The Chartered Institute of
Public Finance & Accountancy

CIPFA

CIPFA BULLETIN 10 - Closure of the 2021/22 Financial Statements

April 2022

CIPFA's Accounting and Financial Reporting Forum issues CIPFA Bulletins to assist practitioners with the application of the requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom (the Code)*, the *Service Reporting Code of Practice* (SeRCOP) and the Prudential Code, and to provide advice on emerging or urgent accounting issues. Bulletins provide influential guidance that is intended to be best practice but are not prescriptive and do not have the formal status of the Code, SeRCOP or the Prudential Code.

Please address any queries to CIPFA Technical Enquiry Service for CIPFA members and students:

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1. IFRS 16 *Leases* including adoption in 2022/23

1.1 Following its emergency consultation on exploratory proposals for changing the *Code of Practice on Local Authority Accounting in the United Kingdom* CIPFA/LASAAC has issued its preliminary decision and feedback statement. This decision has subsequently been considered by the government's Financial Reporting Advisory Board (FRAB). FRAB's advice to CIPFA/LASAAC was that it agreed with the deferral of IFRS 16 *Leases* until 1 April 2024 but that the Code had to allow and encourage local authorities to adopt the standard in the preceding reporting periods.

1.2 CIPFA/LASAAC has followed this with a decision to defer the implementation of IFRS 16 until 1 April 2024 (and therefore in the 2024/25 Code). However, both the 2022/23 and the 2023/24 Codes will allow for adoption should an authority consider that it is able to do so as of 1 April 2022 or 2023.

1.3 If an authority considers that it is ready to adopt IFRS 16 before 1 April 2024, then CIPFA recommends an early discussion with its auditors. Local authorities may wish to consider how this might impact on the timing of the issue of its audited financial statements.

1.4 CIPFA would also be interested to know which authorities have decided to adopt IFRS 16 in 2022/23 so that it can respond to the relevant queries that might arise and provide appropriate guidance. If your authority decides to adopt IFRS 16 on either 1 April 2022 or 1 April 2023 then please email policy.technical@cipfa.org.

1.5 **If and only if** a local authority takes the decision to adopt IFRS 16 before 2024/25 then it will also need to comply with the IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* reporting requirements as adapted by the Code for that standard and follow the reporting requirements for standards that are issued but not yet implemented by the Code (see paragraphs 15.1 to 15.3 below).

1.6 CIPFA will look to support local authorities who decide on adoption before 2024/25 and anticipates issuing separate guidance to assist. It has already issued its publication IFRS 16 *Leases*: An Early Guide for Local Authority Practitioners although this was issued for the anticipated adoption of the standard in 2020/21.

1.7 If deciding to adopt IFRS 16 as of 1 April 2022 local authorities will need to follow the provisions for adoption before 2024/25 in the 2022/23 Code, which is planned for issue in June 2022. Before the issue of the 2022/23 Code, Appendix F of the 2021/22 Code includes the initially anticipated provisions for the adoption of IFRS 16 in 2022/23 which local authorities should use to guide their adoption preparations. However, local authorities should note that the 2022/23 Code provisions for those adopting IFRS 16 before 2024/25 will set out a treatment for service concession arrangement liabilities which is different to that set out in Appendix F, reflecting IFRS 16 requirements rather than those of IAS 17 *Leases*. CIPFA plans to issue guidance on the standard in the next couple of months.

1.8 In addition, CIPFA Bulletin 05 Closure of the 2019/20 Financial Statements includes an Appendix that provides additional guidance on the standard.

1.9 CIPFA will imminently issue CIPFA Bulletin 11 – *Accounting for Assets Owned by Religious Bodies and Used by Schools*, which local authorities are likely to need to refer to when accounting for these assets under early adoption of IFRS 16 if they choose to adopt the standard before 1 April 2024.

2. The valuation of operational property assets

2.1 Practitioners have alerted CIPFA to a range of issues related to the valuation of operational property. The following information is provided as a reminder of the key requirements of the Code.

2.2 The carrying amount of operational property at 31 March is required by the Code to reflect its current value. However, the Code does not require an annual revaluation for every asset. Instead, paragraph 4.1.2.37 requires *revaluations to be made with sufficient regularity to ensure that the carrying amount does not differ materially from current value*.

2.3 Paragraph 4.1.2.38 of the Code sets five years as the maximum interval between formal valuations. However, local authorities will still need to ensure that the provisions of paragraph 4.1.2.37 are adhered to. More frequent valuations may be appropriate for assets that experience significant annual changes in value, where there is a risk of material change in accordance with the definitions of materiality in the Code. IAS 16 explains that the frequency of revaluations depends on the significance and volatility of changes in current value:

- Where property experiences significant and volatile changes in current value, an annual revaluation is required.
- Where changes in current value are insignificant, it may be necessary to revalue the property only every three or five years.

2.4 Local authorities will therefore need to determine a valuation frequency for operational property based on the expected significance and volatility of changes in current value. It will be important that such information is clearly documented.

2.5 It is likely that the valuation frequency will be informed by the results of previous valuation exercises. For example, if the valuer identified a significant increase in value on a property, this might indicate that the interval since the previous formal valuation was too long and should be reduced going forward.

2.6 Local authorities are not required to have a valuation date of 31 March; they may use another valuation date, and many use 1 April. However, the standard condition that the carrying amount does not differ materially from the current value at the year-end continues to apply. Where a valuation has been carried out before 31 March 2022, local authorities need to consider whether there might have been any movements in value after that date that should be reflected in the 31 March 2022 carrying value. Where a valuation has been carried out as at 1 April 2022, local authorities may consider this an adjusting event in 2021/22 on the basis that it might provide evidence of conditions that existed at 31 March 2022.

3. Critical judgements and estimation uncertainty

3.1 The accounting requirements for the disclosure of critical judgements and sources of estimation uncertainty have not changed for several years. However, the focus on how practitioners have met these requirements has sharpened as making judgements and devising estimates has become more difficult as uncertainties about such things as asset values and the collectability of debts have increased as a result of the COVID-19 pandemic.

3.2 There has also been a recent increase in the scope of judgements and estimates. For example, new ways of working can require judgements about whether an arrangement qualifies for group accounts or includes an embedded lease. IFRS 9 *Financial*

Instruments has increased the use of forward-looking estimates for impairment losses on financial assets, and more investment property means more fair value measurements.

3.3 In March 2021, Audit Scotland published a Good Practice Note Judgements and Estimates – Enhancing the Quality of Local Government Annual Accounts. The Note reviewed the disclosures made by authorities in Scotland and found some confusion about what constituted judgements and estimates, misidentification of one as the other, or discussion of risks that were actually neither. Where disclosures where made, it was often the case that they were based on examples in guidance that were not fully appropriate to the authority.

Code requirements

3.4 Accounting decisions can involve both judgements and estimates but the Code sets out precisely what it is concerned about and does separate the two:

- **Judgements** – paragraph 3.4.2.89 requires disclosure of the judgements that management has made in the process of applying the authority's accounting policies. There are two constraints on what judgments are included in this note:
    - they are restricted to the judgements that have the most significant effect on the amounts recognised in the financial statements
    - those comprising estimations are excluded.
- **Estimates** – paragraph 3.4.2.91 requires disclosure about the assumptions made about the future and other major sources of estimation uncertainty at 31 March 2022. However, this only applies if there is a significant risk of the estimate resulting in material adjustment to the carrying amount of assets or liabilities within the next financial year. Assets and liabilities measured at fair value based on a quoted price in an active market for an identical asset or liability are excluded.

3.5 Once this is understood, it is clearer that two notes are required:

- one that details the decisions taken by the authority in applying accounting policies to particular transactions and balances
- one that sets out the assumptions made in calculating estimates that have the greatest risk of turning out to be materially incorrect in the next 12 months.

Judgements made in applying accounting policies

3.6 The Code's requirements for disclosing judgements are taken from paragraphs 122 to 124 of IAS 1 *Presentation of Financial Statements*. These paragraphs do not add any technical detail, apart from providing some examples of the sort of judgements that might be relevant.

3.7 In the local government context, typical examples for consideration would be:

- whether it is probable that a liability will result in an outflow of resources from the authority
- whether the authority is acting as an agent or as principal in carrying out a particular activity

- whether an income-generating property has been treated as property, plant and equipment or as an investment property
- whether a lease is classified as an operating or finance lease
- whether a contract needs to be accounted for as a service concession arrangement
- decisions on classifications/measurements and disclosures for financial instruments
- whether income or expenditure has been treated as revenue or capital
- how an interest in another entity has been treated for group accounts purposes.

3.8 Users of the financial statements need only be told about the most significant judgements, eg where a different conclusion would have resulted in a material difference in the financial statements or the disclosures made and where the matters were complicated and the final assessment finely balanced.

3.9 Note that judgements not to take action also need to be covered – eg a decision that group accounts are not required in circumstances where someone could reasonably expect that they were.

3.10 There are no specifications about what needs to be disclosed about a judgement. The Audit Scotland review found examples of authorities disclosing generally that judgements had been made (eg about lease classification), but without giving any information about the impact on the financial statements.

3.11 Better practice would be to describe particular judgements, explain how things might reasonably have been done differently and how different the financial statements would be as a result. Information requirements would then be:

- the item in the accounts impacted by the judgement
- its carrying amount or transaction value
- the judgement that was made
- the basis on which the decision was taken
- the impact on the carrying amount or transaction value if reasonable alternative decisions had been taken.

3.12 Some judgements will be discussed in other notes. For instance, information about provisions and contingent liabilities will discuss the authority's assessment of the likelihood that payments might be needed to settle an obligation. Good practice would be that, even if judgements are discussed elsewhere, the most significant ones should be listed in this note, with a cross reference to the more detailed discussion.

Sources of estimation uncertainty

3.13 The Code's requirements for disclosing estimation uncertainties are taken from paragraphs 125 to 133 of IAS 1. However, there is a lot of material in the standard that has not been incorporated into the Code that clarifies how authorities are to provide information about the assumptions it makes about the future, other than to state the nature of the relevant assets and liabilities and their carrying amount at the 31 March:

- The intention is to help users to understand the judgements that management makes about the future and other sources of estimation uncertainty (paragraph 129).

- The assumptions disclosed will be for the estimates that require the most difficult, subjective or complex judgements (paragraph 127).

- Disclosures for a particular estimate might include:

  - the nature of the assumption

  - the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation (including reasons for the sensitivity)

  - the expected resolution of the uncertainty and the range of reasonably possible outcomes within the next financial year

  - explanation of changes made to past assumptions concerning the relevant assets/liability, if uncertainty remains unresolved (paragraph 129).

- If it is impracticable to disclose the extent of the possible effects of an assumption, disclosure is made of the fact that it is reasonably possible, on the basis of existing knowledge, that outcomes within the next year that are different from the assumption could require material adjustments (paragraph 131).

3.14 It is important to remember that disclosure is only required in relation to assumptions that have a significant risk of resulting in material adjustments in the next financial year, not to all assumptions that involve material balances of assets or liabilities.

3.15 The note does not cover estimates that are not based on attempting to see into the future. Estimates that are made for reasons of efficiency, even though actual figures could be determined, are excluded. This would cover such things as schemes for invoice postings around the year-end and arrangements for property valuations using beacon principles.

3.16 These considerations should make the note straightforward for practitioners to prepare. Accountants will know where estimates have been made and will have a good idea which ones are less certain than others. Typical examples will be:

- anything based on projected cash flows

- anything reliant on a discount factor

- projections of useful lives and residual values used in depreciation calculations

- assumptions applied in the valuation of property, plant and equipment and investment properties

- actuarial assumptions used in the calculation of pensions liabilities

- the uncertainties relating to provisions

- fair values for financial assets and financial liabilities that are not based on quoted prices in an active market

- the assumptions used in setting expected credit loss allowances for financial assets.

3.17 Most of these items are already discussed in specific notes to the accounts (eg pensions liabilities, fair value assets covered by IFRS 13 *Fair Value Measurement*, loss allowances, etc). They can be covered in this note by cross-reference to the greater detail elsewhere.

4. Financial reporting deadlines for 2021/22 (England)

4.1 In December 2021, the Department for Levelling-up, Housing and Communities (DLUHC) announced an intention for the following dates to apply for the 2021/22 accounts and audit process in England:

31 July	Publication of the unaudited statement of accounts	The requirement in the Accounts and Audit Regulations 2015 (as amended) is for the public inspection period to be commenced by 1 August. However, this commencement can only happen at the earliest the first working day after the unaudited accounts (and other specified documents) are published.
30 November	Publication of the audited statement of accounts	The Accounts and Audit Regulations currently require publication by 30 September and will need to be amended before the date is formally moved back two months.

4.2 If publication is not possible by these dates then in England the Accounts and Audit Regulations 2015, as amended, require the following actions:

Unaudited statement of accounts	As soon as reasonably practicable, publish a notice stating that the authority has not been able to commence the period for the exercise of public rights and the reasons for this. The public inspection period must then be commenced as soon as reasonably practicable. There is no specification about how long the notice must remain on the website. However, good practice would be for it to be accessible up to the point that the inspection period is commenced. Up to that point, it would be helpful to supplement the notice with information about when commencement might take place.
Audited statement of accounts	As soon as reasonably practicable, publish a notice on the website stating that the authority has not been able to publish the audited statement of accounts and the reasons for this. Publication must then take place as soon as reasonably practicable after the receipt of what the Regulations refer to as "… a report from the auditor which contains the auditor's final findings from the audit which is issued before the conclusion of the audit …".

	There is no specification about how long the notice must remain on the website, but it would be reasonable to keep it up until the audited accounts are published. In the meantime, there is no requirement at any point to issue an updated version of the unaudited statement of accounts.

4.3 The Accounts and Audit Regulations 2015, as amended, do not contain any special provisions for circumstances where the unaudited accounts are due to be published but the audited accounts for the previous year are not yet available. The unaudited accounts must be published with opening balances and prior year comparatives based on the latest reliable numbers. However, the unaudited accounts must be published with a confirmation by the responsible financial officer that that they are satisfied that they present a true and fair view of the financial position of the authority at the end of the financial year. If there are unresolved audit issues for the preceding year that would mean that the responsible financial officer is unable to give that confirmation, they would need to consider delaying the issue of the current year's unaudited accounts.

5. Financial reporting deadlines for 2021/22 (Scotland)

5.1 The Local Authority Accounts (Scotland) Regulations 2014 (2014 regulations) were amended in respect of approval and publication dates for the 2020/21 annual accounts. Regulation 5 of the Local Authority (Capital Finance and Accounting) (Scotland) (Coronavirus) Amendment Regulations 2021 extended the dates, and these have been extended again for 2021/22 by further amendment regulations.

5.2 The statutory date for local authorities to approve the 2021/22 accounts is 30 November 2022 with a publication deadline of 15 December 2022. The target date set by Audit Scotland (endorsed by the Accounts Commission) for audit completion is 31 October 2022.

6. Accounting for coronavirus (COVID-19) support grants in local government (England)

Background

6.1 As part of the COVID-19 response, the government announced a range of grant schemes to be administered by local billing authorities. Typically billing authorities are responsible for paying over the grants and are then reimbursed by government using a grant under Section 31 of the Local Government Act 2003 (S31). Some of the schemes are fully reimbursed, others are a set allocation.

6.2 The recognition of such grants in the accounts of the billing authority follow the same criteria applied to other grants and contributions (including the recently issued Redmond Review Local Audit Fees Grant), the authority needs to establish **three main determining factors**:

- Is the authority acting as principal or as agent?
- If acting as principal, are there any unmet repayment conditions?
- Where there are no unmet conditions, is the grant specific to a service or is it non-specific and unringfenced?

6.3 These tests will assist with the response to the following questions about the grant:

- **Should it be recognised** as the income of the authority in the Comprehensive Income and Expenditure Statement (CIES)?
- What should the timing of recognition be?
- Where in the CIES is the income presented?

6.4 Paragraphs 6.5 to 6.10 below focus on the determination of whether a grant is treated as principal or agent.

Principal or agent (Section 2.6 of the Code)

6.5 Paragraph 2.6.2.1 of the Code specifies that the authority is deemed to be an agent where it is acting as an intermediary. Paragraph 2.6.2.2 of the Code sets out that the authority is principal where it is acting on its own behalf. Where the authority is acting as principal, the transactions are required by the Code to be included in its Comprehensive Income and Expenditure Statement in accordance with the relevant section of the Code.

6.6 To establish whether an authority is acting as principal or agent, local authorities will need to consider all the relevant facts and circumstances and consider how the grant operates. This would include consideration of any guidance that accompanies each grant scheme.

6.7 The Code Guidance Notes Module 2 Section F provide additional guidance for local authorities in making the assessment about whether a local authority is acting as principal or agent. Paragraph F11 states:

- Where an authority is acting as a distribution point for grant monies to other bodies and has no control over the amount of grant allocated to a recipient, then the authority is likely to be acting as agent.
- Where an authority is able to conclude that it has control over the distribution or amounts of the grant it would be deemed to be acting as principal.

6.8 An authority must determine whether it has any performance obligations with regard to the grants. For schemes where the billing authority does not determine the eligibility criteria or control the amount of grant awarded and is fully reimbursed, the authority may conclude that it is not acting on its own behalf. Whereas those schemes where the billing authority does determine, for example, eligibility and/or the amount of grant awarded and has a limited amount of funding to distribute, they might conclude that they are acting on their own behalf. However, local authorities will need to take their own decisions considering all relevant circumstances.

6.9 Paragraph 2.6.2.4 of the Code states that, where an authority acts as an agent, transactions will not be reflected in the authority's financial statements. Exceptions to this are in respect of cash collected or expenditure incurred by the agent on behalf of the principal, in which case there is a debtor or creditor position and the net cash position is included in financing activities in the Cash Flow Statement.

6.10 If the sums involved are material, then financial statement preparers should consider separate disclosure under paragraph 3.4.2.53 which states: "When items of income or expense are material, an authority shall disclose their nature and amount separately". This would require consideration of disclosure in the narrative report and/or in the disclosure notes to the financial statements.

Presentation of the transfer between the General Fund and the collection fund adjustment account (CFAA)

6.11 During 2021/22, local authorities received approximately £7.3bn in S31 grants to offset the reliefs given to businesses who are still struggling with the impacts of COVID-19.

Under current collection fund accounting rules, S31 grants received in 2021/22 are not intended to be discharged against the collection fund deficit until 2022/23, thereby inflating General Fund balances at the end of the 2021/22 financial year by showing a significant increase in available reserves. These reserves are not resources that are intended to be used by the local authority other than for the purpose given. As previously commented in Bulletin 9 for the 2020/21 accounts, CIPFA recommends that these are treated as earmarked reserves to be used against the following year's collection fund deficit.

6.12 This would allow for an explanation of the purpose of the earmarked reserve. This earmarked reserve will need to be able to be used in 2022/23 to fund that element of the estimated collection fund deficit at 31 March 2022 which will be transferred from the collection fund adjustment account (CFAA) back to the General Fund in 2022/23.

6.13 Where the S31 grant income is material, authorities might wish to consider the following, depending on their individual circumstances:

- presenting the earmarked reserve as a separate line with appropriate description to emphasise that this falls outside the normal scope of the reserves earmarked for service requirements (eg General Fund, earmarked reserves and S31 business rate relief compensation grant reserve)
- providing sufficient supplementary information in notes to the accounts to make clear the status of the unspent grant.

CIPFA recommends that local authorities consider which approach best provides the appropriate prominence to the reserve and draws attention to the fact that the balance does not represent additional spending power taken forward into 2022/23.

7. Council tax collection fund surplus/deficits for 2021/22 (England)

7.1 The arrangements for apportioning estimated surpluses and deficits arising on the council tax collection fund are set out in the Local Authorities (Funds) (England) Regulations 1992 (SI 1992/2428) Schedule 2 paragraph 6, as amended by the Local Authorities (Collection Fund: Surplus and Deficit) (Coronavirus) (England) Regulations 2020 (SI 2020/1202).

7.2 The Code Guidance Notes, Paragraphs H22 and H23 of Module 2, set out the requirements for apportioning the outturn council tax collection fund surplus/deficit, prior to SI 2020/1202. As a result of SI 2020/1202, the requirements for apportioning the 2020/21 council tax collection fund surplus/deficit will need to be changed for those authorities that estimated a negative exceptional balance in accordance with the regulations and are required by the regulations to spread the exceptional balance deficit over the three years 2021/22 to 2023/24.

7.3 Therefore, for authorities that estimated a negative exceptional balance in accordance with SI 2020/1202, the collection fund surplus or deficit is apportioned as follows.

- The surplus/deficit estimated in January 2022 includes one third of the exceptional balance. The balance excluding the exceptional balance is apportioned on the basis of 2021/22 demand/precepts and the exceptional balance is apportioned based on 2020/21 demand/precepts.
- The accumulated surplus/deficit, after allowing for the surplus determined in January 2022, contains the final third of the exceptional balance. The remaining third of the extraordinary deficit is distributed on the basis of 2020/21 demands/precepts and the remaining balance is distributed in accordance with the 2022/23 demands/precepts.

7.4 For those authorities that calculated a positive exceptional balance and are not required to spread such amounts over three years, the existing Code Guidance (Module 2, paragraph H23) approach will apply.

7.5 Billing authorities are reminded that they must communicate to their precepting authorities, their share of the above balance and all other relevant information to allow the precepting authorities to account for their share of the collection fund position and performance for 2021/22.

7.6 The arrangements for apportioning the NDR collection fund outturn surplus/deficit do not change for 2021/22, nor do any of the other accounting arrangements.

8. Covid Additional Relief Fund (CARF) from the Department of Levelling Up, Housing and Communities (DLUHC)

8.1 As part of the COVID-19 response, the government has implemented a new grant scheme (Covid Additional Relief Fund – CARF) to support businesses, to be administered by local billing authorities. Billing authorities are responsible for paying over the grants to the businesses and are then reimbursed by government using a grant under Section 31 of the Local Government Act 2003 (S31) by way of set allocation.

8.2 The eligibility criteria for these schemes are set out in government guidance and local authorities that are billing authorities are required to use their business rates system to identify the properties that meet the eligibility criteria. However, these grants are not collection fund transactions.

8.3 Paragraph 10 of the CARF guidance confirms that any excess of on-account allocations over reliefs awarded will need to be repaid. The grant therefore includes conditions per the recognition criteria in paragraph 2.3.2.9 of the Code. As the award of reliefs is dependent upon the exercise of discretion by the administering authority, if this discretion has not been exercised by 31 March 2022 then the presumption would be that the repayment condition has not been satisfied at that date. This would suggest that the grant should not be recognised as income in 2021/22 but treated as a receipt in advance.

8.4 In addition, billing authorities should note that the on account S31 payments will cover the full amount of relief awarded, to ensure that their cashflow is not affected. Therefore, at 31 March 2022, the amounts due back to DLUHC for the central government and precepting authorities' shares will need to be accrued for.

9. Accounting for energy support measures in local government (England) – DLUHC

9.1 As part of the increased cost of energy response, the government has announced two new grant schemes (council tax energy rebate scheme and discretionary council tax energy scheme) to support individuals, to be administered by local billing authorities. Billing authorities are responsible for paying over the rebates or discretionary amounts to individuals and are then reimbursed by government using a grant under Section 31 of the Local Government Act 2003 (S31) by way of set allocation.

9.2 The eligibility criteria for these schemes are set out in government guidance for the council tax energy support grant and through billing authorities' own decision-making process for the discretionary element. Local authorities that are billing authorities are required to use their council tax system to identify the council tax payers that meet the eligibility criteria. Again, these grants are not collection fund transactions.

9.3 These funds will probably have been paid to local billing authorities before the 2021/22 year-end. However, the effective date for both schemes is 1 April 2022. Billing authorities should therefore consider the application of Section 2.3 of the Code, which sets out recognition and presentation guidance for government grants, including the assessment

of the timing of recognition and whether any repayment conditions exist for the grant. For discussion on whether the authority is acting as principal or agent please refer to paragraphs 6.5 to 6.10 of this Bulletin and the relevant sections of the Code Guidance Notes.

10. Key changes to the Prudential and Treasury Management Codes

10.1 The CIPFA *Prudential Code for Capital Finance* 2021 edition (Prudential Code) was issued in December 2021. One of the most significant changes was the clarification that local authorities are not permitted to borrow primarily for financial return. The Prudential Code does not require local authorities to sell current commercial investments. However, authorities that hold commercial assets with a borrowing need should determine exit viability for commercial investments in lieu of taking borrowing.

10.2 Other significant changes to the Prudential Code include:

- The introduction of a new objective that refers to the need for commercial investments to be proportionate.
- The capital strategy should include reference to environmental sustainability etc.
- There is greater clarity on commercial and service investments in the capital strategy, including limits, and compliance with the requirement not to borrow to invest for commercial return (see 10.1 above).
- Quarterly monitoring of prudential indicators as part of normal budget monitoring reports.
- A new definition of commercial property.
- A new prudential indicator for net income from commercial and service investments as a percentage of net revenue stream (CQ 13).
- Revised definition of investments (to include non-financial assets held primarily for financial return).

10.3 The *Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes* 2021 edition (Treasury Management Code) has also been amended to reflect latest practices and issues. Significant changes include:

- Investment management practices and other recommendations relating to non-treasury investments are required under the clauses to be formally adopted.
- The definition of treasury management has been amended to explicitly include borrowing.
- TMP1 (1) on counterparty credit risk: counterparty policy must set out the organisation's policy and practices relating to environmental, social and governance (ESG) investment considerations.
- TMP 10 on training requires a knowledge and skills schedule (CQ 1) and includes a new illustrative competencies schedule.
- All reporting under the treasury management code to address service and commercial investments in appropriate categories, as well as treasury management ones.

10.4 As a part of the changes to the Prudential and Treasury Management Codes the liability benchmark is formally introduced as a prudential indicator. This takes into account an authority's prudential borrowing projections, its liquidity requirements and reserves to project what an authority is actually likely to need to physically borrow externally. The liability benchmark helps an authority determine if it has a borrowing surplus or a borrowing need and the likely structure thereof.

10.5 Prudential Code Guidance Notes and Treasury Management Code Guidance Notes have been published and are available to purchase (or download for those with a CIPFA Publications subscription).

11. Minimum revenue provision (MRP) changes (England) and loans fund repayment (Scotland)

11.1 DLUHC consulted in late 2021 on proposed changes to the MRP regulations. In the proposal it determined that from April 2023, an authority must not reduce its MRP by using capital receipts instead of making a prudent charge to the revenue account via Regulation 23 (use of capital receipts) and must not exclude portions of their debt from the MRP determination.

11.2 At the time of publication, the outcome of the consultation has not yet been confirmed; however, details will be published on the gov.uk website. Practitioners should note that there is no direct impact on the 2021/22 accounts.

11.3 The Scottish Government is preparing a finance circular that will specify disclosures in the 2021/22 financial statements for any local authority deferring loans fund repayment in either 2020/21 or 2021/22.

12. Annual governance statement (AGS)

Impact of Covid Pandemic

12.1 Authorities should continue to consider the impact of the COVID-19 pandemic on their governance arrangements. They should refer to any significant impacts and adaptations in the year:

- adaptation to reflect new ways of working or emergency arrangements
- changes to ‘business as usual’ activities
- longer-term changes to priorities, programmes, strategies, and plans.

Reference to CIPFA Bulletin 06 may be helpful in this review.

Advisory Note 1 CIPFA Practice Oversight Panel

12.2 CIPFA’s Practice Oversight Panel has issued an advisory note on governance. The panel considers possible developing areas of practice concern to raise awareness of risks. The advisory note formalises key messages that have been identified in statutory and non-statutory reviews and public interest reports. It reinforces good practice principles that local government bodies in the UK should adopt and signposts relevant documentation.

12.3 The note emphasises that all local authorities should reflect upon the weaknesses in governance identified and identify learning points to mitigate the risk of similar issues arising. The note identifies two areas for special consideration:

- the importance of the annual governance statement (AGS)
- the quality of internal challenge.

12.4 Following the formal adoption of the CIPFA Financial Management (FM) Code in 2021/22 local authorities should now disclose compliance with the FM Code in the AGS and identify any outstanding areas for improvement or change.

12.5 To ensure authorities have robust arrangements for internal challenge they should consider their audit committee arrangements alongside scrutiny, internal audit and statutory officer roles.

Scope of the AGS

12.6 Local authorities are required to provide the annual governance statement with their statement of accounts. Paragraph 7.8 of the CIPFA/Solace Delivering Good Governance in Local Government: Framework (2016) notes that it is important that it is kept up to date at time of publication.

13. Working papers

13.1 Following the concerns raised by the Public Accounts Committee on 29 November 2021, DLUHC published a range of measures to address the issues of audit timeliness within local government in England.

13.2 One of the areas commented on by DLUHC was that, in the face of competing workload pressures, some local authorities have diverted staff resources away from completing working papers and preparing accounts, while the quality of processes within the finance functions of some local authorities has affected their preparedness for audit.

13.3 DLUHC recommended that local authorities in England consider CIPFA's guidance on streamlining the accounts, which provides practical suggestions on how accounts can strike a better balance between compliance with standards and providing clearer, simpler and more transparent information. This guidance is useful to local authorities throughout the UK.

13.4 The Streamlining the Accounts guidance includes advice on preparing good quality working papers. Ideally each line of the core financial statements and each disclosure note should be cross-referenced to a working paper linking back to:

- the general ledger or trial balance – there should be a clear understanding of what the working paper is intended to evidence ie the purpose of the paper
- Code financial reporting and disclosure requirements
- relevant journals, feeder system reconciliations or other supporting information – invoices, contracts, valuations etc.

All working papers should clearly record the following:

- who the preparer is and how they can be contacted
- who has reviewed the working paper and what assurance or verification processes have been carried out
- the key issues identified and how these have been resolved
- a statement of any judgements made in the paper, for example the decisions taken to decide how to measure expected credit losses or whether a contingent liability should be recognised
- method of compilation and source documents used.

It is important to remember that:

- copies of spreadsheets, pivot tables, ledger reports and journal postings are unlikely to be sufficient in themselves without some additional explanations about where the information has come from and what the preparer was trying to achieve
- all of the information provided should be internally consistent and agree with what is in the accounts submitted for audit

- reconciling items, mis-postings and suspense account items should all be resolved and dealt with prior to the external audit.

In all cases preparation and review of working papers should be clearly evidenced. If it is not, then there is a risk that the review process (necessary for providing quality assurance to the chief financial officer) may not have occurred.

Common problems with working papers include the following:

- poor version control so working papers are out of date
- working papers are not updated for late adjustments
- working papers/supporting evidence are lost, missing or filed in the wrong place
- inconsistent quality of working papers or methods of presenting information
- information provided by spreadsheets are inconsistent with or not reconciled to the final closing trial balance
- trial balance or feeder system reconciliations not printed off or not available
- inconsistencies between working papers, general ledger and accounts
- spreadsheets hard coded or linked to information the auditor is unable to access
- no effective review by senior management at pre-audit stage.

13.5 Using standardised working paper templates and summary sheets cannot guarantee to solve all these problems, but they are a useful way of improving quality, consistency and evidencing pre-audit review. An example of a suite of standard working paper templates used by several local authorities is set out in Appendix D2 of the Streamlining the Accounts guidance including evidencing of quality assurance and review. Appendix D3 provides an example quality assurance checklist and Appendix D4 provides an example checklist for completion by the CFO as part of their processes before the accounts are authorised for issue.

14. Update to accounting for Dedicated Schools Grant (DSG) Deficits – England

14.1 On 6 November 2020, the secretary of state for the then Ministry of Housing, Communities and Local Government (MHCLG), now DLUHC, laid before Parliament a statutory instrument, the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020. This provided a statutory basis for the separation of DSG deficits from the general fund. The Department for Education (DfE), through the 2020 Regulations, established that a local authority must either deduct the deficit from its school budget or carry forward the deficit to future financial years rather than fund it from other sources.

14.2 CIPFA Bulletin 09 provided information on accounting for these changes by establishing that the amount of the deficit must be charged to an account established and used solely for the purpose of recognising deficits in respect of its school's budget. The 2021/22 Code has established this as the 'Dedicated Schools Grant adjustment account', an unusable reserve.

14.3 The accounting treatment introduced by the regulations is limited to the financial reporting periods 2020/21, 2021/22 and 2022/23 to provide time for government and local authorities to look at budgetary and financial management strategies to reduce the deficits.

14.4 The DfE have provided information to inform practitioners of the latest position and advice on deficit management. That information and advice is included in **Appendix 1** to this document. In terms of accounting for 2021/22, the position outlined in CIPFA Bulletin 09 remains in place.

15. Accounting standards that have been issued but not yet adopted

15.1 Paragraph 3.3.2.13 of the Code requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code. Paragraph 3.3.4.3 requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year.

15.2 Paragraph 3.3.4.3 and Appendix C of the Code adapts IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* on an annual basis to limit the impact of standards that have been issued but not yet adopted to those listed in Appendix C of the Code in the relevant year of account (in this case the 2022/23 Code). This means that only the standards listed in paragraph 15.3 below are included in the requirements for IAS 8 for standards that have been issued and not yet adopted.

15.3 The standards introduced by the 2022/23 Code where disclosures are required in the 2021/22 financial statements in accordance with the requirements of paragraph 3.3.4.3 of the Code are:

- IFRS 16 *Leases* (but **only** for those local authorities that have decided to adopt IFRS 16 in the 2022/23 year).
- Annual Improvements to IFRS Standards 2018–2020. The annual IFRS improvement programme notes 4 changed standards:
    - IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
    - IAS 37 (Onerous contracts) – clarifies the intention of the standard
    - IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material
    - IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances.

  None of the matters covered in the annual improvements are dealt with in detail in the 2022/23 Code. During the consultation process on the 2022/23 Code CIPFA/LASAAC did not envisage them having a significant effect on local authority financial statements.
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16.

Note that this is based on the current position as agreed by CIPFA/LASAAC but the Code has not yet been subject to full due process so this might be subject to change. Updates will be provided on the CIPFA Bulletins pages.

16. Accruals for the local government pay award 2021/22

16.1 Paragraph 6.2.1.3 of the Code notes that short-term employee benefits are those benefits expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related services. In accordance with the Code and IAS 19 *Employee Benefits* any amounts unpaid at the end of the financial year in relation to agreed pay awards for the 2021/22 year will need to be accrued in the 2021/22 accounts.

16.2 IAS 19, para 11 notes that when an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service. In regard to the

employers' on-cost, ie employers' national insurance contributions and employers' pension contributions, that will form part of the cost to be incurred by the authority and should also form part of the estimated accrual.

17. Infrastructure assets

17.1 In early March 2022 CIPFA was made aware of the issues relating to the derecognition of parts of infrastructure assets. The issue is pressing as CIPFA understands that without resolution it has potential to result in qualification of significant numbers of authorities' financial statements.

17.2 The main issue relates to subsequent expenditure on infrastructure assets and specifically on whether local authorities should be assessing if there is any undepreciated cost relating to residual value remaining in replaced components that needs to be de-recognised when the subsequent expenditure is added. This may also lead to issues relating to the reporting of gross historical cost and accumulated depreciation (depreciated historical cost).

17.3 While this is standard practice for many property assets, that may not be the case for infrastructure assets because there are a variety of significant practical difficulties in applying the standard approach to such assets.

17.4 This applies particularly in relation to highways infrastructure assets, where the engineering records used to maintain, replace and add to the infrastructure assets have not been designed to map against identifiable components. It was recognised during the 2015 Code consultation looking at the possibility of applying current values to highways assets that it was not possible to typically identify components, and information on previous historical repairs is not available in a meaningful or identifiable way particularly for roads. Under the current value approach, it was therefore more meaningful to treat the network as one asset.

17.5 There are also information deficits in relation to historical expenditure on assets created before 1994/95. These provide a significant contribution to the capacity of the roads networks and to their value. These assets should have been brought onto the balance sheet at 'capital undischarged' amounts rather than at historical cost. Though these were treated as historical cost from that point on.

17.6 In addition, there may be issues where assets have been transferred to local authorities on local government reorganisation for example.

17.7 CIPFA has set up an urgent Task and Finish group to assist with the resolution of these issues. This is likely to be by means of by providing additional guidance and by pursuing whether any augmentations to the Code would assist with the situation. The CIPFA/LASAAC Local Authority Accounting Code Board has agreed to consider such proposals. The timetable for taking forward these changes is available on the CIPFA website. CIPFA has set up a dedicated webpage to ensure stakeholders are kept up to date.

17.8 The Task and Finish group would encourage local authorities to consider in detail the financial information they hold on their infrastructure assets. It is of the view that local authorities should ensure they have an effective depreciation policy for those assets. If you have any comments on the issue, please contact policy.technical@cipfa.org.

18. Flexible use of capital receipts

18.1 The statutory provisions for the flexible use of capital receipts to help fund revenue costs of local authority transformation projects had previously been extended from the original schemes introduced in England, Wales and Scotland and were scheduled to finish on 31 March 2022.

18.2 In England the provisions have now been formally extended by DLUHC for a further three years covering financial years commencing 1 April 2022, 1 April 2023 and 1 April 2024. A new Direction has been issued that covers this three-year extension and contains additional requirements for the submission of details of authorities' planned use of the flexibility to the secretary of state for each financial year in which the direction is used.

18.3 Details of the new Direction and updated guidance can be found on the gov.uk website.

18.4 At the time of publishing, the existing schemes in Wales and Scotland have not yet been extended, however any changes to those schemes are anticipated to be included on the Welsh Government and Scottish Government websites.

19. 2021/22 guidance on accounting for government grants/funding schemes – Scotland

19.1 The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) has produced guidance specific to Scotland for accounting for government grants and other funding streams.

Appendix 1.
Department for Education (DfE) information and advice

1. In 2021/22 the DfE's safety valve intervention programme continued to target local authorities with the highest DSG deficits. The programme requires the authorities involved to develop substantial plans for reform to their high-needs systems, with support and challenge from the department, to rapidly place them on a sustainable footing. If the authorities can demonstrate sufficiently that their DSG management plans create lasting sustainability and are effective for children and young people, including reaching an in-year balance as quickly as possible, DfE will enter into an agreement with the authority. So long as they maintain progress and hit the milestones in their plans, authorities will receive incremental funding to eliminate their historical deficits, generally spread over five financial years.
2. In the 2021/22 financial year, the department entered into a further nine agreements with authorities with the highest DSG deficits. These agreements will hold the authorities to account for delivery of reforms to their high-needs systems, so that they can function sustainably and in the best interests of the children and young people they serve. These authorities will be expected to reach an in-year balance on their DSG as quickly as possible, and over time eliminate their deficits. The agreements will be closely monitored to ensure that the conditions set in the agreements are being met.
3. DfE understands the concern that has arisen from those authorities in deficit, who have not been invited to participate in the 'safety valve' programme, but who would benefit from support to reach a sustainable position. From 2022/23, following investment through the Spending Review, DfE will run three programmes aimed at helping authorities with the sustainability of high-needs systems, which together will work with all authorities. The aim of all three programmes is to secure sustainable management of authorities' high-needs systems, with support and intervention tailored to the severity of the problems authorities are facing.
4. This work is supported by the significant increase of 40% in high needs funding since 2019/20, to a national total of £9.1bn in 2022/23. Funding will continue to grow in 2023/24 and 2024/25, but on a scale smaller than the increases over the last three years. Authorities will be asked in working with the department to use an assumption of a 5% increase on their total high-needs block allocation between 2022/23 and 2023/24, and 3% year on year beyond that, although these increases are not guaranteed, and exact funding for all authorities will be decided as part of the usual annual process of setting allocations.
5. A further 20 authorities have been invited to join the safety valve programme in 2022/23, those with less severe but substantial deficits have been invited to join the Delivering Better Value programme, and the remaining authorities will be contacted by the Education and Skills Funding Agency, to join their support programme.
6. DfE is aware of particular concerns around the DLUHC temporary statutory override to ringfence DSG deficits from councils' wider financial position in their statutory accounts. As it stands, this ringfence is due to end after the accounts for the financial year 2022/23, at which point authorities will need to demonstrate their ability to cover DSG deficits from their available reserves. It is therefore crucial that authorities' high-needs systems move to a more sustainable position, and DfE encourages authorities to fully engage with the support on offer through the safety valve, Delivering Better Value and Education and Skills Funding Agency programmes. Authorities with sustainable high-needs systems will be in a stronger position to modernise in line with the newly published SEND review, as changes are implemented.