

# Report

**To:** CIPFA LASAAC

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**Date:** 17 April 2024

**Subject:** Analysis of the Responses to the Short-Term Measures Consultation

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## Purpose

**To report on the responses to the consultation on the draft updates to the 2023/24 and 2024/25 Code of Practice on Local Authority Accounting in the United Kingdom (the Code). Approval is sought on the updates to the 2023/24 and 2024/25 Code.**

## 1. Introduction

- 1.1 In total there were 88 responses (listed at Annex A) to the public consultation on the short-term England-only measures to aid the recovery of local authority reporting and audit. CIPFA/LASAAC consulted on the draft 2023/24 and 2024/25 Code updates from 29 February to 28 March 2024.
- 1.2 CIPFA LASAAC can also note the outreach engagement from the webinar held on 11 March, which was attended by just over one hundred delegates.
- 1.3 The Secretariat followed the same publication approaches as in previous years including emailing Treasurers Societies and with news items sent by CIPFA Finance Advisory Network Service subscribers, newsletters etc. The Secretariat also informed the relevant bodies as required under CIPFA/LASAAC's Terms of Reference and used social media to advertise the consultation.
- 1.4 The responses received are summarised in the remainder of this report with more detailed analysis in Annex B, section by section, followed by the Secretariat's comments and suggestions. Issues of principle are considered in the main body of the report.
- 1.5 Copies of the responses received will be made available to Board members electronically on request. For the avoidance of doubt the body of the report does not refer to the individuals or entities.

## **2. Simplifying measurement for operational property, plant and equipment using indexation**

- 2.1 This short-term proposal suggests providing an option to remeasure operational property plant and equipment assets without using professional valuations as part of the recovery process relating to financial years 2023/24 and 2024/25. This proposal would be applicable only to local authorities in England. Asset values in the financial statements would instead generally be presented in the financial statements based on the information in the 2022/23 financial statements adjusted for depreciation and updated by a standard centrally determined index.
- 2.2 Respondents generally agreed that valuations were the right area of focus, but they had concerns about the level of challenge from auditors and it being too late for the 2023/24 accounts. If the proposals were to proceed, concerns around the level of audit challenge should be shared with system partners as part of the co-ordinated response to the audit backlogs.
- 2.3 Respondents were also concerned with indexation and its implications. Especially its limitations in addressing unique differences between assets and regional variations. The starting point for indexation, with special consideration for modified and disclaimed audit opinions was also something raised by respondents.
- 2.4 There was a reasonable number of respondents that were concerned about an increase in workload on the return to formal valuations at the end of the temporary measures. However, with the HMT Thematic review on the horizon, adopting these measures on a temporary basis could provide a useful opportunity to assess their impact and could ease the transition.
- 2.5 Most respondents considered that RICS would be an appropriate authoritative body to determine the indices and there was also considerable mention of CIPFA having involvement too.
- 2.6 Respondents were clear that to implement indexation and meet the end of May draft accounts deadline that they would need indexation in a timely manner, with a considerable number of respondents requiring the information by the end of March.
- 2.7 Overall, those respondents who were supportive in their comments, indicated that the proposals may benefit 2024/25 and an optional basis for indexation was preferred.
- 2.8 More detail is provided in Annex B rows 1.1 to 6.7.

### **Recommendation: CIPFA LASAAC is invited to note the support for simplifying measurement for operational property, plant and equipment using indexation and debate which options to proceed with.**

**Option A:** To proceed to issue an update to the Code in line with the proposals for simplifying measurement for operational property, plant and equipment using indexation in the consultation.

**Option B:** To not proceed with issuing an update to the Code in line with the proposals for simplifying measurement for operational property, plant and equipment using indexation due to it being too late for 2023/24, difficulties in identifying suitable indices and there still being concerns about the level of audit challenge.

**Option C:** To not proceed with issuing an update to the Code in line with option B. However, to provide indices as guidance for local authority preparers in 2023/24 to see if this can assist preparers in justifying asset balances with auditors. Then to assess the impact and potentially look at implementing indexation in the Code for 2024/25.

### 3. Reduced pensions disclosures

- 3.1 This short-term proposal suggests reducing pensions disclosure requirements in 2023/24 and 2024/25. This proposal is applicable to local authorities in England only and excludes Pension Fund Accounts.
- 3.2 Respondents appreciated the direction of the proposal but expressed concerns about its effectiveness. The feeling was that the suggestion, while positive, would only make a marginal difference to both preparers and auditors.
- 3.3 While some respondents expressed concerns about the effectiveness of the proposed short-term measures, a significant portion voiced support for a more permanent reduction in disclosure requirements.
- 3.4 The consultation process revealed a misconception: some respondents believed the proposal entailed a switch from IAS 19 to FRS 102. To ensure clarity, the Code update will need to explicitly state that the proposal does not involve any changes to financial reporting standards.
- 3.5 Paragraph 3.4.2.96 of the Code requires disclosure of key assumptions and estimation uncertainties that could significantly impact asset/liability valuations. Some respondents expressed concern that the sensitivity analysis removed as part of the proposal would therefore still need to be included in the accounts, albeit in a different note. This would negate the intended impact of the proposal.
- 3.6 More detail is provided in Annex B rows 7.1 to 10.7.

#### **Recommendation: CIPFA LASAAC is invited to note the support for reduced pensions disclosures and debate which option to proceed with.**

**Option A:** To proceed to issue an update to the Code in line with the proposals for pensions disclosures in the consultation.

**Option B:** To not proceed with an update to the Code for pensions disclosures due to concerns about potential inconsistencies with paragraph 3.4.2.96 of the Code and perceived marginal impact on auditors and preparers.

### 4. Other comments on the short-term proposals

- 4.1 Many respondents provided valuable feedback on question 11, which asked for suggestions on implementing the short-term proposals. While full details are included in Annex B, some key comments relevant to communication plans or the reform phase include:

**Table 1: Summary of Other Comments**

<b>Comment</b>	<b>Summary Response</b>
Six respondents requested further guidance on disclaimed opinions and the application of indexation plus additional disclosures that would be required.	Full guidance notes will need to be prepared by CIPFA to accompany any Code update.
Three respondents felt that the success of any proposals would be dependent on alignment with audit guidelines.	To address the local audit backlog, the NAO, DLUHC, and CIPFA/LASAAC conducted consultations as part of a collaborative effort to develop a joint solution, detailed in the joint statement.
Two respondents indicated that a change in the statutory deadline for the publication of draft accounts would assist practitioners.	Although the 2023/24 deadline of 31 May 2024 was not included, DLUHC's consultation sought views on the draft account deadline for the 2024/25 to 2027/28 accounts.

<b>Comment</b>	<b>Summary Response</b>
Three respondents felt that the underlying issues causing the backlog would not be resolved by Code amendments.	While CIPFA LASAAC can't directly resolve the issues raised by the accountancy institute, the board can still direct practitioners to helpful resources such as publications and training.
Over a fifth felt the current proposals were insufficient, while nearly a third of respondents called for more permanent Code simplifications.	CIPFA LASAAC will be looking at long term solutions including pensions disclosures as part of the reform phase.
Just over a quarter of respondents felt that the proposals were appropriate for the Code, however three respondents suggested statutory instrument might have a greater impact.	CIPFA LASAAC can take comfort in knowing respondents favour code updates for short-term issues. This approach offers greater flexibility compared to statutory overrides, which can be unwieldy and leave lasting impacts. Code updates allow for swifter adjustments while maintaining a clear legal framework.

- 4.2 For information, attached at Annex C is a letter that CIPFA LASAAC were copied into that was sent to the Parliamentary Under Secretary of State at the Department for Levelling Up, Housing and Communities from Tandridge district council. It relates to concerns they have regarding local audit and local authority accounts, including a request to Government to review the content of the accounts to simplify reporting requirements.
- 4.3 Additionally, the Secretariat has reflected on the discussion at the meeting, after FRAB's review, around whether the proposals might be applied on a UK basis rather than remaining England only. It was noted that while some respondents commented on issues that might arise from different accounting being applied in England, there was no support for wider application from respondents in the other jurisdictions.

**Recommendation: CIPFA LASAAC is invited to note the general comments in the Consultation and additional letter attached for information**

## **5. Next Stages**

- 5.1 The updates to the 2023/24 and 2024/25 Code will be drafted in line with the options chosen, based on proposals in the consultation.
- 5.2 The Secretariat will send CIPFA LASAAC a full tracked change version of the updates to the 2023/24 and 2024/25 Code for its full approval following the meeting.

## **Recommendations:**

- **CIPFA LASAAC is invited to approve, in principle, the updates to the 2023/24 and 2024/25 Code on the basis of the chosen options.**
- **CIPFA LASAAC is invited to approve if any updates to the 2023/24 and 2024/25 Code are to encompass the United Kingdom or be England only.**