

# minutes

Board	CIPFA/LASAAC Local Authority Code Board	
Date	3 March 2016	
Time	11:00 am	
Venue	CIPFA, 77 Mansell Street, E1 8AN	
Present		
Chair	Lynn Pamment	<i>PwC</i>
CIPFA Nominees	David Aldous Christine Golding Joseph Holmes Michael Hudson Owen Jones Greg McIntosh	<i>National Audit Office Essex County Council Slough Borough Council Wiltshire Council Newport City Council KPMG</i>
LASAAC Nominees	Nick Bennett Russell Frith Fiona Kordiak Joseph McLachlan	<i>Scott Moncrieff Audit Scotland Audit Scotland East Ayrshire Council</i>
Co-optee	Tim Day	<i>Independent Consultant</i>
Observers	Hazel Black Gareth Caller Amanda Whittle	<i>Scottish Government DCLG Welsh Government</i>
In Attendance	Alison Scott Sarah Sheen Gareth Davies Matthew Allen	<i>CIPFA CIPFA (Secretary) CIPFA Scotland CIPFA</i>

		<b>Action</b>
<b>1</b>	<b>Declarations of interest</b>	
1.1	There were no declarations of interest from members of the Board.	
<b>2</b>	<b>Apologies for absence</b>	
2.1	Apologies were received from Graham Coulter, Jeff Glass, Conrad Hall, David Jones and Derek Yule.	
<b>3</b>	<b>Matters Arising on Minutes of the 4 November Meeting of CIPFA/LASAAC</b>	
3.1	The Board noted that the minutes of its meeting in November had previously been agreed and are available on the CIPFA website. There were no matters arising that were not elsewhere in the agenda.	
<b>4</b>	<b>Review of Outstanding Actions and List of Activities between Meetings CL 04 03 16</b>	
	<i>(1) Second phase of infrastructure measurement</i>	
4.1	The solution to be adopted for light rail is likely to be substantially informed by the approach to be taken by National Rail in the Whole of Government Accounts. Beyond this, ports and coastal defences remain the principal infrastructure assets to be assessed.	
	<i>(3) Clarification on the position for depreciation and impairment both for dwellings and non-dwellings under the item 8 Determination</i>	
4.2	Gareth Caller updated the Board on current proposals to extend indefinitely the current Item 8 Determination transitional arrangements for impairment of council dwellings and to introduce a non-retrospective exemption for non-dwellings. From 2017-18 depreciation should be charged to the HRA.	
	<i>(5) Other position statements to be agreed</i>	
4.3	The Highways Network Asset and Telling the Story position statements were on the agenda under any other business (see item 13). Approval of the leasing standard position statement would be deferred until the approach to the adoption of the leasing standard had been agreed.	
	<i>(6) The FRC vacancy on the Board</i>	
4.4	The Board considered that the FRC presence would still be of mutual benefit given the FRC oversight of audit quality under the Local Audit and Accountability Act 2014 and was of the view that this item is a live issue.	<b>AS</b>
	<i>(7) Auditor working group on Highways Network Asset</i>	
4.5	David Aldous stressed that a number of audit issues remained to be fully resolved particularly those relating to the nature and scope of central assurance. Alison Scott explained that she was awaiting confirmation of Department for Transport funding before more progress could be made on this work item of the work programme.	<b>AS</b>
<b>5</b>	<b>Update on Membership Issues</b>	
5.1	The Secretary explained that she was reliant on the Northern Ireland Audit Office to make a nomination to fill their vacancy on the Board and that she had recently chased for the new nomination.	
5.2	The Board then considered the merits of extending the current deadline for the recruitment of new practitioner members but decided in the first	<b>Sec</b>

	instance to consider the Local Authority Accounting Panel recruitment exercise.	
5.3	Michael Hudson offered to circulate details of the vacancy to the treasurers' societies if the current recruitment initiatives prove to be unsuccessful.	<b>SS/MH</b>
5.4	The Board agreed to maintain its position that its vacant co-optee position would not be filled unless the need for a specific expertise currently absent from the Board is identified.	
<b>6</b>	<b>Annual Review 06 03-16</b>	
6.1	The Board noted that its Terms of Reference require that it annually evaluates its performance for the preceding 12 months.	
6.2	As a starting point the Board noted that the pattern of three meetings a year interspersed with telephone conferencing, as necessary, had proven effective.	<b>Sec</b>
6.3	The resolution of the substantial and lengthy debates on IFRS 13 and schools accounting issues during 2015 were definite successes, as were the increased number of consultation responses beyond even that during IFRS implementation (including the two consultations) – albeit that new ideas for practitioner engagement remain welcome. The Board thought it important that the recent experience should be examined for the lessons to be learnt.	
6.4	With respect to the accounting for schools issues, the establishment of a Department for Education accounting reference group was a point of note and may ease any future issues that arise or allow for their early identification.	
6.5	CIPFA/LASAAC would benefit by being better informed of consultations issued by those organisations with which it did not regularly engage. Members of the Board are encouraged to make the Secretary aware of such consultations.	<b>Sec/Board</b>
6.6	The Board recognised that some local authority accounts preparers had potentially misunderstood the intention of the simplification work stream by failing to recognise that the principal motivation was the needs of the user rather than a reduction of accounts preparer workload. Alison Scott explained that the forthcoming publication and press articles sought to reconcile these objectives by encouraging practitioners to take advantage of the freedoms now available to them - including the longstanding need to make effective judgements about the materiality of disclosures so as to "cut clutter" in the financial statements.	
6.7	Alison Scott would welcome press article topic suggestions from the Board.	<b>Board</b>
6.8	The Board judged that auditor engagement still needed to be improved as apparently some local audit teams were not aware of the rationale behind the positions taken in the Accounting Code. This risk needed to be mitigated if the implementation of the measurement provisions for the Highways Network Asset is to be successful (ie by implementation of the measurement methodologies in the <i>Code of Practice on the Highways Network Asset</i> ). David Aldous reminded the Board that engagement partners always welcomed feedback if there are concerns about local audit teams. Alison Scott's attendance at LAAG provides a means for the Secretariat to have high level contact with the audit community.	

<b>7</b>	<b>How To Tell The Story CL 07 03-16</b>	
7.1	The Board considered the current draft of this think-piece and asked for a minor edit to explain the breaking of the link between SeRCOP and the financial statements while the link with statistical returns and SeRCOP remained in place.	
7.2	The Board's judgement was that less needed to be said about IFRS and IPSAS on page 11 as this justification was relevant on the move to IFRS in 2010/11 but was less relevant now (and could instead lead to confusion).	<b>Sec</b>
7.3	The Secretary would consult with Christine Golding over the distinction between reporting according to the management of services and the reporting for political decision making.	<b>Sec/CG</b>
7.4	Whilst the original intention of the Secretariat was to publish this simultaneously with the issue of the 2016/17 Code, the Board took the view that this may cause confusion about the timing of the Telling the Story changes and that a delayed publication timetable to June (following accounts closure) for the think piece had merit. The Board would therefore consider the final draft at its June meeting.	<b>Sec</b>
<b>8</b>	<b>Development of 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom CL 08 03-16</b>	
8.1	The Board opened its consideration of the 2017/18 Code by identifying those items to be included in the development programme.	
	<i>Accounts and Audit Regulations 2015</i>	
8.2	The Board had already noted these regulations at its previous meeting in November 2015.	
	<i>(i) Disclosures Relating to Employee Contributions</i>	
8.3	Gareth Caller clarified that the Government Actuary's Department (GAD) need for information was for all of the UK local government pensions and not just England. The Board was concerned and questioned why the proposals were adding to disclosure requirements relating to pension fund financial statements and noted that this would potentially add clutter to the financial statements. CIPFA/LASAAC was therefore of the view that it needed to respond as a Board to the consultation on the Regulations. The Secretary noted that this was an unusual step as CIPFA normally responded to the consultations although the Secretary did seek the Board's views on draft consultation responses. The Board acknowledged that this was a change in approach.	<b>Sec</b>
	<i>(ii) Amendments to the regulations to require a separate set of pension fund accounts</i>	
8.4	The Board supported the proposal of the separation of the pension fund accounts from those of its administering authority – a change that CIPFA/LASAAC had long supported. It considered that the Code could include the necessary reporting requirements for the change and noted that this was already the position for administering authorities in Scotland.	<b>Sec</b>
	<i>(iii) Amendments to Require the Disclosure of the Remuneration of Elected Mayors.</i>	
8.5	In including this amendment there would be a clarification that the disclosure requirements applied to all elected mayors (including and not only those of combined authorities) as well those in comparable executive roles.	<b>Sec</b>

	<i>The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012 for English Authorities</i>	
8.6	The Board noted that the proposals to end the transitional arrangements would need to be included in the consultation draft but that there would be no retrospective implications (see also item 4.2).	
	<i>The Housing Revenue Account (Accounting Practices) Directions 2015</i>	
8.7	These directions were subject to consultation at the end of 2015/early 2016 and have already been signposted for authorities in the Code but if an Update to the 2016/17 Code is issued then the Board would want to take the opportunity to draw these changes to the attention of those English authorities with a Housing Revenue Account (HRA).	
	<i>Cities and Local Government Devolution Act 2016</i>	
8.8	Given that the new organisations will be local authorities it is not anticipated that there will be any substantial implications for the provisions in the Code. Many of the arrangements it is anticipated will be covered by the existing provisions in the Code.	
8.9	The organisational structure of the Scottish city deals were noted to be developing on an ad hoc basis, with the Glasgow scheme for instance being a joint committee. The Cardiff arrangements are at an early stage.	
8.10	The Board was aware of the momentum behind these developments and the difficulty faced by accounts preparers needing to address accounting issues in a timely fashion. At the June meeting it would receive an update by the Secretariat of joint arrangements and other organisational and business arrangements to assess any whether there needed to be any additional provisions in the 2017/18 Code.	<b>Sec</b>
	<i>The Housing and Planning Bill 2015 -16</i>	
8.11	It is not thought that the implementation of the bill would require any specific accounting treatments requiring substantial amendment to the Code.	
	<i>Business Rates</i>	
8.12	This is currently a major work stream at the DCLG with an ambitious timetable; but the accounting issues are only likely to be emerge when the architecture of the new arrangements are known. The Board stressed that early consideration of the accounting implications would allow for the mitigation of potential difficulties.	
	<i>Local Government Funding Issues</i>	
8.13	There is currently no evidence that the move to multi-year funding settlements in England will have any implications for the Code.	
	<i>The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016</i>	
8.14	Except consequential changes to references these are not anticipated to have any need for substantial changes to the accounting requirements in the Code.	
	<i>Accounts and Audit (Wales) Regulations 2014</i>	
8.15	The implications of these are confined to the bringing forward of the accounts closure timetable.	
	<i>Other Legislative Developments</i>	

8.16	Gareth Caller confirmed that the use of capital receipts for transformation purposes would raise no substantial accounting issues for the Code.	
8.17	The Board then turned to the consideration of several other items that at its November meeting it had decided to be considered for inclusion in the development programme for the 2017/18 Code.	
	<i>Going Concern</i>	
8.18	The Board noted that reduced resources available for many local authorities led to 'going concern' reporting being raised, although it was again stressed that there is not a direct read across from the budget position to 'going concern' from an accounts preparation perspective.	
8.19	Foundation Trusts were cited as often having good information and guidance on 'going concern' in their narrative reporting and statement of accounting policies but it was recognised that these were demanded by a different legislative position.	
	<i>Structure of Code</i>	
8.20	The Secretary explained that following a request by a Board Member in November she intended to re-structure the Code to better reflect the increasing divergence of the regulatory environment across the United Kingdom. She accepted the Board's suggestion that the paragraph numbering scheme of the Code be simplified.	<b>Sec</b>
	<i>Review of Accounting Policies</i>	
8.21	The judgement of the Board was that authorities should consider disclosing fewer accounting policies by eliminating ones that are not material to them and the Code should be drafted to reflect this. However, Board members agreed that a listing of possible accounting policies could be included, preferably in an Appendix to assist accounts practitioners. Russell Frith volunteered to assist in the review of the Code's provisions on accounting policies.	<b>RF/Sec</b>
8.22	The Board was then invited to consider the remaining items that the Secretary considered to be candidates for the 2017/18 development programme.	
	<i>Narrative reporting</i>	
8.23	The Chair introduced this item by explaining that it was important for the Board to make progress on the issue of narrative reporting. The approach should consider the FReM's provisions for narrative reporting, the FRC Guidance on the Strategic Report and the reporting requirements introduced by the new provisions in the Accounts and Audit Regulations 2015 for English authorities.	
8.24	CIPFA/LASAAC agreed that it needed to consider what more can be included in the Code on the requirements relating to narrative reporting. David Aldous agreed to provide to the secretariat any feedback from auditors on how bodies are interpreting the requirements of the A&A regulations in response to the Update to 2015/16 Code.	<b>DA</b>
8.25	Alison Scott re-iterated that the problem would again to avoid the content of the Code being using as a template. It would be important that local authorities are challenged to use narrative reporting to provide an exposition tailored to local circumstances.	
8.26	The Board concluded that its June meeting should receive a report setting out the options for narrative reporting.	<b>Sec</b>

	<i>Statutory adjustments</i>	
8.27	The Board was aware that there is some resistance from local authorities to streamlining even the now immaterial statutory adjustments but felt that the prevalence of this view needed to be evaluated.	
8.28	The technical reasons for statutory adjustments were recognised, Gareth Caller agreed with the Secretary's views of the principles inherent in the adjustments, ie the need on occasion to protect council tax and housing rents from the volatility of the accrued transactions. The timing delays permitted for the capital financing transactions were also noted.	
8.29	Gareth Davies noted that LASAAC was initiating a review of statutory adjustments. CIPFA/LASAAC considered that it would await the outcomes of this review and use this as a starting point for its own deliberations. While recognising that the existence of statutory adjustments was the consequence of factors beyond the Board's control, it would be important for the Board to develop its views on the subject.	
	<i>Financial reporting developments for the 2017/18</i>	
8.30	The Board noted that IAS 12 <i>Income Taxes</i> and IAS 7 <i>Cash Flow</i> will need to be considered for adoption in the 2017/18 Code. It was also accepted that during the development of the Code there may be other developments that need to be considered for adoption in the 2017/18 Code as listed in the CL 08 03-16.	
	<i>Other Financial Reporting Items for the Development of the 2017/18 Code</i>	
8.31	The Board had already considered the adoption of IFRS 9 <i>Financial Instruments</i> and IFRS 15 <i>Revenue Recognition</i> in the summer 2015 consultation process. Both standards now had an effective date of 1 January 2018. However, given the preparation needed for their application, the Board was supportive of the Secretary's proposal in CL 08 03-16 to consult on their implementation and include the provisions for adoption of these standards in the 2017/18 Code so as to allow local authorities sufficient preparation time. This would have to be done in a manner that avoids practitioner confusion as to its implementation date which will be in the 2018/19 financial statements.	<b>Sec</b>
<b>9</b>	<b>Development of 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom IFRS 9 Financial Instruments CL 09 03-16</b>	
9.1	The Board's discussion highlighted that IFRS 9 is a complex standard with two areas where substantial changes will be required – a new classification framework for financial assets and an expected loss impairment model. The Secretary noted that whilst authorities may hedge their cash flows she was only aware of one authority that undertook hedge accounting. The Board was interested to consider the approaches of local authority subsidiary companies to hedge accounting. The Board stressed that IFRS 9 was principles based and places weight on the application of judgement to the relevant information. In applying the standard local authorities will need to have the systems to collect and classifying the required information to reach a justified professional judgement. To accompany these processes there will be new substantial disclosure requirements.	
9.2	The approach taken by FRAB would need to be taken into account but given that local authorities hold financial instruments for the same reason	

	as the corporate sector the Board's tentative view was that there was no reason to anticipate new adaptations, other than those already included in the Code under IAS 39 <i>Financial Instruments: Recognition and Measurement</i> and those referred to in the report on transition.	
9.3	The summer 2015 consultation so far had identified the accounting treatment of pooled funds was a major issue, but the Board asked that it receive exemplifications setting out the underlying principles of the standard and the implications of their application on such transactions. The implications for impairment needed to be understood as the earlier reporting of losses was anticipated under the Standard. The Secretary agreed with a commentary from a member that it might be the case that some impairment losses provisions that do not materialise will need to be written out. The Treasury and Capital Management Panel was identified to be a repository of the necessary expertise for exemplification of the IFRS 9 requirements.	<b>Sec</b>
9.4	The Board tentatively agreed with the Secretary's view outlined in the CL 09 03-16 to the current adaptations in the Code for financial instruments.	
9.5	Finally, the Secretary confirmed that current intentions were that the standard would be applied retrospectively and the Board agreed with the approach the outlined in the report ie that the option provided in the standard for not including preceding year information.	
<b>10</b>	<b>Development of 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom IFRS 15 Revenue from Contracts with Customers.CL 10 03-16</b>	
10.1	The Board noted that while this standard was less complex than IFRS 9, it would like IFRS 9 need the right combination of information and professional judgement if its implementation is to be successful. It too would bring extensive new disclosures and be applied retrospectively but without restatement of preceding year information.	
10.2	An important issue of clarification will be to determine to which revenue streams the new standard applies as this will depend on the existence (or not) of performance obligations and a supporting contract.	
10.3	One way of assisting practitioners would be to make clear to which income streams the standard is not applicable – e.g. Council Tax and NNDR. The Board agreed that it wished to include high level interpretation of the relevant application of the Code's provisions for revenue recognition to assist local authorities.	
<b>11</b>	<b>Measurement of Highways Network Asset</b>	
11.1	Alison Scott briefed the Board on current developments and drew its attention to the Highways Network Asset Briefings that were now to be issued on a regular basis. A brief consultation was taking place on the new Code of Practice on the Highways Network Asset (HNA Code) but importantly great stress was being laid on it being a re-configuration and clarification rather than a re-consideration of the either the Project Implementation Steering Group (PISG) provisions in the (HNA Code) or the Board's decisions in the Accounting Code.	
11.2	Alison Scott added that she was aware of the Welsh land value issue and that the Secretary was liaising with Amanda Whittle on this issue.	<b>Sec/A W</b>
<b>12</b>	<b>Accounting and Auditing Standards Update CL 12 03 -16</b>	
12.1	The Board noted the content of the update on accounting and auditing	

	standards.	
<b>13</b>	<b>Any other Business</b>	
13.1	<p>The Board agreed Technical Information Note 16 (01).</p> <p>The Board agreed that Phase 2 of the transport infrastructure asset work programme should be identified in the position statement on the Highways Network Asset but otherwise agreed that position statement.</p> <p>The Board agreed the Telling the Story position statement.</p>	<b>Sec</b>
13.2	The Secretary would contact the Board seeking their comments on the draft programme for the Local Authority Accounting Conference in July 2016.	<b>Sec/ Board</b>
<b>14</b>	<b>Date of this year's Meetings</b>	
	<p>Tuesday, 7 June 2016, Edinburgh, 10:30</p> <p>Wednesday, 9 November, 2016 London, 11:00</p>	