

minutes

Approved 5 March 2019

Board	CIPFA/LASAAC Local Authority Code Board	
Date	6 November 2018	
Time	10.30	
Venue	CIPFA, 77 Mansell Street, E1 8AN	
Present		
Chair	Lynn Pamment	<i>PwC</i>
CIPFA Nominees	David Aldous Christine Golding Conrad Hall Owen James Joseph Holmes Collette Kane Greg McIntosh Martin Stevens JJ Tohill	<i>National Audit Office Essex County Council London Borough of Brent Newport City Council Winchester Council (Vice Chair) Northern Ireland Audit Office KPMG Birmingham City Council Mid-Ulster Council</i>
LASAAC Nominees	Nick Bennett Hugh Dunn Joseph McLachlan Paul O'Brien Gillian Woolman	<i>Scott Moncrieff City of Edinburgh Council East Ayrshire Council Audit Scotland Audit Scotland</i>
Observers	Hazel Black Gareth Caller Jenny Carter Jeff Glass Nicola Maslin Sarah Geisman	<i>Scottish Government DCLG FRC Department of Communities (NI) HM Treasury HM Treasury (for item 7)</i>
Co-optee	Tim Day	<i>Independent Consultant</i>
In Attendance	Steven Cain Gareth Davies Sarah Sheen Matthew Allen	<i>CIPFA CIPFA CIPFA, Secretary CIPFA</i>

		Action
1	Apologies for absence	
1.1	Apologies were received from Deryck Evans, Vikki Lewis and Amanda Whittle.	
2	Declarations of interest	
2.1	Sarah Sheen indicated that there was not an interest as such but drew the attention of the Board to the unpaid work that Stephen Sheen had done in preparing an early draft of a CIPFA Bulletin on IFRS 9 Financial Instruments which was included in Appendix D to CL 08 11-18.	
3	Matters Arising on Approved Minutes of 5 June 2018	
3.1	While the minute in paragraph 8.9 was confirmed to be accurate, the Chair confirmed that the consolidation of charities should be considered in the CIPFA/LASAAC work programme.	Sec
4	Review of outstanding actions and list of activities between meetings	
4.1	The notes and action points in respect of the telephone conference call of the 26 June were confirmed to be accurate.	
5	Update from FRAB	
5.1	Joseph McLachlan briefed the Board on the 18 June meeting of FRAB, in which he focused on the discussion of IFRS 16 while at the same time stressing that this needed to be set in the context of subsequent developments to be considered later in the meeting (Agenda item 7).	
5.2	Sarah Geisman confirmed that the difficulties presented by the Parliamentary budget and supply process meant that the HM Treasury was proposing a delay in implementation to 2020/21. She added that, while some provision for early adoption was envisaged this would be limited and in practical terms would be confined to the Department of Transport and the Department for Digital, Culture, Media & Sport (DCMS) which had material IFRS adopting arms-length bodies (these bodies would adopt IFRS 16 in accordance with the standard's effective date).	
6	Membership Update	
6.1	The Secretary briefed the Board on the hitherto unsuccessful efforts to recruit an English accounts preparer practitioner. The Board were conscious of the benefits of adding another English CFO to the two already on the Board and took the view that it would be ideal if it were someone nominated by the treasurers' societies.	Sec
6.2	The Board also confirmed its previous decision that Greg McIntosh would take up the vacant second co-optee position. The Secretariat would	Sec/DA

	advertise the newly vacant post and would seek the assistance of David Aldous in recruiting a current audit practitioner working with English local authorities.	
7	Development of the 2019/20 Code and IFRS Leases Papers CL 07 11-18 (a).	
	<i>Discussion on the Effective Date</i>	
7.1	The Chair opened the debate reminding the Board that the implementation date on which the Board had consulted was 2019/20. If the proposal in the consultation were to be changed then this would need to be accompanied by a credible justification based on local government issues. This would be informed by the comprehensive papers presented to the Board analysing the consultation responses CL 07 11-18 (a), the readiness assessment CL 07 11-18 (b) and the impact assessment CL 07 11-18 (c).	
7.2	In addition, if a decision were made to defer the effective date then this would need to be accompanied by a clear position on early adoption.	
7.3	The significant new development since the consultation over the summer was the strong possibility of a delay in its adoption in the FReM but the principal reasons for this given in the earlier briefing on out of meeting papers to FRAB were not thought to be reasons directly applicable to local government. The Board would need, however, to test whether there were any indirect impact on local government of a misalignment between the Code and the FReM.	
7.4	The Secretary then briefed the board on the outcomes of the consultation set out in CL 07 11-18 (a). The Board noted that while there was strong response to the consultation, it was potentially self-selecting from the more engaged authorities. With this caveat, the consultation supported adoption in principle while drawing attention to practical difficulties. A small number of respondents had, however, major doubts about the practical feasibility of 2019/20 adoption.	
7.5	Informal feedback from the audit community provided by David Aldous suggested that the response to the survey may be over optimistic for English authorities. JJ Tohill indicated that the situation in Northern Ireland posed a significant challenge as the recent re-organisation meant that asset registers had not been consolidated and were of variable quality.	
7.6	The view was expressed that the difficulties being identified exposed flaws in the application of current leasing standards and so were not specific to the timing of IFRS 16 implementation. In addition, while incurring costs and being complex the evidence did not suggest that the implementation of IFRS on the original timescale would result in a catastrophic failure in adoption and therefore a reputational risk from that perspective. Joseph Holmes indicated that set against this was the recent PSAA report that 50 councils had missed accounts deadline for 2017/18. He indicated that there was a risk that this could be worsened with the additional pressure of adoption.	
7.7	The Board reflected on the merit of deferment to 2020/21 given that local authorities had to introduce significant changes in 2018/19. Given competing demands on scarce financial expertise it was argued that there	

	would be no guarantee that local authorities would be able to do significant advanced preparatory work. The Secretary had noted that this risk could be mitigated by CIPFA issuing a project plan and developing workshops to support local authorities in maintaining the work that had already taken place etc.	
7.8	The issue of the impact on treasury management and the new capital strategies was raised. These would need to address the impact the new right-of-use asset meeting the definition of capital expenditure and the impact on prudential indicators. It was noted that if 2019/20 was to proceed the treasury management strategies currently being prepared would need to reflect the impact of the changes. While these strategies could be reviewed mid-year this was recognised by the Board to be a sub optimal approach. Other Board members commented on the information difficulties relating to schools.	
7.9	The Secretary noted the reputational risks that would be faced from the perspective of being the only significant part of the public sector to adopt IFRS 16 from 1 April 2019. The Secretary noted that there were indications that local authorities were of the view that they needed to see the Code's provisions in sufficient time to make effective preparations for the standard and noted the precedent set previously where the Code's provisions for both IFRS 9 and IFRS 15 were issued alongside the 2017/18 Code. She also noted that commentary on the availability of application guidance to support implementation was also made by respondents to the consultation. Some Board members commented that IFRS 16 was not as complicated as IFRS 9, from a technical perspective, but noted that there are significant practical implications to work through. Other Board members noted that general application guidance on IFRS 16 was available.	
7.10	The Board identified two specific issues that needed to be taken into account; those relating to treasury management and Whole of Government Accounts (WGA). The Board noted that there was a risk of local authorities having to prepare WGA information and their financial Statements on different bases, and that therefore the final decision on IFRS implementation could not be made until the WGA reporting requirements for 2019/20 are known	
7.11	<p>The Board decided to:</p> <ul style="list-style-type: none"> ▪ confirm that it is minded to proceed with the adoption timetable in the consultation, and ▪ convey its decision to FRAB, but ▪ review its decision after FRAB or when more information on WGA implications for local government is available. <p>The above recognised the need for an assessment of whether there would be additional workload from a WGA perspective as a result of adopting IFRS 16 in advance of the rest of the public sector and WGA accounting policies.</p>	
7.12	<p>The Board's communication strategy would comprise:</p> <ul style="list-style-type: none"> ▪ publishing a statement of its intentions, and ▪ providing a script for the presentations at the forthcoming conferences. 	

	The purpose of these measures would be to test the response of practitioners.	
7.13	The Secretariat would seek clarification of the WGA implications of alternative scenarios from HM Treasury.	Sec
7.14	The Board also recognised that timely application guidance would also needed to be to address the issues raised. The Secretary indicated that she needed to liaise with Don Peebles and CIPFA publications on this issue.	Sec
	<i>The Code's Provisions on IFRS 16</i>	
7.15	<i>Recognitions Exemptions</i> The Secretariat's approach to the short-term lease and low value lease exemptions was agreed by the Board with a drafting correction proposed by Jenny Carter to paragraph 4.2.2.30	
	<i>Initial Recognition and Measurement</i>	
7.16	The Secretariat's approach to initial recognition and measurement was agreed by the Board.	
7.17	The Board debated the nature of guidance, if any, that should be given on the discount rate. After some substantial debate the Board agreed that the approach in the standard as adopted by the Code would be sufficient and that the difficulties arising from the issue should be addressed in application guidance.	
	<i>Subsequent Measurement of the Right-of Use Asset</i>	
7.18	The Board agreed with the current value approach as it maintains the principles in the Code to current value measurement, provides a reasonably accurate measurement of the right-of-use asset but does so in a way in which the costs of adoption do not outweigh the benefits. The Board recognised that to ensure that the reporting burden was minimised that this was on an exceptional basis a rules based approach to maintain the useful current value information in the local authority financial statements.	
7.19	The Board considered the alternatives to the model on which it had consulted but saw no reasons or evidence to change from the one proposed in the consultation and presented in the main Code Draft.	
7.20	The Board saw no compelling evidence to move from 25 to 30 years in the subsequent measurement of right-of-use assets where the underlying assets are property.	
7.21	The Board agreed with the remaining proposals outlined in the report and the Code Draft for the subsequent measurement of the right-of-use asset.	
7.22	The Board reflected on the difference from the anticipated approach in the FREM that will arise from the use of current value in the subsequent measurement of the right-of-use asset. CIPFA/LASAAC was of the view that the current value approach was consistent with asset valuation in the	

	rest of the code. The Board considered that this difference reflects the different starting points of the two sectors.	
	<i>Subsequent Measurement of the Lease Liability</i>	
7.23	The Board agreed the approach in the report and the Code Draft for the subsequent measurement of the lease liability.	
	<i>Leases at Peppercorn or Nominal Rent</i>	
7.24	CIPFA/LASAAC agreed with the Secretariat's proposal that the provisions in the Code should move to align with the approach in the FReM (as far as the Code's general approach to such transactions permit). The Board also sought the Secretariat's view on whether the accounting treatment for concessionary leases when confirmed by IPSASB should be included in the Code. The Secretariat confirmed that if the provisions in the IPSASB leasing standard provided an effective answer for local authority circumstances the Board could then consider adopting them in the Code. The Board agreed that the Secretariat should remove the commentary on no consideration from the definition of a peppercorn lease as the main reason such leases existed was to ensure that the contracts in question meet the legal form of the lease.	
7.25	<i>Approach to Lessor Accounting</i> CIPFA/LASAAC concurred with the approach outlined in the report for lessor accounting.	
7.26	<i>Sale and Leaseback Accounting</i> CIPFA/LASAAC concurred with the approach outlined in the report for lessor accounting. The Secretary noted that there may be some statutory capital accounting issues which arise from this but these had not yet been fully identified. The Board requested that it be kept updated on this issue.	Sec
7.27	<i>Transition</i> CIPFA/LASAAC agreed with the approach outlined in the report the issues that arise on transition. The Secretary noted for the Board that there would be a minor difference on the mandating of the use of hindsight from the approach in the FReM but did not consider that this would have a material effect. The Board agreed with this view.	
7.28	<i>Consequential Amendments to Service Concession Arrangements</i> <i>Measurement of the Liability</i> The Secretariat highlighted that this was an issue where there was a substantial negative response. The Board concurred with the Secretariat that the liability would be best measured as a lease liability in accordance with the approach outlined in the consultation papers. It was not minded to delay its implementation but did agree that this issue could be looked at by a new group to review the accounting arrangements for service concession arrangements.	New sub group
7.29	<i>Confidential Respondents</i> CIPFA/LASAAC noted that the confidential respondents were not confidential to the Board. The Secretary agreed and indicated that the	

	reports did not refer to these names to ensure that the confidentiality was not accidentally breached. She noted that the report confirmed that any information on the respondents could be provided to members on request. The Secretary offered to confirm the names to the Board and read out the full listing to the meeting.	
7.30	<p><i>CL 07 11-18 (b) and 07 11-18 (c) – Readiness Assessment Questionnaire and CIPFA Impact Assessment</i></p> <p>Following the lunch break the Secretary highlighted that reports 07 11-18 (b) and 07 11-18 (c) had not been formally discussed by the Board. The Board confirmed that it was content that it had considered the issues arising from the reports in relation to their impact on the effective date.</p>	
8	Development of the 2019/20 Code CL 08 11-18	
8.1	<p><i>Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement</i></p> <p>The Secretary brought to the attention of the Board the significant view of one actuary on the practical issues that arise because of the impact of the amendments of academy transfers where such transactions would arise.</p> <p>CIPFA/LASAAC was concerned to see commentaries from actuaries as was outlined in the report but unless and until Board Members received further evidence they were of the view that the Code should maintain the approach in the Exposure Draft. CIPFA/LASAAC also requested that the Secretariat remove the proposed commentary on materiality as it was of the view that materiality effected all transactions and not just this one.</p>	
	Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation	
8.2	<p><i>Prepayment Features with Negative Compensation</i></p> <p>CIPFA/LASAAC agreed that the Code should allow for early adoption of the amendments to IFRS 9.</p> <p><i>Modification or Exchange of a Financial Liability that does not Result in Derecognition</i></p> <p>CIPFA/LASAAC agreed that it did not want to make any further amendment to the Code for the amendments as outlined in the report but requested further clarification and evidence before deciding on the transitional arrangements.</p>	Sec
8.3	<p><i>Annual Improvements to IFRS Standards 2015 – 2017 Cycle</i></p> <p>CIPFA/LASAAC agreed the approach outlined in the report in relation to the Annual Improvements.</p>	
8.4	<p><i>IFRIC 23 Uncertainty over Income Tax Treatments</i></p> <p>CIPFA/LASAAC concurred with the approach to IFRIC 23 in the report.</p>	

8.5	<p><i>Scottish Local Authorities: Presentation of Transfers to or from Other Statutory Reserves and Presentation of Adjustments for the Revaluation Element of Depreciation</i></p> <p>CIPFA/LASAAC agreed the approach outlined in the report on these issues.</p>	
8.6	<p><i>Apprenticeship Levy</i></p> <p>Following debate CIPFA/LASAAC agreed to include the approach outlined in the consultation papers in the 2019/20 Code.</p>	
8.7	<p><i>References to Legislation</i></p> <p>CIPFA/LASAAC agreed the approach outlined in the report with regard to references to legislation.</p>	
8.8	<p><i>IFRS Conceptual Framework for Financial Reporting (March 2018) Framework</i></p> <p>CIPFA/LASAAC agreed with the report's proposals for the adoption of the principles of the IFRS Conceptual Framework in the 2019/20 Code.</p>	
8.9	<p><i>Adaptations Interpretations and Statutory Adjustments</i></p> <p>CIPFA/LASAAC agreed with the approach outlined in the Code and that the Secretariat should review the Code and reinstate references to 'interpretation' where appropriate.</p>	Sec
	Post Implementation Reviews and Other issues	
8.10	<p><i>Group Accounts – Prominence and Disclosure</i></p> <p>CIPFA/LASAAC concurred with the approach outlined in the report in relation to the prominence of Group Accounts but also added it was an issue which it would keep under review.</p> <p><i>Service Concession Arrangements - Third Party Income</i></p> <p>CIPFA/LASAAC agreed with the approach outlined in the report for the treatment of third party income but was concerned that the group progressed this issue as soon as possible.</p> <p><i>Trading Operations Disclosure</i></p> <p>Following debate CIPFA/LASAAC agreed to remove the trading operations disclosure for English, Northern Irish and Welsh local authorities.</p> <p><i>IASB Materiality Practice Statement</i></p> <p>CIPFA/LASAAC agreed not to include references to the Statement in the Code.</p>	

	<p><i>Complex Financial Instruments</i></p> <p>CIPFA/LASAAC was of the view that it wanted to include the clarifications in its statement on the issue as it relates to the interpretation in the Code on contracts with Lender Option Borrower Option clauses. The Board agreed that bonds subject to indexation could be reviewed and included in the work programme for the Code.</p> <p><i>English Local Authorities: Accounting for Non Domestic Rates for the 100 Percent rate retention Pilot Authorities</i></p> <p>CIPFA/LASAAC agreed that there needed to be no change for the Code for this issue.</p> <p><i>Appendix C to CL 08 11-18</i></p> <p>The Board agreed with the approach in the report to Appendix C as it related to the 2019/20. However, it wished to review whether narrative reporting should consider financial sustainability in relation to Appendix C –see item 5 and considered that this should be added to the work programme. It also considered that the review process outlined in items 9 and 10 would consider the structure of the Code.</p>	
9	Actions From CIPFA/LASAAC Away Day	
9.1	Members of the Board made some detailed points to be addressed in the summary record of the meeting presented to them. In particular, the discussion of the Code format opened up consideration of a wider range of options than those considered in paragraph 22. It was noted that in paragraph 24 the issue of concern was not the role of LAAP but the relationship as a body that produced application guidance on the Code.	
9.2	Setting aside these detailed points the Board's principal concern was that the note would not convey the Board's ambition and vision to practitioners and other stakeholders. This agreed vision and outline of the themes that the Board wishes to take forward could also be used to inform the presentations at the forthcoming conferences. The Board also considered that the action plan should be established in more detail setting out the Board's objectives and timescales etc.	
9.3	The Chair and the Secretary would rework the notes and actions from the away day to better convey the Board's vision.	Ch/Sec
10	First Draft of Five Year Work Programme	
10.1	The Board looked forward to a more fully worked up programme at its March meeting. In the meantime it noted that the 'open mic' email address needed to be available more promptly and that the timing of the consultation process survey was not ambitious enough. This would need to	

	be the subject of substantial discussion at the March meeting and then launched in the summer.	
11	CIPFA/LASAAC Terms of Reference Review	
11.1	This could be reviewed at the March meeting.	
12	Accounting and Auditing Standards Update	
12.1	In noting this standing item the Chair commented that given the decision of the Board to be more proactive it would need in the future to consider responding to consultations.	
13	Dates of Future Meetings	
13.1	The schedule of future meetings was noted. The Chair requested that the telephone conference call meetings which need to be arranged to receive updates from FRAB meetings be scheduled as soon as possible.	Secretariat
14	Any Other Business	
14.1	The Chair confirmed that she could present at the conferences the session on the Code at the Manchester event.	