CIPFA The Chartered Institute of Public Finance & Accountancy

minutes

Item 5 Appendix A - LASAAC 23/08/18

Board	CIPFA/LASAAC Local Authority Code Board	
Date	5 June 2018	
Time	10.30	
Venue	CIPFA, 160 Dundee Street Edinburgh EH11 1DQ	
Present		
Chair	Lynn Pamment	*PwC*
CIPFA Nominees	David Aldous	*National Audit Office*
	Conrad Hall	*London Borough of Brent*
	Owen James	*Newport City Council*
	David Jones	*Wales Audit Office*
	Greg McIntosh	*KPMG*
	Martin Stephens	*Birmingham City Council*
	JJ Tothill	Mid Ulster Council
LASAAC Nominees	Nick Bennett	*Scott Moncrieff*
	Joseph McLachlan	*East Ayrshire Council*
	George Murphy	*Sterling Council*
	Paul O'Brien	*Audit Scotland*
	Gillian Woolman	*Audit Scotland*
Observers	Hazel Black	*Scottish Government*
	Gareth Caller	*DCLG*
	Jenny Carter	*FRC*
	Jeff Glass	*Department of Communities (NI)*
	Vikki Lewis	*HM Treasury*
In Attendance:		
	Steven Cain	*CIPFA- Technical Manager*
	Gareth Davies	*CIPFA- Technical Manager*
	Sarah Sheen	*Secretary*
	Matthew Allen	*CIPFA – Admin*

		Action
1	**Apologies for absence**	
1.1	Apologies were received from Tim Day, Hugh Dunn, Christine Golding, Collette Kane and Amanda Whittle.	
2	**Declarations of interest**	
2.1	There were no declarations of interest	

3	**Matters Arising on Approved Minutes of 12 March 2018**	
3.1	*Action 1 – Board Appointments*	
	The Board recalled that in addition to an English accounts preparer vacancy it had been decided to co-opt an auditor. It was agreed that Board members should reflect on the qualities required of this auditor in the light of the forward trajectory of the Board's work, its approach to its role, the balance of practical experience and technical contribution.	**Board**
4	**Reviews of actions, including activities since the last meeting**	
4.1	There were no recent significant developments to report since the last meeting which were not already on the agenda.	
5	**FRAB Update**	
5.1	Joseph McLachlan, Vicky Lewis and Sarah Sheen provided a comprehensive briefing on current FRAB developments. The IFRS 16 *Leases* consultation would be the main item at the forthcoming meeting, and the one most relevant to current Code development. Sarah explained that the CIPFA consultation on leases would draw attention to the differences from the approach taken by FRAB.	
5.2	VL explained that FRAB's intention was to reach a position on IFRS 16 at its November meeting, but that parallel with the consultation discussions were taking place with ONS to reach an approach consistent with national accounts. This should be straightforward for property leases but the diversity of non-property leases posed a challenge. Regardless, 2019/20 implementation remained the ambition.	
6	**CIPFA/LASAAC Clarification Statement on Contracts with LOBO clauses**	
6.1	David Aldous provided a detailed briefing, based on the NAO engagement with the audit firms, on the current understanding of the number of local authorities affected. Although the focus is on 2017/18 it would be necessary also to reach a judgement about the treatment of prior years.	
6.2	Although local authorities were using financial advisers to provide the necessary technical advice David reminded the Board that as always the auditor deals with the local authority's own final judgement on the accounting treatment. Finally, he explained that while the ambition should be to conclude the audit before the publication of the accounts, it would not necessarily prevent authorities meeting the statutory deadline.	
6.3	The Board received a brief update on the situation in Scotland.	
6.4	Members of the Board shared their understanding of the 'double-double' test in IAS 39 *Financial Instruments: Recognition and Measurement*. The Board then focused on whether there was any scope for it to promote a consistent approach, given especially the need to consider each instrument on a case by case basis. Both the offer letter and the contract may be relevant – especially when there is a lack of clarity.	
6.5	Sarah Sheen reported that, prompted by the Standards and Financial	

	Reporting Board, CIPFA had initiated an information gathering exercise and was considering whether it might be possible to produce case studies to assist local authorities. Members of the Board were concerned that a realistic timescale for this exercise brought the risk that it would either delay finalising audits or not be available until after the audit opinions had been given on the 2017/18 accounts.	
6.6	In order to minimise delays and ensure any guidance is produced using a common evidence base Sarah Sheen and David Aldous would liaise to align the current intelligence gathering process.	**SS/DA**
7	**IFRS 16 *Leases* – Update**	
7.1	Gareth Davies reminded the Board that the consultation had been issued and requested that Board members encourage responses from their network of contacts. This was especially important since the Board would want their decision to be informed by the readiness assessment and the impact assessment.	
7.2	SS noted that she had drafted a Local Authority Leases Briefing as a part of the communications strategy on the adoption of the standard and that it was nearing completion. The Board understood the rationale for the prompt issuing of a CIPFA communication to support the consultation process, but nonetheless saw merit in a review. It was agreed that it would be circulated for a 'fatal flaws' only comments by Monday 11 June.	**MA/ Board**
8	**IFRS Post Implementation Review: Analysis of Responses**	
8.1	Gareth Davies introduced the paper by explaining the analysis of the responses which, while welcome, were not only limited in number but also noted that the responses covered some issues outside the scope of the areas CIPFA/LASAAC had designated for review. The Board decided that the respondents should each be thanked for their nonetheless useful contributions and told how the Board would be taking up their observations.	**GD**
8.2	The Board then took up Paul O'Brien's suggestion that the Board should consider and communicate the principles by which it determines whether it should interpret or adapt a standard more widely. The Board debated this issue but was content at the moment to include the description of these items in the Code.	
8.3	Following the debate on the approach of the Board to drafting the Code the Chair and the Secretary noted items (ie including the review of the Board's Terms of Reference) which could benefit from separate discussion. This discussion was the catalyst for the Board to decide to hold an additional meeting outside the formal standard setting process in which this and other strategic issues could be addressed without the weight of regular business.	**Chair/ DP**
8.4	It was suggested that a late September meeting was canvassed as one possibility for the 'away day', while some Board members suggested a day adjacent to the existing November meeting so as minimise travelling. It was agreed that the Secretariat would bring forward proposals to achieve the primary objective of having a strategic discussion unconstrained by the detailed demands of the current Code production cycle.	**DP/MA**

8.5	The Board considered that further detail was required to describe the Pensions Reserve.	**SS**
	Employee Benefits	
8.6	The Board recognised the need to raise awareness of the accounting issues raised by pension guarantees but, given in particular the different types of guarantees; this was not considered to be a matter for inclusion in the ITC.	
8.7	It was agreed that the holiday pay accrual would not be raised in the ITC. Discussion of the wider remuneration disclosures were deferred to the consideration of paper on the subject later in the agenda.	
8.8	The Board confirmed that the treatment of holiday pay accrual was an issue on which the Board's position had been determined by accounting standards.	
	Group Accounts	
8.9	The Board acknowledged that with the development of more complex service delivery arrangements there was a need to revisit the relative importance of group accounts. The Board also considered the consolidation of charities had long been an issue of controversy in the NHS but did not decide to amend the Code on this issue. It would, include a question in relation to the prominence of the Group Accounts in local authority Statements of Accounts and whether the provisions of the Code allowed for the clear signposting of group accounts disclosures. The Board also considered that following increasing transactions in this area that it would be worthwhile to seek the views of interested parties on the approach to IFRS 3 *Business Combinations*.	
	Service Concession Arrangements	
8.10	The Board recognised that the respondents has raised significant issues but largely considered them to be application issues. The Board recognised the differences in GAAP on the recognition of third party income. Nonetheless an open question on service concession arrangements income would be included in the ITC to seek the views on whether the Code needed to include a specific treatment on this issue.	**SS**
	Going Concern	
8.11	Given its recent careful attention to the 'going concern' issue the Board saw no requirement to revisit it's discussions.	
	Valuation Issues	
8.12	The Board recognised the increasing importance of the specification given when valuations are commissioned and also noted the current Public Sector Valuation (PSVG) Group work on DRC valuation. Nonetheless it did not feel ready to open up valuation issues in the ITC; instead the Secretary should liaise with RICS to discuss the issues raised via the PSVG. The related issue of capital outturn reporting could also be picked up here.	**SS**

9	**IFRS Conceptual Framework for Financial Reporting Amendments**	
9.1	In presenting his report Steven Cain explained that while the *IFRS Conceptual Framework for Financial Reporting (*IASB Conceptual Framework) was published in March the concepts had already been influencing standards development.	
9.2	The Board debated the necessity of making specific reference to the IASB Conceptual Framework in the Code.	
9.3	The Board concluded that the scope to use the IASB Conceptual Framework to clarify the accounting treatment of particular transactions would be limited, since the standards take precedence over the IASB Conceptual Framework even when the standard does not fully accord with its provisions. The Board nonetheless remained committed to the inclusion of the general introduction to concepts and the principles contained in Chapter Two. The Board also raised the issue of copyright in relation to the IASB Conceptual Framework.	**Sec**
9.4	Given that FRC's *Statement of Principles for Financial Reporting Interpretation for Public Benefit Entities* had been withdrawn the Board asked that reference to it in Chapter 2 should if possible be removed if no reliance was being place on it.	**Sec**
9.5	The Board asked the Secretariat to review that final sentence of 2.1.2.37 as it was concerned that there should be a clear understanding of 'useful' in the last sentence. It agreed that this could be resolved by referencing the earlier material in on the qualitative characteristics of useful financial information.	**Sec**
9.6	The Board resolved that paragraphs 2.1.2.30 and 2.1.2.31 should be consistent and refer to economic benefits 'or' service potential.	**Sec**
9.7	Delete final sentence of 2.1.2.53 as value in use is not necessarily synonymous with fulfilment value.	**Sec**
9.10	These detailed comments were followed by an acknowledgement that a consideration of the Conceptual Framework and the approach taken in other sectors could inform the discussion at the away day.	
10	**Remuneration Reporting Disclosures**	
10.1	The Board welcomed the comprehensive paper and noted the variation in the legislative requirements across the different jurisdictions.	
10.2	In considering whether to consolidate all reporting in the Code requirements the Board acknowledged that this did not of necessity mean that the information would be audited since it could be 'scoped out'.	
10.3	The Board saw merit in cross-referencing to statutory requirements as best practice. The Board were however cautious about unintended consequences of introducing a new requirement in advance of a statutory requirement in Northern Ireland. JJ Tothill and Jeff Glass would confirm the current statutory situation in Northern Ireland.	**JJT/JG /SS**
10.4	The treatment of 'off-payroll' senior staff and exit package disclosure	**Sec**

	should be left to the regulators. The Board concluded that it would not make any changes to remuneration reporting in the Code.	
10.5	The Board noted that the Supporting Guidance for the Trade Union (Facility Time Publication Requirements) Regulations 2017 had only recently been issued by the Cabinet Office. The Secretariat should consider the inclusion of references to these Regulations against the guidance.	**Sec**
11	**Further Issues - Code Development 2019/20**	
11.1	The Board reviewed the substantive proposals of the ITC in turn as presented in paper CL 11 06 18.	**Sec**
	Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement	
11.2	The Board considered the merits of including a specific question addressed at the prospect of actuaries having to do more 'in year' valuations as a consequence of academy transfers. Given in particular that the valuation implications 'in year' may not necessarily be material enough to merit such a revaluation the Board preferred that the question on the practical implications in the ITC should be retained. The Secretariat should, however, consult with actuaries for more detail on this issue.	**Sec**
	Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation	
11.3	Following issues raised by the Secretariat CIPFA/LASAAC requested more information in relation to the changes to the Basis of Conclusions for modifications of liabilities that are not derecognised. Conrad Hall raised the issue on whether or not the provisions for negative compensation might exist on early repayment of PWLB debt.	**Sec**
	Amendments to IAS 40 Investment Property: Transfers of Investment Property	
11.4	The Board asked that the ITC make more explicit references to those amendments to IFRS (which included the amendments to IAS 40) that were consulted on last year and why they are included in the 2019/20 Code ITC.	**Sec**
11.5	Q7 should be refocused to place the emphasis on the identifying practical implications and Q8 recast to alert practitioners to the possibility that the proposal has significant 'bottom line' implications.	**Sec**
	Exposure Draft B Statutory Adjustments and Legislation	
11.6	Paragraphs 53 and 54 needed to reflect the earlier discussion of adaptation and interpretation. The references to adaptations and interpretations should be removed from Exposure Draft B as they are not issues that arise as a result of changes to legislation	**Sec**
	Scottish Local Authorities - Presentation of Statutory Adjustments for the Revaluation Elements of Depreciation	

11.7	Paul O'Brien suggested that an open question be included on whether this approach to this issue for Scottish local authorities might also apply to other jurisdictions.	
	Apprenticeship Levy	
11.8	The Board requested further description of the nature and the application of the transactions required in and noted the approach in the Department of Health and Social Care Group Accounting Manual (DHSC–GAM). The Board also requested that more information should be provided on how the provisions might apply across the UK.	**Sec**
11.9	The Secretariat would liaise with JJ Tothill and Jeff Glass to ensure that the legislative references for Northern Ireland were correct.	**Sec/JJT /JG**
	IPSAS 40 Public Sector Combinations	
11.9	CIPFA/LASAAC did not consider it wanted a separate section on public sector combinations but wanted to include consideration of the standard alongside the issues raised in the post implementation review (see minute 8.8).	**Sec**
	IASB Materiality Practice Statement	
11.10	The Board saw no merit to specific reference here to the private sector and requested that this be removed.	**Sec**
	Contracts with Lender Option Borrower Option (LOBO) Clauses	
11.11	CIPFA/LASAAC requested the Secretariat to consider whether there was a need to amend the Code for contracts with Lender Option Borrower Option (LOBO) Clauses. CIPFA/LASAAC also considered that an issue should be raised in relation to whether there may be other complex financial instruments requiring explicit commentary in the Code.	**Sec**
11.12	The presentation of the full list of questions should clearly identify to which jurisdictions each applies	**Sec**
11.13	The Board found the summary tables Exposure Draft A IFRS Amendments and Exposure Draft B Statutory Adjustments and Legislations in the covering report to be helpful and asked that they be incorporated into an executive summary of the ITC.	**Sec**
11.14	The Board considered the Secretary's question of whether the Board might want to issue the full Code as an Exposure Draft. However, the Board noted that to promote stakeholder engagement it would prefer to maintain the current approach with relevant extracts as separate Exposure Drafts.	**Sec**
11.15	The Board agreed a timetable that would allow the pre-existing post-FRAB phone call on the 28 June be used to resolve any new issues. The consultation would be issued in mid to late July with a return date of the 8	**Sec**

	October.	
12	**Accounting and Auditing Standards Update.**	
12.1	The Board noted this standing item.	
13	**Dates of Future Meetings**	
13.1	The schedule of future meetings was agreed: ▪ 28 June 2018, 28 June 16:00 to 17:00 (telephone conference call meeting) ▪ 6 November 2018,10:30 to 15:00 (London) ▪ 29 November 2018 14:00 to 15:00 (telephone conference call meeting).	
14	**Any Other Business**	
14.1	The Board thanked David Jones for his long standing and valued contribution to the work of the Board	