

# Report

**To:** CIPFA LASAAC

**From:** Sarah Sheen, CIPFA Secretariat Advisor

**Date:** 4 March 2021

**Subject:** CIPFA LASAAC Updated Strategic Plan

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## Purpose

**The purpose of this report is to agree the CIPFA LASAAC Updated Strategic Plan**

## Report

### 1. Introduction

- 1.1 CIPFA LASAAC last agreed its [Strategic Implementation Plan](#) in April 2019. Since then, it has maintained its development programme, albeit in 2020 it decided to slow down the process because of the impact of the pandemic on local authority finance staff who would need to participate in the process. However, it did include consultation questions on the strategic plan in its September/October consultation on the 2021/22 Code.
- 1.2 Local authority financial reporting has been subject to increased focus over recent years culminating in the commentaries in the Redmond Review and there is still a need to consider a simplification agenda. The Secretariat is also of the view that while CIPFA LASAAC's strategic plans covered all the relevant items it will be necessary to focus the resources of the Board on targeted areas to meet the challenges of stakeholders.
- 1.3 The updated strategic plan prioritises two projects which will cover the areas raised by the Redmond Review and commentaries made by other stakeholders in this area. The first project, materiality, focuses on the need to ensure that the financial statements only include information which conveys the key messages necessary to present the financial performance, position and cash flows of the authority and particularly considers issues arising from the measurement of property, plant and equipment and pensions assets. This will also necessitate a focus on the users of local authority accounts.
- 1.4 The second project also focuses on areas covered by the Redmond Review and particularly the perceived complexity of local authority financial statements, many stakeholders are of the view that this lies in the application of the statutory adjustments in local authority accounts

and so, this will be the focus of the review. These two projects will combine large elements of the previous projects within the CIPFA LASAAC strategic plan including capital, pensions, and financial instruments reporting.

- 1.5 The next three project areas focus on delivering the normal annual development projects for the Code in accordance with its Terms of Reference and CIPFA LASAAC's decisions to date including importantly the implementation of IFRS 16 *Leases* in the 2022/23 Code.
- 1.6 The final project is intended to continue the focus on the users of the accounts by assisting local authorities to tell the story of their financial performance and position by reviewing the current narrative reporting requirements. This will also look at best practice across the public and private sectors and could include important new reporting areas such as sustainability reporting.
- 1.7 Each project has a member of staff allocated to it and will be subject to further development following the agreement of CIPFA LASAAC to the overall approach. It will be important that each project is supported by CIPFA LASAAC members including, one member to lead thought leadership and the debate. The Secretariat would therefore invite CIPFA LASAAC Members to volunteer for the projects in which they have an interest.

### **Recommendations**

**CIPFA LASAAC Members are invited to consider and agree the updated strategic plan and volunteer for the individual projects.**

## CIPFA LASAAC Strategic Plan Update

CIPFA LASAAC has previously decided its Vision Statement and Strategic Themes – these are available in its [Strategic Plan](#) but are repeated below for ease of reference

### CIPFA/LASAAC's Vision Statement

*"UK local authority annual accounts should be widely recognised as an exemplar for clear reporting of the financial performance and position of complex public sector bodies. Users of accounts should be able to access the information they want to help them to understand the finances of an authority and to take practical and informed decisions."*

To deliver the above vision CIPFA/LASAAC has three strategic themes A to C:

**A. Ensuring that the annual accounts clearly articulate the key messages regarding financial performance and position**

**B. Engaging with stakeholders to raise awareness and understanding**

**C. Review of operations to support vision achievement**

### Operational Plan for 2021 to 2023 – Phase 1 of CIPFA LASAAC's Strategic Plan

With the dual impetus of the Redmond Review recommendations and the perception that local authority accounts are overly complicated for stakeholders this paper focuses on an implementation plan for the next two years which will be known as Phase 1 of its Updated Strategic Plan. The list of projects in phase 2 of the plan (emanating from its original Strategic Plan is outlined in Appendix 1).

The Updated Strategic Plan also includes key items from the annual development plan to deliver maximum outcomes for local authority accounts preparers but most importantly the users of local authority accounts. The annual development plan (and the Strategic Plan) includes standard setting projects which are developed under both the Board's [Terms of Reference](#) and its Memorandum of Understanding with the Relevant Authorities ie within the context of public sector reporting, the latter agreed under the auspices of the Government's Financial Reporting Advisory Board.

The table below presents six projects to deliver prioritised objectives under CIPFA LASAAC's strategic themes and its Terms of Reference.

Note that this is Phase 1 of CIPFA LASAACs updated Strategic Plan which focuses on absolute priorities to deliver improved outcomes for the users and other stakeholders of local authority financial information.

This Update to the Strategic Plan also takes into account the recommendations brought about by the Redmond Review and the government's response ie:

*'following the production of a standardised statement of service information ... there is an opportunity for CIPFA/LASAAC to consider whether there is scope to simplify the presentation of local authority accounts by removing disclosures that may no longer be considered to be necessary.'* The production of the Standardised Statement of Service Information will be dealt with under separate cover this Update focuses on the streamlining (and therefore simplification of local authority accounts).

CIPFA LASAAC has already considered how disclosures could be reduced in its consultation on the 2020/21 Code but is committed to work on whether there are other more fundamental options which could ensure that local authority accounts are more accessible to the users of local authority accounts (see projects 1 and 2 below).

Government views on Standardised Statements (of Service Information) is that:

*'these should be short and accessible, for example one or two pages. Standardised statements should be communicated to all taxpayers and service users, and we will explore how this can be done, for example, alongside or with council tax bills from 2022'.*

There is more work CIPFA LASAAC can do to consider the reporting of financial sustainability and local authority performance in the Narrative Report which is produced alongside local authority financial statements (which may not be able to be presented in a two page statement and could be more timely for local authority stakeholders as it would be produced when the financial statements are issued).

CIPFA LASAAC substantially reviewed the requirements for Narrative Reporting in 2017 and moved the reporting requirements to the elements of the Integrated Reporting framework. It would be opportune to undertake a post implementation review of these reporting requirements and consider practices in both the public and private sector for effective narrative reporting.

### **Projects to be Considered in Phase 1 of CIPFA LASAAC's Updated Strategic Plan**

Project	Description
<p><b>PROJECT 1: MATERIALITY</b></p> <p>(ensuring that the key messages in the accounts are not obscured for its users)</p> <p>Themes A and B</p>	<p>Local authorities as key public sector organisations have numerous stakeholder groups (users). Materiality cannot be decided if users of the accounts are not clearly defined.</p> <p>Materiality is a key issue raised by the Redmond Review in relation to the measurement of property, plant and equipment and the measurement of pensions liabilities.</p> <p>This project would therefore need to focus on helping local authorities decide:</p> <ul style="list-style-type: none"> <li>• who are the users of their accounts?</li> <li>• what financial information do they need?</li> <li>• how is this best presented?</li> </ul> <p>CIPFA LASAAC has already commenced its investigations on this issue and has information from the consultation outcomes from the 2020/21 Code.</p> <p>This project will also analyse the amount and complexity of disclosures included in local authority accounts but also the presentation of key items of financial information ie the</p>

Project	Description
	<p>measurement of property, plant and equipment and pensions assets and liabilities.</p> <p><b>Staff:</b> Steven Cain  <b>Members:</b> Gillian Woolman</p>
<p><b>PROJECT 2: STREAMLINING THE ACCOUNTS</b></p> <p>(ensuring the presentation of the key messages is clearly articulated)</p> <p>Theme A</p>	<p>There are frequent commentaries that local authority accounts are overly complex and that their messages cannot be easily understood by the taxpayer.</p> <p>Local authorities are large complex entities undertaking increasingly diverse and complex activities to serve their local taxpayers. The largest local authorities are equal to the size of large multinational companies that use IFRS though not all authorities are that size (this issue may also be subject of a project to be considered in Phase 2 of the Strategic Plan ie differential reporting).</p> <p>One of the issues that causes most debate is statutory adjustments.</p> <p>The following options could be considered after outlining the objectives for the presentation of local authority accounts in accordance with users' needs (see PROJECT 1):</p> <ul style="list-style-type: none"> <li>• examining the status quo and whether this might be presented more clearly in the accounts</li> <li>• removal of the adjustments in the financial statements with presentation on a negative reserve basis – a mandatory memorandum account would separately present the taxation position for users including the resources available to spend - this could be presented in the narrative report or in the financial statements themselves.</li> <li>• moving the reconciliation from the IFRS GAAP (the accounting position) to taxation (the funding) position to the comprehensive income and expenditure statement (note that this position largely existed before the move to IFRS based accounts</li> <li>• focusing in more detail on what 'IFRS adapted for local government circumstances' represents - this could mean more or different adaptations or removal of adaptations instead of the use of statutory adjustments.</li> </ul>

Project	Description
	<p>Note that following consideration of these options consideration of pilot authorities or a dry run year should be included to ensure that outcomes meet the options for local authority statements of account.</p> <p>The chosen option will have an impact on the disclosures so this will have to be considered alongside PROJECT 1.</p> <p>Whichever option is chosen will have a substantial impact on capital, pensions and financial instruments accounting and reporting including current disclosures and would need to be considered in more detail in Phase 2 of CIPFA LASAAC's Strategic Plan.</p> <p><b>Staff:</b> Sarah Sheen <b>Members:</b></p>
<p><b>PROJECT 3: ANNUAL DEVELOPMENT PROGRAMME FOR THE 2022/23 CODE</b></p> <p>(Implementing UK adopted IFRS – See CIPFA LASAAC Terms of Reference)</p> <p>Themes A and B</p>	<p>CIPFA LASAAC has deferred implementation of the adoption of IFRS 16 Leases to the 2022/23 Code. The agreed provisions in the 2021/22 Code Appendix F will be included in the 2022/23 Code. This is with the exception of the amendments made by the following consultation - <a href="#">Code of Practice on Local Authority Accounting in the United Kingdom – Housing Revenue Account Tenancies and Leasing Standards and COVID-19 Related Rent Concessions</a> and the outcomes of PROJECT 4 below.</p> <p>The 2022/23 Code will also:</p> <ul style="list-style-type: none"> <li>• implement UK adopted IFRS (which includes IFRS 16)</li> <li>• include a review of the reporting of the Capital Financing Requirement</li> <li>• include any relevant legislative changes.</li> </ul> <p><b>Staff:</b> Steven Cain <b>Members:</b></p>
<p><b>PROJECT 4: PFI/PPP WORKING GROUP: IMPACT OF IFRS 16 LEASES ON THE MEASUREMENT OF THE LIABILITY</b></p>	<p>Currently the PFI/PPP (service concession arrangement) liability is measured under the actuarial provisions of IAS 17 Leases (ie it is measured as a form of amortised cost).</p> <p>The adoption of IFRS 16 Leases in the Code has led to consideration of whether the PFI/PPP</p>

Project	Description
<p>(Implementing UK adopted IFRS – See CIPFA LASAAC Terms of Reference)</p> <p>Theme A</p>	<p>liability should be measured maintaining the status quo or whether the liability should be measured under IFRS 16 (which would mean that the liability may change if cash flows are modified. Largely consultation responses have supported the marginally conceptually superior option under IFRS 16 Leases.</p> <p>Two principal arguments emanated from the last consultation on the 2021/22 Code:</p> <ul style="list-style-type: none"> <li>the transaction is not like a lease, but a deferred asset purchase and cash flow changes therefore relate to the payment for the services provided with the contract. Theoretically, this might mean that IFRS 16 will have less of an impact on the measurement of the liability.</li> <li>a firm, however, indicated that experience suggests that the proportion of indexed unitary charge in PFI operator financial models is there solely to optimise the overall funding solution and the indexed element rarely if ever derives either directly or indirectly from assumptions for lifecycle and facilities management costs and that the indexation would flow to the assets.</li> </ul> <p>These two different approaches need to be considered (it might be due to different fact patterns). CIPFA LASAAC agreed to set a working group up to look at the measurement of the service concession arrangement liability. The Code will not be amended until the working group concludes and any changes are consulted on.</p> <p><b>Staff:</b> Steven Cain <b>Members:</b></p>
<p><b>PROJECT 5: IMPLEMENTATION OF IFRS 17 INSURANCE CONTRACTS</b></p> <p>(Implementing UK adopted IFRS – See CIPFA LASAAC Terms of Reference)</p> <p>Theme A</p>	<p>IFRS 17 <i>Insurance Contracts</i> is anticipated to be implemented in the 2023/24 Code. Currently the Code includes the adoption of IFRS 4 Insurance Contracts in its Appendix A ie IFRSs with limited Application to Local Authorities.</p> <p>Consultations on the 2020/21 and 2021/22 Codes have indicated that some local authorities may have transactions which would be accounted for under IFRSs 4 and 17. There needs to be investigation into the examples provided and into whether they may impact on the approach to adoption in the Code ie a change from the approach in IFRS 17. Consideration will need to</p>

Project	Description
	<p>be given to any guidance which may need to be provided for such transactions.</p> <p>This project will also need to parallel the project on IFRS 17 for the public sector to ensure consistency of approach.</p> <p><b>Staff:</b> Steven Cain <b>Members:</b></p>
<p><b>PROJECT 6: NARRATIVE REPORTING</b></p> <p>(Ensuring that the narrative report tells the story of an authority's financial performance and financial position (including financial sustainability))</p> <p>Themes A and B</p>	<p>This project will need to ensure that it takes into account the outcomes from the Redmond Review on the Standardised Statement of Service Information.</p> <p>It should be noted that CIPFA LASAAC last substantially reviewed the narrative reporting requirements of the Code in 2017. It changed its requirements to focus on the Integrated Reporting elements. The Code's provisions on narrative reporting are principles based.</p> <p>An outline of the government's response to the Redmond Review's recommendations has been provided. This will give scope to review the Code's requirements against the best practices in the public and private sector.</p> <p>CIPFA LASAAC will:</p> <ul style="list-style-type: none"> <li>• undertake a post implementation review of Narrative Reporting following the Code's amendments in 2017</li> <li>• consider whether reporting performance in the Narrative Report can have a role in PROJECT 2 ie bringing together reporting performance under statutory provisions (council tax reports of performance) or under the Code's adoption of IFRS</li> <li>• determine how to ensure narrative reports in local authorities have a proper focus on financial sustainability and resilience</li> <li>• consider best practice in narrative reporting in the public sector and whether this might be applied by local authorities</li> <li>• consider whether the Code's provisions should be updated for sustainability and diversity reporting and identify examples of best practice.</li> </ul>

Project	Description
	<b>Staff:</b> Sarah Sheen <b>Members:</b>

### Workplan Timings from January 2021

PROJECT	2021				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
MATERIALITY	█		█		█		█	█
STREAMLINING	█		█		█		█	█
ANNUAL DEV	█		█		█		█	
PFI/PPP	█		█		█		█	
IFRS 17	█		█		█		█	█
NARRATIVE REPORTING	█		█		█		█	█

Research and development of consultation papers
Consultation Period
Analysis and production of agreed Code
Dry run or pilot agreed proposals

**CIPFA LASAAC March 2021**

**Appendix 1****List of Projects in Phase 2**

	<b>Item</b>	<b>Original Target Code Year</b>	<b>New Target Code Year</b>
<b>CLP201</b>	<b>Format and Structure of the Code</b>	<b>NA</b>	<b>2023/24 Code at the earliest</b>
<b>CLP202</b>	<b>Capital Accounting – Phase 2</b>	<b>2022/23 Code</b>	<b>2023/24 Code Phase 2</b>
<b>CLP203</b>	<b>Pensions Accounting</b>	<b>NA?</b>	<b>2023/24 Code Phase 2</b>
<b>CLP204</b>	<b>Financial Instruments Reporting</b>	<b>NA</b>	<b>2023/24 Code Phase 2</b>
<b>CLP205</b>	<b>Group Accounts</b>	<b>2022/23 Code</b>	<b>2024/25 Code</b>
<b>CLP206</b>	<b>IFRS 13 Fair Value Measurement (Post Implementation Review)</b>	<b>2023/24 Code</b>	<b>2024/25 Code</b>
<b>CLP207</b>	<b>IFRS 15 Revenue from Contracts with Customers (Review)</b>	<b>2023/24 Code</b>	<b>2024/25 Code</b>
<b>CLP208</b>	<b>IFRS 9 Financial Instruments (Post Implementation Review)</b>	<b>2023/24 Code</b>	<b>2024/25 Code</b>

<b>Item</b>		<b>Original Target Code Year</b>	<b>New Target Code Year</b>
<b>CLP209</b>	<b>IPSAS 23 Revenue - Non-Exchange Transactions</b>	<b>2023/24 Code</b>	<b>2024/25 Code</b>
<b>CLP210</b>	<b>IPSASB – Revenue non exchange expenses (IPSASB project)</b>	<b>2024/25 Code</b>	<b>2024/25 Code</b>
<b>CLP211</b>	<b>IPSAS 17 Property Plant and Equipment (Heritage Assets)</b>	<b>2024/25 Code</b>	<b>2024/25 Code</b>
<b>CLP212</b>	<b>Differential Reporting</b>	<b>2021/22 Code</b>	<b>2025/26 Code</b>