

# Draft Minutes

CL 14 11 20

Board	CIPFA/LASAAC Local Authority Code Board	
Date	3 November 2020	
Time	10.30	
Venue	Microsoft Teams Meeting	
Present		
Chair	Conrad Hall	<i>London Borough of Newham</i>
CIPFA Nominees	Deryck Evans John Farrar Christine Golding Joseph Holmes Lucy Hume Owen James Collette Kane Paul Mayers Martin Stevens JJ Tohill	<i>Audit Wales Grant Thornton Essex County Council West Berkshire Council North Norfolk District Council Newport City Council Northern Ireland Audit Office National Audit Office Birmingham City Council Mid-Ulster Council</i>
LASAAC Nominees	Nick Bennet Gary Devlin Hugh Dunn Joseph McLachlan Paul O'Brien Gillian Woolman	<i>Scott Moncrieff (from 12:15) Scott Moncrieff (from 11:00) City of Edinburgh Council (from 12:15) East Ayrshire Council (from 11:00) Audit Scotland Audit Scotland (Vice Chair)</i>
Co-opted	Leigh Lloyd Thomas	<i>BDO</i>
Observers	Hazel Black Jenny Carter Jeff Glass Matthew Hemsley Vikki Lewis Michael Sunderland	<i>Scottish Government FRC Department of Communities NI MHCLG HM Treasury HM Treasury</i>
In Attendance	Steven Cain Milan Palmer Sarah Sheen	<i>CIPFA CIPFA CIPFA</i>

		<b>Action</b>
	<i>The Vice Chair chaired the meeting until Item 5 as the Chair was unavoidably detained.</i>	

<b>1</b>	<b>Apologies</b>	
1.1	Apologies were noted from Nick Bennet (who was able to attend from 12:15).	
<b>2</b>	<b>Declarations of Interest</b>	
2.1	No declarations of interest were noted.	
<b>3</b>	<b>Minutes for Note and Agreement and Matters Arising.</b>	
3.1	<ul style="list-style-type: none"> <li>The previously agreed minutes from 5 June 2020 were noted.</li> <li>The notes of 6 July 2020 had already been agreed. However, CIPFA LASAAC noted that note 4.11 was incorrect so considered that it should be removed.</li> <li>The notes of the meeting on 2 September 2020 were agreed.</li> <li>The notes of the meeting on 12 October 2020 were agreed. As a matter arising the Vice Chair confirmed that following the 12 October 2020 meeting the Chair, Vice Chair and the Secretariat had met, and it was agreed that a note of CIPFA LASAAC's decisions on the Redmond Review would be produced rather than a press statement.</li> </ul>	<b>Sec (DP)</b>
<b>4</b>	<b>Action Points Arising from Previous Meetings</b>	
4.1	<ul style="list-style-type: none"> <li>The Board noted that A.1 (Review and contrast FReM and Code with IPSAS and UK GAAP) was delayed.</li> <li>The Board recognised that A.6 relating to pensions lump sums had been referred to the Local Authority Accounting Panel but that it was unclear whether there were any actions arising.</li> <li>A.8 The Vice Chair noted that having the opportunity to meet Sir Tony Redmond and hear the conclusions and recommendations arising from the review had been extremely useful. The recommendations from the Redmond Review could, where applicable, now be embedded into the normal work programme of CIPFA LASAAC</li> <li>A.9 the public sector work on materiality was delayed for now but that in the interim HM Treasury would be introducing more narrative in the government's financial reporting manual.</li> <li>A.12 CIPFA's Auditing and Accounting Standard's Panel would refer the IASB's work on the IFRS primary statements to the Board as necessary.</li> <li>A.16 the Terms of Reference for the sub-group on housing tenancies had been agreed. The sub-group had met three times and would meet following the Board's meeting that day. The sub-group would provide its consultation paper and an accompanying technical appendix to the Board at their meeting on 20 November 2020.</li> <li>SS noted that the 2019/20 Code Update that had been produced for Transport for London and would have to be reproduced as an Update for the 2020/21 Code.</li> </ul>	
<b>5</b>	<b>FRAB Update</b>	
5.1	The Board was informed that the next meeting of the government's Financial Reporting Advisory Board (FRAB) was 19 November 2020. HM Treasury was considering the impact of the pandemic on the reporting arrangements for reporting entities following the FReM and was considering extending the simplified performance reporting arrangements	

	<p>offered to entities for 2020/21 for two to three years. This would also include the financial reporting deadlines which would move from 30 June to 30 September. These arrangements have been discussed with the Relevant Authorities Working Group (RAWG) which included the Department of Health and CIPFA as representatives of other relevant authorities.</p> <p>The deferral of implementation of IFRS 16 <i>Leases</i> was a related issue. There were HM Treasury internal discussions ongoing on this issue, but it was noted that there were no good options for this. It was also noted that in March /April FRAB had been clear that its view was that the deferral of IFRS 16 should only be for a year though it was recognised that events had changed since that view was provided.</p> <p>CIPFA LASAAC members were of the view that the impact of the pandemic on local government finance teams was such that it was necessary to delay implementation for a further year. CIPFA LASAAC members noted that finance teams had to implement and administer the issuing of numerous grants to businesses and this was a pressing piece of work. In addition, staff were redeployed on other urgent tasks. A member indicated that current audit delays had a knock-on effect to the workload and planning timescales of local authorities' work on the following year's tasks including the financial statements.</p> <p>The Board was also informed that the HM Treasury was also considering the timing of potential changes to the measurement of the service concession arrangement liability. This was a difficult issue and it was unlikely that this would be able to be implemented in 2021/22. The HM Treasury treatment of discount rates for the incremental borrowing rate under IFRS 16 was being reviewed.</p> <p>HM Treasury was also working on grantor accounting as a number of issues has arisen in relation to recognition of grant expenditure when Minister's made announcements. The view on the treatment was that there were other criteria for when recognition of grantor obligations should take place.</p>	
<p><b>6.</b></p>	<p><b>2021/22 Code of Practice on Local Authority Accounting in the United Kingdom – Approval of Changes Arising from Consultation Questions 2 to 13 and question 23</b></p>	
<p>6.1</p>	<p><i>Consultation Responses</i></p> <p>The Board was informed that the response rate to the consultation had been low as was anticipated though there was some reassurance that there was a reasonable spread of respondents to the consultation.</p> <p><i>IFRS 16 Implementation</i></p> <p>The Board revisited the issue of the implementation of IFRS 16. In addition to the earlier issues raised the Board also considered the implementation survey undertaken by FAN. One member commented that if there hadn't been much change between the March and September 2020 dates that it would be valuable to have a further delay. A member from an audit firm commented that even those authorities that indicated that they were well</p>	

prepared, when pushed with some technical queries, realised they were not.

The Board noted that there ought to be consistency in approach across the public sector.

It also considered how much the impact of the change in financial information arising from implementation of the standard might have for users of the accounts. It was noted that from a central government perspective between £15 to £20 billion assets and liabilities would be brought on to the balance sheet.

The Secretariat commented that there were risks that local authorities would see IFRS 16 as a standard which would not be implemented as it had already been delayed twice.

The Board considered the risks but were of the view that the resource and other practical issues facing local authorities were so substantial that it would delay implementing IFRS 16 until the 2022/23 financial year. The Board noted, however, that it would consider FRAB advice and the impact on Whole of Government Accounts.

#### *B.2 Measurement of the Service Concession Liability*

CIPFA LASAAC was informed that the largest number of respondents were of the view that the IFRS 16 measurement of the liability should follow Option 1 in the consultation paper ie the liability would change if cashflows are modified rather than the option of following IAS 17 *Leases* and not remeasuring the liability. This was a lower percentage than had been provided by last year's respondents to the consultation.

The Board considered that probably conceptually the measurement of the liability under IFRS 16 was the better option. However, a further conceptual issue had arisen. One respondent had expressed the view that a PFI Scheme was not a lease but a deferred asset purchase so that the cashflow modifications would be incurred not on the asset but on the services. However, a firm had indicated that it was of the view that the cash flow modifications would arise on the asset and not the services in the contract. After deliberation about the incidence of PFI contracts the Board agreed that as it was not clear which view was correct that there would need to be a working group established with the relevant experts (including those which raised the issue).

#### *B.3 Interpretation for Leases at Nil Consideration a Nominal Amount or at a Peppercorn*

The Board noted that there was not a great deal of evidence of transactions where leases were at nil consideration, at a nominal amount or at a peppercorn which were commercial in nature. It was noted that some respondents were concerned that it should be clear that for the public sector these were not commercial transactions (and that the drafting should be clear that this was the case). The Code Drafts therefore included augmentation clarifying that the interpretation only related to transactions where the substance was such that the asset was being donated. A Board member enquired whether the clarifications may give rise to inconsistent treatment across the public sector. It was confirmed that earlier discussions with HM Treasury had commented that the interpretation was intended to capture transactions (leases) which were in substance donations of assets.

	<p>The Board agreed to correct the drafting which created an internal inconsistency with the Code’s other provisions on donated assets at paragraph 4.2.2.48.</p> <p><i>B.4 COVID-19 Related Rent Concessions</i></p> <p>The Board noted that when there was final agreement on the deferral of IFRS 16 to the 2022/23 Code then as these amendments were time limited they would not apply. However, if the original implementation date was maintained then the Board agreed the provisions should be included as drafted. A Board member enquired whether any provisions would be required if the IFRS 16 deferral proceeded. The Board agreed that it would not need to make any changes as the consultation had indicated that there were not substantial volumes of these transactions.</p> <p><i>C.1 and C.2 Interest Rate Benchmark Reform (Phases 1 and 2): Amendments to IFRS 9, IAS 39 and IFRS 7</i></p> <p>CIPFA LASAAC agreed to proceed with these changes and noted that they were supported by respondents by a substantial margin. IBOR Phase 2 would need to be UK endorsed to be adopted in the 2021/22 Code.</p> <p><i>C.3 IPSAS 41 Financial Instruments</i></p> <p>The Board agreed to the changes to the Code and to include confirmation that this would not change the recognition and measurement requirements for financial instruments.</p> <p><i>C.4 IPSAS 42 Social Benefits</i></p> <p>The Board noted that housing allowances might meet the definition of social benefits and that this change would be deferred to the 2022/23 Code. This would allow social benefits to be considered in more detail and whether any further provisions and guidance might be required in the Code.</p> <p><i>D.1 Sources of Estimation Uncertainty</i></p> <p>The Board agreed the changes to the Code.</p> <p><i>Analysis of the Responses to Question 23 Further Guidance</i></p> <p>The Board agreed with the approach outlined in Appendix C which set out the Secretariat’s proposed approach to the responses raised by the further guidance question.</p> <p>A Member of the Board noted with regard to the list of changes which would be referred to the Strategic Plan that he was concerned that the Board had spent useful time devising the Plan at its Away Day. When attempts had been made to change the Board had been limited in the actions it had been able to take. He considered that it might be useful for the Board to recognise that (as it already did) local authorities were complex businesses that enter into complex transactions. It might be useful to communicate this to local authority stakeholders and instead devote time to ensuring that key messages were clear. It was recognised that the Redmond Review might assist in this.</p> <p><i>2021/22 Code</i></p> <p>The Secretariat noted that the Code would be sent to the Board as soon as possible with its agreed changes.</p>	<b>Sec</b>
<b>7</b>	<b>Initial Feedback on the Consultation Responses on the Question Relating to the Redmond Review</b>	

7.1	<p>The Board noted the summary of the responses to the Redmond Review consultation questions. Its question on the Redmond Review had not been specific as there had been so little time available from the publication of the Review recommendations and the issue of its consultation. As a result, there had been a wide range of responses to the review some of which were not directly related to the work of the Board. Since the consultation had closed that there had been further commentary from the Society of District Council Treasurers that had raised substantial concerns about the standardised statement of service information. It was particularly concerned about workload and ensuring that there was not duplication between the proposed statement and the accounts. It was reported that the advice on the Review was still with ministers.</p> <p>The Board concluded that the information from the responses to the consultation question would be useful to consider when it was clear what the direction would be from government regarding the statement of service information. CIPFA LASAAC would also be able to use the feedback on approaches to changes to financial reporting in its work on its Strategic Plan.</p>	
<b>8</b>	<b>Updated Report on the Statutory Reporting of the Dedicated School's Grant</b>	
8.1	<p>The Board noted that CIPFA's position on the reporting on the Dedicated School's Grant (DSG) remained consistent with that in <a href="#">CIPFA Bulletin 05 Closure of the 2019/20 Financial Statements</a>. However, it understood the approach to the draft statutory instrument. CIPFA under the auspices of LAAP would work with MHCLG to produce guidance on the accounting treatment.</p> <p>The Secretariat was of the view that with these elements in place and due to the short-term nature of the statutory prescriptions there was no need to make amendments to the Code.</p> <p>It was reported that the instrument was likely to be laid on Friday 6 November 2020 rather than the date indicated in the report. The Board understood that all attempts would be made to ensure that the timescales for deficits would not extend beyond that set out in the draft statutory instrument. However, the Board agreed to keep the issue under review and include DSG as a standing item on the CIPFA LASAAC agenda.</p> <p>A member raised the issue that the changes to statutory reporting on the DSG might impact on the control analysis under IFRS 10 <i>Consolidated Financial Statements</i> which led to the adaptation included in Appendix E (Accounting for schools in local authorities in England and Wales) of the Code. The Secretariat was asked to review this issue.</p>	<b>Sec.</b>
<b>9</b>	<b>Initial Feedback on the Consultation Responses on the Question Relating to IFRS 17 Insurance Contracts</b>	
9.1	<p>The Board noted that only 8 respondents responded substantively to this question and considered the list of issues outlined in the consultation documents that might be covered by the standard. The Board understood that the entity that undertook mutual insurance arrangements would be covered by the standard. For the other items it seemed less likely that</p>	

	IFRS 17 would apply though this would depend on understanding the nature of the arrangement. Such a low response rate might indicate that like the current arrangements in the Code for IFRS 4 <i>Insurance Contracts</i> this would not be a substantial issue for the Code. CIPFA LASAAC considered this analysis would be used to assist with preparations for the approach to the adoption of the standard in the Code. The Secretariat was also a member of the public sector working group and this would ensure consistency with the FReM approach to adoption.	
10	<b>How Standard Setting Works</b>	
10.1	The Board received a short presentation on how standard setting works and the opportunities for commentary from a public sector perspective in response to a request from a member at the June meeting. The Board commented that it was important that the members reflected from their own professional backgrounds how they might be able to engage with the processes outlined in the handout and presentation. It was of the view that the processes underlined the need for good financial reporting particularly during the pandemic. CIPFA LASAAC was also of the view that the presentation may usefully be included in future technical update days.	
11.	<b>Dates of Subsequent Meetings</b>	
11.1	The meeting of 9 November 2020 had to be cancelled and the meeting on 20 November extended by an hour. Some of the dates of the meetings listed on the agenda should be recorded as 2021 and not 2020.	

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