

minutes

Board	CIPFA/LASAAC Local Authority Code Board	
Date	4 November 2015	
Time	11:00 am	
Venue	CIPFA, 160 Dundee Street, Edinburgh, EH11 1DQ	
Present		
Chair	Lynn Pamment	<i>PwC</i>
CIPFA Nominees	David Aldous Christine Golding Conrad Hall Joseph Holmes Owen Jones Greg McIntosh	<i>National Audit Office Essex County Council London Borough of Brent Slough Borough Council Newport City Council KPMG</i>
LASAAC Nominees	Nick Bennett Russell Frith Fiona Kordiak Joseph McLachlan Derek Yule	<i>Scott Moncrieff Audit Scotland Audit Scotland East Ayrshire Council The Highland Council (Vice-chair)</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	Ian Carruthers Alison Scott Sarah Sheen Gareth Davies Matthew Allen	<i>CIPFA CIPFA CIPFA (Secretary) by phone CIPFA Scotland CIPFA</i>

		Action
1	Declarations of interest	
1.1	There were no declarations of interest.	
2	Apologies for absence	
2.1	Apologies were received before the meeting from Graham Coulter, David Jones and George Murphy. The meeting was confirmed to be quorate.	
2.2	The Secretary reported that Angie Sinclair had resigned. Although the last recruitment process had been relatively recent, it was agreed that it would be repeated and previous applicants considered if they re-apply.	Sec
2.3	Stephen McCormick had resigned and it was anticipated that the NIAO would nominate a replacement ¹ .	
3	Matters Arising from Minutes of June 2015 Meeting of CIPFA/LASAAC	
3.1	The Board had no additional comments on the minutes that had already been agreed. There were no matters arising that were not already on the agenda.	
4	Review of Outstanding Actions CL 04 11-15	
4.1	<i>(1) Second phase of the infrastructure measurement</i>	
4.2	The Secretary explained that this had been overtaken by subsequent events so CIPFA/LASAAC would receive updates of the PISG timetable at its March meeting.	
	<i>(3) Board wishes to see latest on WGA returns</i>	
4.3	CIPFA/LASAAC had no additional comments on these returns following the receipt of the email containing the analysis with reference to the outstanding actions.	
	<i>(7) Other position statements to be agreed</i>	
4.4	The Secretary explained that this had been added as a standing item so that CIPFA/LASAAC could keep them under review.	Sec
	<i>(8) The FRC should be approached again on the issue of the vacancy for</i>	

¹ Under the CIPFA/LASAAC Terms of Reference the appointment is approved by the CIPFA Northern Ireland Branch

	<i>CIPFA/LASAAC.</i>	
4.5	Alison Scott explained that this had been raised with the FRC but that she had not pressed the FRC as they were currently short of staff.	AS
4.6	CIPFA/LASAAC asked that at each meeting it receives a summary of the actions taken since the previous meeting.	Sec
5	Development of 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom (Highways Infrastructure Assets)	
5.1	CIPFA/LASAAC opened its consideration of Paper CL 05 11 -15 on the Highways Network Asset by considering the wider public sector context, including the current WGA qualifications and the significance for the overall figures of Highways England, Network Rail and Transport for London.	
5.2	Within the local authority context more specifically, CIPFA/LASAAC noted that the significance of this issue arose from its implication for balance sheets with the new measurement requirements dwarfing those experienced as a consequence of previous changes to accounting policies, including the move to IFRS.	
5.3	CIPFA/LASAAC also took the view that WGA or the dry-run of central government resource accounting were not fully useful comparisons with the proposals for highways infrastructure assets. This is because of the scale of the impact of the present proposals on local authority balance sheets which would also bring with them a risk that they might be misinterpreted by stakeholders. As a consequence CIPFA/LASAAC recognised that CFOs would need to be supported by ensuring that the reasons and implications for the change are communicated effectively.	
5.4	CIPFA/LASAAC then considered all the available evidence on local authority preparedness and the prospects of successful implementation contained in the supplementary paper CL 05 11 -15 (i). It considered the CIPFA Readiness Questionnaire Feedback as offering a positive assessment. This was supported by the overall positive tone of the responses on the issue in the consultation on the 2016/17 Accounting Code.	
5.5	CIPFA/LASAAC then received an oral update of the feedback from the auditor assessments of authority preparedness. When interpreted according to its headline figures, it suggested that there might be significant cohort of authorities that were currently not fully prepared for the changes. CIPFA/LASAAC debated how these figures should be interpreted in the light of the more detailed breakdown of the figures	

	provided.	
5.6	CIPFA/LASAAC then considered the audit implications of the proposals. The Board noted the need for a central assurance process for the models operating under the <i>Code of Practice on Transport Infrastructure Assets</i> (the Transport Code), stressing in particular the work necessary to ensure that the model(s) being offered to authorities are sufficiently validated to satisfy local auditors. It was noted that the CIPFA Secretariat was considering this issue. The Board considered that a centralised assurance process was necessary to avoid the additional costs that were otherwise likely to arise if there was not a central process.	
5.7	Members of CIPFA/LASAAC were concerned about the potential impact on the audit approach to materiality. CIPFA/LASAAC recognised the pressures that might prevent the adoption of a different approach to materiality for infrastructure assets. It was the Board's understanding that auditing approaches set materiality by revenue based criteria.	
5.8	Members of CIPFA/LASAAC noted that in the light of the supportive consultation responses CIPFA/LASAAC would need clear reasons not to proceed. This was especially because further delay would add to uncertainty, be a disincentive to authorities from making preparation and delay the important task of developing the various assurance processes necessary to underpin successful implementation of the changes. There was as a consequence a strong consensus within CIPFA/LASAAC in favour of implementation in 2016/17.	
5.9	Given this assessment, the challenge posed by 2015/16 restatement was isolated as the principal risk following the issues raised by the Secretariat and in CL 05 11 -15 in relation to the adequacy of information for the opening balances for 1 April 2015 and the comparative period information provided ie 2015/16. Subsequent discussion was therefore guided principally by CIPFA/LASAAC's desire to mitigate this risk.	
5.10	CIPFA/LASAAC then turned to the proposal contained in the audit body's consultation response focusing on the benefits of using paragraph 17 of IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> to revalue assets in accordance with IAS 16 <i>Property, Plant and Equipment</i> as a change in an accounting policy to be dealt with as a revaluation rather than in accordance with the general approach in IAS 8. CIPFA/LASAAC noted with concern that this would not be in accordance with the requirements of IAS 1 <i>Presentation of Financial Statements</i> ie that full retrospective restatement was required where a reclassification was necessary. However, after substantial deliberation CIPFA/LASAAC decided that it was concerned to build on the positive progress demonstrated by the evidence it received and would proceed with implementation in 2016/17.	

5.11	CIPFA/LASAAC focussed on the advantages in the approach in IAS 8 and it decided to adapt IAS 1 on an exceptional basis. It would not require an opening balance from 1 April 2015 or preceding year information for 2016/17 year. Therefore retrospective restatement would be required from 1 April 2016 only. The Secretary noted that there were comparable approaches in IFRS, eg, that of IFRS 9. The Board considered that appropriate explanation would be required in a note to the 2016/17 financial statements.	Sec
5.12	CIPFA/LASAAC recognised the need for the adaption to be presented to FRAB, but subject to satisfying this requirement the 2016/17 Code would adopt the proposals for Highways Network Asset valuation on which it had consulted.	Sec
5.13	The consultation responses were supportive of the application of IAS16 to the highways network as single asset but CIPFA/LASAAC recognised that that the position of councils that were not highways authorities (and particularly District Authorities) may need additional commentary. The Secretariat's analysis was that these authorities may have items which meet the definitions of the components of the highways network asset but these did not constitute a network and therefore meet the full definition of a Highways Network Asset. As CIPFA/LASAAC recognised, it was the purpose of holding the assets as part of a single integrated network that brought it within the scope of the Transport Code. The Board therefore requested that the Code outlined the position and that it should include a comment that it was not anticipated that District Authorities would have an asset meeting the definition of a Highways Network Asset.	
5.14	<p>The Code Board considered the merit of the need to recognise the existence of special cases, such as single purpose bridge authorities. Members commented that one could argue that the bridge carriageway considered in isolation would not meet the definition of a Highways Network Asset; this may be a perverse conclusion if the bridge served to join two highways network infrastructure assets. Given the rarity of such authorities it was accepted that separate application guidance may be needed for them.</p> <p>[Secretariat Note: <i>Following the meeting CIPFA/LASAAC decided to clarify minute 5.14 second sentence and instead comment that for single purpose authorities that only provide highways functions or services, this might represent a simple network which exists for a single purpose ie to secure the effective and safe management of the traffic using the network and which is maintained from this one objective. For these single purpose authorities it would be more useful for the users of their financial statements for them to measure this asset at DRC. CIPFA/LASAAC will therefore recommend to LAAP that application guidance to this effect be provided.</i>]</p>	

	Sections 5 and 6 of CL 05 11 -15 Measurement and Derecognition	
5.15	Given the consultation responses CIPFA/LASAAC was able to confirm its proposals for accumulated depreciation (paragraph 4.11.2.12 Appendix D ref CD2) and de-recognition (section 4.11 of the draft Code included in Appendix D ref CD2).	Sec
5.16	CIPFA/LASAAC considered the argument that more detail should be included in the Accounting Code and noted that it was content with its current approach as it had always been its intention that the detail of the measurement prescriptions for the Highways Network Asset to be included in the Transport Code. However, CIPFA/LASAAC agreed with the Secretariat's proposal that this issue would be referred to PISG such that the principles of the Transport Code could be separated from those specifications that were guidance.	Sec
5.17	CIPFA/LASAAC had no further comments on the estimation of depreciation in the Transport Code and the Accounting Code and agreed with CL 05-11-15 in relation to the approach to the derecognition provisions in the Draft Section 4.11.	
6	Development of 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom - 2	
6.1	CIPFA/LASAAC next considered the remaining consultation responses to the main consultation on the draft 2016/17 Code. This it is did by considering in turn each of the Secretariat's detailed recommendations in turn.	
	Adaption of IFRS 13 Fair Value Measurement for Pension Fund Plan Assets	
6.2	CIPFA/LASAAC confirmed the maintenance of the adaptation to remove the IFRS 13 <i>Fair Value Measurement</i> scope exclusion in Section 2.10 so that fair value disclosures apply where relevant to pension fund assets (see paragraph 2.10.1.3).	
	Disclosure of transactions costs for investment management	
6.3	CIPFA/LASAAC noted that it had received most commentary on the disclosure of transactions costs for investment management. It was unable, however, to satisfy the preference expressed for making this disclosure mandatory as this disclosure was a recommended disclosure in the 2015 Pensions SORP.	
6.4	Given the importance of this issue CIPFA/LASAAC decided that this section of the Code would be augmented to make CIPFA/LASAAC's position	Sec

	clearer and the issue placed in the 2017/18 work programme so as to permit a more detailed examination of the relevant standards.	
6.5	CIPFA/LASAAC agreed the amendments to Section 6.5 of the Code with respect to the reporting requirements for Scottish Administering Authorities.	
	<i>IAS 1 Presentation of Financial Statements, Disclosure Initiative</i>	
6.6	CIPFA/LASAAC agreed the amendments to Section 3.4 of the Code for IAS 1 <i>Presentation of Financial Statements</i> , Disclosure Initiative (ref CD 1)	
6.7	CIPFA/LASAAC agreed that it would include the accounting policy review in the development programme for the Code.	Sec
	<i>IAS 19 Employee Benefits, Defined Benefit Plans: Employee Contributions</i>	
6.8	CIPFA/LASAAC agreed the approach in the draft Code to amendments the Code for IAS 19 <i>Employee Benefits, Defined Benefit Plans: Employee Contributions</i> .	
	<i>Annual Improvements 2010-12 Cycle</i>	
6.9	CIPFA/LASAAC confirmed that it would proceed with its adaptation to the Code at paragraph 4.2.1.33 and permit only the elimination option for property, plant and equipment assets that are not a part of the Highways Network Asset.	
6.10	CIPFA/LASAAC agreed the approach to amendments to the Code for Annual Improvements to IFRS 2010 - 2012 Cycle ((Aggregation of Operating Segments), (Treatment of Accumulated Depreciation), (Related Party Disclosures) and (Accounting for a Contingent Consideration in a Business Combination)).	
	<i>Annual Improvements 2012-14 Cycle</i>	
6.11	CIPFA/LASAAC agreed the approach to amendments to the Code for Annual Improvements to IFRS 2012 - 2014 Cycle. It also agreed with the proposals that a new Appendix would be introduced setting out the new or amended standards that have been added to the Code each year.	
	<i>IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets, Clarification of Acceptable Methods of Depreciation and Amortisation</i>	

6.12	CIPFA/LASAAC agreed the approach to amendments to the Code for IAS 16 <i>Property, Plant and Equipment</i> and IAS 38 <i>Intangible Assets</i> , Clarification of Acceptable Methods of Depreciation and Amortisation.	
	<i>IFRS 11 Joint Arrangements, Accounting for Acquisitions of Interests in Joint Operations</i>	
6.13	CIPFA/LASAAC agreed with the amendments in the Code for IFRS 11 <i>Joint Arrangements</i> , Accounting for Acquisitions of Interests in Joint Operations.	
	<i>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</i>	
6.14	CIPFA/LASAAC agreed with the approach to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures (2011)</i> , Sale or Contribution of Assets between an Investor and its Associate or Joint Venture in the Code and noted the position outlined in the report.	
	<i>IAS 27 Separate Financial Statements (2011), Equity Method in Separate Financial Statements</i>	
6.15	CIPFA/LASAAC confirmed its interpretation of IAS 27 <i>Separate Financial Statements</i> Equity Method in Separate Financial Statements and not to include the equity option in the 2016/17 Code.	
	<i>Augmentation of the Code's Provisions on Concepts – The IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities</i>	
6.16	CIPFA/LASAAC confirmed its approach re Augmentation of the Code's Provisions on Concepts – <i>The IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities</i> in the Code.	
	<i>Accounts and Audit Regulations 2015 The Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015 (English Authorities)</i>	
6.17	CIPFA/LASAAC agreed the amendments to the Code for the Accounts and Audit Regulations 2015, including those relating to the narrative statements for local authorities in England.	
6.18	In doing this the Secretary highlighted for CIPFA/LASAAC the response from one authority that it considered that the Exposure Draft for Section 3.1 had gone further than the requirements of statute (per Regulation 8 (2) of the Accounts and Audit Regulations 2015) in establishing the principles for providing a commentary on performance issues.	

	CIPFA/LASAAC considered this issue and confirmed that it was content with its approach in the Code ie that it had established the principles for meeting this statutory reporting requirement.	
	<i>The Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015</i>	
6.19	CIPFA/LASAAC agreed the amendments to the Code for the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015.	
6.20	CIPFA/LASAAC concluded its discussion of the statutory based amendments to the Code and particularly Chapter One of the Code by determining that given the increasing divergence of approach in the devolved administrations this chapter of the Code would in future editions be clearer if the situation under each administration were dealt with in separately. This issue was considered to be one for the development of the 2017/18 Code.	Sec
	<i>Minor amendments to the Code</i>	
6.21	CIPFA/LASAAC approved a number of drafting comments for the minor amendments in paragraphs 8.2.3.2 and 8.2.3.3.	
	<i>Other Areas of where Additional Guidance was Sought</i>	
6.22	CIPFA/LASAAC considered whether the Code should include more extensive provisions on the production of the Annual Governance Statement. This was prompted by the current CIPFA/SOLACE review of its <i>Delivering Good Governance in Local Government: Framework 2016</i> which it was anticipated would result in becoming less detailed in its prescriptions. This change would become applicable for the 2016/17 Code.	
6.23	At present the Accounting Code referred to Appendix B of the Governance Code, but in the future would possibly have to include the relevant elements of Appendix B since the detailed appendix to the governance code was being discontinued.	
6.24	CIPFA/LASAAC decided to refer to the currently existing CIPFA/SOLACE Code in the 2016/17 Accounting Code and to consider the implications of the amended CIPFA/SOLACE Code in the 2017/18 work programme. [Secretariat Note re minutes 6.22 to 6.24: the <i>Delivering Good Governance in Local Government: Framework 2016</i> published by CIPFA and SOLACE (CIPFA/SOLACE Framework) includes the reporting requirements for the Annual Governance Statement. There is therefore no requirement to include the previous 2015/16 requirements in the 2016/17 Code as discussed at the meeting. The reporting requirements	

	have changed following the recent review of the CIPFA/SOLACE Framework and they have been updated by the CIPFA Secretariat]	
6.25	CIPFA/LASAAC received a briefing from the Secretary on a number of issues that respondents considered should be addressed by further amendment to the Code. Of these, the most significant was the need to assess the potential implications of the current economic environment for some local authorities, recognising that the Code does not at present include an explicit definition of the concept of going concern. The Board agreed with the Secretary's recommendation that this be considered as a development area in the 2017/18 Code as the issue would need appropriate consideration for the local government statutory finance framework.	
6.26	The CIPFA/LASAAC member who was also the Chair of LAAP was concerned that the words "refer to" in the report might lead to practitioners expecting more guidance on these issues whereas as is noted in the Appendix substantial application guidance had already been produced on a number of these areas. CIPFA/LASAAC agreed that the use of these words did not mean that more application guidance was anticipated or necessary for these issues (ref paragraph 7.7 and Appendix B, CL 06 11-15).	
6.27	CIPFA/LASAAC considered that the Secretary's analysis of the specific issues raised in the consultation responses outlined in Appendix B provided an appropriate response to these issues.	Sec
7	Telling the Story - improving the presentation of local authority financial statements (Development of the 2016/17 Code - 3)	
7.1	Alison Scott introduced the responses to its Telling the Story Consultation (CL 07 11 -15) paper by drawing attention to the strong consultation response from a variety of individual authorities and representative groups.	
7.2	CIPFA/LASAAC confirmed the principles of the approach outlined in its consultation paper, which were to remove the direct link with the SeRCOP SEA and to introduce the Funding Analysis to local authority financial statements.	
	<i>The Format, Position and Description of the Funding Analysis</i>	
7.3	CIPFA/LASAAC agreed to adopt a modified version of the Funding Analysis proposed in the consultation which reflected the evidence in the consultation responses of the range of different local authority internal reporting formats. CIPFA/LASAAC agreed that the Funding Analysis should be a disclosure note in the financial statements but not a primary statement. In addition, CIPFA/LASAAC accepted the proposal that	

	authorities should have discretion in choosing a positioning of the Analysis that best meets the requirements of the users of an individual local authority's financial statements.	
7.4	CIPFA/LASAAC decided that Expenditure and Funding Analysis would be a more informative title for the new analysis.	Sec
	<i>Comprehensive Income and Expenditure Statement -Service Analysis on a Total Cost or Direct Cost Basis</i>	
7.5	CIPFA/LASAAC had a detailed discussion of the definition of net expenditure and the need for an analysis of any differences arising between the CIES and the Expenditure and Funding Analysis. This was now a matter for the Code because the formal relationship with the CIES had now been removed.	
7.6	As a consequence of the points raised, the Secretariat would clarify that the service segments CIES would need to include depreciation, impairment and employee expenses including IAS 19 based pension costs.	Sec
	<i>Movement in Reserves Statement</i>	
7.7	CIPFA/LASAAC confirmed its proposals in the Invitation to Comment (ITC) to streamline the Movement in Reserves Statement (MiRS).	
	<i>Earmarked Reserves on the Face of the MiRS</i>	
7.8	CIPFA/LASAAC confirmed its approach relating to the inclusion of Earmarked Reserves on the face of the MiRS in accordance with its consultation proposals.	
	<i>Surplus or Deficit on the Provision of Services line (Removal from the Face of the MiRS)</i>	
7.9	CIPFA/LASAAC confirmed that the Surplus or Deficit on the Provision of Services line is removed from the MiRS.	
	<i>Adjustments between the Accounting Basis and Funding Basis</i>	
7.10	CIPFA/LASAAC confirmed its approach to the note for Adjustments between the Accounting Basis and Funding Basis.	
	<i>CIES and Funding Analysis Meeting Segmental Reporting Requirements</i>	
7.11	CIPFA/LASAAC considered whether it was content with the approach to paragraph 23 of IFRS 8 and that proposed Expenditure and Funding Analysis and supporting note would meet the requirements of paragraph	

	28 of IFRS 8.	
7.12	CIPFA/LASAAC concluded that both the Expenditure and Funding Analysis and the CIES included an analysis of the costs of providing services and thus provided a segmental analysis. As a consequence the Code segmental analysis requirements should be simplified, since the new presentation should lessen the need for additional segmental reporting. In most cases the introduction of the Expenditure and Funding Analysis would satisfy the requirements of IFRS 8, paragraph 23. There might more rarely, however, still be situations – such as those in which an authority had a material income from customers – when this would not be the case and clarifications should be included in the Code to reflect this.	Sec
	<i>Transitional arrangements</i>	
7.13	The Telling the Story proposals (as modified by CIPFA/LASAAC) would be introduced in 2016/17 without the option of early adoption.	
7.14	The introduction of these proposals would be heralded by a press release by Alison Scott which would stress the positive response to the consultation and show how it was a stepping stone in a continuing process.	Sec
	<i>Next Steps for the draft 2016/17 Code</i>	
7.15	In conclusion to its discussion of the consultation responses it was agreed that the Secretariat would submit a revised draft for comments and approval by email before its consideration at FRAB on the 19 November.	Sec
8	Development Programme for the Code: IFRS 9 Financial Instruments and IFRS 15 Revenue Recognition from Contracts with Customers	
	<i>IFRS 9 Financial Instruments</i>	
8.1	Whilst more consideration would be given to IFRSs 9 and 15 at the Board's March 2016 meeting CIPFA/LASAAC was anxious to canvas early indications of the practical implications on adoption of these standards in the Code. Alison Scott confirmed that CIPFA needed information from local authority practitioners before considering whether there would be a need for a statutory mitigations for the new provisions included in IFRS 9. The Secretariat confirmed that the practitioners had been appointed to the working party examining the issues.	
	<i>IFRS 15 Revenue from Contact with Customers</i>	
8.2	Having considered the consultation responses, the Board continued to believe that there would be no substantial need to adapt or interpret IFRS	

	for a local authority context.	
9	Position Statements.	
9.1	CIPFA/LASAAC deferred the release of the position statement on the measurement of the Highways Network Asset and the Telling the Story consultation until its proposals had been approved under the approval processes for the Code.	Sec
10	Telling the Story of Local Authority Financial Statements (including the post-implementation and simplification and streamlining reviews):	
10.1	CIPFA/LASAAC raised the issue of statutory adjustments and their tendency to add complexity to local authority financial statements. Its approach would depend on future direction of travel of the Telling the Story work stream and working co-operatively with DCLG and the devolved administrations.	
11	Development programme for the 2017/18 Code	
11.1	CIPFA/LASAAC confirmed the development proposals for the 2017/18 Code in CL 11 11-15 – as amended by the additional items introduced in the course of the meeting.	
12	Accounting and Auditing Standards Update	
12.1	CIPFA/LASAAC noted the contents of CL 12 11-15	
13	Any other Business	
13.1	Gareth Caller drew attention to the recent launch of a consultation on business rate reform. A link would be circulated to CIPFA/LASAAC.	MA
14	Date of next year's Meetings	
14.1	<ul style="list-style-type: none"> • Thursday, 3 March 2016, London ,11:00 • Tuesday, 7 June 2016, Edinburgh, 10:30 • Wednesday, 9 November, 2016 London, 11:00 <p>NB the start times for these meetings may be subject to change.</p>	