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CIPFA Bulletin 14 – Closure of the 2022/23 Financial Statements

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CIPFA issues 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 they are not prescriptive and do not have the formal status of the Code, SeRCOP or the Prudential Code.

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1. Grant recognition and presentation

1.1 The consultation on the 2023/24 *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) raised queries relating to the recognition of grant income. The Code has adopted (by means of adaptations to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance)* the treatment in IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* regarding the recognition of grants.

1.2 The accounting requirements for the recognition of grants are specified in Section 2.3.2 of the Code. The main adaptation contained in the Code is that the option in IAS 20 to deduct the grant from the carrying amount of the asset(s) is not permitted. In summary, all grants, capital or revenue, should be recognised in the Comprehensive Income and Expenditure Statement (CIES) unless there are conditions that have not been met.

1.3 For grants with conditions there is a two-stage process – recognition as grants received in advance (within the balance sheet) if initially conditions remain outstanding at the Balance Sheet date and then recognition as income when the conditions are satisfied (if there are conditions, as opposed to restrictions, attached to the grant); see paragraph 2.3.3.4 of the Code.

1.4 Paragraph 2.3.2.8 of the Code requires that grants and contributions including donated assets must not be recognised until there is reasonable assurance that:

- the authority will comply with the conditions attached to them, and
- the grants or contributions will be received.

1.5 When the two criteria in paragraph 2.3.2.8 of the Code are met, paragraph 2.3.2.9 of the Code requires that such grants and contributions, relating to both capital and revenue expenditure, should be accrued, and credited to income in the Comprehensive Income and Expenditure Statement as the grant is earned by the local authority and in accordance with the conditions of the grant. Where there are no conditions attached to the grant, it should be recognised immediately as income in the Comprehensive Income and Expenditure Statement.

1.6 Reasonable assurance is not defined within the standard or the Code. This is an area where practitioners will have to exercise judgement knowing that grants can take several forms, have individual conditions relating to the grant and include a range of payment methods.

1.7 The Code Guidance Notes recognise this and state that:

Reasonable assurance that a grant or contribution will be received is usually in the form of a written agreement or confirmation from the grant-paying body. Any conditions attached to the grant will be set out in the agreement. When the authority is satisfied that the grant or contribution will be received and it intends to comply with the conditions attached to it, the authority will recognise the grant or contribution in its accounts

1.8 Recognition of the grant does not depend on the receipt of cash funds and it is recognised on an accrual basis. Practitioners will need to assess the probability that the authority will meet all the conditions of the grant. This might be supported by evidence of internal approval of the project or spend and budgeted plans that show the authority's intent to deliver the project or outcomes.

1.9 CIPFA's guidance on grants is provided in Module 2 Section C of the *Code of Practice on Local Authority Accounting in the United Kingdom Guidance Notes for Practitioners 2022/23 Accounts* (the Code Guidance Notes). Care will need to be taken for capital grants to ensure that their interaction with the various capital finance provisions is considered. Practitioners may find particularly useful the table at paragraph C29.

2. Amendments to the Non-Domestic Rating (Rates Retention) Regulations 2013 [SI 2023/268]

2.1 On 9 February 2023, the Non-Domestic Rating (Rates Retention: Miscellaneous Amendments) Regulations 2023 were laid before Parliament.

2.2 These Regulations (when made) will amend the Non-Domestic Rating (Levy and Safety Net) Regulations 2013 (the Regulations) and are therefore relevant to the calculation of business rates safety net and levy estimation and accruals for 2022/23 and 2023/24.

2.3 The regulations provide for the following updates to the calculation of retained income for safety net and levy calculation purposes:

10.1 The calculation of a billing authority's retained business rates per Schedule 1 to the 2013 Regulations now includes public lavatories relief.

10.2 *For major precepting authorities, the Regulations now adds back into the calculation specific relief awarded in accordance with prescribed guidance issued by the Secretary of State*.

2.4 For 2022/23, the relevant guidance specified is:

- COVID-19 Additional Relief Fund (CARF): local authority guidance, published on 15 December 2021
- 2022/23 Retail, Hospitality and Leisure Relief Scheme: local authority guidance, published on 20 December 2021
- Extension of Transitional Relief and Supporting Small Business Relief for small and medium properties, published on 20 December 2021.

2.5 For 2023/24, the relevant guidance specified is:

- Business Rates Relief: 2023/24 Retail, Hospitality and Leisure Scheme, published on 21 December 2022
- Business Rates Relief: 2023 Supporting Small Business Relief, local authority guidance, published on 21 December 2022.

2.6 A new Schedule 7 is inserted into the regulations that provides values used for the calculation of retained rates income for some authorities with increased non-domestic rates (NDR) retention arrangements, which are to be disregarded for the purpose of calculating levy and safety net payments. The regulations now provide for the baseline funding level, and other values for the calculation of retained rates income, for financial years beginning on 1 April 2023 for those authorities subject to local authority restructuring.

2.7 Other provisions amend the Transitional Protection Regulations so that public lavatories relief is disregarded when calculating a billing authority's actual or deemed NDR income (as defined by

Regulations 2 and 3 of the Non-Domestic Rating (Transitional Protection Payments) Regulations 2013 SI 2013/106 as amended), and so that, for the financial year beginning 1 April 2023, baseline funding levels only reflect the inflationary change to the 2023/24 multiplier.

3. Subsequent measurement of property, plant and equipment and investment properties

Property, plant and equipment

3.1 An issue which continues to be of concern for local authority financial statements is the measurement of property, plant and equipment. CIPFA's guidance on property, plant and equipment measurement is found in the Code Guidance Notes Module 4, Section C. Additional guidance was provided in CIPFA Bulletin 10: Closure of the 2021/22 financial statements.

Measurement of unused parts of other land and buildings (properties)

3.2 Many operational office premises are increasingly underused. This is largely owing to policy decisions promoting working from home and hybrid working practices. In these instances, there is an important dialogue required between the practitioner and the valuer expert. The practitioner must provide clarity around service potential and the status of any unused parts of a building. This will ensure the basis of valuation is correctly applied and both parties are prepared for potential audit challenge.

3.3 The Code specifies that the measurement basis for operational property, plant and equipment depends on the class of asset. Measurement for the other land and buildings class of assets is at current value based on existing use value (EUV) for operational assets where there is an active market, or depreciated replacement cost (DRC) using the 'instant build' approach if there is no market-based evidence of current value because of the specialist nature of the asset and/or the asset is rarely sold (ie EUV cannot be determined).

3.4 EUV is defined in paragraph 4.1.2.9 of the Code as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing. The valuer will disregard potential alternative uses and any other characteristics of the property that would cause its market value to differ from that needed to replace the remaining service potential at least cost.

3.5 If parts of the property are not being used to meet the requirements of the existing service delivery function, with there being no intention of bringing those parts back into use, their treatment will depend upon whether they are capable of being sold or leased separately at the valuation date without interference with the ongoing service function being provided from the retained parts (see RICS Red Book UKVPGA 6).

3.6 If separate occupation is not possible, any surplus parts would have no more than a nominal EUV, as they would contribute nothing to the service potential of the property and would not feature in a replacement at least cost.

3.7 If unused parts of the property are capable of being sold or leased separately without interference to the retained operational parts, they may be classified by the entity as either surplus assets, investment properties or 'held for sale' and measured at fair value in accordance with the Code's provisions.

Investment properties

3.8 CIPFA's guidance on the measurement of investment properties is included in Module 4, Section H of the Code Guidance Notes; see also the Guidance Notes for initial measurement. The Code (paragraph 4.4.2.12) requires the use of the fair value model (except for those properties whose fair value cannot be determined on a continuing basis, as described in paragraphs H26 to H28 of the Code Guidance Notes). The fair value must reflect market conditions for the highest and best use at the end of the reporting period and thus annual revaluations will be necessary unless the authority can demonstrate that the carrying value is not materially different from the fair value at that date.

Subsequent measurement – process issues

3.9 Although the measurement process for property assets held by the authority will be undertaken by the valuer (whether that be an external or internal valuer) the chief finance officer is responsible for the information held in the financial statements and therefore will need to ensure that there are appropriate internal control and other processes in place to obtain the measurement from the valuer.

3.10 CIPFA's Property Asset Valuation: A Handbook for Property and Finance Professionals in Local Authorities (Property Asset Valuation Guidance) was issued in 2016 but includes the basics for information requirements and the commissioning process. These are the responsibility of the finance function (even when this is an internal valuation) as the work is for the purposes of measurements to be included in the financial statements. Note that the following is intended to be an overview and local authorities should discuss the following processes in detail with their valuers to ensure that clear instructions are provided, and information requirements and timetables are clear.

3.11 The chief finance officer (CFO) is responsible for certifying or confirming that the carrying amounts (measured) at the reporting date in the Balance Sheet or relevant disclosures are materially accurate and therefore the CFO will be responsible for the following:

1) the provision of clear instructions to the valuer regarding what must be measured and when; see point 2 (note that the finance function will need to consider how this will fit with the accounts close-down and audit timetables)

2) identifying what items of property, plant and equipment and investment properties are being measured, the different basis for the measurement for the relevant class of asset in accordance with the requirements of the Code, and

3) ensuring that the asset registers are regularly and appropriately maintained so that the information they contain is sufficient, complete and up to date, so that accurate, effective measurements can be undertaken by the valuer.

3.12 The valuation process is complex and relies on engaging relevant professional experts. However, as the outputs from this process are to be relied upon to establish the carrying amounts in the Balance Sheet it is vital that when the CFO receives the relevant report in a format to be agreed that there is a critical review and that reasonableness tests are undertaken to ensure they are happy with the estimates provided by the valuer experts. For example, if a valuation for an asset has increased by a significant percentage the finance function should seek an explanation as to why this is the case, and/or ensure that the commentary in the valuation report provides a satisfactory explanation. This will be increasingly important because of the effects that inflation will have on the measurement of property, plant and equipment and investment properties.

4. Nature and extent of risks arising from financial instruments

4.1 Local authorities will be aware that following fiscal events last autumn there has been significant market ***volatility***, and this will have impacted on the financial instruments held by local authorities. This will be particularly important when disclosing the nature and extent of risks arising from financial instruments. Paragraph 7.3.3.1 of the Code requires:

An authority shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the authority is exposed at the end of the reporting period and how they have been managed. These risks typically include, but are not limited to, credit risk, liquidity risk and market risk.

4.2 Given the volatility, though it is acknowledged that this was stabilising, this area is likely to come under renewed focus and scrutiny. In each of the risk areas listed in paragraph 7.3.3.1, accounts preparers may want to consider when considering the information to be disclosed:

4.3 **Credit risk** (note the detailed credit risk disclosures are at 7.3.3.11 to 7.3.3.18):

- Counterparties:
  - Are assumptions for the creditworthiness of counterparties still valid?
  - How may the current inflationary and economic environment impact on how they operate?
  - Does this impact on whether the credit risk of an authority’s financial instruments has increased significantly since initial recognition?
  - Has this affected an authority’s definition of default?
  - Does this mean that more financial assets are credit impaired?
- Impact on inputs assumptions and estimation techniques:
  - Will the volatility change the basis of inputs and assumptions used in estimation techniques?
  - How will this impact on forward looking information to be incorporated into the determination of credit losses including the use of macro-economic information?

- Will it lead to any changes in estimation techniques or significant assumptions made during the reporting period?

- Impact on expected credit loss measurements:
  - Has the market volatility impacted on an authority's 12-month expected credit losses?
  - Has the market volatility impacted on an authority's expected credit losses?
  - Consider whether any additional/or changes to narrative disclosures is required regarding the qualitative information provided?
  - Will the volatility impact on the amounts estimated for past due trade debtors and amounts to be written off?
- Credit risk disclosures:
  - How has the current economic environment affected credit risk disclosures?

4.4 **Liquidity risk** (see Code paragraph 7.3.2.21) – the Code requires authorities to disclose a maturity analysis for financial liabilities (for remaining contractual maturities). Subject to materiality local authorities are required to describe how the inherent risks are managed.

- Local authorities should consider whether their analysis remain appropriate; this would include complex financial liabilities.
- If they have significant long-term treasury investments, they should consider the impacts on liquidity if there was a delay in repayment, or a reduction in the capital value.

4.5 **Market risk** (see Code paragraph 7.3.3.22) – the Code requires that each type of market risk to which the authority is exposed at the reporting date is subject to a sensitivity analysis, showing how the surplus or deficit on the provision of services and other comprehensive income and expenditure would have been affected by changes in the relevant risk variable that were reasonably possible at that date, In the immediate aftermath of the September 2022 fiscal event, there was a 1.5% rise in the 30-year gilt yield. Accounts preparers should consider:

- The notional impact on the surplus or deficit of the provision of services for large variations in interest rates, even if most or all debt is fixed rate. If material, disclosure could be considered.
- Disclosing the impact on the fair value of financial instruments of interest rate movements. PWLB year-end statements provide this.

4.6 The following can also be considered:

- For any investment subject to statutory override for pooled investments (see section 5), disclose any unrealised loss or gain taken to reserves.
- Disclose any income potentially at risk (eg pooled fund dividend income).

5. Fair value gains and losses on pooled investments (England and Wales) Amendments to the Capital Finance and Accounting Regulations

5.1 The government has made further amendments in the form of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2023 (SI 2023, No 241) regarding fair value gains and losses on pooled investments (known as the IFRS 9 statutory override) after 31 March 2023.

5.2 The Welsh Government has indicated that they are considering a similar approach.

5.3 The accounting requirements for these instruments will therefore not change. The following should be considered by accounts preparers in terms of their reporting, particularly in relation to the reporting of risk:

- The market in the underlying assets for these instruments has weakened considerably in the past year.
- It is likely that the funds' portfolios will become stressed in terms of value, liquidity and income.

5.4 From a budgetary and treasury management perspective, consideration should be given to whether a separate earmarked reserve should be established to manage the risks of the fair value movements. This is already recognised good practice for local authorities that hold investments in pooled funds.

6. Other capital accounting issues – capital financing requirement (CFR) and minimum revenue provision

Capital financing requirement

6.1 Feedback from various sources including consultations on the Code have indicated that some authorities have had difficulties in effectively calculating the CFR. The definition of what should be included in the CFR can be found in paragraph 90 of the Prudential Code[1] and the Prudential Code Guidance Notes[2] paragraphs 193–203. This has explicitly been added to the Code to help with year-end reporting. Note that the CFR reported in the financial statements should be able to be derived from information in the Balance Sheet.

Minimum revenue provision

6.2 DLUHC originally consulted in November 2021 on proposals for Changes to the capital framework: Minimum Revenue Provision to address practices that might not have been consistent with the capital finance framework. The proposals were intended to restrict an

[1] The Prudential Code for Capital Finance in Local Authorities (2021)
[2] The Prudential Code for Capital Finance in Local Authorities Guidance Note for Practitioners (2021)

authority's ability to apply capital receipts in lieu of a prudent charge to revenue for capital finance transactions. This underwent a series of outreach processes. However, we await the outcomes following the consultation and outreach.

7. Accounts closure processes

High-quality financial statements

7.1 CIPFA is of the view that high-quality financial statements are key to accountability and transparency. CIPFA is aware that the delays in the publication of audited financial statements are not assisting this process and have resultant impacts on financial management and finance teams in local authorities. CIPFA is, however, of the view that it is incumbent on all stakeholders in the local audit system that all efforts are taken to reduce the delays.

7.2 CIPFA considers that the current delays support the need for faster closing and for high-quality financial reporting. The sooner that outturn balances are confirmed via local authority production of the unaudited accounts the sooner that any errors or misstatements can be corrected and fed into the authority's financial management process.

Effective processes

7.3 The production of high-quality financial statements and clear working documentation will ease timeliness issues. CIPFA considers that the following are key to effective accounts closure processes:

- thorough planning and timetabling of stages of the process, with stringent deadlines
- clear communication with everyone involved of what is needed and by when
- strict formats for the information to be submitted for inclusion or consolidation into the final accounts
- follow-up and strict monitoring of progress
- management of staff resources during closure
- viewing as a serious matter any failure by staff to deliver to deadlines
- robust financial management through the year – information is reported and followed up internally on a regular basis, meaning that most issues have been resolved by the year-end
- quarterly closure procedures and monitoring, eg Balance Sheets prepared quarterly for internal purposes
- closure of accounts payable and accounts receivable systems as soon as possible.

CIPFA appreciates that this may be difficult with the effects of cumulative delays in audit timetables but if procedures and processes are clearly established then any deviations for whatever reasons can be managed more effectively.

Confirmation or certification of the accounts by the CFO

7.4 CIPFA would note that review and control processes are vital to produce the unaudited accounts and to improve the audit process itself. Effective working papers are necessary but those working papers should be supported by clear evidence of assumptions, judgements and decisions taken by local authority management. Analytical review of balances and trial balances will assist with the CFO's ability to review and certify/confirm year-end information but traditional tools such as disclosure checklists are also vital in ensuring that information is accurate, complete and fully documented. Although working papers are essential to the audit process, they are the authority's tool to ensure that the information required to produce the financial statements has been properly prepared. This allows the CFO to certify or confirm they are content that they present a 'true and fair' view.

7.5 Note that the Streamlining the Accounts (CIPFA, 2019) publication, which is available to download from the CIPFA website, includes various appendices to assist with the close down review process and planning.

Working papers

7.6 It is vital that local authorities ensure that they produce working papers and establish clear standards so that their contents can be relied on. Excellent working papers will also facilitate the closedown process where the papers will be used by someone other than the person who prepared them or where that person needs to return to a working paper to revise the figures on it. A clear record of the source of the original information and the treatments that have been applied to it will allow the confident use of the working paper and avoid any situation where work might have to be re-performed. Proper documentation is also easier to review with confidence.

7.7 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.

7.8 Effective working papers will have the following features

- a clear title that accurately describes the working paper or electronic file thereof
- a brief statement of the purpose of the working paper, including reference to the balance, figure item or disclosure in the statement of accounts that the paper supports
- a clear, unique reference number for its location in the overall documentation
- for a document that has been prepared from data that might be subject to regular change (eg a report generated from the ledger), identification of the particular time and date the document was prepared

- clear cross-references to any supporting documents, reports or ledger codes, with sufficient detail for the sources to be retrieved without unreasonable effort
- contact details including names and designations of others who provided information recorded on the working paper
- a statement of any decisions, judgements, assumptions made in the paper eg decisions taken and assumptions used to establish and measure a provision or amount to be recognised as a contingent liability
- evidence to support decisions, assumptions or estimations made
- record of completion of the preparer and date
- record and evidence of review by appropriate staff
- a record (including the date) of any substantial changes made to the document after it was first prepared including documentation of any backing documentation.

8. Dedicated Schools Grant (England)

8.1 The following is a summary of more detailed information that can be found in the Code Guidance Notes (see Code Guidance Notes Module 3 paragraphs I102 to I109) to enable practitioners to apply the disclosure and reporting requirements for Dedicated Schools Grant (England). The Department for Education (Education and Skills Funding Agency – ESFA) will be circulating an Excel version of the disclosure format contained in Appendix 1 of this document for practitioners to complete. Any queries on the reporting of DSG from that spreadsheet should be emailed to financial.management@education.gov.uk.

8.2 School funding for local authorities in England is provided by the Dedicated Schools Grant (DSG), a ringfenced grant. Regulation 7(4) of the Accounts and Audit Regulations 2015 requires a note to the accounts that confirm that the DSG has been deployed in accordance with the statutory provisions quoted in the Code.

8.3 The terms on which DSG is payable are set out in the DSG conditions of grant 2022 to 2023 issued by the Education and Skills Funding Agency (ESFA) in December 2021. The conditions of grant set by ESFA provide that:

- DSG can only be used to support the schools' budget.
- For DSG purposes, grant allocated to the individual schools' budget (ISB) is taken to have been spent as soon as it is deployed – ie passed to schools' budget shares. There is no requirement to track DSG through the ISB to its use by individual schools, and changes in balances held by schools are not to be recorded in this note. The total of maintained school balances held by an authority constitutes a separate earmarked reserve not linked to the DSG.
- Paragraphs 3.3 and 6.1 of the 2022/23 conditions of grant provide details of DSG payments.
- The regulations no longer provide for formal changes to the schools' budget during the year, or redetermination of budget shares except in specific prescribed situations. Where the DSG

changes, the authority (after consulting the schools forum) will need to decide how to deal with this change in terms of altering early years funding or central budgets or carrying forward additional grant or deficit to the following year.

- The final DSG for 2022/23 before the academy recoupment figure includes a provision for the early years block, which is provisional. The provisional allocation for the 2022/23 early years block was made using the January 2022 census figures. Any estimated adjustments for the final allocation from January 2023 census figures are to be treated as an 'in-year adjustment' for 2023/24. This should be included as a note in the 2022/23 notes to the accounts. Local authorities will need to agree year-end practice with their auditors.

- Provisions have been put into Regulation 8, paragraphs (7) and (8), and Schedule 2 Part 8 of the School and Early Years Finance (England) Regulations 2022, so that local authorities are required to carry forward overspends of DSG to their schools budget either in the year immediately following or the year after. They can apply to the secretary of state to disregard this requirement. In the case of the secretary of state giving such permission, this may be for all or part of the sum requested by a local authority, and permission may be given subject to conditions.

8.4 The impact of these provisions as regards setting the schools budget will be that a local authority with a DSG deficit from the previous year must either:

- carry the whole of the deficit forward to be dealt with in the schools' budget for the new financial year, deducting all of it under Regulation 8(7)(a) from the money available for that financial year

- carry part of it forward into the new financial year and the rest of it into the financial year following that, using Regulation 8(7)(b)

- carry all of it into the following financial year following the new year, using Regulation 8(7)(c), or

- apply to the secretary of state under Regulation 8(8) for authorisation to disregard the requirements in Regulation 8(7) if it wishes to fund any part of the deficit from a source other than the DSG.

8.5 This reflects the statutory requirement that a deficit must be carried forward in the schools' budget to be funded from future DSG income unless the secretary of state authorises the local authority not to do this.

8.6 The former Ministry of Housing, Communities and Local Government (MHCLG, now DLUHC) made regulations regarding the accounting treatment of DSG deficits, affecting the financial years beginning on 2020/21 to 2022/23. These are the Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2020 (SI 2020 No 1212). Where a local authority has a deficit in respect of its schools' budget for a financial year beginning on 1 April 2020, the authority:

a) must not charge to a revenue account an amount in respect of that deficit, and

b) must charge the amount of the deficit to an account established, charged and used solely for the purpose of recognising deficits in respect of its schools' budget.

Similarly, any further deficit incurred during the financial years beginning on 1 April 2021 and 1 April 2022 must be added to the account mentioned at b) above. Note that these Regulations have been extended for three years by means of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 2) Regulations 2022 (SI 2022 No 1328) to the financial years beginning on 1 April 2020 and ending 31 March 2026.

8.7 A local authority that charged an amount to such an account in respect of the financial year 2020/21 should record the fact and the amount charged in this note, and any additional amount charged in respect of the financial years 2021/22 and 2022/23. The total figure will appear in line Q of the illustrative note set out in Appendix 1.

8.8 The regulations require the local authority to assess the deficit across the schools' budget. It is not permissible to split up the schools' budget, for example to say that a surplus on the schools, central services or early years block will not be used to offset the deficit on the high needs block. If an authority's actual spend on central expenditure is less than its central expenditure budget, and the authority does not have an overall deficit, the underspend must be carried forward to support the schools' budget in future years, including any money that is moved into earmarked reserves.

8.9 ESFA requires chief financial officers to sign a separate return to the agency containing a written assurance confirming the deployment of the DSG. For the figures, ESFA relies on the published note to the authority's accounts setting out the deployment of the DSG. For this note to provide the requisite level of assurance on a consistent basis, the format of the note has been standardised at the request of ESFA, and is set out in Appendix 1, along with explanatory material to assist in the completion of the note.

8.10 The illustrative note to the accounts contained in Appendix 1 provides information that will meet the Accounts and Audit Regulations 2015 for England requirements on the application of the DSG and the assurance required by ESFA. The illustration only covers expenditure in relation to the grant, rather than being a comprehensive statement of expenditure against the schools' budget for the year. Practitioners may find that their own local circumstances differ from those in the illustration and additional lines (with explanation), or explanatory notes might be necessary to explain fully the authority's position.

8.11 As DSG is paid specifically to finance the schools' budget, it is appropriate to credit the grant receivable for the year to the relevant service segment.

8.12 CIPFA recognises that statutory provisions have led to the creation of the unusable reserve ie the Dedicated Schools Grant adjustment account. It is important to note that these deficits still exist, and additional commentary will need to be made in the financial statements on the impact this might have on the authority. They should also be considered as a part of a CFO's consideration of the adequacy of reserves in their reports under Section 25 of the Local Government Act 2003.

9. Reporting impacts of inflation and high interest rates – financial statements

Background

9.1 The UK has been experiencing its highest rates of inflation for nearly 40 years, with recent CPI at 10.1% in the 12 months to January 2023. To combat inflation, the Bank of England raised interest rates to 4%, the highest rate in 14 years. This period of unusually high inflation and interest rates has potential implications for the statement of accounts under the provisions of the existing accounting standards.

Section 4.1 Property, plant and equipment

Revaluation

9.2 Both the increased level of inflation and the increased borrowing rate has the potential to impact the current value measurements of non-current assets for example including cost information in DRC measurements. For example, increases in materials and labour cost will be reflected in the cost information used to prepare DRC measurements.

Residual values

9.3 The Code requires that residual values are reviewed at the end of the reporting period. Reviews of residual value take account, for example, of price changes and inflation since the last Balance Sheet date. If expectations differ from previous estimates, the changes are accounted for in the same way as changes in useful lives; that is, prospectively as a change in accounting estimate in accordance with the Code's adoption of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Depreciation

9.4 High inflation could affect the depreciation calculation for items of property, plant and equipment. For example, high fuel costs might impact policy decisions such as plans to retire inefficient assets earlier than originally intended thus impacting the expected useful life of the asset. This should factor into the depreciation calculation, and the depreciation charge may need to be reviewed on some assets to determine whether the depreciation calculation still materially reflects the consumption of the asset over its useful life.

Section 4.9 Non-current assets held for sale and discontinued operations

Asset classification

9.5 Assets classed as held for sale might particularly be impacted by the higher interest rates, as the potential to discourage buyers increases uncertainty around judgements as to whether a sale is deemed 'highly probable'. For an asset to be classified as a non-current asset held for sale it must meet the requirements set out in paragraphs 4.9.2.12–4.9.2.14 of the Code. This includes an expectation that the sale will "qualify for recognition as a completed sale within a year from the date of classification, except as permitted by paragraph 9 of IFRS 5" (Code paragraph 4.9.2.14).

9.6 Authorities will therefore need to consider whether inflation or the cost of borrowing is likely to impact this expectation. The provisions of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* allow for classification where the completion takes longer than a year where:

- the delay is caused by events or circumstances beyond the entity's control, and
- there is sufficient evidence that the entity remains committed to its plan to sell the asset (IFRS 5 Paragraph 9, and see Appendix B of IFRS 5 for criteria).

9.7 Authorities will need to make a judgement whether the asset classification is still appropriate, and evidence their judgements in line with the provisions of the Code and IFRS 5.

Section 4.7 Impairment of assets

9.8 Authorities may also need to consider whether an impairment event has occurred. An impairment loss is "the amount by which the carrying amount of an asset exceeds its recoverable amount". An impairment event is one that is related to a specific asset so if high cost of borrowing results in a general decline in asset value it is unlikely an impairment will have occurred. However, inflation and the cost of living crisis can have an impact on the use of assets. If there is a significant decline in an asset's carrying amount during the period that is specific to that asset, then an impairment review is required. Even if an impairment isn't required (for example, due to the effect not being material) the authority will still need to demonstrate that they have recognised that the event as occurred and that a review has been carried out.

Section 8.2 Provisions, contingent liabilities and contingent assets

Provisions

9.9 The Code paragraph 8.2.2.15 requires that provisions are reviewed annually to ensure that the amount recognised is the "best estimate of the required expenditure to settle the present obligation at the reporting date" and this includes an assessment of the effect of the time value of money. Paragraph 8.2.2.16 of the Code requires that "where the effect of the time value of money is material, the amount of provision should be the present value of the expenditures expected to be required to settle the obligation". As high inflation and increased cost of borrowing is likely to have an impact on the time value of money, it might be the case that provisions that previously weren't subject to discounting may be required to be as a result if the effect of the time value of money has since become material.

Chapter 7 Financial instruments

9.10 Inflation would not directly affect the value of most financial instruments, except for any index-linked bonds. However, the market expectation of higher interest rates will affect borrowing costs and investment income for any variable rate debt or investments. When completing disclosures, for fair value measurement, the likely impact will be that the fair value of outstanding long-term debt will fall, so local authorities may wish to review their measurement.

Section 6.4 Post-employment benefits

9.11 Defined benefit inflation assumptions are linked to RPI/CPI and are therefore likely to be affected by high inflation, which may result in a larger liability. While the calculation will be performed by the actuary, large movements may be subject to challenge and increased testing so accounts preparers should ensure that they have appropriate evidence and are able to explain large movements.

Section 3.8 Events after the reporting period

9.12 Inflation and increased interest rates will have an impact on estimate uncertainty and may have an impact on events after the reporting period, both in terms of materiality judgements in relation to events and the occurrence of unusually high inflation potentially constituting an event in its own right.

Narrative information

Impacts of high inflation and increased interest rates

9.13 Under the Code's adoption of IAS 1 *Presentation of Financial Statements*, any disclosures not reported elsewhere but are necessary to users understanding the accounts will need to be made. Particularly with inflation this might involve disclosures around risk to the authority of inflation, for example disclosures related to the impact of inflation on future cash flows such as the cost of borrowing because of increased interest rates.

Materiality judgements and accounting estimates

9.14 Materiality judgements may be affected by inflation; transactions that were not previously material may have become material due to increased values. Authorities should consider whether any disclosures are needed in respect of judgements particularly where the effect is a change in treatment of previously immaterial items.

9.15 Inflation may also have impacts on other accounting estimates. Practitioners should refer to the requirements of the Code in Section 3.3 Accounting policies, changes in accounting estimates and errors.

Dedicated Schools Grant

9.16 Many education authorities are experiencing significant issues with respect to their DSG deficits. Currently the General Fund is protected from the impact of these deficits by the creation of the separate reserve for deficits on the DSG via an unusable reserve (see paragraph 8.6). The amendments to the Capital Finance and Accounting Regulations are in place until 2025/26. As set out in paragraph 8.12, there are still huge demand-led pressures on funding; this is particularly the case in respect of the high needs block. It will be important for authorities to disclose the potential impact of this on resources, both in the financial statements and the narrative report, to ensure that the financial risks to the authority are properly reported to provide some context to the issue for the users of the accounts.

10. Final triennial valuation statements received by pension fund account preparers – 2021/22 issue

10.1 It is likely that several funds will receive the final triennial valuation statements for 2022 from their actuaries before their auditors have provided their audit opinion.

10.2 When accounts were prepared, the 2019 triennial valuation informed key judgements and estimates in the 2021/22 financial statements, including the defined benefit liability derived from a roll-forward of the 2019 valuation. Pension fund accounts preparers need to consider whether amendments need to be made under Section 3.8 of the Code following receipt of the final triennial valuation for 2022. Audit teams will also be required to consider this information when reviewing their testing of those judgments and estimates.

10.3 We would encourage pension fund accounts preparers to consider their 2022 triennial valuation carefully and consult their actuary on the extent to which the defined benefit liability may differ from the roll-forward of the 2019 valuation. Where there is a material variation, accounts preparers need to consider if an adjustment to the pensions liability is appropriate.

10.4 To reduce the risk of further delay to the publication of audited financial statements, we would advise pension funds to engage with their scheme actuaries as soon as is practically possible.

11. Narrative report and recent economic activity

11.1 The purpose of the narrative report is to provide information on the authority, its main objectives and strategies and the principal risks that it faces. The cost of living crisis, high inflation and the Ukraine conflict will all have had an impact and therefore local authorities will need to consider how these are reported in their narrative reports or management commentaries. The following table presents key examples:

Topic	**Possible inclusion in the narrative report**
Market risk	The financial instruments disclosures have already been discussed at paragraphs 4.5 and 4.6 but the impact on how these pressures might affect the resources of the authority might be discussed in the risks and opportunities section of the report.
Impact on the service or strategic plans of the authority	A local authority may wish to consider how recent economic or political issues have affected its resourcing and strategic, service or community plans or its approach to risk management.
Impact on the local community and how this is managed and the effects on the resources of the authority	The cost of living crisis and geo-political events such as Ukraine and even the residual impact of the pandemic will have affected the local

	community. Authorities may wish to address how they have responded to their impact.

12. Officer remuneration in Wales

12.1 The Code Guidance Notes paragraphs to I110 to I156 provide the guidance necessary for the reporting of officer remuneration as required by the Accounts and Audit Regulations in England and Wales. For Welsh local authorities the officer remuneration reporting requirements are specified in Regulation 9 of the Accounts and Audit (Wales) Regulations 2014. Note that as with all legislation that specifies accounting or reporting treatment, reference should also be made to the Regulations themselves.

12.2 The Code Guidance Notes do not address the remuneration reporting requirements for the second note, as it relates to the remuneration of an employee or officer who is employed or engaged on a temporary or part-time basis. The second note is often described as the banding note however, remuneration of employees is described in the Regulations as being reported in 'brackets'.

12.3 Regulation 9(3) specifies that the threshold for the banding note is £60,000. Regulation 9(9) subsequently requires that the sum of £60,000 in the regulation is:

to be reduced pro rata for an employee or officer who is employed or engaged on a temporary or part-time basis.

There is no direct comment in the Regulations that this would change the remuneration threshold nor a definition of 'part-time'. However, the Welsh Government provides guidance on this regulation, paragraph 31 of which includes the clarification that:

an employee employed for fewer than the usual full-time hours or engaged on a temporary basis for the relevant body concerned should still be included in note two if the grossed up remuneration exceeds £60,000.

12.4 Interpretation of regulations is ultimately a matter for the courts. However, the guidance provided by the Welsh Government indicates the intention behind the drafting of some of the current Regulations.

12.5 Therefore, following the clarification provided by the Welsh Government, if an employee works three days a week throughout the year and earns £39,000 in that year, the grossed-up amount (ie if the employee's remuneration were treated as if they worked five days a week) would be £65,000 and should be included in the appropriate remuneration bracket in the banding note.

12.6 Regulation 9(9) also requires that the sum of £150,000 as it applies to the remuneration of senior employees would be subject to the pro rata treatment.

13. Developments in auditor guidance on materiality

13.1 The application of materiality to the financial statements is set out in Chapter 2 of the Code, and Module 2 of the Code Guidance Notes. These set out all the requirements and provide guidance to preparers, but local authorities will also engage with their auditors having regard to the auditor's concept of materiality.

13.2 A revised version of Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom was issued in November 2022.

13.3 One of the changes to the Practice Note is in the list of examples provided on the application of materiality. The intention is to clarify when a larger materiality may be used in considering the audit requirements for audited bodies that hold substantial balances of assets and/or liabilities. In some cases, this may reduce the level of audit effort required.

13.4 Auditors are still working through the consequences, so it is not yet clear how it will apply to current engagements.

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

14.1 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.

14.2 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 2023/24 Code). This means that only the standards listed in paragraph 14.3 below are included in the requirements for IAS 8 for standards that have been issued and not yet adopted.

14.3 The standards introduced by the 2023/24 Code where disclosures are required in the 2022/23 financial statements, in accordance with the requirements of paragraph 3.3.4.3 of the Code, are:

a) IFRS 16 *Leases* (but only for those local authorities that have decided to voluntarily implement IFRS 16 in the 2023/24 year).

b) Where an authority adopted IFRS 16 in 2022/23 but chose to defer implementation of IFRS 16 to PFI/PPP arrangements until 2023/24 information on that more specific accounting change will be required in its 2022/23 statements of accounts.

c) Definition of Accounting Estimates (Amendments to IAS 8) issued in February 2021.

d) Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) issued in February 2021.

e) Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) issued in May 2021.

f) Updating a Reference to the Conceptual Framework (Amendments to IFRS 3) issued in May 2020.

14.4 Note that a) will only be applicable to local authorities that intend to voluntarily implement IFRS 16 in 2023/24, and item b) will only be applicable to local authorities that have voluntarily implemented IFRS 16 in 2022/23 but chose to defer implementation for PFI/PPP arrangements until 2023/24. It is likely that though they lead to improved reporting that items c) and d) will not have a significant impact on the amounts anticipated to be reported in the financial statements. Item e) will only be applicable to local authorities with group accounts and it is likely that there will be limited application of item f).

15. Accounting for infrastructure assets – temporary solution

15.1 CIPFA issued CIPFA Bulletin 12 – Accounting for Infrastructure Assets – Temporary Solution (CIPFA Bulletin 12) in January 2023. The Task and Finish Group on Infrastructure Assets has been reviewing the situation and is not aware that any additional guidance is necessary.

15.2 There have been questions raised about coastal defences, but because of the differing nature of coastal defences standardised guidance cannot be produced. CIPFA is of the view that the principles of reporting of infrastructure assets in Bulletin 12 can be applied to other infrastructure assets that are not highways infrastructure.

16. Local authority reserves and balances

16.1 CIPFA has updated its Bulletin on local authority reserves and balances. CIPFA Bulletin 13 Local Authority Reserves and Balances has therefore been updated to reflect:

- the specifications of the CIPFA Financial Management Code regarding reserves and balances
- the Telling the Story Changes to the 2016/17 Accounting Code (and the removal of a paragraph referring to earmarked reserves reporting, as there is no longer a requirement to report earmarked reserves separately on the face of the Movement in Reserves Statement)
- the two new unusable reserves – the pooled investment funds adjustment account and the Dedicated Schools Grant adjustment account. Changes to Regulations have confirmed that both these reserves will remain in place for a short period[3].

17. IFRS 16 *Leases* mandatory implementation as of 1 April 2024 (and other IFRS 16 issues)

17.1 CIPFA/LASAAC took the difficult decision to defer mandatory implementation of IFRS 16 *Leases* in the Code and for local authority financial statements until 1 April 2024. Local authorities are permitted to voluntarily implement the standard as of 1 April 2022 and 1 April 2023 in accordance with the provisions of Appendix F of either the 2022/23 Code or the 2023/24 Code.

[3] The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 2) Regulations 2022 and the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2023.

17.2 CIPFA/LASAAC is clear that IFRS 16 represents high quality information. CIPFA is therefore taking this opportunity to highlight that the implementation of the standard will not be subject to further deferral. The CIPFA/LASAAC decision on the [deferral of IFRS 16 *Leases* for local authorities] in April 2022 was by the narrowest of margins and is unlikely to be repeated. It is also extremely unlikely to be supported by CIPFA/LAAAC's due processes for approval of the Code.

17.3 CIPFA would therefore recommend that authorities not implementing IFRS 16 as of either 1 April 2022 or 1 April 2023 should commence or recommence their preparations for the implementation of IFRS 16 as soon as possible.

17.4 CIPFA has issued its publication *IFRS 16* Leases*: A Guide for Local Authority Practitioners* alongside the Code Guidance Notes for 2022/23 Accounts as separate guidance for those authorities implementing as of 1 April 2022. Its specifications will provide suitable guidance for any authorities deciding to apply as of 1 April 2023 or the mandatory implementation date of 1 April 2024 (though any plans would need to be amended for the date of initial application of the standard).

17.5 IFRS 16 was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the Balance Sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as 'pay as you go' arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset. IFRS 16 is therefore an important new standard though the work required to implement it will be subject to the number and complexity of leases held by local authorities and local authorities will need to adjust their resources accordingly.

17.6 The changes are more than an accounting technicality. They have the potential to impact procurement processes as more information becomes available on the real cost of leases. However, some work may be necessary to secure this added information. Local authorities therefore need the earliest possible understanding of the effects of IFRS 16, including the adaptations that will be made to maximise its effectiveness for local government.

17.7 One of the areas of focus for local authorities is the adaptation for the definition of a lease. For the UK public sector this includes leases with nil consideration or peppercorn, which will widen the definition of a lease. This will require careful application when identifying a lease and particularly in considering when a contract includes or is a lease. An example of this for local authorities is provided in [CIPFA Bulletin 11 Accounting for Assets Owned by Religious Bodies and Used by Schools] though the final accounting treatment will require individual decisions on each asset by the authority to allow for local circumstances.

17.8 Note that when IFRS 16 is fully implemented in 2023/24, and for authorities implementing IFRS 16 voluntarily in 2023/24, it will also apply to the measurement of the lease liability for PFI/PPP arrangements. Authorities choosing to implement IFRS 16 in 2022/23 can apply the requirements to both leases and PFI/PPP liabilities or can choose to defer application to PFI/PPP liabilities until the 2023/24 financial year, in line with other parts of the public sector where application to PFI/PPP has been deferred. Separate guidance on the application of IFRS 16 requirements to PFI/PPP arrangements will be published shortly.

17.9 To assist with local authority preparations to implement the standard, Appendix 2 to this publication includes a project plan that will be able to be used for IFRS 16 implementation.

Appendix 1: Illustration: Disclosure of deployment of Dedicated Schools Grant

The council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency (ESFA), the Dedicated Schools Grant (DSG). The DSG is ringfenced and can only be applied to meet expenditure properly included in the schools' budget, as defined in the School Finance and Early Years (England) Regulations 2022. The schools budget includes elements for a range of educational services provided on an authority-wide basis and for the individual schools budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2022/23 are as follows:

notes		**Central expenditure**	**Individual schools budget**	**Total**
A	Final DSG for 2022/23 before academy and high needs recoupment			1
B	Academy and high needs figure recouped for 2022/23			2
C	Total DSG after academy and high needs recoupment for 2022/23			3 (=1–2)
D	Plus: Brought forward from 2021/22			4
E	Less: Carry-forward to 2023/24 agreed in advance			5
F	Agreed initial budgeted distribution in 2022/23	6	7	8 (=3+4 and/or ±5)
G	In-year adjustments	9	10	11 (=9+10)
H	Final budget distribution for 2022/23	12 (=6±9)	13 (=7±10)	14 (=8±11)

I	Less: Actual central expenditure	15		15
J	Less: Actual ISB deployed to schools		16	16
K	Plus: Local authority contribution for 2022/23	17	18	19 (=17+18)
L	In-year carry-forward to 2023/24	20 (=12–15+17)	21 (=13–16+18)	22 (=20+21)
M	Plus: Carry-forward to 2023/24 agreed in advance			23 (±5)
N	Carry-forward to 2032/24			24 (=22+23)
O	DSG unusable reserve at the end of 2021/22			25
P	Addition to DSG unusable reserve at the end of 2022/23			26 (=22+23 if result is a deficit)
Q	Total of DSG unusable reserve at the end of 2022/23			27 (=25+26)
R	Net DSG position at the end of 2022/23			28 (=24–27)

A: Final DSG figure before any amount has been recouped from the authority as published March 2023. Do not include the adjustment to the 2021/22 DSG for early years made during 2022/23 based on January 2022 numbers or top-up funding (see G below).

B: Figure recouped from the authority in 2022/23 by the DfE for the conversion of maintained schools into academies and for high needs payments made by ESFA.

C: Total DSG figure after academy and high needs recoupment for 2022/23, as published March 2023. (Do not deduct centrally funded licences.)

D: Figure brought forward from 2021/22. There can only be an entry here if this is a surplus or zero; a deficit must have been placed in the DSG unusable reserve created by MHCLG's amending regulations (see line O).

E: Any amount which the authority decided after consultation with the schools forum to carry forward to 2023/24 rather than distribute in 2022/23 – this may be the difference between estimated and final DSG for 2022/23, or a figure brought forward from 2021/22 that the authority is carrying forward again.

F: Budgeted distribution of DSG, adjusted for carry-forward, as agreed with the schools forum. Note that the ISB column should include only money distributed to schools (including high needs place funding) and to other early years providers; centrally held schools block items such as the growth fund belong in the central expenditure column.

G: Changes to the initial distribution, for example adjustments for exclusions, NNDR payments, or the final early years block adjustment for 2021/22 made during 2022/23 based on January 2022 numbers. Safety valve payments count as DSG and should be included here if paid in 2022/23.

H: Budgeted distribution of DSG as at the end of the financial year.

I: Actual amount of central expenditure items in 2022/23 – amounts not actually spent, eg money that is moved into earmarked reserves, should be included in items L20 or L21 as carried forward.

J: Amount of ISB actually distributed to schools (ISB is regarded for DSG purposes as spent by the authority once it is deployed to schools' budget shares). Note that budget shares include early years funding, sixth form funding and high needs place funding; they do not include high needs top-up funding, which is treated as central expenditure.

K: Any contribution from the local authority in 2022/23 that will have the effect of substituting for DSG in funding the schools budget. Do not include any change in balances held by schools as they are not to be recorded in this note.

L: In-year position at end of 2022/23, ie:

- For central expenditure, difference between final budgeted distribution of DSG (item H12) and actual expenditure (item I15), plus any local authority contribution (item K17).
- For ISB, difference between final budgeted distribution (item H13) and amount actually deployed to schools (item J16), plus any local authority contribution (item K18).

M: Plus/minus any carry-forward to 2023/24 already agreed (Item E5).

N: Total carry-forward on central expenditure (item L20) plus carry-forward on ISB (item L21) plus/minus any carry-forward to 2023/24 already agreed (item E5). To be entered in this line, this figure can only be a surplus or zero; if it results in a deficit, enter zero. Any in-year deficit in 2022/23 must be recorded as part of the DSG unusable reserve (item P26).

O: DSG unusable reserve at end of 2021/21(if any) – any amount placed in the unusable reserve at the end of 2020/21 and/or 2021/22 in accordance with the MHCLG amending regulations.

P: Any addition to DSG unusable reserve in 2022/23 because of an in-year deficit in 2022/23; figure 24 is to be entered here rather than at N when it is a deficit.

Q: Total of DSG unusable reserve at end of 2022/23; this is the total of O25 and P26.

R: Net DSG position at the end of 2022/23; this is a memorandum item designed to show the overall position on DSG. It is calculated by taking the figure (if any) at N24 and deducting the figure (if any) at Q27 and will therefore show any net deficit that the local authority would have if the unusable reserve were not held separately.

Appendix 2: Project plan for implementing IFRS 16 *Leases*

	Action	Description	Dates
1	Establish a project team	Establish a project team to implement IFRS 16 reporting to the CFO and other relevant groupings (eg the Audit Committee) on progress on the plan. This should include: • relevant members of the finance team (including capital finance and those preparing the financial statements) • property managers within the authority, including the assistance from experts in measurement of property, plant and equipment • IT managers to assist with systems assessment • key services holding major leases prioritising contract managers. Note that there may need to be a sub-group of the project team dealing with the financial reporting implications.	April 2023
2	Establish the governance for the project team	Ensure that the governance for the project team is clearly established with appropriate reporting arrangements to the CFO and as necessary to local authority management (Cabinet) and the Audit Committee.	April 2023
3	Undertake a readiness assessment for implementation of IFRS 16	Project team to undertake a readiness assessment for implementing IFRS 16. This might require revisiting an earlier project plan. Key questions the readiness assessment might undertake are: 1. Is the authority able to locate all its leases or contract documentation that might contain leases? 2. What systems will it need to manage the leases and the information contained therein to implement the standard? (This will include contract management systems, asset management systems and changes to the financial reporting systems.) 3. An assessment of the accounting requirements, what this will mean for the financial statements and the prudential framework including the capital strategy. Note that this will not just include finance staff but should be considered across directorates.	Complete by end of April 2023

	Action	Description	Dates
		4. Decide whether the authority will do the minimum required for compliance with the Code’s implementation of the standards or seek to achieve wider benefits such as a single comprehensive lease register, integration in procurement decisions 5. What impact will this have on a local authority’s operational plans including the relevant financial management plans and procurement plans (ie including asset acquisitions)? 6. How will the authority manage the change in accounting policies? 7. What approach will the authority take to the transitional arrangements? 8. How will the authority measure the right-of-use assets?	
4	Understand the financial reporting provisions of the standard	IFRS 16 is a complex standard to implement. Local authority finance teams will need to be fully versed in the implications for its leases, and contracts that might contain leases. An authority will need to make various decisions in preparation for the standard (including having appropriate systems in place) this may include: 1. Its approach to the accounting policies including the right-of-use assets and their subsequent measurement. 2. The impact on service concession arrangements (PFI/PPP) contracts and their accounting policies. 3. Contracts that will meet the definition of short-term leases to be identified. 4. Which leases will meet the exemption for short-term leases? 5. The approach to the initial measurement of lease assets and liabilities (in accordance with the provisions in the Code). 6. The approach to presentation of the financial statements including the Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement (in accordance with the provisions in the Code). 7. The impact on the disclosures including the statement of material accounting policies (in accordance with the provisions in the Code). 8. The interaction with the capital finance system including the MRP, prudential indicators and capital strategy.	Complete by end of April 2023

	Action	Description	Dates
		9. Whether finance and other staff and members need training and what form the training might take.	
5	Establish a communications strategy for the implementation of IFRS 16	It will be important that all key stakeholders understand the impact that IFRS 16 will have on the financial statements and the importance of the information that departments might hold on leases. It is suggested that a communications strategy is developed to increase this understanding across the authority and for relevant members.	Complete by end of June 2023
6	Review current leases or contracts that might contain leases	Ensure that all existing leases or contracts that contain leases can be identified and that there are processes in place to identify and manage any new contracts. The Code includes a requirement to use the 'grandfathering' provisions of IFRS 16 *Leases*. Therefore, any contracts containing a lease under IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease* will continue to be assessed as such (or where these assessments decided that no leases existed). However, this assumes that previous contract assessment procedures were robust. Auditors are likely to require evidence that this was the case. Where this is not the case this may need to be revisited.	Complete by end of June 2023
7	Review for any leases or contracts containing a lease with leases for nil consideration	The grandfathering provisions will not be able to include contracts where leases are for nil consideration as the public sector in the UK has changed the definition of leases to include leases at nil consideration or 'peppercorn' amounts. So local authorities are advised to identify the accounting treatment of leases at nil consideration.	Complete by end of June 2023
8	**Project review point 1.**	**It is recommended that there are regular review processes for the preparations for implementation and this is the first suggested review point.**	**Completed by end of June 2023**
9	Undertake initial assurance assessment on lease data – identify any gaps	Where local authorities have significant leases, this will be a significant data management task both for implementation and future information management. Local authorities are advised to ensure that their systems meet the requirements	Complete by end of October 2023

	Action	Description	Dates
		of data management and undertake frequent assurance testing on the data. 1. Are there any gaps in the information (including information on leases and sub-leases)? 2. Can the systems produce the relevant outputs on timely basis? 3. Are there appropriate controls and tests in place? 4. Is information accurate and up to date? 5. Are there any system duplications? Where necessary, can information systems be streamlined (ideally the number of separate systems used should be minimised)? It is suggested that there are relevant reviews by an authority's internal audit function.	
10	Ensure that systems and information are available to be calculated for existing and future leases.	For current and future leases (including leases at nil consideration) can all the information required for the accounting requirements of the Code's implementation of IFRS 16 be provided. This will include (but is not likely to be limited to): • lease terms/remaining lease terms • information to measure the lease liability and right-of-use asset (including information on current and future rents, lease costs and rent reviews) • implicit interest rates inherent in the lease/or incremental cost of borrowing • lease options (including possible lease-term extensions or other options relating to the lease term, termination clauses and penalties and purchase options) • transitional reporting and decisions.	Complete by end of September 2023
11	Take decisions on how right-of-use assets will be measured and whether external valuers will be required	The subsequent measurement of the right-of-use asset includes a practical expedient allowing right-of-use assets to be carried at historical cost. However, local authorities will need to decide whether it is appropriate. Where it is not appropriate, subsequent measurement of the right-of-use asset will be at current value. Local authorities should assess how many assets will need to be measured by valuers and decide processes and timings for this.	Complete by end of October 2023
12	**Project review point 2**	**It is recommended that there are regular review processes for the preparations for**	**Complete by end of October 2023**

	Action	Description	Dates
		implementation. This is the second review point.	
13	Undertake modelling of lease and service concession arrangement lease calculations and consider the processes for how this information will be able to be updated for new leases, new information and rent reviews.	Local authorities will need to ensure that they have the information available to undertake the calculations/estimates for lease liabilities and initial measurement of the right-of-use asset as of 1 April 2024 and maintain this for subsequent years in accordance with the provisions in the Code. This will include the information required for transition (see step 27). The information systems will need to be able to be updated for new leases, new information and rent reviews.	Complete by end of November 2023
14	Decide implications for operational strategic and report to relevant groups	Budgetary implications for 2024/25 should be assessed and these included in the medium-term financial plan, an authority's prudential indicators and capital strategies. Although the capital finance systems should ensure that this does not have an impact on what is charged to council tax, it is recommended that local authorities undertake a review of their leases to ensure that this is the case. Separate consideration will be needed for the impact on the Housing Revenue Account in England. Note that local authorities in Scotland may need to consider the implications of the Scottish Government Capital Accounting Review.	Complete by end of November 2023
15	Understand any remaining information gaps	Following steps 1 to 14, assess whether there are any remaining information gaps and how they will be resolved using the provisions of the Code's implementation of IFRS 16.	Complete by end of December 2023
16	Commission any external assessments for the right-of-use asset	Make decisions on the measurement of the right-of-use asset for leases where an authority decides it cannot use the cost model or where it decides not to use the practical expedient.	Complete by end of December 2023
17	**Project review point 3**	**It is recommended that there are regular review processes for the preparations for implementation. This is the third review point.**	**Complete by end of December 2023**

	Action	Description	Dates
18	Produce draft accounting policies for 2023/24 (note this is to test the ability to produce the 2024/25 information)	Produce draft accounting policies including changes to the financial statements and disclosures to test information systems and the ability to produce the information in the 2024/25 financial statements – note that comparative information changes will not be required on transition. It will assist with the preparation of step 21.	Complete by end of January 2024
19	Engage with local auditors	Review progress with external auditors and particularly the draft accounting policies and impact on the financial statements.	Complete by end of January 2024
20	Prudential indicators/capital strategy	Set prudential indicators and capital strategy to include the impact of right-of-use assets on the capital financing requirement and lease liabilities on borrowing limits.	Complete by end of January 2024
21	2023/24 financial statements – prepare IFRS 16 information for IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* disclosures for standards issued and not yet adopted	The 2024/25 Code will specify the IAS 8 reporting requirements for the 2023/24 accounts. This will include the requirements due to the mandatory implementation of IFRS 16 in 2024/25. This will also be confirmed in the 2023/24 Year-End CIPFA Bulletin issued in February/March 2024.	By 31 May 2024
22	**Project review point 4**	**It is recommended that there are regular review processes for the preparations for implementation. This is the fourth review point.**	**Complete by end of June 2024**
23	Engage with local auditors as a part of the audit of the 2023/24 financial statements	It is suggested that additional time is allowed in the assurance of the 2023/24 financial statements to consider the outcomes of the IAS 8 disclosures on IFRS 16 and other progress towards proper implementation of the standard.	June to end of September 2024
24	2024/25 implementation	Entries should be made in the accounts for lease liabilities in accordance with the standard and updates made as necessary.	As necessary throughout 2024/25

	Action	Description	Dates
25	Engage with local auditors	It is suggested that a follow up review is undertaken with local auditors to discuss progress towards the information required in the financial statements.	October/November 2024
26	**Project review point 5**	**It is recommended that there are regular review processes for the preparations for implementation. This is the fifth review point.**	**Complete by end of November 2024**
27	Produce draft disclosures for the 2024/25 accounts	Produced estimated information and draft disclosures and changes to the financial statements for the 2024/25 accounts to test for final information gaps, system and data assurance and accuracy.	January 2025
28	Finalise decisions to be taken on the transitional reporting requirements	Chapter 9 of the guidance on IFRS 16 includes both detailed guidance on application of the transitional specifications of the Code but also includes description of what an authority needs to consider. Local authorities will need to finalise the decisions taken on transitional reporting requirements. Note that some on the interpretations in the Code have reduced the decisions required. Step 27 should be taken alongside step 28.	January 2025
29	Engage with local auditors	Test draft information with local auditors (ie both steps 27 and 28).	February 2025
30	Final accounts 2024/25 information	Produce final accounts information for 2024/25	31 May 2025
31	**Post implementation review – IFRS 16**	**Using audit feedback and project team review undertake post implementation review (project review point 6.**	**October/November 2025**