

minutes

Board	CIPFA/LASAAC Local Authority Code Board	
Date	8 November 2017	
Time	10:30 am	
Venue	CIPFA Scotland. 160 Dundee Street, Edinburgh, EH11 1DQ	
Present		
Chair	Lynn Pamment	<i>PwC</i>
CIPFA Nominees	David Aldous Christine Golding Conrad Hall Joseph Holmes Owen James David Jones Colette Kane Greg McIntosh Martin Stephens	<i>National Audit Office Essex County Council London Borough of Brent Winchester City Council Newport City Council Wales Audit Office Northern Ireland Audit Office KPMG Birmingham City Council</i>
LASAAC Nominees	Nick Bennett Russell Frith Ian Lorimer Joseph McLachlan Gillian Woolman	<i>Scott Moncrieff Audit Scotland Angus Council East Ayrshire Council Audit Scotland</i>
Observers	Hazel Black Gareth Caller Jenny Carter Rashmi Rajyaguru	<i>Scottish Government DCLG FRC HM Treasury</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 two declarations of interest:

- Although not likely to be an interest that needed to be declared the Secretary to the Board noted that she was married to the Local Authority Accounting Panel Member of the CIPFA/LASAAC sub group who produced the assessment of the impact of IFRS 16 Leases on the statutory capital finance position and General Fund Balances.
- Conrad Hall is a member of the Society of London Treasurers' which submitted one of the responses considered at the meeting.

2 Apologies for absence

- 2.1 Apologies were received from Ian Bulmer (substitute with the permission of the Chair, Rashmi Rajyaguru), Tim Day and Amanda Whittle.

3 Update on Membership Matters

- 3.1 The Secretary announced that Leah Scott and Michael Hudson had stepped down from the Board so these vacancies would be advertised. **Sec**
- 3.2 In addition the Board made particular note of it being Russell Frith's last meeting and asked that its appreciation of his substantial contribution to the work of the Board over 17 years be recorded.

4 Matters arising on Minutes of June Meeting of CIPFA/LASAAC

- 4.1 There were no comments on the minutes of the meeting of 6 June, which had been published on the website.
<http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/minutes-and-papers-2017>

5 Review of Outstanding Actions

- 5.1 Alison Scott clarified that she had arranged to meet LASAAC members at its February meeting to discuss its proposal for the presentation of statutory adjustments (Action Point 5).
- 5.2 All the remaining incomplete actions in CL 05 11-17 were items on the agenda.

6 Development of the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom

- 6.1 The Board first reflected on the consultation response rate for 2018/19. It noted that in making a comparison with similar types of consultation (e.g. the FRC on FRS 102¹) the volume of responses was good. Nonetheless, the Board remained eager to hear of any suggestions to improve the consultation process.

Purchase or Originated Credit Impaired Financial Assets

- 6.2 The Board agreed with the Secretariat's assessment that the possibility of **Sec**

¹ See *Feedback Statement - Consultation Document Triennial Review of UK and Ireland Accounting Standards, Approach to Changes in IFRS*, FRC June 2017

local authorities holding such assets is sufficient for the relevant of IFRS 9 *Financial Instruments* provisions to be included in the Code.

Simplified approach to investment

6.3 Having considered the comments received by the few respondents that commented on this issue, the Board confirmed its view that it would be for local authorities themselves to determine whether they would adopt the simplified approach since only they were able to determine the impact on the presentation of the financial statements. The consultation did not produce any evidence for the Board to remove an option that is provided by the standard. **Sec**

6.4 The Board noted in making this decision that it would result in an inconsistency with FREM but was content with its assessment of the approach.

Balances with Central Government and Other Public Sector Bodies

6.5 The Board's discussed at length the definition of 'Central Government and Other Public Sector Bodies' in CD4 paragraph 7.2.9.1 of the draft code presented to the Board.

6.6 It decided that given the evidence before it, and the difficult issues raised in assessing the statutory position for other public bodies, the Code should be specific only in respect of Central Government and Local Authority balances – with no reference to other bodies. In doing this explicit reference is to be made to the statutory provisions which ensure that all local authorities meet the requirements to be exempt. **Sec**

Drafting Improvements

6.7 The Board agreed the drafting improvements in Appendix C i) to the report CL 06 11-17 **Sec**

Detailed queries on Financial Instruments from Respondents

6.8 The Board considered appendix C ii) to the report CL 06 11-17, setting out other proposals raised by the consultation responses. The Board agreed the approach set out in Appendix C ii) but requested that a review take place in relation to the issues that could be resolved by application guidance to ensure that where relevant appropriate guidance is provided. **Sec**

IFRS 9 Impact on the General Fund

6.9 The Secretariat briefed the Board on the content of the report Tabled Addendum – Evidence on IFRS 9. This was being presented following the request for more information from the Treasury and Capital Management Panel as there had not been a substantial response rate to the IFRS 9 specific questionnaire.

6.10 Although IFRS 9 had been subject to two consultations in advance of the recently concluded one for the 2018/19 Code, it appeared that real engagement had only arrived at this late stage. This had produced largely qualitative rather than fully exemplified quantitative evidence.

- 6.11 The Board was strongly of the view that the evidence presented to it, and its wider understanding of the reasoning behind the development of the standard, gave no reason to do other than adopt the standard without adaptation. Any adaptation would defeat the intentions that had motivated the improvements embodied in the standard. In taking this view the Board focused in their remit as the standard setter for the sector as the whole and the framework of accounting standards within which it is required to make its decisions.
- 6.12 In giving specific consideration to the impact on General Fund losses due to new classification the Board considered that the new standard was introduced to provide a single approach to the classification and measurement of financial instruments. One of the key impacts of IFRS 9 will be that, whilst many local authority loans and investments will continue to be held at amortised cost, gains and losses arising from changes in the fair value of some categories of investments will have to be recognised in authorities' revenue accounts. This means that from 2018/19 changes in the value of certain investments will have a consequential impact on the general fund. Previously any changes in the fair value of these investments were only recognised in the general fund when the asset was derecognised. It considered that the recognition of unrealised gains and losses may provide a particular challenge to local authority Chief Financial Officers who will have to consider whether unrealised gains should be held back in order to provide for potential future losses. This may have an impact on the level of local authority reserves being held to manage risk
- 6.13 The mitigation of any as yet unspecified material transitional or ongoing material adverse consequences for any individual local authorities would be a matter for the government departments in the different jurisdictions. Nonetheless, through the Secretariat the Board would share its knowledge and understanding to support the sector in developing any measures necessary. Representatives from central and devolved governments in attendance at the meeting confirmed that they would be willing to consider representations from local authorities in this area informed by evidence.
- 6.14 The Board noted that some of the consultation responses had revealed a lack of understanding of the approach to the designation of investments in equity instruments which may be usefully rectified by the early guidance to be issued by the Local Authority Accounting Panel (LAAP) guidance. The Board generally considered that the early guidance to be issued by LAAP would be very useful.
- 6.15 The Board then reviewed its lengthy debate and the evidence considered before concluding that there remained no reasons relevant to its role as the standard setter that suggested that it should change its proposal to incorporate the IFRS 9 provisions. It agreed to send out a Statement to reflect its deliberations as soon as possible. CIPFA would also seek to ensure that the wider debate is well-informed and fairly reflects the respective roles of CIPFA/LASAAC, CIPFA and the relevant government departments. Any communication of the decision was embargoed until the communication strategy has been issued.
- 6.16 The board briefly considered the evidence provided on the expected credit loss model and concluded that it saw no reason for its application to pose

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LAAP**

a specific problem for practitioners.

IFRS 15 Revenue from Contracts with Customers

- 6.17 The Board considered the merits of making the Code the primary source of reference and concluded that since it was a new development and the relevant disclosures could be effectively presented with the Code, the Board agreed that this approach should be taken. It agreed to include the disclosure requirements of IFRS 15 within the Code (Ref CD 4). **Sec**
- 6.18 Having considered the disclosure requirements, the Board confirmed that it was not minded to make any substantive changes to the treatment of IFRS 15 that it had agreed at its November 2016 meeting.
- 6.19 The Board then turned to the narrow scope amendments set out in Appendix B of CL06 11-17
- 1) *IAS 40 Investment Property (Transfers of Investment Property)*
- 6.20 The Board approved the proposals of the Secretariat.
- 2) *Annual Improvements to IFRS Standards 2014-2016 Cycle*
- 6.21 The Board approved the proposals of the Secretariat.
- 3) *IFRIC 22 Foreign Currency Transactions and Advance Consideration*
- 6.22 The Board approved the proposals of the Secretariat
- 6.23 The Board considered a number of items which respondents considered may need further amendment to the Code - set out in Appendix E of CL06 11-17
- The approach to the amendments to IAS 7 Statement of Cash Flows (Appendix E rows 1 and 2)*
- 6.24 The Board agreed the proposals of the Secretary in the extract of the draft Code provided.
- The impact of the removal of the disclosures on debtors and creditors relating to other public sector organisations (Appendix E 3 and 10).*
- 6.25 The Board agreed the proposals of the Secretary in the extract of the draft Code provided.
- The augmentation of the audit fee disclosure (Appendix E row 9)*
- 6.26 The Board agreed with the approach outlined in the papers in relation to the audit fee disclosures.
- The measurement requirements for surplus assets (Appendix E row 13)*
- 6.27 The Board agreed the approach outlined in the report in relation to surplus assets.

- 6.28 The Board then considered one respondent's comments that the structure of the Code and the Code Guidance Notes and considered they could be inaccessible and difficult to understand. At the same time it noted that it had again received a comment that, like the FReM, the Code should include the provisions where there are formal adaptations or interpretations. Having recently reviewed the structure of the Code, the Board was not minded to revisit presentation of the Code, although it was not closed to future suggestions.
- 6.29 It was noted that the Code would be circulated for the final decision of the Board. **Sec**
- 6.30 The Board noted that its Feedback Statement on the 2018/19 Code would be issued at the same time as the publication of the Code ie 1 April 2018. It noted that it would consider that Statement at its next meeting. **Sec**

7 Development 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom
Telling the Story – Impact on the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis

- 7.1 The Board first considered the comments that it had received on the Comprehensive Income and Expenditure Statement, together with the emerging evidence that some authorities are including a substantial number of lines within the service section of the Statement. The Board considered it would be useful if the Code includes the relevant provisions on aggregation from IFRS 8 *Operating Segments* to assist authorities in this area.
- 7.2 The Board decided it would no longer require that the service section of the Comprehensive Income and Expenditure Statement provide the segmental reporting requirements under IFRS 8. As a consequence charges between segments would not be permitted in the service section of the Statement.
- 7.3 The Board was not minded at this juncture to make immediate major changes while preparers, users and auditors had had only one year to familiarise themselves with the introduction of the new requirements. The Board considered that it would be useful to include outreach activities to evaluate whether the objectives of the Telling the Story changes to the Code had been met.
- 7.6 The Board then determined that the provisions in relation to the Expenditure and Funding Analysis would make it clear that additional columns could be included to demonstrate the relationship between the performance management/budgetary analysis, the General Fund and the Comprehensive Income and Expenditure Statement. The Comprehensive Income and Expenditure Statement whilst not providing the segmental reporting requirements would be provided using the same segmental analysis as the Expenditure and Funding Analysis. **Sec**
- 7.7 The Board then considered the views of the London Streamlining Group and other respondents on other aspects of the streamlining project.

Accounting for Statutory Overrides

- 7.8 The Board recalled that it had only relatively recently considered and rejected proposals to remove the statutory overrides from the financial statements and had developed the Expenditure and Funding Analysis to clarify the relationship between the financial statements and the funding position.

Financial Instruments and Employee Benefit Disclosures

- 7.9 The Board continues to believe that continuing to stress the importance of materiality is the best method of streamlining these disclosures. It considered that the Employee Benefit Disclosures could be considered in its post implementation review discussed in CL 09 11-17.

Exit Package Disclosure

- 7.10 The Board noted that these disclosures existed across the public sector and that the users of the financial statements remained interested in them.

Trading Operations and Agency Disclosures

- 7.11 These should be included in the development programme for the 2019/20 Code. **Sec**

Housing Revenue Account and Collection Fund

- 7.12 While the Board was sympathetic to the issues raised by the Group this was a matter for regulation and remained outside its remit.

Materiality

- 7.13 The Secretariat is currently considering the Materiality Practice Statement issued by the IASB with a view to seeking the views of the Board. The Board was content with the provisions in the Code on materiality which it had reviewed in recent years. It was suggested that the development programme for the Code should consider materiality disclosures. **Sec**

8 Analysis of Responses to the Early Consultation on IFRS 16 Leases and Approval to Issue the Formal Consultation Paper

- 8.1 The Board first considered its consultation strategy and saw no reason for delay if HM Treasury's consultation was not issued in December. It was keen to embark on the separate consultation in early December.
- 8.2 The Board requested that more information about the application of the provisions in relation to an authority's incremental borrowing rate be included in the Invitation to Comment.
- 8.3 The Board considered that more information should also be provided on the relationship of an authority's de minimis and the low value recognition exemption in IFRS 16 *Leases*.
- 8.5 The Board agreed with the approach in the consultation papers in relation to the measurement of the service concession arrangement liability.
- 8.6 The Board agreed that its members would provide the Secretariat with any detailed views that they may have on the issues presented to it, but

that in principle it approved the proposed consultation documents – subject to a final sign-off by email.

- 8.7 The Board asked that their appreciation of the work done by the Secretary, Sarah Sheen, in having the IFRS 16 consultation in such an advanced state for their consideration and in briefing them comprehensively on the issues raised the wider consultation.

9 Development of the 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom

- 9.1 The Board noted the items anticipated in the 2019/20 Code and agreed with its proposed approach to the post implementation reviews.

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10 Accounting and Auditing Standards

- 10.1 The Board noted this update.

11 Any Other Business

- 11.1 There were no items of other business.

12 Dates of Next Meetings

Dates of upcoming meetings:

- **28 February 2018**, London 10:30 to 15:30
- **5 June 2018**, Edinburgh 10:30 to 15:30
- **6 November 2018**, London 10:30 to 15:30.