

Note of CIPFA/LASAAC decisions and feedback
statement in relation to:

Consultation on the Code of Practice on Local
Authority Financial Reporting in the United
Kingdom short-term England-only measures to aid
the recovery of local authority reporting and audit

18 July 2024

CIPFA/LASAAC decisions

Background

- 1.1 DLUHC and other system partners issued a [joint statement](#) in February 2024 on measures to aid the recovery of local authority reporting and audit. As part of a joint approach, CIPFA/LASAAC considered the merits of time-limited changes to the Code for 2023/24 and 2024/25.
- 1.2 CIPFA/LASAAC decided to explore two approaches that could be applied to the 2023/24 and 2024/25 Codes:
 - an option to simplify measurement of operational property, plant and equipment using specified indexation, and
 - reduced disclosures for pensions reporting, by aligning that reporting with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.
- 1.3 As explained below, initially the Board agreed to progress some of the proposals, but in light of subsequent events has determined that there should be no changes to the 2023/24 and 2024/25 Codes.

Preliminary and revised decisions

- 1.4 CIPFA/LASAAC met on 17 April 2024 to consider responses to the exceptional consultation to decide whether to progress options explored. Information about the findings which informed the Board's consideration is provided in the attached feedback statement.
- 1.5 The decisions taken in April were as follows:
 - **The Board decided not to progress an option to simplify measurement of operational property, plant and equipment, using specified indexation in 2023/24.** However, the Board did provide preliminary agreement to consider using indexation in 2024/25, subject to further approval once suitable indices and the process for indexation had been determined.
 - **The Board decided to approve the option of reduced pension disclosures for 2023/24 and 2024/25.**
 - **The Board was also exploring whether the proposals should be applied as UK-wide measures rather than for England only.**
- 1.6 The Board was in the process of determining the detailed way forward with Code updates, when the government made its announcement that there would be a July election.
- 1.7 The Code update proposals were linked to a package of cross-system measures developed with DLUHC, the FRC and the NAO, and some of those measures are dependent on the passing of regulations.
- 1.8 As the NAO recently set out in a [Supplementary Guidance Note](#) of 19 June, the dissolution of Parliament in advance of the general election means that the proposals consulted upon by the NAO and DLUHC respectively for changes to the Code of Audit Practice and the introduction of statutory publication deadlines for audited accounts ('backstop' dates) cannot proceed until a new Parliament is formed, and the new government has had the opportunity to consider whether it wishes to proceed with the proposals.
- 1.9 In light of this, CIPFA/LASAAC reviewed its preliminary decision. Taken together with concerns from many respondents to the consultation that the measures were already too late to be effective, the Board decided to reverse its April decision, and would not progress updates to the 2023/24 and 2024/25 Codes.

Factors underlying the preliminary decision on indexation

- 1.10 The decision not to progress an option to simplify measurement of operational property, plant and equipment, using specified indexation in 2023/24 reflected the following factors:
- a majority of respondents felt the proposal was too late for implementation in 2023/24
 - difficulties determining suitable indices for all asset classes, and a lack of regional factors in some of the readily available indices.
- 1.11 Additionally, CIPFA/LASAAC had not at this stage reached a consensus on determining the appropriate starting point for indexation.
- 1.12 However, the Board did provide preliminary agreement to consider using indexation in 2024/25, subject to further approval once indices and the process for indexation have been determined.

Factors underlying the preliminary decision on pensions disclosures

- 1.13 CIPFA/LASAAC is of the view that certain disclosures made in local authority financial statements regarding pensions may not always be essential. Therefore, to simplify local authority financial reporting and audit processes during the recovery period, a reduction in pension disclosures may be beneficial.
- 1.14 It should be noted that a significant number of respondents felt that the option had a limited impact on both preparers and auditors.
- 1.15 It should also be noted that CIPFA/LASAAC made this decision on the basis of a majority vote that passed by the narrowest possible margin.

Evidence supporting the Board's preliminary decisions

- 1.16 The analysis used by the Board in making its decisions is attached as Annex A. The CIPFA/LASAAC secretariat also read through all of the responses and noted many perceptive and useful comments.

Annex A – CIPFA/LASAAC Feedback Statement

Introduction

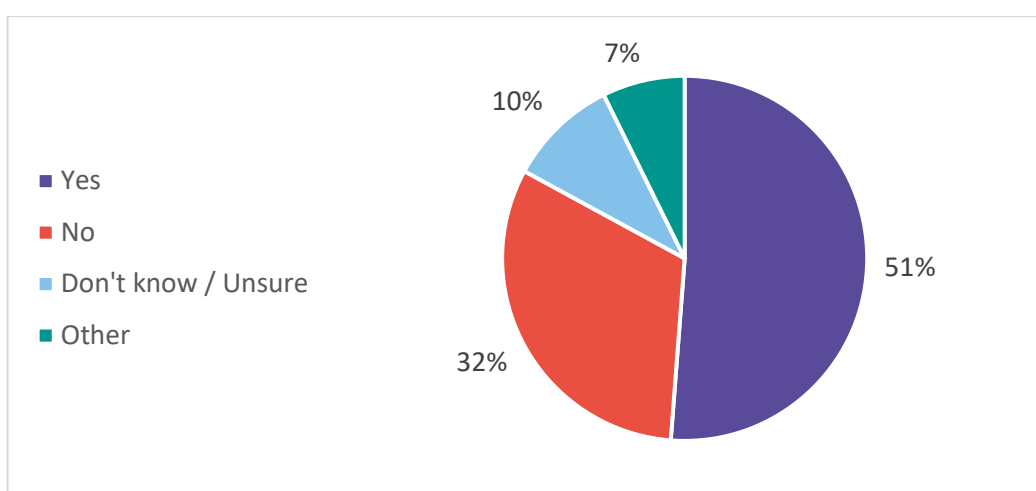
- 1.1 This publication is a Feedback Statement from the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC).
- 1.2 This Feedback Statement should be considered alongside the consultation papers on the short-term England-only measures in the Code. (The consultation documents are available on the [archived consultation pages](#) of the CIPFA website.)
- 1.3 **This Feedback Statement does not form any part of the 2023/24, 2024/25 or other Codes.**
- 1.4 CIPFA/LASAAC received 88 responses to the consultation. This was significantly more than in previous years. The tables below show the distributions of responses:

Geographical distribution of organisation responding to the consultation	
English – 65	Welsh – 1
Scottish – 3	Other – 19

Different types of organisation responding to the consultation	
Accountancy institute	Fire and rescue authority
Audit firm	Individuals and academics
Borough council	London borough council
Central government	Metropolitan borough council
City council	National audit agency
Constabulary and police and crime commissioner	National park authority
Consultancy firm	Pension fund
County council	Representative body
District council	Unitary council

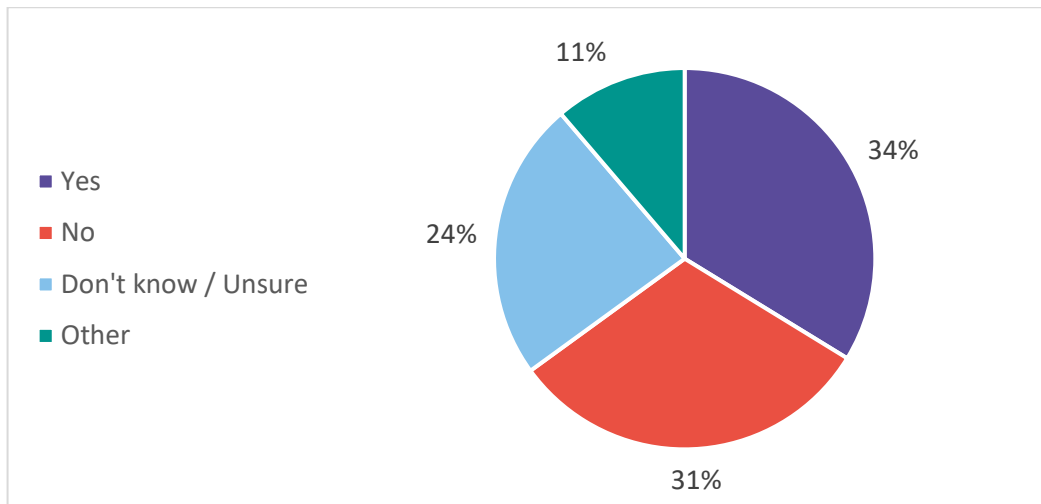
Indexation of PPE

Q1. Do you agree with the proposal that, for local authorities in England only and for the 2023/24 and 2024/25 reporting periods, the application of the requirements of the Code should be amended so that asset values in the financial statements may be based on the most recent valuation which has been subject to audit, adjusted for depreciation, and updated by a standard centrally determined index?



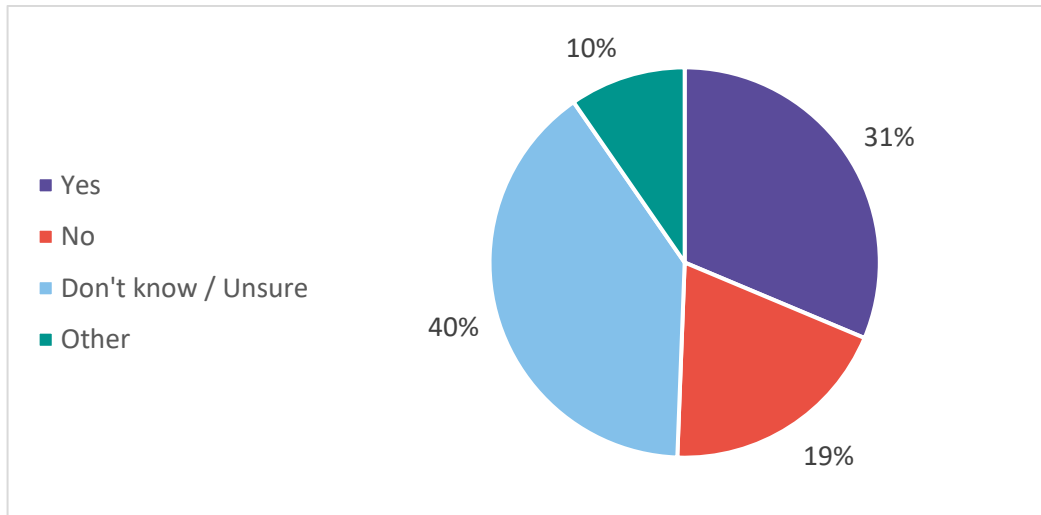
- 1.5 Just over a third of respondents had concerns as to whether there would be agreement and support from the audit community for the measures. There were also concerns about how contradictions between valuations and indexation would be approached by auditors and if this would create additional work or uncertainty.
- 1.6 Just over a third of respondents said that the proposals are too late for the 2023/24 statutory accounts. Most local authorities either have valuations in progress or have received completed valuations.
- 1.7 Respondents commented on identifying suitable indices for different assets and regional variations, and the starting point for indexation especially with modified and disclaimed audit opinions.
- 1.8 Concerns at the increased workload to catch up at the end of the two-year short-term measures and that the existing issues would return. Others mentioned the market for valuers may be affected and the potential for large swings in asset carrying balances when valuations return.
- 1.9 There were concerns about the potential seven-year timeframe between formal valuations as part of the proposals.
- 1.10 A few respondents expressed concern that the short-term, England-only measures were creating different accounting practices across the UK.

Q2. Do you consider that this would have a beneficial effect (a net reduction) in the overall workload for preparers, having regard both to additional work that would be required to implement the change, and anticipated reductions in requirements to provide additional evidence to auditors and to resolve auditor queries?



- 1.11 Respondents mentioned that any time savings would depend on the level of audit testing required and having to justify indices being used could still take up a considerable amount of time.
- 1.12 Some respondents were concerned that the measures could present a different point of challenge by auditors and therefore add to their workload rather than solve the current backlog.
- 1.13 Respondents felt that there wasn't a time saving for preparers in producing the accounts and it was more of a time saving for valuers. Respondents also noted concern that changing the approach to valuations could initially take more time to implement.
- 1.14 There were three organisations that provided practical considerations, such as questioning how these changes would be presented in disclosure notes and accounting policies in the accounts as well as current asset register system limitations.

Q3. Do you consider that this would have a beneficial effect (a net reduction) in the overall workload for auditors?



- 1.15 Almost half of respondents noted that any reduction in workload would be dependent on initial agreement with auditors for the proposals, especially how auditors would gain assurance and reduce the level of testing required. There were also suggestions of standardisation and prescription to aid with this process.
- 1.16 Five respondents mentioned that even with indexation there would still be a considerable amount of work involved in evidencing the other inputs for valuations.
- 1.17 An individual commented on a potential practical issue for auditors and the software they use for sampling.
- 1.18 Several respondents included comments on the future outlook following the end of the short-term measures. They were primarily concerned that there would be additional work when returning to the existing valuation process, including if there were any material variations moving from indexation to valuations. However, there were also a couple of respondents who indicated that they would like to see a long-term use of indexation.

Q4. Who do you consider would be an appropriate authoritative body to determine the indices to be applied?

- 1.19 Almost half of respondents mentioned RICS and a quarter of respondents mentioned CIPFA either individually or collectively as an appropriate authoritative body to determine the indices.
- 1.20 Twelve respondents mentioned that RICS and CIPFA should work together to determine the indices, while 11 respondents stated that it should be a suitably qualified valuer to determine the indices.
- 1.21 Thirteen respondents referenced using existing indices such as BCIS or ONS.
- 1.22 Six respondents mentioned DLUHC as an appropriate authoritative body to determine the indices. One respondent felt if the indices were issued as accounting guidance by DLUHC it would give it statutory override status and remove any doubt.

Q5. By what date would you need this information to be able to effectively implement an indexation approach?

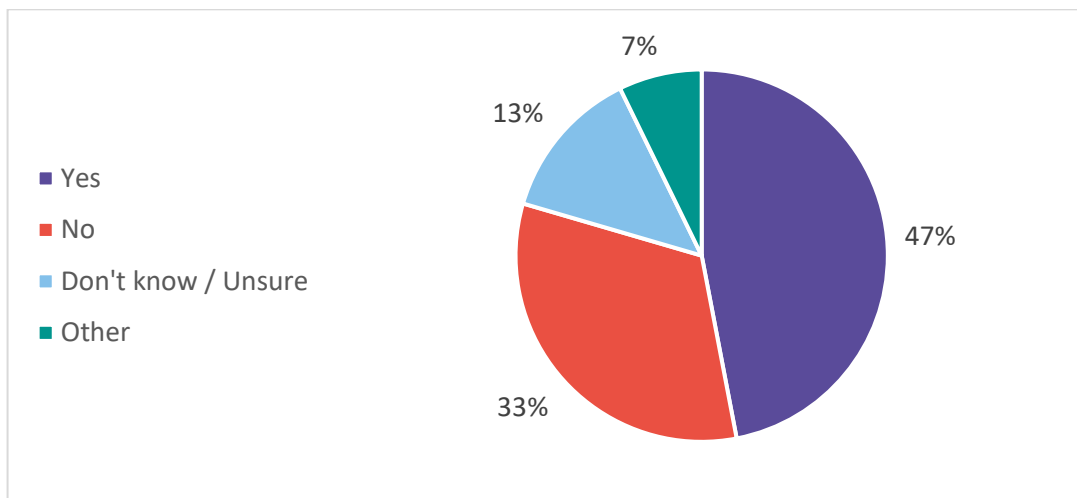
- 1.23 Nearly a fifth of respondents stated that it was too late for the 2023/24 accounts.
- 1.24 Other answers ranged from the beginning of March to the end of April, although a few respondents mentioned that they would need information by the autumn.

Q6. Do you have any other comments on this proposal?

- 1.25 Just over a quarter of respondents mentioned similar concerns as in earlier questions, regarding audit and some also suggested standardisation and prescription. Respondents again mentioned that the proposals were too late for the 2023/24 accounts.
- 1.26 Several respondents mentioned in one way or another the limited value and overstated significance of valuations in local authority accounts. There were a couple of respondents that were also supportive of a permanent rather than temporary change in this area. Another couple of respondents referenced HM Treasury's proposed changes.
- 1.27 Several respondents had queries on the scope of the consultation mentioning the following classes of assets:
- investment properties
 - council dwellings.
- 1.28 A couple of respondents expressed concern about having two different approaches to the valuation of assets across local authorities, especially the implications for Whole of Government Accounts.
- 1.29 One organisation raised a technical point on how indexation is treated in the NHS accounts and proposed CIPFA/LASAAC adopted this approach. The NHS group accounting manual requires that cumulative depreciation is 'zeroed' as an in-year movement only on formal revaluation and not on indexation.

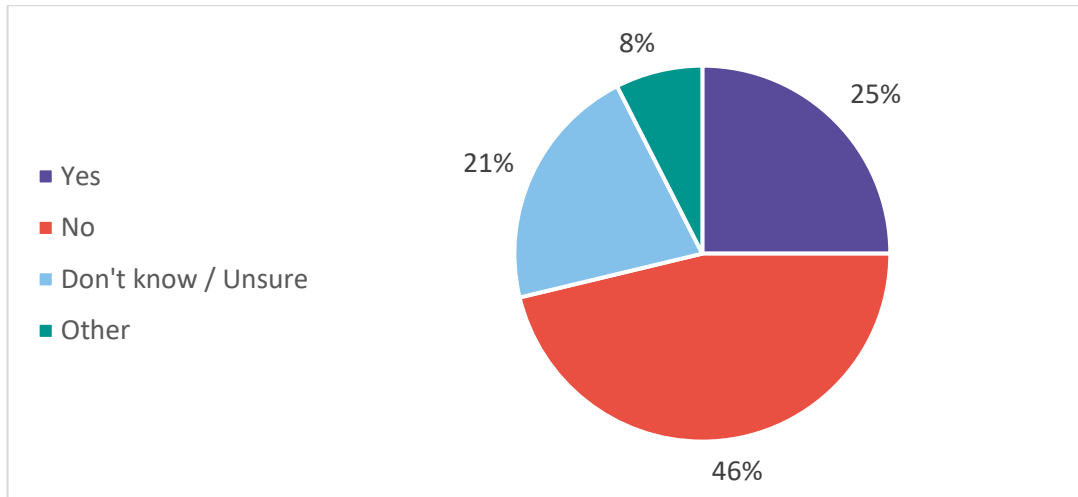
Pension disclosures

Q7. Do you agree with the proposal that, for local authorities in England only and for the 2023/24 and 2024/25 reporting periods the application of the requirements of the Code should be amended so that reduced pension disclosures are required, as outlined in the exposure draft?



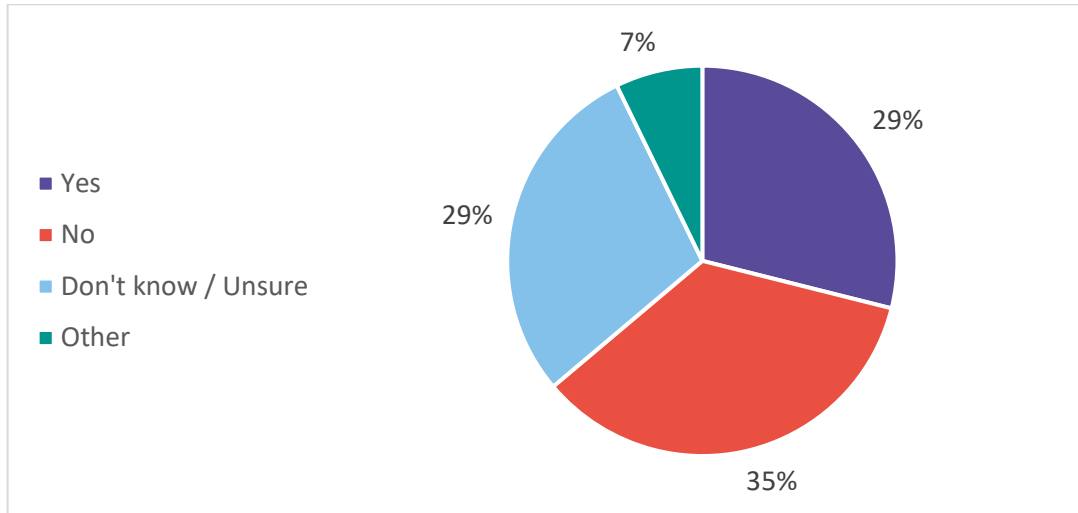
- 1.30 Some respondents expressed uncertainty during the consultation, questioning whether the proposals involved a transition from IAS 19 to FRS 102 for pension reporting.
- 1.31 Over a third of respondents expressed concerns about the proposal's limited impact on preparers and auditors. They argued that the information targeted for reduction likely originates from existing IAS 19 reports, offering minimal benefit.
- 1.32 Four respondents raised concerns about a potential inconsistency between the proposal to remove sensitivity analysis from pension disclosures and the requirements of paragraph 3.4.2.96 of the Code.
- 1.33 Several respondents called for more extensive reductions in disclosure requirements beyond the proposed changes. One representative body would have preferred to see a move towards reporting on a contribution basis for local authorities.

Q8. Do you consider that this would have a beneficial effect (a net reduction) in the overall workload for preparers, having regard both to additional work that would be required to implement the change, and anticipated reductions in requirements to provide additional evidence to auditors and to resolve auditor queries?



- 1.34 Three quarters of respondents that gave comments, replied that the deleted disclosures are not time-consuming to produce and so therefore it will only be a marginal benefit for preparers.
- 1.35 Five respondents thought that there would be additional work for preparers, even to remove disclosures from the accounts.
- 1.36 Several authorities thought the benefit would be dependent on stance taken by their auditors.
- 1.37 Three respondents felt a reduction in disclosures could lead to a reduction in audit queries, although a district council noted the focus of auditors is in gaining assurance over the main assumptions made by the actuary for the valuation of the overall liability/asset.

Q9. Do you consider that this would have a beneficial effect (a net reduction) in the overall workload for auditors?



- 1.38 Almost all respondents that gave comments, replied that the deleted disclosures will only provide a minimal benefit for auditors as disclosure notes are not the focus of the audit.
- 1.39 Three authorities felt that more time could be saved if auditors were able to place more reliance on actuary reports produced by experts.

Q10. Do you have any other comments on this proposal?

- 1.40 A fifth of all comments received would like to see CIPFA/LASAAC take the proposals further, such as restricting pensions disclosure notes to an analysis of movements on balance sheet assets and liabilities only.
- 1.41 Just under a fifth would like to see the proposal as a permanent change to the Code.
- 1.42 One district council requested the proposal be optional, not mandatory.
- 1.43 Five respondents felt it was too late for any changes to be implemented in 2023/24. Another three respondents felt that they need decisions on the final Code update to be taken as early as possible and for CIPFA to provide further guidance and/or clarification.

General comments

Q11. Do you have any other comments on how the short-term proposals might be implemented?

For example, having considered the proposal in this ITC, to the extent that you are in favour of them, do you agree or disagree that this is an appropriate matter for specification in the Code, which is a matter for CIPFA/LASAAC to determine under its usual process?

- 1.44 Over a fifth felt the current proposals were insufficient, while nearly a third of respondents called for more permanent Code simplifications.
- 1.45 Six respondents requested further guidance on disclaimed opinions and the application of indexation plus additional disclosures that would be required.
- 1.46 Just over a quarter of respondents felt that the proposals were appropriate for the Code, however three respondents suggested statutory instrument might have a greater impact.
- 1.47 Three respondents felt that the success of any proposals would be dependent on alignment with audit guidelines. Another ten respondents had comments about the perceived focus of audit work and that a change in the audit framework allowing auditors to focus on areas that impact on the taxpayer would be more beneficial.
- 1.48 Three respondents felt that the underlying issues causing the backlog would not be resolved by Code amendments. Some of the issues identified relate to shortages of experienced staff in local authority finance teams, attraction and retention hurdles in the profession, increased workload pressure on finance and audit staff, emerging new reporting requirements without associated upskilling in finance teams, and the impact of reduced local government funding.
- 1.49 Two respondents indicated that a change in the statutory deadline for the publication of draft accounts would assist practitioners.