

Update on local government developments

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Development of the 2022/23 Code

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Main topics shared with FRAB in previous meetings

- Service Concession Liability under IFRS 16
- Housing Tenancies under IFRS 16
- Other Accounting and Regulatory Developments
- Advance consultation on IFRS 17 *Insurance Contracts*

Concluded 15 October 2021 – deadline extended due to technical issues

Review of 2022/23 ITC responses

ITC responses reviewed at CIPFA/LASAAC meeting on 4 November 2021

Most significant responses were in relation to

- Service Concession Liability under IFRS 16 *Leases*
- Advance consultation on IFRS 17 *Insurance Contracts*

The ITC included appendices giving an indication of the anticipated effects of IFRS 16 on PFI PPP liabilities, and a review of previous consultations on IFRS 17 to help respondents understand the issues.

PFI PPP liabilities: 2022/23 ITC responses

Material in the ITC on the effect of indexation on PFI PPP liabilities prompted more detailed engagement with the technical issues. While the numerical majority of responses accepted the Code proposals, there were some significant and possibly new technical objections. These challenged core assumptions including whether:

- Indexation should be applied to the liability; and
- Changes in payments for the asset always result from the change in the index in the manner envisaged in IFRS 16

PFI PPP liabilities: way forward

CIPFA/LASAAC will carry out further review of the objections at its 22 November meeting, to determine if they are valid, and consider the implications for the Code and/or related guidance.

That decision will inform the content of the 2022/23 Code.

In the event that there are non-trivial changes which affect the Code rather than guidance, CIPFA/LASAAC will provide an out of meeting paper to FRAB to confirm the approach.

IFRS 17 *Insurance Contracts*: 2022/23 ITC responses

The material in the ITC on issues around insurance also prompted more detailed engagement with technical issues.

The responses are not in full agreement, but generally support the current Code approach which does not provide detailed material on insurance accounting.

CIPFA/LASAAC will consider these more fully when developing the 2023/24 ITC and will liaise closely with CIPFA working groups which would, if appropriate, provide more detailed guidance on selected issues around e.g. pension guarantees

Update on CIPFA/LASAAC strategic plan

The CIPFA/LASAAC Strategic Plan included the following six projects:

- Project 1 – Materiality
- Project 2 - Streamlining the accounts
- Project 3 – Annual Development Programme for the 2022/23 Code*
- Project 4 – PFI/PPP Contracts Working Group*
- Project 5 – Implementation of IFRS 17 *Insurance Contracts**
- Project 6 - Narrative Reporting

Items marked * have been discussed already in relation to the Code ITC

Project 1 – Materiality

Progressed in 2021 with two focuses

- Reviewing the application of materiality to PPE and pension balances in line with suggestions made in the Redmond review
- Considering whether the material in the Code and related documents on the application of materiality could be improved

This is a well trodden topic, and in practice CIPFA/LASAAC did not feel able to develop new material for the Code. The body of guidance on materiality already available is also significant and of high quality.

Project 2 - Streamlining the accounts

Project reframed as 'Improving the Presentation of Local Authority Financial Statements' with 3 main strands:

- 2a Statutory Adjustments
- 2b Performance Overview
- 2c CIPFA Financial Reporting Hub

Project 2 - Streamlining the accounts (other aspects)

CIPFA/LASAAC is also reopening a discussion of whether there are ways in which the currently very long and detailed Code could be shortened or restructured to aid readability, and perhaps in so doing, help preparers produce accounts which focus on what is important

Project 6 - Narrative Reporting

CIPFA/LASAAC meeting on 28 June 2021 agreed to split the project into two

Short-term

- Post implementation review following 2017/18 Code amendments
- Linkages to project 2a on statutory adjustments

Medium-term

- Explore focus on sustainability and resilience
- Consider wider best practice in public sector and review applicability to LG
- Review sustainability and diversity disclosure requirements in Code

FRAB training on local government financial reporting

This will be delivered by CIPFA/LASAAC secretariat and Chair, and will cover

- Local authority statutory frameworks
- Budgeting and finance regimes
- Capital finance
- Implications for financial reporting and related matters

Local government 2020/21 accounts and audit

- Deadline extended to 30 September BUT
- Only 9% of audits completed by deadline
- 70 local authorities yet to achieve closure on 2019/20 accounts
- We don't know whether the 9% includes VFM reporting, which has been de-linked

Improving local public audit

Audit completion problems have been exacerbated by Covid-19, but CIPFA and others had already identified systemic issues, which led to the Redmond Review

Redmond Review considered issues relating to local authority financial reporting, the conduct and oversight of local public audit, and the operation of the market for local public audit

Recommendations included the creation of an independent regulator. The government has proposed that this role will be taken up by new audit regulator ARGAs.

Improving local public audit

Multiple actions and initiatives are underway to improve matters

- DLUHC Liaison Committee, which is supporting the co-ordination of the local audit system
- A number of workstreams established, which include capability and capacity as well as governance
- A consultation in the summer - *Local Audit Framework: a technical consultation*
- Determination to progress where legislation not required, with 'shadow arrangements' for local audit framework from April 2022
- 'Controller for local audit' has been advertised
- PSAA procurement to ease entry into audit market
- Timeliness remains a major concern