EXPLANATORY MEMORANDUM TO

THE LOCAL AUDIT (MODIFICATION OF FINANCIAL REPORTING REQUIREMENTS) REGULATIONS 2025

2025 No. 652

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 OBE MP, Minister of State (Minister for Local Government and English Devolution) at the Ministry of Housing, Communities and Local Government confirms that this Explanatory Memorandum meets the required standard.

2.2 Andy Hollingsworth, Deputy Director, for English Devolution, at the Ministry of Housing, Communities and Local Government confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Robert Goodwin at the Ministry of Housing, Communities and Local Government email: robert.goodwin@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 This instrument modifies the financial reporting requirements for: Devon and Torbay Combined County Authority; Greater Lincolnshire Combined County Authority; Hull and East Yorkshire Combined County Authority; and Lancashire Combined County Authority in relation to the 2024/25 and 2025/26 financial years.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is England and Wales.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is England.

5. Policy Context

What is being done and why?

5.1 Local authorities are required to prepare a statement of accounts in relation to each financial year under section 3(3) of the Local Audit and Accountability Act 2014 ("the 2014 Act"). Under the Accounts and Audit Regulations 2015 ("the 2015 Regulations") local authorities are required (in respect of the financial years beginning

in 2024, 2025, 2026 and 2027) to publish unaudited (draft) statements of accounts by 30 June following the financial year to which they relate. The 2015 Regulations also require local bodies, unless exempt, to publish audited accounts by the dates set out in regulation 9A(3). These are:

Financial year 2023/24: 28 February 2025

Financial year 2024/25: 27 February 2026

Financial year 2025/26: 31 January 2027

Financial year 2026/27: 30 November 2027

Financial year 2027/28: 30 November 2028

5.2 The four Combined Authorities and Combined County Authorities (C(C)As) listed in para 4.1 were established on 5th February 2025. As such, their income and expenditure for the financial year 2024/25 was very limited. Nevertheless, the 2014 Act and 2015 Regulations require these organisations to produce a short set of accounts for this initial period of activity. For the C(C)As, this creates an additional burden to produce an interim account when the organisation is undergoing recruitment and the initial set-up of new governance and bureaucratic infrastructure. For auditors, it is more practical to cover one set of accounts, rather than a separate set of accounts for a short period, and makes reporting clearer.

5.3 This instrument will disapply the requirement under the 2014 Act for the four recently created C(C)As to prepare statements of accounts in respect of the 2024/25 financial year. It will instead provide that the statement of accounts that these authorities are required to produce in relation to the 2025/26 financial year must also cover the period beginning on 5th February 2025. This is in order to rationalise accounting processes and avoid preparing additional accounts for the interim period.

5.4 There is precedent for extending accounting periods for local authorities. Article 11 of the Greater Manchester Combined Authority (Fire and Rescue Functions) Order 2017; Article 39 of the York and North Yorkshire Mayoral Combined Authority Order 2023; Article 11 of the South Yorkshire Mayoral Combined Authority (Election of Mayor and Transfer of Police and Crime Commissioner Functions) Order 2024; and Article 10 of the North East Mayoral Combined Authority (Establishment and Functions) Order 2024 all modified section 3(3) of the 2014 Act to provide an extended accounting period in relation to the relevant financial year.

What was the previous policy, how is this different?

5.5 The key changes are set out above.

6. Legislative and Legal Context

How has the law changed?

6.1 Section 3(3) of the 2014 Act requires local authorities to prepare a statement of accounts in respect of each financial year. The Accounts and Audit Regulations 2015 make provision in respect of internal control and annual accounts and audit procedures applying to relevant authorities (apart from health bodies) as defined in Schedule 2 to the Local Audit and Accountability Act 2014 (“the 2014 Act”). The 2015 Regulations contain detailed rules about the preparation, approval and publication of the annual statement of accounts, and about the arrangements for local electors and other interested persons to exercise their rights of inspection, objection and to question the local auditor.

6.2 This instrument modifies those requirements in respect of the financial years beginning in 2024 and 2025 for the four authorities listed in regulation 2(2) of the instrument, as set out above.

Why was this approach taken to change the law?

6.3 This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 A formal consultation was not carried out though each of the affected authorities were notified in advance.

8. Applicable Guidance

8.1 No guidance has been produced.

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 no, or no significant, impact on the private, voluntary or public sector is foreseen.

Impact on businesses, charities and voluntary bodies

9.2 There is no, or no significant, impact on business, charities or voluntary bodies because this legislation applies to financial reporting requirements of local authorities.

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 instrument ensure that the four recently established authorities to which this instrument applies will not be required to produce a separate statement of accounts for the period between 5th February 2025 and 31st March 2025.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The impact of this legislation will be kept under review by the Department.

10.2 This instrument does not include a statutory review clause as it does not regulate business or voluntary bodies.

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 (Minister for Local Government and English Devolution) at the Ministry of Housing, Communities and Local Government has made the following statement regarding Human Rights:

"In my view the provisions of The Local Audit (Modification of Financial Reporting Requirements) 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").