme for the 2018/19 Code. **CIPFA/LASAAC is invited to agree the Secretariat's proposals.**

[7] http://www.ifrs.org/-/media/project/disclosure-initative/disclosure-intiative-materiality-practice-statement/mps-project-summary-and-practice-statement.pdf

	Issue	Secretariat Response
1.8	The same authority provided comments on the HRA: '*Given that:* *a. the HRA is already consolidated into the CIES within the housing functions of local authorities, and* *b. the statutory overrides are consolidated within the overall Movement in Reserves Statement,* *then provided the underlying ring-fencing controls are adhered to by local housing authorities, there should be no need for separate reporting of the HRA*. *In addition the supporting information to the HRA (currently required under the HRA (Accounting Practices) Direction 2016 could still be reported within the accounts but distinguishable from General Fund activity, for example by the segmental reporting approach under the Code*. '	The requirement to produce the Housing Revenue Account Statement for England and Wales is specified in the relevant Accounts and Audit Regulations. The Code provides the format of the statement. This issue has been raised with the DCLG by the London Treasurers Group. CIPFA/LASAAC was sent a copy of the letter on 18 August 2017. The Secretariat would note that some authorities' segmental reporting requirements might be such that the HRA is included in a larger segment. **No further action for the Code.**
1.9	An authority commented. '*Since 2007/08 local authorities have applied agency accounting to collection fund reporting, thus reporting their share of business rates and council tax in the primary statements (i.e. income and surplus/deficit in the CIES and debtors and creditors in the balance sheet). As such the Collection Fund is now little more than a memorandum account to calculate the surplus/deficit to be shared between precepting bodies, which is not a primary purpose of financial reporting, so the statement could be eliminated*.'	The collection fund reporting requirements are stipulated by statute. Again this issue has been raised with DCLG in the letter from the London Streamlining Group. **No further action for the Code.**

Appendix C

IAS 1 Presentation of Financial Statements

82 In addition to items required by other IFRSs, the profit or loss section or the statement of profit or loss shall include line items that present the following amounts for the period:

a) revenue;

b) finance costs;

c) share of the profit or loss of associates and joint ventures accounted for using the equity method;

d) tax expense;

e) [deleted]

ea) a single amount for the total of discontinued operations (see IFRS 5).

(f) to (i) [deleted]

Paragraphs 99 to 104 of IAS 1

Information to be presented in the statement(s) of profit or loss and other comprehensive income or in the notes

…

99 An entity shall present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant.

100 Entities are encouraged to present the analysis in paragraph 99 in the statement(s) presenting profit or loss and other comprehensive income.

101 Expenses are subclassified to highlight components of financial performance that may differ in terms of frequency, potential for gain or loss and predictability. This analysis is provided in one of two forms.

102 The first form of analysis is the 'nature of expense' method. An entity aggregates expenses within profit or loss according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and does not reallocate them among functions within the entity. This method may be simple to apply because no allocations of expenses to functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

Revenue		X
Other income		X
Changes in inventories of finished goods and work in progress	X	
Raw materials and consumables used	X	

103 The second form of analysis is the 'function of expense' or 'cost of sales' method and classifies expenses according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities. At a minimum, an entity discloses its cost of sales under this method separately from other expenses.

This method can provide more relevant information to users than the classification of expenses by nature, but allocating costs to functions may require arbitrary allocations and involve considerable judgement. An example of a classification using the function of expense method is as follows:

Revenue	X
Cost of sales	(X)
Gross profit	X
Other income	X
Distribution costs	(X)
Administrative expenses	(X)
Other expenses	(X)
Profit before tax	X

104 An entity classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense.

IPSAS 1 Presentation of Financial Statements

113. The second form of analysis is the function of expense method and classifies expenses according to the program or purpose for which they were made. This method can provide more relevant information to users than the classification of expenses by nature, but allocating costs to functions may require arbitrary allocations and involves considerable judgment. An example of a classification using the function of expense method is as follows:

Revenue		X
Expenses:		
Health expenses	(X)	
Education expenses	(X)	
Other expenses	(X)	
Surplus	X	

ITEM 1

Comprehensive Income and Expenditure Statement (extract)

This Comprehensive Income and Expenditure 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 the Expenditure and Funding Analysis and the Movement in Reserves Statement.

Comprehensive Income and Expenditure Statement 2016/17	Gross Expenditure	Gross Income	Net Expenditure
	£m	£m	£m
Net Cost of Services (Note w)	2,893.1	(2,098.5)	794.6
Other Operating Expenditure (Note x)	212.5	-	212.5
Financing and Investment Income and Expenditure (Note y)	283.0	(56.6)	226.4
Taxation and Non-specific Grant Income and Expenditure (Note z)	6.0	(1,123.4)	(1,117.4)
(Surplus) or Deficit on Provision of Services			116.1
Items that will not be reclassified to the Surplus or Deficit on the Provision of Services			
(Surplus) or Deficit on Revaluation of Property, Plant and Equipment Assets			(645.0)
Remeasurement of the Net Defined Benefit Liability (Asset)			(748.0)
			103.0
Items that may be reclassified to the Surplus or Deficit on the Provision of Services			
(Surplus) or Deficit on Revaluation of Available-for-Sale Financial Assets			(0.3)
			(0.3)
Other Comprehensive Income and Expenditure			102.6
Total Comprehensive Income and Expenditure			(218.7)

Expenditure and Funding Analysis (extract)

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

2016/2017	**Net Expenditure Chargeable to the General Fund and HRA Balances**
	£m
People Directorate	510.2
Place	197.1
Corporate Resources	22.3
Corporate and Central Services	50.7
Corporately Managed	218.4
Housing Revenue Account	(131..1)
Net Expenditure for Services for the General Fund	**867.6**
Other Income and Expenditure	(780.3)
Surplus or Deficit on the General Fund**	**(87.3)**
Opening General Fund and HRA Balance at 31 March 2016	**(504.8)**
Less Deficit on General Fund and HRA Balance in Year	**87.3**
Closing General Fund and HRA Balance at 31 March 2017*	**(417.5)**

***Note the allocation of these balances is provided in the first two columns of the Movement in Reserves Statement**

**** A reconciliation of the General Fund Surplus or Deficit to the Surplus or Deficit on the Provision of Services is provided in column three of the Movement in Reserves Statement. An analysis of the adjustments is provided in column 3 of Note A.**

Movement in Reserves Statement

ITEM 3 i

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 £m	Housing Revenue Account £m	Total Revenue Reserves*** £m	Capital Receipts Reserve* £m	Major Repairs Reserve** £m	Capital Grants Unapplied Account £000	Total Capital Reserves £m	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2016	500.2	4.6	504.8	312.1	5.8	73.0	390.9	895.7	(1,738.5)	(842.8)
Movement in reserves during 2016/17										
Surplus/Deficit on the Provision of Services	(158.0)	41.9	(116.1)					(116.1)		(116.1)
Other Comprehensive Income and Expenditure									(102.6)	(102.6)
Total Comprehensive Income and Expenditure	(158.0)	41.9	(116.1)					(116.1)	(102.6)	(218.7)
Adjustments from accounting basis to the funding basis	70.7	(41.9)	28.8	(33.7)	33.2	22.2	21.7	(50.5)	(50.5)	-
Increase or (Decrease) in 2016/17	(87.3)	-	(87.3)	(33.7)	33.2	22.2	21.7	(65.6)	(153.1)	218.7
Balance at 31 March 2017 carried forward	412.9	4.6	417.5	278.4	39.0	95.2	412.6	830.1	(1,891.6)	(1,061.5)

*** **Note that this column provides a reconciliation of the adjustments from the Deficit on the General Fund Balance shown in the Expenditure and Funding Analysis to the Surplus or Deficit on the Provision of Services**

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 £m	Housing Revenue Account £m	Total Revenue Reserves*** £m	Capital Receipts Reserve* £m	Major Repairs Reserve** £m	Capital Grants Unapplied Account £000	Total Capital Reserves £m	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2016	500.2	4.6	504.8	312.1	5.8	73.0	390.9	895.7	(1,738.5)	(842.8)
Movement in reserves during 2016/17										
Total Comprehensive Income and Expenditure* **	(158.0)	41.9	(116.1)					(116.1)	(102.6)	(218.7)
Adjustments from accounting basis to the funding basis	70.7	(41.9)	28.8	(33.7)	33.2	22.2	21.7	(50.5)	(50.5)	-
Increase or (Decrease) in 2016/17	(87.5)	-	(87.3)	(33.7)	33.2	22.2	21.7	(65.6)	(153.1)	218.7
Balance at 31 March 2017 carried forward	412.9	4.6	417.5	278.4	39.0	95.2	412.6	830.1	(1,891.6)	(1,061.5)

*** **Note that this column provides a reconciliation of the adjustments from the Deficit on the General Fund Balance the Expenditure and Funding Analysis to the Surplus or Deficit on the Provision of Services shown in the Total Comprehensive Income and Expenditure column 3.**

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

20X1/20X2	Usable Reserves						
	General Fund Balance £m	Housing Revenue Account £m	Total Revenue Reserves* £m	Capital Receipts Reserve £m	Major Repairs Reserve £m	Capital Grants Unapplied £m	Total Capital Reserves £m
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**)	34.1	0.9	35.0	-	-	-	-
▪ Financial instruments **(transferred to the Financial Instruments Adjustments Account**)	4.4	-	4.4	-	-	-	-
▪ Council Tax and NDR **(transfers to or from Collection Fund Adjustment Account**)	(12.3)	-	(12.3)	-	-	-	-
▪ Holiday pay (**transferred to the Accumulated Absences Account**)	3.6	-	3.6	-	-	-	-
▪ Equal pay settlements (**transferred to the Unequal Pay/Back Pay AC**)	(144.5)	(9.9)	(154.4)	-	-	-	-
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)**:	286.9	81.5	368.4	-	-	69.1	69.1
Total Adjustments to Revenue Resources	**172.2**	**72.5**	**244.7**	**-**	**-**	69.1	69.1
Adjustments between Revenue and Capital Resources							
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(62.5)	(36.1)	(98.6)	88.5	-	-	88.5
Administrative costs of non-current asset disposals **(funded by a contribution from the Capital Receipts Reserve)**	0.6	-	0.6	(0.6)	-	-	(0.6)
Contribution to the Costs of Equal Pay	83.9	-	83.9	(83.9)	-	-	(83.9)
Reclassification of grants originally treated as capital grants	2.1		2.1			(2.1)	(2.1)
Payments to Housing Receipts Pool	6.3		6.3	(6.3)	-	-	
Posting of HRA Resources from revenue to the Major Repairs Reserve		(47.5)	(47.5)		47.5		47.5
Provision for the repayment of debt (transfer from the CAA)	(130.4)	(2.9)	(133.3)	-	-	-	-
Capital expenditure financed from revenue balances (**transfer to the CAA**)	(1.5)	(27.8)	(29.3)	-	-	-	-
Total Adjustments between Revenue and Capital Resources	**(101.5)**	**(114.3)**	**(215.8)**	**(2.3)**	**47.5**	**(2.1)**	**43.1**
Adjustments to Capital Resources							
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	-	(32.0)	-	-	(32.0)
Use of the Capital Receipts Reserve to repay debt				(0.3)			(0.3)
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-		(14.3)	-	(14.3)
Application of capital grants to finance capital expenditure	-	-	-		`-	(44.8)	(44.8)
Cash payments in relation to deferred capital receipts	-	-	-	0.5	-	-	0.5
Other				0.3			0.3
Total Adjustments to Capital Resources	**-**	**-**	**-**	**(31.5)**	**(14.3)**	**(44.8)**	**(90.6)**
Total Adjustments	**70.7**	**(41.9)**	**28.8**	**(33.7)**	**33.2**	**22.2**	**21.7**

*** Note that this column provides an analysis of the adjustments from the Deficit on the General Fund Balance shown in the Expenditure and Funding Analysis to the Surplus or Deficit on the Provision of Services**