

# minutes

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| Board           | CIPFA/LASAAC Local Authority Code Board  |   |
| Date            | 7 June 2016  |   |
| Time            | 10:30 am   |   |
| Venue           | CIPFA, 160 Dundee Street   |   |
| Present         |  |   |
| Chair           | Lynn Pamment   | <i>PwC</i>  |
| CIPFA Nominees  | David Aldous<br>Christine Golding<br>Joseph Holmes<br>Michael Hudson<br>David Jones<br>Owen Jones<br>Greg McIntosh | <i>National Audit Office<br/>Essex County Council<br/>Slough Borough Council<br/>Wiltshire Council<br/>Wales Audit Office<br/>Newport City Council<br/>KPMG</i> |
| LASAAC Nominees | Nick Bennett<br>Russell Frith<br>Joseph McLachlan  | <i>Scott Moncrieff<br/>Audit Scotland<br/>East Ayrshire Council</i>   |
| Co-optee        | Tim Day  | <i>Independent Consultant</i>   |
| Observers       | Hazel Black<br>Gareth Caller<br>Martin Stevens<br>Amanda Whittle   | <i>Scottish Government<br/>DCLG<br/>Birmingham City Council<br/>Welsh Government</i>  |
| In Attendance   | Alison Scott<br>Sarah Sheen<br>Matthew Allen   | <i>CIPFA<br/>CIPFA (Secretary)<br/>CIPFA</i>  |

|          |  | <b>Action</b> |
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| <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>Update on membership issues</b>   |               |
| 2.1      | The meeting was quorate until the conclusion of item 9. Only the How To Tell the Story publication was considered after that item. The changes to that publication will be considered in separate correspondence with the Board.   |               |
| 2.2      | The Chair drew attention to the changes in the LASAAC representation. Given their contributions to the work of the Board it was agreed that a letter of thanks would be sent to Fiona Kordiak and Derek Yule.  | <b>MA</b>     |
| 2.2      | The Secretary then elaborated on the implications of these changes for the Board. Firstly, it would be necessary to appoint a new Vice Chair. This was customarily an accounts preparer member. Secondly, it would be necessary to appoint a CIPFA/LASAAC representative to FRAB – a role that had to be filled by an accounts preparer member and which was then subsequently subject to a formal appointment process for that Board.   |               |
| 2.3      | The Board agreed that in the first instance members would be invited to consider applying for one or both of these roles. The situation would be then reviewed if no volunteers were forthcoming.  | <b>Board</b>  |
| 2.4      | Turning next to vacancies, the appointment of Martin Stevens as an English accounts preparer member would be considered for approval by the Policy and Standards Board (PSB) on 8 June 2016. In the meantime he had been invited to join the meeting as an observer.<br><br>The Northern Ireland Audit Office had also nominated an appointment to relevant vacancy on the Board. The Secretariat had undertaken an interview process; this nomination had to be confirmed by the CIPFA Northern Ireland Branch. |               |
| <b>3</b> | <b>Apologies for absence</b>   |               |
| 3.1      | Apologies for absence were received from Gareth Davies, Conrad Hall Ian Lorimer, George Murphy and Gillian Woolman.  |               |
| <b>4</b> | <b>Matters Arising on Minutes of the March Meeting of CIPFA/LASAAC</b>   |               |
| 4.1      | The Board noted that the minutes of its meeting in March had been agreed and are available on the CIPFA website. There were no matters arising that were not considered elsewhere on the agenda.   |               |
| <b>5</b> | <b>Review of Outstanding Actions and List of Activities between Meetings CL 05 06 -16</b>  |               |

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| 5.1      | <p><b>Item 3</b></p> <p>Sarah Sheen reminded the Board that comments on the Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2017 (Item 8 Determination) consultation would be welcome.</p>  |  |
| 5.2      | <p><b>Item 4</b></p> <p>Now that the FRC re-organisation had been concluded the issue of their representation had been raised with them.</p>  |  |
| 5.3      | <p><b>Item 5</b></p> <p>David Aldous clarified the reference to the Highways Networks Asset for financial reporting.</p>  |  |
| 5.4      | <p><b>Item 10</b></p> <p>Amanda Whittle had obtained the local land values for Welsh Local Government and input into process but had received no feedback to date.</p>  |  |
| <b>6</b> | <b>Measurement of Highways Network Asset CL 06 06-16</b>  |  |
| 6.1      | <p>The Board was reminded that this was the third consultation on the <i>Code of Practice on the Highways Network Asset</i> (the Highways Code) and that no new principles were being introduced. The original intention of the consultation was to clarify the distinction between those elements of the Code that were required for financial reporting purposes and those that were guidance. The Secretary also noted the low response rate.</p>  |  |
| 6.2      | <p>Once PSB approved the Highways Code then the intention is to publish it in August 2016 together with an updated version of guidance on that Code and separate accounting guidance.</p>   |  |
| 6.3      | <p>David Jones and Russell Frith each set out their concerns about the application of the Modern Equivalent Asset (MEA) principle in the Highways Code to roads (typically rural roads) with an old substructure. Their judgement was in such cases the value of the asset would be overstated as the modern substructure assumed by the MEA method would not be present.</p>   |  |
| 6.4      | <p>The Board debated the issue raised, noting that the MEA approach had been developed in recognition of the limitations of the data available and stressing that for measuring Gross Replacement Cost and Depreciated Replacement Cost the starting point was to capture service potential.</p>  |  |
| 6.5      | <p>The Board recognised that the Accounting Code requirement was to utilise the methodologies in the Highways Code to measure the Highways Network Asset and that auditors would audit to the Code. A parallel was drawn with the valuation techniques contained in the RICS "Red Book" and to which the Code also refers. The Board did note that the value of the Highways Network Asset was likely to be the most material item in a highways authority's balance sheet. The members of the Board noted that</p> |  |

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|          | it wasn't clear whether the MEA issue for rural roads would have a material effect on any authority.   |           |
| 6.6      | The Board asked that PSB in approving the HNA Code at its meeting on 8 June 2016 should be fully briefed on the CIPFA/LASAAC debate.   | <b>AS</b> |
| 6.7      | <p>The Board requested:</p> <ul style="list-style-type: none"> <li>▪ confirmation of the approach in the Accounting Code in relation to the measurement requirements for the Highways Network Asset</li> <li>▪ a summary of the issues raised in relation to the MEA following the consultation on the Highways Code</li> <li>▪ updates from the discussions on the measurement of the Highways Network Asset at the Project Implementation Steering Group (PISG) and at the Government's Financial Reporting Advisory Board (FRAB).</li> </ul> <p>The need for any further action by the Board on HNA would be determined by the response of the Board to this briefing note.</p> |           |
| 6.8      | Alison Scott concluded the item by reporting that formal approval was still awaited from the Department for Transport for work to proceed with the new rates but an informal indication of intention to approve had been given.  |           |
| <b>7</b> | <b>Development of the 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom CL 07 06 16</b>   |           |
|          | <b>Narrative reporting requirements, CL 07 06 16A</b>  |           |
| 7.1      | The International Integrated Reporting Council (IIRC) was about to publish a report on the early feedback from the pilots but this was anticipated to be a more detailed approach than the principles based approach that was being proposed in the Exposure Draft Code.   |           |
| 7.2      | The Board noted that there was a difference in emphasis between the Accounts and Audit Regulations 2015, Regulation 8 (2) (for English Authorities) and the approach in the current draft.   |           |
| 7.3      | The Board was concerned that without more explicit guidance there was a danger that the performance aspect would be overlooked. The Board agreed, however, that the elements of the IIRC Framework would be a useful model on which to base the principles for the production of the Narrative Report.   |           |
| 7.4      | The Board raised concerns about including the level of prescription and detail included in paragraph 3.1.1.4 in the paper was, too detailed for the Code and the Board considered that this detail could be included in application guidance. The Board agreed that the consultation paper should seek interested parties' views on what form of guidance would be most useful to local authority accounts preparers.  | <b>AS</b> |

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|      | <b>Going concern reporting, CL 07 06 16B</b>   |            |
| 7.5  | The Board was supportive of the arguments presented in the paper which established that going concern basis remained the basis under which local authority accounts should be prepared. But was concerned that the ITC should refer to the going concern basis of reporting as opposed to whether an authority was a going concern.        |            |
| 7.6  | The Board, however, stressed that local authorities should ensure that their financial statements or information provided with their financial statements ie the Narrative Report effectively reflected issues of financial sustainability and other events and circumstances relating to its financial resilience or continued operation. |            |
|      | <b>The remaining items on the development programme for the 2017/18 Code. CL 07 06 16C</b>   |            |
| 7.7  | The Board agreed with the approach in the Exposure Draft but considered that the list of suggested accounting policies should be reduced to those most likely to represent the significant accounting policies of a local authority.   |            |
| 7.8  | The drafting of the ITC Executive Summary needed to be amended to make it clearer that the Code's intention was to encourage local authorities to <i>consider</i> innovative approaches to the presentation of their accounting policies.  | <b>Sec</b> |
| 7.9  | The Board agreed the approach to the restructure of chapter one (Introduction) of the Code. Hazel Black considered that Integration Joint Boards should be specifically referred to in chapter one and volunteered to provide the relevant text.   | <b>HB</b>  |
| 7.10 | The Board agreed to continue with its proposal to mandate the disclosure of pension fund investment transactions costs.  |            |
| 7.11 | The Board agreed the approach to reflect the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016. Hazel Black confirmed that there would be guidance on the Regulations.  |            |
| 7.12 | The Board agreed to refer to the Item 8 Determination in the ITC and confirm that its outcome would be reflected in the final 2017/18 Code.  | <b>Sec</b> |
| 7.13 | Amanda Whittle noted that the Accounts and Audit (Wales) Regulations 2014 would be subject to consultation and that she would provide the Secretariat with relevant commentary to be included in the ITC.  | <b>AW</b>  |
| 7.14 | The Board supported the Secretariat's view that early consideration should be made on IFRS 16 <i>Leases</i> . This could best be achieved by using the consultation to recruit volunteer members for a working group. The need to co-ordinate with the other relevant authorities under the  | <b>Sec</b> |

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|          | Government's Financial Reporting Advisory Board was stressed by CIPFA/LASAAC.   |            |
| <b>8</b> | <b>Development of the 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom CL 08 06 -16 – IFRS 9 Financial Instruments</b>  |            |
| 8.1      | The Secretary opened the discussion by stressing that she would welcome the Board's views on the overall balance of the Exposure Draft on IFRS 9 on where there was too much or too little material on an issue.  |            |
| 8.2      | It was agreed that reference to statutory provisions on the impairment of certain investments could be removed from the Codes for both 2017/18 and 2018/19.   | <b>Sec</b> |
|          | <b>Classification and measurement of financial assets</b>   |            |
| 8.3      | The Board concurred that IFRS 9 set out the intention that the designation of equity instruments at fair value through other comprehensive income is intended only to be applied to equity investments held for strategic purposes. In the local government context this would be appropriate, for example, for municipal airports. The Board decided that the ITC should set out this position and that it does not consider other holdings of equity instruments should be designated in this way and invite comments from interested parties on this issue.                            |            |
| 8.4      | This might mean that for some authorities including those that raised the issue of classification of Money Market Funds or those instruments that had previously been classified as 'available-for-sale' financial instruments, if the instruments remained classified to the default category under IFRS 9 (ie fair value through profit or loss) this may result in gains and losses from changes in fair value hitting the Surplus or Deficit on the Provision of Services as they arise. This may have implications for treasury management strategies and for General Fund Balances. |            |
| 8.5      | Members of the Panel stressed the need to gain a good understanding of the diversity of treasury management instruments used by local authorities in order to understand the application of the Code for such instruments. When implemented the Code's adoption of IFRS 9 will require local authorities to assess each financial asset individually as it cannot be assumed that financial assets under the IAS 39 classification will all transfer to the same classification under IFRS 9.   |            |
|          | <b>Designation of financial instruments at fair value through profit or loss</b>  |            |
| 8.6      | The Board agreed that the circumstances under which a local authority would designate a financial instrument to profit or loss would only rarely occur for local authorities. However, it decided that if such circumstances did occur that an authority should be able to refer to IFRS 9. The Board therefore decided that the current adaptation which prohibited designations of financial instruments should be removed.   | <b>Sec</b> |

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|          | <b>Impairment of Financial Assets</b>   |            |
| 8.7      | The Board agreed the approach in the ITC and the Exposure Draft of the Code for the impairment of financial assets under IFRS 9. It also wanted to ensure that the Code clearly specified that council tax and non-domestic rate balances were outside the scope of IFRS 9 because there was no-contract and wanted to confirm the same adaptation of IFRS 9 as IAS 39 for the avoidance of doubt. It agreed that an incurred loss model should be used for the impairment of council tax and non-domestic rate balances but requested that no reference should be made to IAS 39 <i>Financial Instruments: Recognition and Measurement</i> as on the adoption of IFRS 9, IAS 39 would no longer be extant. | <b>Sec</b> |
|          | <b>Approach to Financial Liabilities</b>  |            |
| 8.8      | The Board concurred with the views outlined in the approach for financial liabilities.  |            |
|          | <b>Current adaptations</b>  |            |
| 8.9      | The Board agreed with the overall approach to adaptations. It agreed that it would remove the current adaptation and instruction for 'regular way' trades of financial assets where only trade date accounting is permitted (and not settlement date).  | <b>Sec</b> |
|          | <b>Presentation and Disclosure</b>  |            |
| 8.10     | The Board agreed with the overall approach to the Exposure Draft for disclosures. Both the Secretariat and the Board recognised that the disclosure requirements had the potential to be onerous. However, it wanted to remove the reference in paragraph 7.3.3.8 which would permit cross reference to an authority's Treasury Management etc reports for disclosures on the expected credit risk information.   | <b>Sec</b> |
| 8.11     | The Board noted that in relation to the presentation of the new line items introduced to the Comprehensive Income and Expenditure Statement under IFRS 9's amendments to IAS 1 that the Code would accord with the new requirements and provide the relevant information on the face of that Statement if this information was material. It did not consider that there would be a need to extend the current adaptation of IAS 1.  | <b>Sec</b> |
| <b>9</b> | <b>Development of 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom CL 09 06 -16</b>   |            |
| 9.1      | The Board was supportive of including the five steps for revenue recognition in the Code even though it is not a formal part of the standard. The Board also agreed that instead of using the term 'customer' that 'service recipient' was more appropriate for the recognition of revenue under IFRS 15 for local authorities.   |            |
| 9.2      | The Board accepted that for many local authorities revenue transactions under IFRS 15 were neither complex nor material. However, it decided that it would not adapt the Code to remove any of the requirements but   |            |

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|           | would instead require local authorities to cross refer to IFRS 15 for the disclosure requirements under the standard. The Code would make it clear that the disclosures were only required for material transactions.   | <b>Sec</b>       |
| 9.3       | The Board was supportive of the use of a flowchart but required a minor amendment to ensure that the flow chart was consistent with the text of the new section on principles of revenue recognition.   | <b>Sec</b>       |
| 9.4       | The Board confirmed that there were no other issues that should be included in the consultation on the 2017/18 Code.  |                  |
| 9.5       | The Board agreed the following process:   |                  |
|           | <ul style="list-style-type: none"> <li>▪ the Secretary to make the changes required and circulate it to the Board for approval by email</li> <li>▪ the Secretary would share the draft proposals with FRAB on 23 June, and</li> <li>▪ the consultation would run from mid-July to early October.</li> </ul>   | <b>Sec/Board</b> |
| <b>10</b> | <b>Stakeholder engagement</b>   |                  |
| 10.1      | Alison Scott reported on her meeting with the LGA and their lead member for finance.  |                  |
| 10.2      | The Board recalled that summarised financial statements had been an interesting initiative that had been substantially applied by local authorities. It suggested that good practice be given more recognition.   |                  |
| 10.3      | The Board did not consider themselves to be the primary movers in this initiative.  |                  |
| <b>11</b> | <b>How to Tell the Story CL 11 06-16</b>  |                  |
| 11.1      | The Board requested more guidance to draw out the implications of the figures presented; eg the consequences to the authority of high values of surplus assets. Consideration should be given to comparisons to promote questions.  |                  |
| 11.2      | Stepping back from the detail, the Board discussed the role of this publication and the need to distinguish it from narrative reporting. Alison Scott explained that it had been designed for senior finance staff to use as a briefing for members and other stakeholders. The Board concluded that it should be renamed and re-focused given the changes in financial reporting since its introduction. |                  |
| <b>12</b> | <b>Accounting and Auditing Standards Update – standing item CL 12 03 -16</b>  |                  |
| 12.1      | The Board were updated by David Aldous on a forthcoming consultation by public audit agencies as a consequence of the FRC to review Practice  |                  |

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|           | Note 10.   |           |
| <b>13</b> | <b>Any other Business</b>  |           |
| 13.1      | There was at present no evidence that fire/police merger in England would have any significant Code implications but the secretariat will continue to monitor progress on this and devolution. |           |
| 13.2      | Gareth Caller updated the Board on the business rate reform work streams.  |           |
| 13.3      | Alison Scott reported that she was involved in the review of the financial reporting arrangements for academies.   |           |
| 13.4      | Hazel Black reported that she was working on the 2016/17 pensions adjustment.  |           |
| 13.5      | Given the inability of some members to stay until the end of the meeting, the Chair asked that members be canvased on the possibility of an earlier start time.                                | <b>MA</b> |
| <b>14</b> | <b>Date of this year's Meetings</b>  |           |
|           | Wednesday, 9 November, 2016 London, 11:00 (note that the start time is under review.)  |           |