



LOCAL AUTHORITY ACCOUNTING CODE 2024/25

Issued 17 October 2023

ICAEW welcomes the opportunity to respond to the consultation issued in August 2023 by CIPFA/LASAAC on the 2024/25 Code of Practice on Local Authority Accounting in the United Kingdom (the “Code”), a copy of which is available from this [link](#).

We welcome the proposed changes to the 2024/25 Code

- We concur with most of the proposed changes, subject to some specific comments
- We disagree with the adoption of depreciated replacement cost for all infrastructure assets
- We believe the Code should require supplier finance arrangements to be disclosed
- We recommend IFRS 17 be adopted with the same policy choices as the FReM

We have some suggestions for the CIPFA LASAAC strategic work plan

- We recommend the Code adopt a similar approach to the FReM (IFRS + adaptations)
- We believe councillors should be identified as the primary users of financial statements
- There needs to be a focus on improving understandability of the financial statements
- Some straightforward changes could be made now without burdening financing teams
- We suggest adopting the TCFD model similar to central government pending the development of more comprehensive sustainability reporting standards for the public sector

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For questions on this response please contact us at representations@icaew.com quoting REP 106/23.

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KEY POINTS

Introduction

1. This response has been prepared by ICAEW's Public Sector team in consultation with ICAEW's Public Sector Advisory Group. ICAEW's Public Sector team supports members working in and with the public sector to deliver public priorities and sustainable public finances, including over 12,000 in ICAEW's Public Sector Community.
2. ICAEW engages with policy makers, public servants, and others to promote the need for effective financial management, audit and assurance, financial reporting and governance and ethics across the public sector to ensure public money is spent wisely.
3. Our [vision for local financial reporting and audit](#) sets out steps we believe are necessary to improve the quality and rigour of the financial information provided to councillors to enable them to be effective in holding their local authorities to account. It also sets out steps to strengthen local audit to assure that information.
4. We submitted evidence on 17 April 2023 to the House of Commons Levelling Up, Housing and Communities Committee setting out how we believe [financial reporting and audit in local authorities](#) can be improved.
5. We [submitted evidence](#) on 18 May 2023 to the HM Treasury thematic review of non-investment asset valuation for financial reporting purposes.
6. We would be very happy to discuss our feedback in more detail if you believe that would be of assistance.

We welcome the proposed changes to the Code for 2024/25

7. **IFRS 16 Leases:** We do not see any merit in further delaying the implementation of IFRS 16 by local authorities given that this is now a well-established accounting standard in both central government and the private sector. We therefore concur with CIPFA/LASAAC's encouragement to local authorities to adopt IFRS 16 for 2023/24 where possible and for adoption to be mandatory for 2024/25.
8. **Accounting for infrastructure assets:** We understand and agree that there is no immediate need for an amendment to the 2024/25 Code given the temporary arrangements that are currently in place. Unfortunately, it looks increasingly likely that these temporary arrangements will need to be extended to 2025/26.

We have already responded to HM Treasury's thematic review on accounting for non-current assets. We reiterate our disagreement with proposals to adopt depreciated replacement cost (DRC) for specialised assets – we believe this will not add sufficient value to users of the financial statements nor will it solve underlying issues with fixed asset records. In our [consultation response](#) we supported the proposal for a mixed measurement model with (deemed) historical cost for specialised assets.
9. **Lease liability in a sale and leaseback** (amendments to IFRS 16): We concur with adopting these amendments that ensure a seller-lessee can only recognize a gain or loss for a right of use asset that is sold and not for the right of use it retains.
10. **Classification of current and non-current liabilities** (amendments to IAS 1): The consultation states that the existing Code already provides specific guidance in this area and hence there is no need to update the body of the Code. We welcome these amendments being adopted in the appendices to the Code.
11. **International tax reform – Pillar Two Model Rules** (amendments to IAS 12): We agree that these amendments to IAS 12 are unlikely to apply to local authorities, even those that consolidate operating subsidiaries subject to corporate taxation that apply IFRS or IFRS-aligned UK GAAP in subsidiary financial statements. We concur that no change is required to provide more specific guidance in the body of the Code and welcome these amendments being adopted in the appendices to the Code.
12. **Supplier Finance Arrangements** (amendments to IAS 7 and IFRS 7): We disagree with the suggestion that no change to the Code is required. Although we think it likely that few, if any,

local authorities in the UK have entered, or will enter, into material supplier finance arrangements, we believe that disclosures set out in these amendments are important.

We therefore believe that in addition to incorporating these changes in the appendices, the body of the Code should include an explicit reference stating that if such disclosures are required that they be sufficiently prominent to alert users to the use of such arrangements.

13. **PFI PPP contracts** (application of IFRS 16 to service concession arrangements): We concur with CIPFA/LASAAC aligning with the mandatory remeasurement approach adopted in the FReM and the DHSC GAM. This will provide a consistent approach across the public sector and avoid the need for adjustments in returns for the Whole of Government Accounts.
14. **IFRS 17 Insurance Contracts** (a new accounting standard): We concur with the proposed approach of adopting IFRS 17 in the 2025/26 Code in line with the rest of the public sector. We believe that it is important that the policy choices adopted by the FReM are also incorporated into the 2025/26 Code to avoid any risk of divergence.

We have some suggestions for the CIPFA/LASAAC strategic work plan

15. While we agree that a stable platform at the current time is important, there are some simple presentational changes to local authority financial statements that we believe would make a significant difference to their readability and understandability and could be implemented relatively easily without burdening local authority finance teams.

In particular, the currently recommended formats for the primary statements contain significantly too many numbers, making it very difficult for users to grasp what the statements are telling them. Details currently reported in the primary statements would also be better understood if included in the notes to the financial statements.

- a) We recommend encouraging (in 2024/25) preparers to consider relocating the service line detail from the Comprehensive Income and Expenditure Statement to the notes to the financial statements in order to simplify this primary statement. Instead, we recommend that the comprehensive income and expenditure statement summarise the principal income and expenditure totals so that users can clearly understand how money coming into local authorities each year has been utilised and the resulting surplus or deficit that has been recorded. Ideally we would suggest making this mandatory in 2025/26, after appropriate consultation and in the light of experience from those voluntarily adopting this recommendation.

See paragraph 28 below for an illustrative example of how this might look. Our suggestion should not change any of the numbers currently presented in an existing Comprehensive Income and Expenditure Statement so this should cause minimum disruption beyond the insertion or inclusion of the service line detail in a note to the financial statements and reformatting of this primary statement.

- b) We also believe the Expenditure and Funding Analysis should be positioned in the notes to the financial statements pending a replacement solution as part of the review of statutory overrides. This extremely detailed statement causes significant confusion to readers of financial statements when presented as a primary statement.
 - c) Finally, we recommend amending the recommended sign convention for surplus and deficit result for the financial year to permit preparers to use positive for surplus and (negative) for deficit if they wish – the current approach adopted by most local authorities of negative surpluses and positive deficits is confusing to both lay and professional readers of financial statements.
16. We support the review by the Better Reporting Group of the effective presentation of statutory adjustments and welcome the opportunity to provide input on this topic in due course.

We believe that there is an opportunity to learn from private sector best practice in how non-GAAP numbers and segmental results are communicated and reconciled to provide a much clearer presentation that encompasses the provision of public services by service line, the ring-fenced nature of the Housing Revenue Account, and the performance of commercial and ancillary activities.

17. We recommend that the Better Reporting Group should commence its work by identifying councillors as the primary users of local authority financial statements. We believe that by focusing on the needs of elected representatives carrying out their responsibilities to hold their local authority to account the financial statements can be improved for the benefit not only of councillors, but also of other users (including council taxpayers and residents).
18. **Overview of performance and summary financial information:** We agree with CIPFA/LASAAC that the annual financial report should be able to communicate the key messages of financial performance to service users and council taxpayers in addition to providing the information that councillors need to hold their local authorities to account.
- a) There is some merit to including a performance overview containing summary financial information to be included within the narrative report in such a way that it can also be used as a standalone communication to council taxpayers and service users with minimal adaptation. However, we accept that other approaches may be equally valid.
 - b) We believe that it is important, to the extent this proposal is adopted, that the proposed performance overview is integrated into the narrative commentary rather than form a distinct and unrelated section. This is probably best achieved by developing the performance overview as an executive summary to the full narrative report. As such it should also incorporate any significant highlights from the narrative report in addition to information specified in the proposal.
 - c) One omission from the specification for the performance overview listed in the consultation is a summary of total income and expenditure. While there is a significant amount of interest in the public services provided by a local authority, many people do not fully understand the scale of local authority activities, for example the use of operating subsidiaries to deliver services, other commercial and ancillary activities, and commercial investments. A potential wording for a new subparagraph a) (with appropriate re-lettering for subsequent subparagraphs) could be as follows – in effect a shortened version of our recommendation for the income statement set out in paragraph 28 below).

“a) A summary income and expenditure statement showing total income, total expenditure and surplus or deficit for the year, accompanied by an overview of the structure and activities of the local authority and group entities.”
 - d) We also believe that subparagraph g) of paragraph 59 of the consultation could helpfully be expanded (as well as potentially reordered to come before the existing subparagraph c) on the balance sheet):

“g) Where applicable an analysis of income and expenditure shall be provided for any operating businesses, commercial activities, and commercial investments. This should be accompanied by explanations of major variations against the budget approved by the local authority, how profits are distributed or retained and losses supported, and the key risks associated with these activities.”
19. **Changes to the structure of the Code:** We concur with the proposed restructuring of the Code to make it more accessible to preparers.
- a) We believe that an approach similar to the FRoM (adopting IFRS in full and then describing adaptations, policy choices and application guidance) would be easier for most preparers to understand as it would reduce duplication with IFRS accounting standards as well as making it easier to identify and understand the divergences and interpretations from IFRS mandated or recommended by the Code.
 - b) We believe the Comprehensive Income and Expenditure Statement in its current format is extremely confusing to most readers and that income and expenditure by service line should be included in the notes to the financial statements, allowing the primary statement to focus on the overall financial picture.
 - c) We agree with the proposed centralisation of statutory accounting provisions into fewer locations in the Code, however, we would suggest that this be in two places: (i) the Movement in Reserves Statement, where the statutory accounting adjustments are

critical to understand the nature of reserve balances; and (ii) a new section of the Code on the net cost of services and segmental results notes, where the statutory accounting adjustments affect how financial performance is presented and explained.

20. **Sustainability reporting:** We support the development of sustainability reporting standards and believe that as far as possible these should be consistent across the public and private sectors, subject to public sector specific requirements. We therefore welcome IPSAB's approach of starting with existing frameworks to develop their standards.
- We also welcome the initial adoption by HM Treasury of the Task Force for Climate Related Financial Disclosures (TCFD) model for central government pending the development of more comprehensive standards for the public sector. We think that a similar phased approach based on the TCFD model would also make sense for local authorities.
21. **Local audit and accounting issues in England:** We support the willingness of CIPFA/LASAAC to contribute to resolving the backlog of audited financial statements for local authorities. We are equally uncomfortable with the potential need to relax accounting and auditing standards to resolve the backlog but recognise that there is a need for radical action to deal with the local authority financial reporting and audit crisis.
22. **Statutory specifications for local authority financial reporting:** We concur with CIPFA/LASAAC that statutory overrides should be kept to a minimum.
23. **Fair value gains and losses on pooled investments (England and Wales):** We confirm that our position has not changed since our joint consultation response with [CIPFA on the future of the IFRS 9 statutory override](#). We therefore welcome the proposal in the consultation to bring the statutory override to an end.
24. **Dedicated Schools' Grant (England):** We have no specific comments to add to the discussion in the consultation about ending the allocation of deficits to a dedicated reserve as opposed to the general fund.
25. **Recognition of the net defined benefit pensions asset:** We believe that there is merit in ensuring consistent application of IAS 19 and IFRIC 14 on when to recognise a pension fund asset, given that in general the legal position and funding requirements are the same across the entire sector. We therefore believe that it would be helpful if CIPFA/LASAAC provided some specific guidance to local authorities on this topic.
26. **Changes to IPSAS standards which could impact the Code:** We have no specific comments to add to the discussion in the consultation document on new accounting standards (IPSAS 45, 46, 47 and 48) recently issued by the International Public Sector Accounting Standards Board and how these might inform the development of the Code.

SIMPLIFIED COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

27. As discussed above, we believe there is a straightforward opportunity to improve the understandability of local authority financial statements by simplifying the recommended format of the comprehensive income and expenditure statement.
28. One potential option is as follows, with the gross and net income and expenditure on public services by service line moved to a note to the financial statements (A in this illustration).

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT	Note	2024/25 £'000	2023/24 £'000
Taxation and grant income		X	X
Gross income from public services	A	X	X
Gross income from social housing		X	X
Other operating income		X	X
Investment income		X	X
Total income		X	X
Deductions from taxation and grant income		X	X
Gross expenditure on public services	A	X	X
Gross expenditure on social housing		X	X
Other operating expenditure		X	X
Financing costs		X	X
Taxation of group entities		X	X
Total expenditure		X	X
Net taxation and grant income		X	X
Net expenditure on public services	A	(X)	(X)
Net income / (expenditure) on social housing		X	(X)
Net other operating income / (expenditure)		X	(X)
Net investment income less financing costs		(X)	(X)
Taxation of group entities		(X)	(X)
(Deficit) / surplus on the provision of services		(X)	X
Surplus / (deficit) on revaluation of non-current assets		X	(X)
Impairments of non-current assets charged to the revaluation reserve		(X)	(X)
Remeasurements of the net defined pensions liability		(X)	X
Other comprehensive income / (expenditure)		X	(X)
Total comprehensive income / (expenditure)	MiRS	X	(X)

ANSWERS TO SPECIFIC QUESTIONS

29. We attach a table containing answers to the specific questions raised in the consultation in the following pages.

<p>Q1 <i>Do you agree with the approach to the changes to the Code ie to limit the changes to the 2024/25 Code?</i></p>	<p>Yes, we understand the challenges currently facing local authorities in preparing financial statements and getting them audited that mean stability in the Code is important at this time.</p>
<p>Q2 <i>Where do you consider your authority is in terms readiness for the mandatory implementation of IFRS 16?</i></p>	<p>N/A</p>
<p>Q3 <i>What further support do you think CIPFA should provide to support mandatory implementation for the 2024/25 financial year?</i></p>	<p>N/A</p>
<p>Q4 <i>Do you agree with CIPFA/LASAAC's view on the changes included for Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)?</i></p>	<p>Yes.</p>
<p>Q5 <i>Do you agree with the proposed approach not to require changes to the Code for Amendments to IAS 1 Presentation of Financial Statements?</i></p>	<p>Yes.</p>
<p>Q6 <i>Do you agree with the proposed approach not to require changes to the Code for Amendments to IAS 12 International Tax Reform: Pillar Two Model Rules?</i></p>	<p>Yes.</p>
<p>Q7 <i>Do you agree with the proposed approach not to require changes to the Code for Supplier Finance Arrangements?</i></p>	<p>No. While we agree that this requirement is unlikely to (and should not) affect most local authorities, we believe that the existence of material supplier finance arrangements in a local authority is a matter that should receive prominent disclosure.</p>
<p>Q8 <i>Do you agree with the proposed amendments to the transition arrangements for service concession arrangement (PFI PPP) liabilities?</i></p>	<p>Yes.</p>
<p>Q9 <i>Do you agree with CIPFA/LASAAC's approach to the implementation of IFRS 17 Insurance Contracts in the Code?</i></p>	<p>Yes.</p>
<p>Q10 <i>Do you agree with the timing of the implementation of IFRS 17 Insurance Contracts in the Code ie in the 2025/26 Code?</i></p>	<p>Yes.</p>

Q11 <i>Do you agree with CIPFA/LASAAC's proposals to add a new section to the narrative report overview of performance and summary financial information?</i>	Yes, pending the more comprehensive review of the Code, the model financial statements and narrative reporting being undertaken by the Better Reporting Group.
Q12 <i>Do you agree that these new specifications should be voluntary for 2024/25?</i>	Yes. We believe it will be useful to review how the guidance is applied in practice before making it mandatory.
Q13 <i>Do you agree with the content of the overview of performance?</i>	See our response above. We have recommended adding a discussion of total income and expenditure and expanding the discussion of commercial and other income and expenditure.
Q14 <i>Do you agree with the proposals for the inclusion of summary financial information?</i>	Yes, subject to our comments above.
Q15 <i>Do you agree with the list of specifications for summary financial information?</i>	Yes, subject to our comments above.
Q16 <i>Do you have any comments on the structure and format of the Code in relation to accessibility?</i>	<p>We have suggested a separate section for the net cost of services and segmental results notes given their interaction with statutory overrides.</p> <p>It is important that careful consideration is given to how statutory adjustments can be presented to provide a clear line of sight between the financial performance monitored internally based on statutory overrides and the financial result reported in the financial statements.</p>
Q17 <i>In terms of the approach to content of IFRS as adapted or interpreted for the public sector context, are you content with the current approach in the Code or would you prefer the drafting to be more like that of the FReM?</i>	We would prefer the drafting to be more like that of the FReM, based on the default adoption of IFRS together with clear explanations of adaptations, interpretations, and accounting policy choices.
Q18 <i>Are the adaptations and interpretations of standards affecting application for UK local government clearly presented and easily identified in the Code?</i>	No. We believe the current approach of mixing elements of IFRS accounting and disclosure requirements with local authority specific requirements makes it more difficult for users to understand the adaptations, interpretations and accounting policy choices made.
Q19 <i>Do you agree with the suggested revised structure of the Code?</i>	<p>Yes, the proposed new structure appears to be an improvement.</p> <p>However, it is important that the drafting team is provided with some leeway to vary the structure as they develop the new version of the Code.</p>
Q20 <i>Do you agree that the specifications for statutory adjustments should be brought together in one place in the Code, ideally alongside the provisions for the Movement in Reserves Statement?</i>	No. While we believe that it would be helpful for there to be a primary location in the Code setting out how statutory adjustments should be accounted for, we believe there is a need for two locations – one for the movement in reserves statement dealing with how they affect reserve balances and one for notes on the net cost of services and segmental results dealing with how they affect reported financial performance.
Q21 <i>Are there any other issues relating to the structure and format of the Code?</i>	No.
Q22 <i>What do you consider is the best approach to the introduction of sustainability reporting in local government?</i>	We suggest adopting the TCFD model initially, similar to the approach adopted by HM Treasury for central government departments, pending the development of more comprehensive standards.

<p>Q23 <i>Do you have any views on where accounting can be changed to ease the burden on the local audit and accounts preparation system?</i></p>	<p>We believe that reducing statutory overrides and limiting divergences from IFRS are the steps most likely to ease the burden on accounts preparation and local audit. Standardisation should reduce complexity, limit the need for customisation of accounting systems, enable finance staff to more easily transfer from other sectors, and support better understanding by users.</p>
<p>Q24 <i>CIPFA/LASAAC would seek local authority views on their approach to investments in pooled investments and what the future approach might be to accounting for these investments when the statutory overrides come to an end?</i></p>	<p>N/A</p>
<p>Q25 <i>CIPFA/LASAAC would seek the views on the impact of the DSG on financial reporting and local authority plans for the end of the amendments to the regulations.</i></p>	<p>N/A</p>
<p>Q26 <i>What are your views on the Code's provisions in relation to the asset ceiling and the recognition of the net defined benefit pensions asset?</i></p>	<p>We believe that there may be a role for specific guidance to limit the risk of significant divergence in accounting treatment between local authorities with similar fact patterns.</p>
<p>Q27 <i>Do you have views on the impact of new IPSAS on the specifications of the Code as they augment the interpretations of the local government context?</i></p>	<p>We support CIPFA/LASAAC in considering whether there are elements of IPSAS that could benefit incorporation in the Code. However, we believe CIPFA/LASAAC should be cautious about incorporating elements that conflict with IFRS or the FRoM without very good reason.</p>
<p>Q28 <i>Are there any areas within the Code where additional guidance or improvements to the Code would be helpful?</i></p>	<p>We hope to have the opportunity to contribute to the Better Reporting Group's work on revising the Code.</p>