Carlisle City Council
Report to Audit Committee

Report details

Meeting Date:	23 March 2022
Portfolio:	Finance, Governance and Resources
Key Decision:	Not Applicable
Policy and Budget Framework	Yes
Public / Private	Public
Title:	Technical update and Consultations
Report of:	Corporate Director of Finance and Resources
Report Number:	RD76/21

Purpose / Summary:

This report provides the Audit Committee with an update on technical issues and consultations on financial and auditing subjects.

Recommendations:

The Audit Committee is asked to note the update on consultations and technical issues, including the responses made by Link which are included in Part B.

Tracking

Audit Committee:	23 March 2022

1. Background

1.1 This report aims to provide the Audit Committee with an update on technical issues and external consultations relating to any financial or auditing matter of relevance to the Council.

1.2 Although the Council is notified of all consultations issued from, for example, DLUHC or CIPFA, not all consultations will be relevant and there will be occasions where the Council does not wish to respond.

2. Open Consultations

2.1 Emergency Proposals for an Update of the 2021/22 Code of Practice

2.2 CIPFA LASAAC (Local Authority (Scotland) Accounts Advisory Committee) has issued an exceptional consultation on time limited changes to the code to help alleviate delays to the publication of audited financial statements. Only 9% of local authority accounts in England met the audit publication deadline of 30 September 2021. Members are reminded that the deadlines for the production and audit of the 2021/22 accounts are 31st July 2022 and 30th September 2022 respectively.

2.3 The consultation period will be four weeks, closing on 3 March 2022.

2.4 In December 2021, the Department of Levelling-up Housing and Communities asked CIPFA LASAAC to consider ways in which the code may ameliorate this crisis position. CIPFA LASAAC considered this request and has issued this exceptional consultation, which explores two possible changes that might be made as an update to the 2021/22 code and to the agreed position in the 2022/23 code.

2.5 After considering a wide range of options CIPFA LASAAC decided to explore two approaches:

- an adaptation to the code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation
- deferring the implementation of IFRS 16 Leases for a further year and reversing the planned changes to the 2022/23 code to implement that standard.

2.6 As well as the two approaches above, CIPFA LASAAC considered other options that might ease the accounts preparation and assurance resource pressures. The options considered were:

- Making no changes to the Code
- Changes to valuation approach (encompassing materiality considerations)
- Suspending the requirement for group financial statements
- Decoupling pension fund reporting from administering authority financial statements
- Delaying the implementation of IFRS 16 (voluntary or mandatory)
- Reducing disclosure requirements for pension fund assets in authority financial statements
- Suspending or abating local government input to WGA
- Non-publication of 2021/22 financial statements

2.7 For the Council, the two options put forward, pausing professional valuations and delaying IFRS16 will have limited impact. The timeliness of the consultation means that professional valuations for 2021/22 have already been commissioned in order for them to be received by 31 March 2022 so the Council will be updating its asset portfolio values for the 2021/22 Statement of Accounts.

2.8 Although the introduction of IFRS16 for 1 April 2022 is only included in the 2022/23 Code, it would mean that appropriate disclosures would have to be made in the 2021/22 Statement of Accounts of the potential impact. The Council does not have a significant portfolio of leased in assets, therefore the impact of the IFRS16 introduction was never going to be significant for the Council. Therefore, a further delay will have minimal issues for the Council. The Council's Treasury Advisors, Link, have prepared their response to the Consultation which are included in Appendix A in Part B of this agenda.

2.9 <u>Consultation on changes to the Capital Framework: Minimum Revenue Provision</u>

2.10 The Department for Levelling Up, Housing and Communities (DLUHC) issued "Consultation on changes to the capital framework: Minimum Revenue Provision" on 30th November 2021 to last until 8th February 2022.

2.11 This consultation seeks views on proposed changes to regulations to better enforce the duty of local authorities to make prudent Minimum Revenue Provision each year.

2.12 Local authorities borrow and invest under the Prudential Framework (the Framework), which comprises legislation and 4 statutory codes that authorities must have regard to. Under this system, authorities have wide freedoms to borrow and invest without the need to seek the government's consent, provided that borrowing is affordable. The intent of the Framework is to make sure local decisions are prudent, affordable and sustainable.

2.13 Where authorities borrow to finance capital spend, they are required under regulations to set aside money each year from their revenue account. This is referred to as Minimum Revenue Provision (MRP) and is to make sure they can afford to repay the principal of their debt.

2.14 Local authorities have flexibility in how they calculate MRP, providing it is ‘prudent’. Further guidance on how to calculate a prudent amount is given in the government’s Statutory guidance on Minimum Revenue Provision, which authorities must have regard to. Notwithstanding these flexibilities, authorities must meet the statutory requirement that the charge is <u>prudent</u> and is made to <u>revenue</u>. Where the duty is not adequately met, this can result in authorities borrowing more than they could otherwise afford and pushing liabilities and risk into the future.

2.15 The government is aware that some authorities employ practices that are not fully compliant with the duty to make a prudent revenue provision, resulting in underpayment of MRP. This was reported in the National Audit Office’s report Local authority investment in commercial property (February 2020) and the subsequent report by the Public Accounts Committee in July 2020, which recommended the government take steps to address the issue.

2.16 The behaviours the government is seeking to address are:

- Local authorities using sales from assets (capital receipts) in place of a charge to revenue. Authorities may use capital receipts to reduce overall debt and thereby reduce MRP through the calculation. Capital receipts may not, however, be used in lieu of a prudent charge to revenue.

- Local authorities are not charging MRP on debt related to certain assets. The evidence is that while some authorities are making MRP for commercial investments funded by borrowing, some are still not paying MRP in relation to borrowing associated with investment assets or capital loans. The statutory guidance is clear that financing for investment assets and capital loans requires provision to be made.

2.17 The government is proposing additional text to be added to the 2003 Regulations to make explicit that:

- Capital receipts may not be used in place of the revenue charge. The intent is to prevent authorities avoiding, in whole or part, a prudent charge to revenue. It is not the intention to prevent authorities using capital receipts to reduce their overall debt position, which may have the effect of reducing the MRP made with respect to the remaining debt balance.

- Prudent MRP must be determined with respect to the authority's total capital financing requirement (CFR). The intent is to stop the intentional exclusion of debt from the MRP determination because it relates to an investment asset or capital loan. Authorities should still be able to charge MRP over the period in which their capital expenditure provides benefits and begin charging MRP in the year following capital expenditure, in accordance with proper accounting practices set out in the government's statutory guidance on Minimum Revenue Provision.

2.18 Neither of the proposed changes will significantly affect the Council's MRP Policy (As included in the Treasury Management Strategy Statement. However, the Council calculates MRP on the overall CFR less the figure that was calculated on transition to the current capital financing framework in 2004 ("Adjustment A"). This was a change implemented via regulation and allowed for any difference between the (current) Capital Financing Requirement and (previous) Credit Ceiling regime to be permanently deducted from the debt liability that is used in the MRP calculation. Therefore, Government may need to clarify if such an adjustment falls within the regulations to ensure statutory adjustments to the CFR, such as Adjustment A, would remain in place. This clarification has been included in the response to the consultation from our Treasury advisors, Link and is provided at **Appendix B** in Part B of this agenda.

3. Consultation

3.1 None

4. Conclusion and reasons for recommendations

4.1 The Audit Committee is asked to note the update on consultations and technical issues, including the responses made by Link which are included in Part B.

Contact details:

Contact Officer: Steven Tickner Ext: 7280

Appendices attached to report (included in Part B):

- Appendix A – Link Response to Emergency Proposals for an Update of the 2021/22 Code of Practice
- Appendix B – Link Response to Consultation on changes to the Capital Framework: Minimum Revenue Provision

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications:
Legal - Any legal implications of the consultations in this report will be dealt with as and when they arise.
Property Services - none
Finance - Contained within the report
Equality - None
Information Governance – None