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12 January 2018

Amanda Whittle

Local Government Finance Policy Division

Welsh Government

Cathays Park

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Dear Amanda,

Informal Comments on the Proposed amendments to the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003

1. Introduction

1.1 CIPFA welcomes the opportunity to respond to the consultation.

2. Securitisation

2.1 CIPFA raised the following issue in relation to the equivalent English Regulations[1] in its response to the consultation in 2011. We note that the consultation documents set out that whether the transactions are lawful is a matter for the individual authority. Section 13 of the Local Government Act 2003 sets out that "*All money borrowed by a local authority (whether before or after the coming into force of this section), together with any interest on the money borrowed, shall be charged indifferently on all the revenues of the authority*."

2.2 We would question therefore, if all money is charged indifferently on all the revenues, whether local authorities are able under the regulatory regime to sell or assign those revenues? Given that this is a cornerstone of the local government finance system and treasury management, we would not want the security for borrowing to be weakened - or perceived by rating agencies and lenders as weakened. Whilst we appreciate from your comments that you are not in a position to comment on the legality, we consider that it may be useful to provide some clarity over this specific aspect.

3. Expenditure to be Capital Expenditure

3.1 We note that the Welsh Regulations propose taking certain collective investment vehicles outside of the definition of capital expenditure in a similar manner to the English Capital Finance and Accounting Regulations. You will be aware that it is

[1] The Local Authorities (Capital Finance and Accounting) England Regulations 2003, as amended.

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anticipated[2] that the 2018/19 *Code of Practice on Local Authority Accounting in the United Kingdom* will adopt IFRS 9 *Financial instruments*.

3.2 You will also be aware that local authorities have raised concerns in relation to the impact on the General Fund (Council Fund in Wales) of the new classification requirements under IFRS 9 and the financial impact ie that fair value gains and losses will be recognised in the Surplus or Deficit on the Provision of Services when they are incurred for collective investment vehicles. If these instruments remain within the definition of expenditure to be capital expenditure then this issue will not arise as the gains and losses will be reversible under the statutory framework. We understand that local authorities are concerned that some or all of the returns from such investments would meet the definition of a capital receipt if left in the definition of capital expenditure and this may therefore limit the options for usage of the returns. We would be happy to discuss in more detail with you how these conflicting positions can be resolved.

4. Service Reporting Code of Practice

4.1 We note that the Welsh Regulations propose removing the Service Reporting Code of Practice (SeRCOP) from the definition of proper practices in the new proposals. We agree that as CIPFA/LASAAC has removed the SeRCOP service expenditure analysis from the reporting requirements for the Comprehensive Income and Expenditure Statement SeRCOP does have a different role in financial reporting. We would highlight, however, that SeRCOP still has a role in performance reporting and in the provision of statistical information. It should encourage consistency for those purposes. It should also be used as a basis for estimating total costs if local authorities need to charge for a service. We would therefore recommend that SeRCOP remains a proper practice for local authority accounts.

If you have any queries or questions please contact:

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Yours sincerely,

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[2] The 2018/19 *Code of Practice on Local Authority Accounting in the United Kingdom* has not at the time of drafting this response completed the full due process for publication.