

Number: WG33002



Llywodraeth Cymru  
Welsh Government

## Welsh Government Consultation – summary of responses

Summary of responses to the consultation on the draft Local  
Authorities (Capital Finance and Accounting) (Wales) (Amendment)  
Regulations 2018

March 2018

Mae'r ddogfen yma hefyd ar gael yn Gymraeg.  
This document is also available in Welsh.

## Contents

1. Introduction.....	3
2. Responses to the Consultation.....	3
3. Summary of Responses.....	3
4. List of Respondents.....	7
5. Next Steps.....	8

## 1. Introduction

The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 (the “2003 Regulations”), made under Part 1 of the Local Government Act 2003 (“the 2003 Act”), provide the regulatory regime for local government capital finance and accounting practices to be followed by local authorities in Wales. The 2003 Regulations contain detailed provisions for the capital finance and accounting controls, including the rules on the use of capital receipts and what is to be treated as capital expenditure. They also modify the application of some financial accounting standards to prevent adverse impacts on authorities’ revenue resources.

The Welsh Government launched a consultation to consider amendments to the 2003 Regulations to bring about changes to the local government capital finance and accounting regime in Wales. The proposed amendments will relax the current constraints around loan capital transactions, specific share capital transactions and bonds placing local authorities in Wales on an equivalent footing to counterparts in England. The consultation ran for a twelve week period from 20 October 2017 to 12 January 2018.

This document provides a summary of the responses to the consultation.

## 2. Responses to the Consultation

In total, 15 responses were received. Responses were received from the following categories of organisations and individuals.

- Local Authorities – 6
- Community and Town Councils - 4
- Others – 4 (this included the Auditor General for Wales and the Local Authority accounting body)

## 3. Summary of Responses

**Question 1** – *Do you agree with the proposed amendments to the 2003 Regulations?*

The responses were generally favourable to the proposals.

### Securitisation Transactions

All local authorities who responded to this agreed with the proposed amendment.

One accounting body raised an issue in relation to the legality of securitisation transactions and how local authorities are able to treat revenue generated under the regulatory regime. They comment that we would not want the security for borrowing to be weakened - or perceived by rating agencies and lenders as weakened. Whilst

they appreciate that the Welsh Government are not in a position to comment on the legality of a transaction, they consider it may be useful to provide some clarity over this specific aspect.

One other body suggest that the statutory treatment should depend on the accounting treatment: where income is generated, this should be a capital receipt; and where a liability is created, this should be a credit arrangement. One local authority agreed and suggests the statutory treatment should depend on the exact terms of the transaction; the same authority indicated they did not envisage any practical applications of this type of transaction.

#### Expenditure to be capital expenditure

All respondents supported the proposed amendments. One authority suggested a minor wording amendment.

One other body suggested that the exemption for Local Authority Investment Schemes approved by Treasury potentially favours one fund provider.

Another body supported the aim of the proposed amendments but suggested a change to the definition of money market fund.

#### Use of Capital Receipts

All local authority respondents supported the proposed amendment. One other body thought the proposed amendment may have little impact.

#### Proper practices

One body suggested that the Service Reporting Code of Practice (SeRCOP) should remain a proper practice for local authority accounts due to its role in performance reporting and in the provision of statistical information.

### **Welsh Government response**

The Welsh Government has considered the comments regarding the legality and accounting treatment of securitisation transactions and clarity will be provided in the informal commentary which the Welsh Government will issue when the regulations are laid.

The Welsh Government is content that the changes do not favour one fund provider. The regulations specify the types of collective schemes authorities can participate in but this does not place any restrictions on the providers of such schemes. The regulations extend and provide clarity of the ability for Welsh Local authorities to be able to invest in money market funds, real estate investment trusts and local authority investment schemes approved by treasury. These vehicles provide greater flexibility to support local authority's treasury management practices and are considered less risky than more speculative forms of investment.

It is proposed that as well as introducing the provisions consulted upon, the Welsh Government extend the definition of money market fund to refer more broadly to Part XVII of the Financial Services and Markets Act 2000. The definition of money market fund will include authorised unit trust schemes, authorised contractual

schemes, authorised open ended investment companies and recognised overseas schemes.

The extension to the definition is not meant as a Welsh Government recommendation on investment practice. Investment decisions remain entirely matters for individual authorities, which need to have regard, both to the Welsh Government investments guidance and to CIPFA's Treasury Management Code.

The removal of SeRCOP from accounting practice is intended to support the simplification of the production of accounts. Where the data is collected for the purpose of performance or other financial reporting then it is a matter for authorities and those dependent on the data to specify the requirements.

**Question 2** – *Do you have any further comments in relation to the draft Regulations?*

#### **Local Authorities**

A number of respondents had concerns regarding the implementation of IFRS 9 and the impact this will have on the Council Fund Balance. One respondent requested that consideration be given to mitigating measures being put in place where there is potential 'real' impact on Council Fund or the Housing Revenue Account.

#### **Others**

One respondent commented that the structure of the Regulations has become rather complex and there is an increasing risk that practitioners will overlook changes to the original regulations. The respondent suggests if further amending regulations are required; the Welsh Governments take the opportunity to make new, consolidated regulations.

#### **Welsh Government response**

The Welsh Government has considered the responses and sought views of local authority treasurers. The decision as to whether there should be a permanent statutory override will be considered based on evidence. Should local authorities in Wales request a statutory override for all losses we will expect to see evidence that demonstrates that year on year fluctuations are material and cannot be managed by reserves. We will also consider any other evidence that local authorities ask us to consider.

The Welsh Government will consider revoking and remaking the regulations if any further significant amendments are required.

**Question 3** – *Have you considered the extent to which the implementation of IFRS16 will impact on local authorities in Wales?*

One respondent expressed the view that implementation of IFRS 16 will present a significant challenge to local authorities in Wales and gathering the required information within the timescale is likely to be problematic. This view was echoed by a local authority respondent. It was also envisaged that the implementation could potentially impact on the timing of recognition of expenditure and the capital financing requirement.

Two respondents commented that the implementation of IFRS 16 will have a similar impact on local authorities across the United Kingdom and is not just a Wales-specific issue.

One respondent felt the implementation of IFRS 16 will increase the level of indebtedness but leave the underlying borrowing requirement unchanged. The same respondent thought it may also impact Housing Authority Debt Cap positions.

### **Welsh Government response**

CIPFA/LASAAC will be issuing a single issue consultation for IFRS16 Leases which sets out CIPFA/LASAAC's proposals for developing the new edition of the Code to apply to accounting periods commencing on or after 1 April 2019. The Welsh Government intends forwarding the comments received but would encourage Welsh authorities to respond accordingly to the consultation.

## **4. List of Respondents**

Responses were received from the following organisations.

### **Local Authorities**

Powys County Council  
Wrexham County Borough Council  
Gwynedd Council  
Torfaen County Borough Council  
Bridgend County Borough Council  
Rhondda Cynon Taf County Borough Council

### **Town and Community Councils**

Presteigne & Norton Town Council  
Barry Town Council  
Carew Community Council

### **Others**

Arlingclose Ltd  
Link Asset Services  
Wales Audit Office  
The Chartered Institute of Public Finance and Accountability

## **5. Next Steps**

The Welsh Government is grateful to all those that responded to the consultation.

The Welsh Government plans to revise and lay the regulations with a view to them coming into force in time for the 2017-18 financial year.