

Minutes

Board	CIPFA/LASAAC Local Authority Code Board	
Date	9 November 2016	
Time	10:30 am	
Venue	CIPFA, 77 Mansell Street, E1 8AN	
Present		
Chair	Lynn Pamment	<i>PwC</i>
CIPFA Nominees	David Aldous Christine Golding Joseph Holmes David Jones Owen Jones Colette Kane Greg McIntosh Martin Stevens	<i>National Audit Office Essex County Council Slough Borough Council (Vice Chair) Wales Audit Office Newport City Council Northern Ireland Audit Office KPMG Birmingham City Council</i>
LASAAC Nominees	Nick Bennett Russell Frith Ian Lorimer Joseph McLachlan Gillian Woolman	<i>Scott Moncrieff Audit Scotland Angus Council East Ayrshire Council Audit Scotland</i>
Co-optee	Tim Day	<i>Independent Consultant</i>
Observers	Hazel Black Ian Bulmer Gareth Caller Jenny Carter Jeff Glass	<i>Scottish Government HM Treasury DCLG FRC Department for Communities</i>
In Attendance	Alison Scott Sarah Sheen Matthew Allen	<i>CIPFA CIPFA (Secretary) CIPFA</i>

		Action
1*	Declarations of interest	
1.1	There were no declarations of interest from members of the Board.	
2*	Apologies for absence	
2.1	Apologies for absence were received from Conrad Hall, Amanda Whittle and Michael Hudson.	

3*	Update on membership issues and introductions	
3.1	The Board welcomed Jenny Carter and Collette Kane to their first meeting and Martin Stevens to his first meeting as a full member.	
3.2	The resignation of Graham Coulter owing to changes to his post was noted. CIPFA/LASAAC recognised his contribution to the work of the Board. The Secretary indicated that she had already contacted the Association of Local Government Finance Officers in Northern Ireland for their nomination of a volunteer for a Northern Ireland accounts preparer member.	Sec
3.3	The appointment of Joseph Holmes as vice-chair was confirmed; that of the FRAB representative awaits the completion of the formal appointment process.	
4*	Matters arising on the minutes of the June 2016 Meeting of the Board	
4.1	No matters not on the agenda arose in respect of the minutes that had already been published online.	
5*	Review of outstanding actions and list of activities between meetings CL 05 11-16	
5.1	<p><i>Point 3</i></p> <p>Gareth Caller provided an update on the issue of the <i>Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2017</i>.</p> <p><i>Point 6</i></p> <p>The Board was reminded that ideas for articles on issues of effective financial reporting were always welcome.</p> <p><i>Point 8</i></p> <p>It was noted that the proposals from the Government Actuaries Department for additional disclosures were unlikely to be included in the amendments to the Accounts and Audit Regulations 2015.</p> <p><i>Point 10</i></p> <p>The Welsh land valuations were reported to be available.</p> <p>The remaining actions were covered by the agenda.</p>	
6*	Development of the 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom - CL 06 11-16	
6.1	The Secretary opened the discussion by explaining that while the consultation response rate had been satisfactory, there were nonetheless fewer responses than last year. Suggestions for new methods of engaging practitioners remain welcome.	

	<i>Principled Based Approach to Narrative Reporting</i>	
6.2	The consultation responses were supportive of the principled based approach to narrative reporting and the Board did not find the arguments for a more prescriptive approach to be convincing. From that perspective the Board debated the wording ' <i>consideration should be given to the following elements</i> ' in paragraph 3.1.1.4 of the <i>Code of Practice on Local Authority Accounting in the United Kingdom</i> (the Code) but agreed that it would retain that wording.	
6.3	In considering the responses, the Board did not consider that the Code should include a separate element for financial position and financial performance.	
6.4	CIPFA/LASAAC recommended that it should be made clearer that the Narrative Report applied to both the authority and its Group Accounts. It requested that this clarification be included in paragraph 3.1.1.2.	Sec
6.5	The Board agreed that there was no need to provide a separate summary for the lay reader (see paragraph 2.8 of the report).	
6.6	CIPFA/LASAAC agreed with the views in paragraphs 2.5 and 2.6 of the report and therefore no further changes were made to the Code.	
6.7	CIPFA/LASAAC agreed that the changes made to reflect local authority circumstances were sufficient with one exception identified by Hazel Black ie references to the boundary in paragraph 3.1.1.16 needed to be clarified to mean the local authority group (accounts) boundary.	Sec
	<i>Going Concern Basis of Accounting</i>	
6.8	After careful consideration of the issues raised in the consultation, CIPFA/LASAAC confirmed the approach in the Code and the consultation ie because local authorities could only be created or discontinued by statutory prescription the stipulation that local authorities should prepare the financial statement on a going concern basis of accounting was the correct approach. Therefore authorities did not need to report separately on whether there is any material uncertainty that the body itself cannot continue as a going concern for at least 12 months after the balance sheet date. The approach to transfers of functions under 'machinery of government' type transfers are a part of ensuring that local authority's functions would continue to be performed. However, CIPFA/LASAAC noted that it was possible that not all bodies following the Code could only be discontinued by statutory prescription and so these bodies should follow the specific requirements of IAS 1 <i>Presentation of Financial Statements</i> . This should be clarified by means of an amendment to paragraph 3.4.2.23.	Sec
6.9	The Board acknowledged that there might be confusion for the lay reader in circumstances where an authority had substantial financial sustainability and resilience issues whilst the financial statements were still prepared on the going concern basis for accounting.	

6.10	It therefore considered that guidance needed to be issued to help authorities explain to users when there is a difference between the accounting basis of going concern and financial resilience/sustainability. CIPFA/LASAAC agreed that this was best dealt with by means of application guidance and not in the Code.	Refer to LAAP
	<i>Accounting Policies – Telling the Story of Local Authority Financial Statements</i>	
6.11	The Board confirmed that its objective remained that authorities disclose only those accounting policies that were significant to their financial statements and relevant to their individual circumstances. In order to reinforce this objective it decided to remove the sentence in 3.4.2.87, which originated from IAS 1, that stated 'Additionally, an authority should ensure that the accounting policies reflect those normally expected by the users of local authority financial statements'. The Board considered that this sentence was open to misinterpretation which would be at odds with the Board's objective. Local authorities could still refer to IAS 1 for this commentary.	Sec
6.12	The Secretary noted that each section of the Code, where relevant, would now include the clarification that an accounting policy is required where these accounting policies are significant to the authority's financial statements.	Sec
	<i>Accounting and Reporting by Pension Funds – Transaction Costs</i>	
6.13	Given that the disclosure requirements in the Code were a sub-set of those in the CIPFA Guidance <i>Accounting for Local Government Pension Scheme Management Expenses</i> , the Board after debate confirmed its approach to the reporting of transaction costs as set out in the ITC. It was therefore content with the approach to this disclosure as presented in the Code Draft.	Sec
	<i>Review and Restructure of Chapter One (Introduction)</i>	
6.14	CIPFA/LASAAC agreed the text in Chapter One, subject to the issue raised by Hazel Black in respect to paragraphs 1.3.7 and 1.3.8 being addressed. This was to be discussed separately with the Secretary.	Sec
	<i>Narrow Scope Amendments</i>	
6.15	The Board considered the consultation response to its proposals to require local authorities to make disclosures enabling readers of the financial statements to evaluate changes in liabilities. This disclosure would be moved to paragraph 3.4.2.81 and so included in the same section as the provisions on the Cash Flow Statement. The Board agreed with the approach in the report and the Code Draft.	Sec
	<i>Legislative Amendments</i>	

6.16	<p>The Board confirmed the proposals in the ITC in respect to the following legislative provisions:</p> <ul style="list-style-type: none"> ▪ Cities and Local Government Devolution Act 2016 – Accounting for Combined Authorities. <p>CIPFA/LASAAC concurred with the Secretariat’s views as set out in the report on comments made on the provisions in section 2.5 (Local Government Reorganisations and Other Combinations) of the Code – see paragraphs 8.2 to 8.4 of the report.</p> <ul style="list-style-type: none"> ▪ The Housing and Planning Act 2016. ▪ The Housing Revenue Account (Accounting Practices) Directions 2016. 	
6.17	It agreed with the proposals in the report that the Code would be amended to take into account the additional information issued since the approval of the consultation documents on the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016.	
	<i>Community Infrastructure Levy</i>	
6.18	CIPFA/LASAAC agreed the amendments to the Code for the Community Infrastructure Levy (CIL). These clarified the position in relation to revenue expenditure and clarified the treatment of CIL charges received before the commencement of a development which was consistent with the Code’s provisions on capital grants.	
7	IFRS 9 <i>Financial Instruments</i> - CL 07 11-16	
	<i>Adoption in Appendix F of the 2017/18 Code</i>	
7.1	The Board re-iterated its reasons for introducing Appendix F into the 2017/18 Code in advance of the application of its IFRS 9 <i>Financial Instruments</i> provisions in 2018/19. This was strongly justified by the benefits of making practitioners aware early of its implications.	
	<i>Classification and Measurement of Financial Assets - General Approach to Classification</i>	
7.2	The Board noted the concerns expressed about the impact on the General Fund and on practitioner workload. The Board considered that there were no specific local government circumstances that required that the Code be subject to adaptation or interpretation. CIPFA/LASAAC therefore agreed that the approach to classification of financial assets in the Code should remain as presented in the Code Drafts. The Board moved on to discuss the impact on the General Fund.	
	<i>Impact on the General Fund</i>	

7.3	CIPFA/LASAAC noted the issues raised by respondents in relation to the impact on the General Fund and statutory mitigation. However, it considered that more evidence was needed to quantify the impact of the issues raised.	
7.4	The Board agreed that the issues raised should be referred to the Capital and Treasury Management Panel who had the relevant expertise on this issue. CIPFA/LASAAC recommended that that Panel should consider whether there was appropriate evidence to support the need for statutory mitigation.	Refer to T & CMP
	<i>Designation of Equity Instruments to Fair Value through Other Comprehensive Income</i>	
7.5	CIPFA/LASAAC agreed with the position set out in the report (which in turn maintained the position in the ITC) and that the Code would not include any adaptations for the designation of equity instruments at fair value through other comprehensive income. It noted with concern the issues raised in the report and considered that this should be referred to the Capital and Treasury Management Panel.	Refer to T & CMP
	<i>Designation of Financial Instruments to Fair Value through Profit or Loss</i>	
7.6	CIPFA/LASAAC agreed with the views set out in the report and that the provisions in the Code Draft required no further changes.	
	<i>Reclassification of Financial Assets</i>	
7.7	CIPFA/LASAAC agreed with the views set out in the report and the provisions in the Code Draft.	
	<i>Impairment of Financial Assets</i>	
7.8	CIPFA/LASAAC did not consider that housing debtors were likely to be originated or purchased credit impaired financial assets and therefore asked the Secretariat to retain the approach in the Exposure Draft. In the meantime the Secretariat should investigate this issue with the authority in question.	Sec
7.9	CIPFA/LASAAC agreed with the approach for loans for capital purposes as outlined in the report so no further changes were required to the Code Draft.	
	<i>Impairment Allowance for Council Tax, Non-Domestic Rates and District Rates</i>	
7.10	CIPFA/LASAAC agreed with the principles based approach to debtors which are not subject to contracts in the Code. The Board was content to retain the incurred loss impairment model as drafted in the Code (ref paragraph 7.6). So no further changes were required to the Code Draft.	

	<i>The Approach to Adaptations in the Code</i>	
7.11	CIPFA/LASAAC was content with the approach to adaptations and interpretations in the Code Draft. However, it considered that the interpretation for Lender Option Borrower Option (LOBO) loans should be further clarified.	
7.12	The Board re-considered and confirmed its reasons for inclusion of a specific reference to LOBOs. It considered that any embedded derivatives should be accounted for in accordance with IFRS 9 and that the text beyond the word 'accounted for' in paragraph 7.1.1.3 c) first bullet was superfluous. It requested that this text be deleted.	Sec
	<i>Hedge Accounting</i>	
7.13	CIPFA/LASAAC agreed with the approach in the report in relation to hedge accounting. This was on the basis that local authorities seldom undertook hedge accounting. The Secretary highlighted the commentary by a small group of respondents who referred to local authority pension funds undertaking 'hedging'. She had discussed this with the Treasury Management and Pensions Advisor at CIPFA who agreed that whilst it is very likely that pension funds 'hedge' their financial instruments to manage risks, it was unlikely that the funds undertook hedge accounting. The Board agreed with this commentary.	
	<i>Approach to Financial Instruments Disclosures</i>	
7.14	CIPFA/LASAAC agreed with the approach to disclosures outlined in the report (including the reinstatement of the disclosure on collateral).	
	<i>Presentation – Financial Instruments</i>	
7.15	CIPFA/LASAAC agreed with the approach in the report and the Code Draft to the presentation of gains and losses arising from financial instruments. The Secretary commented that this would not be an adaptation as the reporting requirements included should meet the reporting requirements of IAS 1.	
	<i>Transition/ Impairment of Certain Investments - Statutory Accounting Requirements/Drafting Queries</i>	
7.16	CIPFA/LASAAC agreed the approach in the report and Code Draft for these items.	
8	IFRS 15 Revenue from Contracts with Customers - CL 08 11-16	
	<i>Adoption in Appendix G of the 2017/18 Code</i>	
8.1	CIPFA/LASAAC agreed that the 2017/18 Code would include the provisions for IFRS 15 <i>Revenue from Contracts with Customers</i> in an Appendix to the 2017/18 Code as they would apply in the 2018/19 Code. No change was required to the Code Draft.	

	<i>Approach to Adoption in the Code/Disclosures/Transition and Principles of Revenue Recognition</i>	
8.2	CIPFA/LASAAC agreed the approach in the report and Code Draft for these items, but asked that the Secretariat should continue to investigate the possibility of the reduced disclosure framework following the approach in US GAAP.	Sec
9	Measurement of Highways Network Asset - CL 09 11-16	
9.1	Alison Scott briefed the Board on the action taken by CIPFA over the previous eighteen months. CIPFA had worked with the relevant stakeholders, including the Department for Transport, to ensure that the review of the central rates for the measurement of the Highways Network Asset would be ready for the 2016/17 implementation date. New rates are critical to implementation as central rates are integral to the Depreciated Replacement Cost measurement of the Highways Network Asset and given the time frame since the last rates were produced. Unfortunately, despite best efforts, it has become clear to CIPFA that these rates will not be ready in good time for the 2016/17 financial statements.	
9.2	CIPFA/LASAAC reviewed its evidence on the preparations for implementation and considered that there was appropriate commitment and it was encouraged by the work of local authorities in preparing for implementation as well as the engagement of local auditors in the project. This meant that the Board had a strong level of confidence in the amount of work local authorities have done on improving highways inventory data. CIPFA/LASAAC considered that as implementation had progressed some detailed issues have emerged but CIPFA/LASAAC remained confident that these can be successfully resolved. It noted that many were addressed in the update to the <i>Code of Practice on the Highways Network Asset</i> published in the Summer (2016).	
9.3	Following review of the issues involved CIPFA/LASAAC decided that it would postpone implementation of the measurement requirements for the Highways Network Asset. It decided that it would implement the new requirements on the same basis for the 2017/18 financial year as with the original 2016/17 implementation ie without the restatement of preceding year information. It considered that this meant that there would be no requirement for the <i>IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors</i> disclosure on the impact of a change in accounting policy.	Sec
9.5	The Board considered the action that needed to be taken in order to ensure the provision of the central rates and, importantly, that a mechanism would be in place to ensure their regular updating.	
9.6	CIPFA/LASAAC was of the view that implementation should take place in 2017/18. However, given that it could still not be certain when the central rates would be available it decided that it would confirm the decision on (2017/18) implementation at its March 2017 meeting.	

	CIPFA/LASAAC was of the view that this confirmation would be subject to the central rates and the central assurance processes being in place in a timely manner to secure successful implementation. The Board requested that an update be issued to communicate its decisions and the views that it expressed to relevant stakeholders as soon as possible.	Sec
10*	Development of the 2018/19 Code of Practice on Local Authority Accounting in the UK - CL 09 11-16	
10.1	The Board confirmed that the principal statutory and regularity changes currently anticipated had to its knowledge been identified. The Secretariat requested that it be kept informed of emerging proposals.	
10.2	IFRS 16 was highlighted to be an important development that from the New Year would need the sustained attention of the Secretariat and the Board. Greg McIntosh and Martin Stevens volunteered to join the working group to get practitioner input.	
11	Creation of a Wider Dialogue with Stakeholders	
11.1	This item was deferred to a future meeting.	
12*	Accounting and Auditing Standards Update CL 12 11-16	
12.1	The Board noted the Update. David Aldous highlighted that <i>Practice Note 10: Audit Of Financial Statements Of Public Sector Bodies In The United Kingdom (Revised)</i> was with the Financial Reporting Council for approval.	
13*	Any Other Business	
13.1	Alison Scott briefed the Board on the recent governance changes within CIPFA, focusing on the role of the new Standards and Financial Reporting Board in giving oversight to CIPFA's role in relation to the Code.	
14	Dates of Next Meeting	
	Dates of upcoming meetings: <ul style="list-style-type: none"> • 8 March 2017, Edinburgh 10:30 to 15:00 • 6 June 2017, London 10:30 to 15:00 • 7 November 2017, Edinburgh 10:30 to 15:00 	

* The items flagged with a star were overseen by the Vice Chair