

minutes

Board	CIPFA/LASAAC Local Authority Code Board	
Date	2 June 2015	
Time	11:00 am	
Venue	CIPFA, Mansell Street, London E1 8AN	
Present		
Chair	Lynn Pamment	<i>PwC</i>
CIPFA Nominees	David Aldous Graham Coulter Christine Golding Conrad Hall David Jones Greg McIntosh Angie Sinclair	<i>National Audit Office Armagh City, Banbridge and Craigavon Borough Council Essex County Council London Borough of Brent Wales Audit Office KPMG Devon County Council</i>
LASAAC Nominees	Nick Bennett Russell Frith Fiona Kordiak Joseph McLachlan George Murphy	<i>Scott Moncrieff Audit Scotland Audit Scotland East Ayrshire Council Stirling Council</i>
Observers	Hazel Black Gareth Caller Jeff Glass	<i>Scottish Government DCLG Department of the Environment NI</i>
In Attendance	Alison Scott Matthew Allen Gareth Davies Sarah Sheen	<i>CIPFA CIPFA CIPFA Scotland CIPFA (Secretary)</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 were received from Ian Carruthers, Tim Day, Joseph Holmes, Michael Hudson, Stephen McCormick, Amanda Whittle and Derek Yule.	

3	Matters arising on Minutes of March Meeting of CIPFA/LASAAC	
3	In paragraph 4.1 'panel' should be replaced by 'board'.	Sec
4	Review of Outstanding Actions	
4.1	<p>Action 4. The Chair provided feedback on the Local Auditors Advisory Group (LAAG).</p> <p>Feedback from the Group indicated that Board needs to remind the FRC of the vacancy on the Board as they have an important audit regulation role following the implementation of the Local Audit and Accountability Act 2014.</p> <p>Other points raised were that there was evidence that the Board needs to do more to explain the reasons for its decisions to a wider audience.</p> <p>CH would be attending the July meeting of the group.</p>	Sec CH
4.2	Item 7 GC updated the Board on the review of the transitional arrangements and on HRA non-dwelling capital charges.	
4.3	Action 10 The Secretary clarified that the position statements would be drafted after the consultation had been launched since clearly the position statements would need to reflect the views of the Board following its consideration of the consultation responses. Given the value of the position statements for disseminating the Board's view, it is likely that the Secretariat will ask the Board to approve them before the next meeting.	Sec
5	Development of 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom	
5.1	<p>The Board first considered the proposal to include the amendments consequent on the Streamlining Project and the Code development programme on the same consultation page.</p> <p><i>(NB the Secretariat would now recommend that following the CIPFA/LASAAC debates that there should be two separate consultation pages with ED 1 being included on both consultation pages due to the volume of attachments for each consultation).</i></p>	Sec
5.2	In supporting the proposal, the Board added that it would require the ITC to clearly signpost the proposals and identify which were most important for example by differentiating these from the more narrow scope and other amendments including sections for future development of the Code. The Chair suggested that the executive summary would also serve to achieve this purpose of guiding the reader through the material.	Sec
	Transport Infrastructure Assets	

	<u>Update on Preparations</u>	
5.3	AS opened the discussion by summarising the current public position of the Board, which is that the Highways Infrastructure proposals would be implemented in 2016/17 – subject to review. The Board were strongly of the view that any departure from 2016/17 implementation would bring with it a danger of being misinterpreted as a reason to reduce work on implementation.	
5.4	AS then turned to reviewing the current evidence on preparedness since that would determine the potential or otherwise of successful implementation. The Secretariat was continuing to engage with the relevant stakeholders and was awaiting the latest WGA data so that it could assess its quality. AS also highlighted the work of the working group which focused on the audit issues that would arise from implementation of the proposal.	Audit Work stream
5.5	Members of the Board sought clarity on the assurance work to be done on the central model for the measurement of transport infrastructure assets.	
5.6	Turning to the evidence from auditors, two distinct strands of work were identified. Firstly, there was the central work on testing the assurances built into the model and secondly, the local work on its application in each authority. Both these would need to be addressed and consideration also given to the implications of the model being optional.	
5.7	David Aldous offered to report back to the Board on the auditors’ assessment of preparations.	DA
5.8	The Board stressed that if it is to reach a decision at its November meeting then it was essential that the consultation process to deliver a sufficiently nuanced and detailed assessment of the state of local authority preparation. This required it to anticipate future readiness rather than the current state of preparedness. From this perspective the parallel with IFRS implementation is relevant, since in that case the Board faced the same challenge of assessing the risks of widespread qualifications.	
5.9	LASAAC members of the Board stressed the more advanced state of preparedness in Scotland and the better quality of their existing data.	
5.10	The Board determined that that there should be a separate consultation on the practical implications of implementation in order to establish with clarity the issues that might need to be addressed. A joint consultation with HAMFIG/PISG would be one means of ensuring that there would be no misunderstanding of CIPFA/LASAACs commitment to its 2016/17 implementation date. In doing this it would be important to ensure that the PISG engaged with the accountants rather than only the engineers in each authority. Separate consultative processes will need to take place	HAMFIG /PISG

	with auditors.	
	<u>Scope and Definition of Infrastructure Assets</u>	
5.11	The Board determined that the ITC would be clearer for practitioners if it referred to Highways Infrastructure/Assets (albeit with appropriate cross-references to the Code of Practice on Transport Infrastructure Assets (the Transport Code)).	Sec
5.12	The Board discussed the merits of showing Highways Infrastructure/Assets as a separate item from property, plant and equipment (PPE) on the face of the balance sheet. CIPFA/LASAAC confirmed its previous position. However, CIPFA/LASAAC wanted to ensure that the accounting policies for Highways Infrastructure/Assets were clearly identified and differentiated where necessary. The Secretary explained that the Exposure Draft was based on the approach established in the Code for Heritage Assets ie that the assets were PPE assets but that at relevant points specific accounting policies were necessary. The Board decided therefore to establish a separate section for Highways Infrastructure/Assets in the same manner as Heritage Assets.	Sec
	<u>Proposals for the treatment of the network as a single asset and the remainder of the approach to recognition</u>	
5.13	The Board had previously decided to treat the carriageway as a single asset. The proposal now before the Board was to treat the network as a single asset – one with its components depreciated separately. The Board confirmed that it agreed the approach in the ITC and Exposure Draft as outlined in the report.	Sec
5.14	The Board noted that the common PFI arrangements for street lighting did not raise accounting issues but may raise financing issues. Additionally practitioners may need guidance from LAAP.	
5.15	In response to questions it was clarified that only footpaths/cycle-ways relating to the highways network should be included in the asset; ie not those in public parks etc. The terminology used has been chosen to reflect that used by engineers. The Secretary was invited to include relevant clarification on this point.	Sec
	<u>Proposals for the measurement of Transport Structure Assets in the 2016/17 Code</u>	
5.16	The Board sought clarification of the proposals for depreciation and their consistency IAS 16 and the FReM. The Secretariat explained that it is consistent with IAS 16 in that it estimated the consumption of the asset.	

5.18	The Board requested a note from the Secretariat on the treatment of annual depreciation and the accounting implications of the measurement of condition under the Transport Code.	
5.19	The Secretary explained that IAS 16 <i>Property, Plant and Equipment</i> approach and definition of depreciation does not fully accommodate the pattern of consumption of economic benefits and service potential in networks of assets measured at current value where substantial elements of the network and its service potential are replaced each year. The Board asked that it be made clearer in the ITC that this is an interpretation of IAS 16.	Sec
	<u>De-recognition of transport infrastructure assets</u>	
5.20	The Secretariat reminded the Board this treatment was necessary due to the nature of a network of assets.	Sec
	<u>Transition</u>	
5.21	Members of the Board asked whether the ITC could be more specific since the draft ITC refers to the use of any reasonable approach. Following debate it was agreed that the ITC should be limited to establishing whether any reasonable estimation technique would be acceptable.	Sec
	Financial Reporting and Accounting Developments	
5.22	Before embarking on a consideration of these detailed points, the Board stressed the need for the Executive Summary to clearly distinguish them the more substantive issues. The Secretary would note that this was the normal process for the ITC but that the Executive Summary awaited the Board's decisions on the way forward on the body of the proposals.	Sec
	<u>IAS 1 Presentation of Financial Statements Disclosure Initiative</u>	
5.23	The Board supported the proposals in the Exposure Draft.	
	<u>Approach to IAS 19 Amendments</u>	
5.24	The Board supported the proposal to adopt the same approach as it had done in its proposals for the 2015/16 Code.	Sec
	<u>Annual Improvements to IFRS 2010-2012 Cycle</u>	
5.25	The Board supported the proposal to adopt the same approach as it had done in its proposals for the 2015/16 Code with the exception of the	

	<p>amendment for the treatment of accumulated depreciation and impairment (amendments to IAS 16). The Chair drew attention to the potential for the Standard to allow for different treatments for accumulated depreciation and impairment and considered that it would not be appropriate for local authorities within the defined classes of assets. The Secretary recognised the problem, but pointed out that to prevent it would require an adaptation. It was noted that this had been done by <i>Monitor</i>. The Board therefore requested that the adaptation be taken forward. It considered therefore as the normal approach to the treatment of accumulated depreciation and impairment was that it was eliminated that this should be the only approach permitted in the Code for non-highways property, plant and equipment. This was recognised as being different to the approach for Highways Assets.</p>	Sec
	<u>Annual Improvements to IFRS 2012-2014 Cycle</u>	
5.26	The Board supported the proposals in the Exposure Draft.	
	<u>Amendments to IFRS 11 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations</u>	
5.27	The proposals were agreed without discussion.	
	<u>IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.</u>	
5.28	The Secretary highlighted that as noted in the report this amendment quite possibly might not be endorsed in time for the 2016/17 Code. The Board agreed that it should be included for completeness.	
	<u>Amendments to IAS 27 Separate Financial Statements (2011), Equity Method in Separate Financial Statements</u>	
5.29	The proposals were agreed without discussion.	
	<u>IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities</u>	
5.30	The Board in this context only considered the chapters referred to in the report and ITC. The Secretary noted that the changes were relevant in the streamlining agenda.	
	<u>Minor Amendment – Accounting for Schools Non-Current Assets</u>	
5.31	The proposals were agreed. CIPFA/LASAAC was clear that the amendment relating to schools was not a change in the provisions of the	Sec

	Code and therefore stipulated that the ITC did not require a question on this issue.	
	<u>The Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015</u>	
5.30	The Board asked that the introduction Chapter to the Code should be simplified, perhaps by simply referring to only the 30 June deadline. It also needed to be made clear that it applied only in England.	Sec
5.31	The Board was content with the treatment of the regulations for the changes in Northern Ireland.	
5.32	It was note that the ED should be clear that in Scotland the equal pay issue is being addressed by statutory guidance rather than regulation.	Sec
5.33	The Board considered that the introductory stipulations on narrative reporting in section 3.1 of the Code should only refer to England, Northern Ireland and Wales.	Sec
	<u>Any other issues</u>	
5.34	The Board was not aware of other issues that should be included in the ED or the ITC (with the exception of the report on pensions).	
	<u>Accounting and Reporting by Pension Funds</u>	
5.35	The Secretary introduced the separate paper on this item by explaining that the essence of the proposal is to review the Code's provisions on accounting and reporting be pension funds and where relevant (ie particularly the format of the pension fund statements) review against the provisions of the new Pension SORP 2015 ¹ .	
5.36	Members of the Board considered paragraph 5.7 on the application to group accounts and suggested that recent Scottish experience suggests that this will be more than a theoretical possibility. The Board was clear that Group Accounts could apply to the pension fund even though it was not a separate legal entity; it was a separate financial reporting entity.	Sec
5.37	The Board argued that there was no compelling reason for the Code to only take forward option A for the Actuarial Present Value of Promised Retirement Benefits and therefore it would not go-ahead with this proposal. It decided that as this was an issue raised in last year's consultation that the ITC could include a relevant question to consider	

¹ Financial Reports of Pension Schemes, Statement of Recommended Practice (Pension SORP 2015)

	whether accounts preparers or other interested parties might be able to put forward arguments for the removal of options B and C.	Sec
5.39	The Board strongly concurred with the management costs should be disclosed so the Secretariat would strengthen the proposal in the ITC – subject to the limitation that it cannot mandate this disclosure.	Sec
5.40	A member of Board drew attention to 6.5.2.8 and 6.5.2.9 suggesting that Code allows IAS 19 liability valuation when the intention is that it is a funding valuation.	
5.41	Also the pensions section of the ITC should state that separate pensions fund financial statements are currently not an option for CIPFA/LASAAC with the exception of Scotland.	Sec
6	Streamlining local authority financial statements	
6.1	Alison Scott explained that the proposals before the Board took forward those based on the new Funding Statement considered by the Board at the last meeting. She recognised that the case as with the majority of streamlining or cutting clutter approaches that this statement flowed essentially from its value to users and potential users and thus promoting accountability rather than necessarily to immediately reduce the burden of accounts preparation.	
6.2	Members of the Board were sympathetic to the motivation behind the introduction of the Funding Statement but felt that practitioners' expectations might be disappointed by the introduction of an additional financial statement. This was especially the case since a misconceived link had been made between early closing and the streamlining programme.	
6.3	The Chair of LAAP stressed the need to set out the ideal to which we are aspiring and then plot a course to move towards that within the constraints within which the Board must work. The principal source of this complexity, that is to say the interaction between the regulatory environment and IFRS, were fixed at least in the short-term. The Secretary confirmed, however, that the Working Group had been mandated by CIPFA/LASAAC to consider wide reaching options and it had done. This option analysis had been considered by the Board in its March meeting.	
6.5	The Board considered that the ITC should highlight the main benefits of the proposals. It considered that one way in this could be made clear is by, for example, moving the delinking of SeRCOP from the statement of accounts to the front of the consultation.	Sec
6.6	Some Members of the Board were of the view that the ITC should reflect	

	all the options considered by the working party together with an explanation of why a number were no longer considered in the proposals. In this way respondents would have a better understanding of the reasoning behind the Board's proposals and may indeed be encouraged to make their own suggestions.	Sec
	<u>Funding Statement</u>	
6.7	The Board identified the merits of a separate HRA funding statement would be a question worth asking in the consultation.	Sec
6.8	The Board debated whether the technical terminology used in the proposed funding statement would deter potential readers. Following substantial debate the Board decided that the statement should be included in the narrative report, so as to allow its presentation to be better adapted to users and potential users and to permit the introduction of budget information. The Board discussed the positioning of the funding statement in relation to its ability to meet some of the reporting requirements of IFRS 8 <i>Operating Segments</i> . The Board remained of the view that the funding statement should be included in the narrative report and as such would adapt IFRS 8, if necessary, to ensure that the Funding Statement remained in the Narrative Report.	Sec
6.9	With respect to timing, the Board favoured 2016/17.	
6.10	The Secretary briefed the Board on the disclosure review outlined in the report and indicated there might be more merit in a tailored approach which focussed on materiality (and potentially akin to that in FRS 102 ²) especially with respect to financial instruments and possibly post-employment benefits disclosures. The Board were of the view that the same reductions could be achieved by careful application of principles of materiality. It was agreed to defer the disclosure review to a later stage of the streamlining programme.	
6.11	The Board concluded that it would review revised proposals on improving the presentation of local authority financial statements in a conference call Board meeting. [This subsequently took place on 10 June 2015]	CIPFA/L ASAAC (Sec)
7	Accounting and Auditing Standards Update	
7.1	This information item was noted.	
8	Any other business	
8.1	The Board would be advised of the start time of its next meeting in	

² The Financial Reporting Standard applicable in the UK and Republic of Ireland, Financial Reporting Council

	Edinburgh - 4 November 2015.	
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