

minutes

CL 03 06-19

Approved by CIPFA/LASAAC on 4 June 2019

Board	CIPFA/LASAAC Local Authority Code Board	
Date	5 March 2019	
Time	10.30	
Venue	CIPFA, 160 Dundee Street, Edinburgh, EH1 1DQ	
Present		
Chair	Lynn Pamment	<i>PwC</i>
CIPFA Nominees	David Aldous Deryck Evans Christine Golding Conrad Hall Owen James Joseph Holmes Collette Kane Greg McIntosh Martin Stevens	<i>National Audit Office Wales Audit Office Essex County Council London Borough of Brent Newport City Council Winchester Council (Vice Chair) Northern Ireland Audit Office KPMG Birmingham City Council</i>
LASAAC Nominees	Nick Bennett Gary Devlin Joseph McLachlan Paul O'Brien Gillian Woolman	<i>Scott Moncrieff Scott Moncrieff East Ayrshire Council Audit Scotland Audit Scotland</i>
Co-opted	Tim Day	<i>Independent</i>
Observers	Hazel Black Gareth Caller Jenny Carter Jeff Glass Nicola Maslin Sarah Geisman Emma Smith	<i>Scottish Government DCLG FRC Department of Communities (NI) HM Treasury HM Treasury Wales Audit Office</i>
In Attendance	Easton Bilsborough Gareth Davies Don Peebles Matthew Allen	<i>CIPFA CIPFA CIPFA CIPFA</i>

		Action
1	Apologies for absence	
1.1	Hugh Dunn (sub. Gary Devlin), Amanda Whittle (Sub. Emma Smith), JJ Tohill	
2	Declarations of interest	
2.1	There were no declarations of interest	
3	Minutes for approval:	
3.1	<u>Meeting 6 November 2018 CL 03A 03-19</u>	
3.2	These were approved without amendment	
3.3	<u>Conference call 13 November 2018 CL 03B 03-19</u>	
3.4	These were approved subject to the 'be' in first sentence of paragraph 4.2 being replaced by 'been'.	
3.5	<u>Conference call 29 November 2018 CL 03C 03-19</u>	
3.6	These were approved subject to the first 'explained' in the first sentence of paragraph 4.4 being deleted	
3.7	The revised minutes would be uploaded on the CIPFA/LASAAC website.	Sec
4	Action Points (Paper) CL 04 03-19	
4.1	The Board noted that Membership was on the Agenda (Item 7 Below)	
4.2	Conference calls would need to be scheduled for a briefing following FRAB meetings.	Sec
5	Update from FRAB.	
5.1	Joseph McLachlan provided a comprehensive briefing on the most recent FRAB meeting. He focused on the discussion of IFRS 16. This considered the implications for 'Line of Sight' and the spending review of the mismatch created by deferment. FRAB was unambiguous that the deferment would be for one year only. The circumstances in which early implementation would be acceptable were confirmed. The WGA and ONS issues were considered but the discussion of those issues is ongoing.	
5.2	Joseph then turned to the subsequent measurement issues and reported FRAB's position that any divergence between sectors would require strong justification.	
5.3	Lyn Pamment reported that in her meeting with the chair of FRAB he had accepted the rationale of CIPFA/LASAAC having a specific local government consultation process. In accepting this reasoning he shared	

	the CIPFA/LASAAC view that nonetheless the two consultation processes need to be better integrated - especially on those areas in which the two Boards are working in tandem. The timing of meetings would also need to allow CIPFA/LASAAC to know of the FRAB position before its own deliberations.	
5.4	The Secretariat would provide an indicative/normal timeline for Code development to FRAB secretariat for comparison and co-ordination.	Sec
5.5	It was noted that a FRAB zero based review of the FREM was a parallel exercise which was similar to the strategic review being carried out by CIPFA/LASAAC and so would be timely.	
5.6	CIPFA would review the Memorandum of Understanding which is to be considered at the 4 April FRAB meeting. This would include review of the standards hierarchy and so may lead to a review of the hierarchy used by CIPFA/LASAAC.	Sec
5.7	For 2020/21 CIPFA-LASAAC and FRAB secretariats would review and contrast application of IPSAS, UK GAAP etc.	Sec
5.8	IFRS 16 central government budget treatment to be notified to CIPFA-LASAAC	HMT
5.9	The FRAB development proposals would be promulgated to all the relevant authorities. The pre-meeting of relevant authorities had already proved useful.	
6.	IFRS 16 Leases CL 06 03-19	
6.1	Gareth introduced this paper on dealing with the IFRS 16 implementation issues on which the guidance is needed for the secretariat work in co-operation with HM Treasury to achieve the alignment sought by FRAB.	
6.2	<u>A: Subsequent Measurement of Right of Use Assets</u>	
6.3	The Board discussion focused on the proposal set out in paragraph 1.11 in which, in contrast to the proposal in the consultation, there is a more principles based approach rather than a specific 'period of lease' criteria for identifying assets where valuation is required.	
6.4	Some members of the Board expressed concern about the lack of precision in the revised formulation. To this was added the fact that to provide evidence of non-applicability may anyway be a demanding task so the flexibility that the imprecision is designed to introduce may not necessarily reduce workloads.	
6.5	Gareth Davies explained that an important motivation was to avoid the necessity to revalue non-property assets, and the wording was intended to support this. He added that it would be possible to give guidance to assist local authorities, with a suggestion that aligning the period between market indexation with the Code valuation expectations for property, plant and equipment may be a pragmatic approach.	

6.6	The Chair then drew attention to the current wording not being that on which CIPFA/LASAAC had consulted. This led the Board to rehearse the reasons for the original proposal that diverged from that proposed for the FREM – essentially that local authorities start from a different position and as a consequence accumulated valuable data. To this argument could now be added the support for the proposal in the consultation.	
6.7	The Board considered the possibility of a short single issue consultation on the revised proposal. The impact on stakeholder time during the budget process was noted. Additionally the motivation for the CIPFA/LASAAC change was to support the FRAB desire for a principles based approach, and further amendment would therefore require central government department views as well. It was noted that the revision was still, like that in the consultation, a selective valuation based approach which, in its broad objective, had been supported by the consultation responses.	
6.8	The agreed phrasing would be submitted to FRAB and the secretariat would consider the need for any application guidance.	Sec
6.9	<u>Section B Comparison with FRAB</u>	
6.10	In examination of the current differences between the proposals for the FREM and the Code, the Board noted that the FReM now proposed including 'nil consideration' arrangements in the definition of a lease. The rationale for this was discussed, noting that the Code currently created a sharp distinction between a peppercorn rent (eg £1 p.a.) lease and nil consideration arrangements. The Board considered that there was no principles difference between local authorities and the rest of the public sector in this respect. It was noted that gathering evidence on the impact of adopting the FReM approach in the Code would be challenging, but informal stakeholder feedback could be sought.	
6.11	IFRS 16 Definition of lease to be interpreted to include 'nil consideration' in alignment with FReM proposals	Sec
6.12	The Board then considered the use of hindsight on transition since its use was being mandated in the FREM.	
6.13	Practitioner members of the Board gave feedback indicating that mandated hindsight would be problematic given current stakeholder concerns that mandating may create cost-benefit challenges in local government. Additionally the consultation proposals did not indicate mandating this IFRS option.	
6.14	The Board noted that this would be a departure from the FREM but that this needed to be set in the context of the more significant moves to a closer alignment. It was not considered that this would pose significant WGA consolidation issues however the WGA team would be contacted for their views on this. The Board were minded to depart from the FREM in respect of hindsight.	
6.15	Hindsight would not be mandated. The proposed use of 'undue cost or effort' phrasing was rejected as inappropriate. So the phrasing will follow IFRS 16 option with no interpretation.	Sec

6.16	HM Treasury to confirm that no significant / material WGA reconciliation would be sought.	HMT
6.17	<u>C Service Concession Arrangements (SCAs)</u>	
6.18	The treatment of SCA liabilities had been a significant issue for respondents to the IFRS 16 Leases consultation. The IFRS post-implementation review process also identified a need for more specific information. For this purpose a working group would need to be established to examine the proposals for the 2020/21 Code. This would examine whether the IFRS 16 approach remained the most appropriate basis and to identify any consequences of this assessment. Treatment of third party income would also be examined.	
6.19	Martin Stevens, Owen James, Nick Bennett, Christine Golding and Greg McIntosh volunteered to join the working group. The anticipated new Board members would be able to join once they had been appointed.	
6.20	A draft Code text proposal for the 2020/21 ITC would be presented to the 4 June meeting of the Board.	Sec
6.21	<u>D: Early adoption</u>	
6.22	The Board were aware of the rationale behind the two cases of early adoption recognised by FRAB and of the parallel of these to TfL. The risks to the early adopter were principally exposure to later changes in the intended IFRS 16 provisions in the Code. The potential provision of a 19/20 Code update to specifically permit early adoption was discussed. This would need however to be simultaneously timed with the finalisation of the Code 20/21 IFRS 16 Leases requirements.	
6.23	From the Board's perspective, the risk would be if early adoption creates precedent. Concern that there may be a perception that following code requirements is 'optional' was noted. CIPFA/LASAAC would manage this by, for this case, clearly setting out the strict criteria under which early adoption is permitted.	
6.24	The WGA and ONS (National Accounts) implications of early adoption to be investigated.	Sec/ HMT
6.25	TfL to be notified of possible early adoption for 19/20 dependent on WGA / ONS investigations and subject to the Boards decisions on Service Concession Arrangements and Right of Use Asset valuation. The subsequent timing would essentially be given in the 2020/21 Code, but due process may require a 2019/20 Code update.	Sec
7	Membership Update	
7.1	Don Peebles explained the reasons for the delay in the conclusion of the current recruitment process and confirmed that in respect of the Audit practitioner (England) he would liaise with David Aldous with respect to the audit community represented in Local Authority Auditor Group (LAAG). CIPFA's Standards and Financial Reporting Board would continue to have oversight of its nominees.	

7.2	The Board were mindful of the need to supplement CFO representation so as to ensure that fundamental challenges to the approach taken in the Code were directed through the Board rather than only received indirectly. This was especially the case as the expectations for fundamental change at present lacked clarity regarding implementation and would benefit from being debated by the Board. This debate would create clarity in the distinction between the changes required in the Code and those, already permitted within the existing framework, that require initiation by local authorities themselves.	
7.3	The Board noted that a comparison with other sectors may give a better insight into the relative complexity of local authority accounts, but that this in turn was rendered difficult by the lack of clarity as to what 'good' means for the financial position of a local authority.	
7.4	A CFOs and practitioners engagement event to be held at CIPFA conference (9-10 July)	Sec
8	CIPFA-LASAAC Vision Statement CL 08 03-19	
8.1	In considering the draft presented in the report, the Board's views coalesced around a much sharper statement built round the opening section and using the remainder of the draft as a preamble to the strategic plan and work programme. In doing this it would be possible for the vision statement to be longstanding and not linked to any specific elements of the immediate work programme.	
8.2	It was clarified that CIPFA/LASAAC would not expect to lobby governments, but the development of active stakeholder relationships needed to be conveyed in the vision statement. The wording of the statement should be revised to be in 'plain English' and then resubmitted to the Board for approval by email.	Sec
9.	CIPFA-LASAAC Strategic Plan CL 09 03-19	
9.1	The strategic plan would include the 'three themes' text that had been removed from the vision statement – although there may be merit in changing the order and amending the wording. Care should be taken to avoid too much weight being given to governments as stakeholders.	
9.2	The Board was broadly supportive of the work programme but stressed that it needed to include priorities and deadlines so as to convey a strong sense of momentum. Activities needed to be more clearly linked and the prioritisation and timelines involved demonstrated.	
9.3	The challenge of delivering fundamental change was noted and the role of consultations and stakeholder engagements in setting the pace would need to be stressed. This could be addressed by referring to start and finish dates as 'provisional'. A timeline chart type of presentation may make it more understandable.	
9.4	The phraseology needs to be careful not to raise expectations by re-iterating that even small local authorities may be considered relatively large entities in financial reporting terms.	

9.5	<p>Members of the Board volunteered for Strategic Plan: Work streams</p> <ul style="list-style-type: none"> • More narrative on C-L survey plans and objectives • Key messages: Conrad Hall, Hazel Black • Disclosures and materiality: Nick Bennett • Outreach & engagement routes: Gillian Woolman • Narrative reporting: Joseph Holmes • Code Format: Practitioner nominations from David Aldous and Conrad Hall. Martin Stevens (subject to employer agreement) 	
9.6	The introductory paper and revised strategic plan to be circulated to the Board by email for comment.	
10.	Research paper on Differential Reporting CL 10 03-19	
10.1	Easton Bilsborough gave a comprehensive briefing on his research which the Board welcomed and considered to be of sufficient merit to be converted into a 'think piece'.	
10.2	The analysis of authorities needed to be extended to all jurisdictions while at the same time it must be recognised that some classes of authority, notably English shire districts, may not all fall in the same reporting category.	
10.3	Before doing this it would be necessary to introduce other tests to identify authorities with small net revenue bases but significant assets bases. The distinction between gross and net expenditure needs to be addressed – probably by grossing up expenditure for the HRA. A suite of graphs should be presented to encourage engagement - there was no need to specify any size related reporting parameters at this stage.	
10.4	The briefing should seek views and clarity on consistency of measurement & recognition criteria, with scale criteria reflecting disclosure requirements	Sec
10.5	The report should be shared with LAAP with the possibility of it being a joint publication.	Sec
10.6	A discussion should take place with HM Treasury and MHCLG so as to understand any expectations which would need to be managed in respect in particular of WGA / ONS National Accounts implications.	Sec
11	Code Development - 20/21 and later (Paper CL 11 11-18)	
11.1	Of the issues set out in the development programme, Gareth Davies highlighted that clarity on the pensions guarantee issue was a key issue for practitioners but he recognised that the Code would have to limit itself to signposting the relevant standards.	
11.2	Gareth also reminded the Board of the ongoing need to address the pragmatic implementation of amendments to IAS 19 Employee Benefits, particularly potentially an agreed expectation regarding the early assessment of materiality of in-year curtailments and settlements etc..	

11.3	IAS 19 Employee Benefits amendments (re in-year plan curtailments etc): working group to be established	Sec
11.4	All members to notify possible legislative or policy changes affecting the Code of Practice 20/21	Board
11.5	The Board asked for the development programme to include an examination of the implications of EU references in the Code. In addition, in conjunction with the HMT working group, the secretariat should test whether IFRS 17 Insurance Contracts has any implications for any non-insurance transactions in local government.	
11.6	EU withdrawal: Code wording to be investigated to determine if a Code update will be required in the event of Brexit eg regarding references to EU adopted standards replaced by UK adopted.	Sec
11.7	IFRS 17 Insurance Contracts: secretariat to engage with HMT working group regarding arrangements in scope	Sec
11.8	A draft ITC to be presented to the 4 June Meeting	Sec
12	Performance Review and Terms of Reference (Paper CL 12 03-19)	
12.1	Given the developments flowing from the recent 'away day', the Board were content to defer a 'root and branch' review for a year. Nonetheless, the Board took the opportunity to re-iterate that 8 weeks remained its standard for consultations [unless there were compelling reasons] although it would admit the possibility of some flexibility on single or relatively simple issues.	
12.2	Terms of Reference to be revised discussed (amendment to MHCLG, exceptional circumstances for consultations of less than 8 weeks) and submitted to CIPFA and LASAAC.	Sec
12.3	Issues for future consideration would include consideration of how items are included on the agenda and whether more transparency could be achieved by a procedure for inviting guests to meetings.	
13.	Feedback Statement on 2019/20 Code Development (CL 13 03-19)	
13.1	The secretariat would revise this statement in the light of the discussions at the Board meeting before then publishing.	
14	Dates of Next Meetings	
	<ul style="list-style-type: none"> • 4 June 2019 London (venue NAO, London) (Note change of date is response to requests from accounts preparer members and auditors) • 6 November 2019 Edinburgh 	
15	Any Other Business	
	There were no items of other business.	