EXPLANATORY MEMORANDUM TO

THE LOCAL AUDIT (MAJOR LOCAL AUDIT) (AMENDMENT) REGULATIONS 2025

2025No. 896

1. Introduction

1.1 This Explanatory Memorandum has been prepared by the Ministry of Housing, Communities and Local Government and is laid before Parliament by Command of His Majesty.

2. Declaration

2.1 Jim McMahon MP, Minister of State at the Ministry of Housing, Communities and Local Government confirms that this Explanatory Memorandum meets the required standard.

2.2 Rosie Seymour, Deputy Director for Local Audit Reform at the Ministry of Housing, Communities and Local Government confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Sophie Squibbs at the Ministry of Housing, Communities and Local Government email: sophie.squibbs@communities.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 The instrument amends the Local Audit (Professional Qualifications and Major Local Audit) Regulations 2014, and uplifts the threshold for Major Local Audit (MLA) from £500 million to £875 million. MLA refers to audits of certain public bodies that meet specific criteria, primarily based on financial thresholds.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument is England and Wales.

4.3 The territorial application of this instrument is England and Wales.

5. Policy Context

What is being done and why?

5.1 Local audit is the process of independently checking the accounts and financial arrangements of local public bodies, such as councils and other authorities. It ensures that public money is being properly managed, spent legally, and accounted for correctly. Local audit usually requires the preparation of financial statements, review by an external auditor, and sometimes a public inspection period. Under the Local Audit (Professional Qualifications and Major Local Audit) Regulations 2014, Major Local Audits (MLAs) are defined as audits of local public bodies with total income or

expenditure exceeding £500m, or local government pension funds with gross assets of over £1 billion or more than 20,000 members.

5.2 On 18 December 2024, the government published a strategy and consultation setting out plans to overhaul the local audit system. On 9 April 2025 the government published the response to the consultation. The strategy intends to overhaul the broken local audit system and commits to a number of measures to achieve this.

5.3 This instrument amends the threshold for MLAs from £500 million to £875 million in respect of a financial year. This provides relief from additional regulatory oversight and inspection for bodies who are approaching or have recently breached the £500 million threshold. This will ensure proportionality and alleviate pressure across the system. To give an indication of the impact of this threshold uplift, for the financial year 2023/2024 there were 251 bodies who exceeded the £500 million threshold. Based on this new threshold of £875 million, the total number of MLAs could fall from 251 to around 173, a potential reduction of 78 audits subject to final data and classification.

What was the previous policy, how is this different?

5.4 The previous MLA threshold has not been updated since its inception in 2014. Whilst MLA status does not require additional financial reporting or audit procedures, MLAs are subject to more-stringent regulatory oversight (audit quality reviews and, potentially, enforcement action) from the Financial Reporting Council (FRC).

5.5 Raising the threshold to £875 million enables more proportionate regulation, allowing audit and oversight efforts to be concentrated on the most complex and high-risk bodies.

6. Legislative and Legal Context

How has the law changed?

6.1 Under section 4 of the Local Audit and Accountability Act 2014 ("the 2014 Act"), the accounts of a relevant authority (defined in section 2 of the 2014 Act) for a financial year (defined in section 3(4) of the 2014 Act) are required to be audited by a local auditor. Under Schedule 5 to the 2014 Act, the audit of a relevant authority is a major local audit if the authority is specified in, or of a description specified in regulations or a direction made by the Secretary of State ("SofS"). Under regulation 12 of the Local Audit (Professional Qualifications and Major Local Audit) Regulations 2014, a major local audit includes an audit of a relevant authority which, in relation to a financial year, has either a total income or total expenditure exceeding £500 million.

Why was this approach taken to change the law?

6.2 Amending the existing legislation was the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 The December 2024 consultation cited in section 5.2 included a six-week online consultation on proposals to overhaul the current local audit system in England. Over 230 responses were received via an online survey and email submissions. All responses were given full consideration, including where they provided views and commentary beyond the questions themselves, alongside other representations made

during the consultation period. This included a meeting between system and sector leaders and the Minister of State for Local Government and English Devolution, as well as additional engagement and workshops on specific areas.

7.2 The consultation asked 'Do you agree that the MLA threshold should be increased from £500m to £750m? 136 (57%) respondents agreed with the proposal, 20 (8%) respondents disagreed with the proposal and 83 (35%) respondents did not answer this question or did not have a view. Most respondents supported raising the MLA threshold. Many highlighted capacity issues in the audit sector, noting that the threshold has remained unchanged since 2014 despite rising costs. Regular reviews, potentially linked to inflation or public spending, were suggested to keep the threshold proportionate. As part of the consultation and engagement, including meetings with audit firms, it was suggested that a threshold higher than £750 million, would be more effective at easing the burden on less complex authorities, allowing auditors to focus on higher-risk entities and supporting timely audits by reducing regulatory oversight.

7.3 On the 9 April 2025 the government published the response to the consultation which committed to raise the audit threshold for MLAs.

8. Applicable Guidance

8.1 No formal guidance will be issued by the Ministry of Housing, Communities and Local Government on implementing these regulations.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment has not been prepared for this instrument because this instrument is related to updating existing regulatory standards.

Impact on businesses, charities and voluntary bodies

9.2 There is no impact on business, charities or voluntary bodies as this legislation applies to the audit threshold of public bodies.

9.3 The legislation does not impact small or micro businesses.

9.4 The impact on the public sector is limited. The amendments made by this statutory instrument ensure financial and administrative burden on public bodies are proportionate.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The Approach to monitoring this legislation is that MHCLG, in liaison with key stakeholders will keep the effect of these amendments under review.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None

12. European Convention on Human Rights

12.1 The Minister of State, Jim McMahon has made the following statement regarding Human Rights:

"In my view the provisions of The Local Audit (Major Local Audit) (Amendment) Regulations 2025 are compatible with the Convention rights."

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").