

Minutes

CL 04 06 20

Board	CIPFA/LASAAC Local Authority Code Board	
Date	6 March 2020	
Time	10.30am	
Venue	CIPFA, Sowerby Room, 77 Mansell Street, London E1 8AN	
Present		
Chair	Conrad Hall	<i>London Borough of Newham</i>
CIPFA Nominees	David Aldous Deryck Evans John Farrar Joseph Holmes* Owen James* Joseph Holmes Martin Stevens JJ Tohill	<i>National Audit Office Wales Audit Office Grant Thornton West Berkshire Council Newport City Council West Berkshire Council (Vice Chair) Birmingham City Council Mid-Ulster Council</i>
LASAAC Nominees	Hugh Dunn Nick Bennett Paul O'Brien Gillian Woolman	<i>City of Edinburgh Council Scott-Moncrieff Audit Scotland Audit Scotland</i>
Co-opted	Leigh Lloyd-Thomas	<i>BDO</i>
Observers	Hazel Black Jenny Carter Matt Hemsley* Nicola Maslin	<i>Scottish Government FRC MHCLG HM Treasury</i>
Guest (Item 10)	Lynn Pamment	<i>FRAB Chair</i>
In Attendance	Alan Bermingham Steven Cain Gareth Davies Don Peebles	<i>CIPFA CIPFA CIPFA CIPFA</i>

* *by phone*

		Action
1	Apologies for absence	
1.1	Christine Golding, Lucy Hume, Greg McIntosh, Amanda Whittle, Vikki Lewis, Jeff Glass, Colette Kane, Hugh Dunn	
2	Declarations of interest	
2.1	There were no declarations of interest	
3.	Membership	
3.1	One nominee for the English CFO preparer vacancy has been received to date. The Chair is continuing to engage with treasurer societies and has not yet attended all relevant groups. Final consideration of applications to CIPFA will be deferred to allow all groups to identify nominations.	Chair, Sec
3.2	Joseph Holmes has indicated he is stepping down as Vice Chair. Those members interested in the post are requested to notify their interest to cipfalasaac@cipfa.org . The role would involve substitution for Chair on occasion, as well as supporting stakeholder engagement.	All Members
3.3	Greg McIntosh stepped down as a co-opted member. CIPFA/LASAAC expressed their thanks and appreciation for his participation.	
4	Minutes for approval:	
4.1	Meeting 6 November 2019.	
4.2	These were approved.	
4.3	The minutes will be uploaded on the CIPFA/LASAAC website.	Sec
5	Action Points	
5.1	The paper was reviewed with key points noted below.	
5.2	Action 1.Comparison of adaptations and interpretations with the FReM to be included as part of Code format and structure redesign process, intended to enhance clarity regarding these. Reference in the Code to IPSAS would also be reviewed in this process.	Sec
6	Update from FRAB.	
6.1	Joseph McLachlan cited the notes from the FRAB meeting of 21 November which were previously circulated, and the related telephone conference calls. The following key items were noted.	
6.2	The proposals relating to the reconciliation of opening and closing Property, Plant and Equipment were noted as having attracted significant discussion.	

6.3	FRAB had expressed significant concern relating to the proposal to exclude Housing Revenue Account tenancy agreements. FRAB had considered that the case for exclusion required further explanation and evidence in support. Additionally the apparent existing non-application of IAS 17 <i>Leases</i> or IFRIC 4 <i>Determining Whether an Arrangement Contains a Lease</i> to HRA tenancies was noted as being the fundamental matter.	
6.4	It was noted that an out of meeting paper relating to a number of FRAB queries and concerns was, as requested, provided to FRAB for consideration.	
6.5	The CIPFA/LASAAC Chair noted that it was helpful to understand that a high bar was set for supporting adaptations, and that a sound rationale and evidence base was required to support submission to FRAB.	
6.6	CIPFA/LASAAC discussed the expected Northern Ireland Housing Executive treatment of leases.	
6.7	Two practitioners noted that initial work on tenancy agreements in their HRAs has been initiated. It was noted that improved disclosures, eg relating to tenancy types and profiles, could be beneficial for users.	
6.8	Caution may apply in supporting a 'statutory debits and credits' presentation for the HRA statement, as it may be argued that the single entity accounts would still require to reflect the accounting requirements.	
6.9	The extent of finance lease classification could be relatively minor. The benefits of potentially changing property, plant and equipment assets to a receivable was queried. The impact of applying operating lease requirements would require assessment.	
6.10	It was agreed that the application of IFRS 16 <i>Leases</i> to HRA tenancies should be raised in the 2021/22 ITC to establish evidence relating to user needs and potential financial impact. A working group is to take this forward. Members: Martin Stevens; Joe McLachlan; Paul O'Brien; Jenny Carter	Sec, MS, JM, PO'B, JC
7.	CIPFA/LASAAC Strategic Plan	
7.1	The alignment of the Code finalisation date to that of the FReM was discussed.	
7.2	The FReM in year update process was noted with the potential for a similar approach for the Code raised.	
7.3	It was also noted that there was apparently little demand from existing purchasers for earlier availability of the Code.	
7.4	It was queried why the Code was not freely available. Comparison to the FReM was made, noting that the FReM is effectively paid for by taxpayers through the use of HMT staff time in development. CIPFA subsidisation of the Code would place a funding burden on CIPFA members.	
7.5	The opportunity for different means of funding the Code may be explored.	

7.6	<p>The continuance of the following proposals were agreed:</p> <ul style="list-style-type: none"> • Materiality: public sector wider working group • Key Messages: Stakeholder engagement (incl Redmond Review) and consultation, including feedback to stakeholders on discussion paper responses and actions • Outreach: CIPFA/LASAAC support for Chair • Differential reporting: feedback to stakeholders following discussion paper responses • Narrative reporting: feedback to stakeholders following discussion paper responses; potential creation of accounts user focus group • Code format: presentation of options • Code development relationships: Chair involvement at FRAB; review of Code cycle (see later); articulation of local government context and evidence base to inform FRAB consideration 	Sec, Chair, All
8.	Discussion Papers Feedback	
8.1	A paper based on a structured analysis of the strategic discussion paper responses, including post-November feedback, was tabled for discussion.	
8.2	Copies of the structured analysis of the strategic discussion paper responses to be circulated with the initial paper which provided key messages arising from early (pre November) responses.	Sec
8.2	<p>Review noted that a clear split of responses across all themes emerged dependent on whether the respondent considered the primary objective of the accounts to be:</p> <ul style="list-style-type: none"> • Performance in accounting terms (consumption and generation of resources); or • Taxation and funding 	
8.3	<p>Key areas noted:</p> <ul style="list-style-type: none"> • Summary re taxpayer funding: placement in the narrative report was queried by some responses. It was suggested any increase in reporting on this should lead to a reduction in other parts of the annual accounts. • Primary statements: Little support for a 'type of expenditure' (subjective analysis) presentation in the Comprehensive Income and Expenditure Analysis. A clear split emerged dependent on the views regarding accounting performance vs taxpayer / funding information presentation. • Expenditure and Funding Analysis (EFA): Most respondents felt the EFA could be improved, or moved within the annual accounts to provide more clarity. • Capital: little support to replace statutory charges with depreciation. Some responses commented on potentially inappropriate application of materiality. • Pensions: generally views were that retention of IAS 19 <i>Employee Benefits</i> was supported but full disclosures were excessive • Financial instruments: responses split between those regarding the requirements as reflecting sometimes complex instruments; and 	

	<p>those who regarded them as onerous. Some respondents regarded existing disclosure practices as excessive.</p> <ul style="list-style-type: none"> Group accounts: responses differed regarding how beneficial group accounts were for users, with support for a wider discussion and consideration of requirements noted. 	
8.4	A verbal report on differential reporting responses noted little support for this in Wales or Scotland. In England some enthusiasm was also mixed with suggestions for caution.	
8.5	<p>In discussion:</p> <ul style="list-style-type: none"> The Code currently seeks to report on both accounting (resource) performance and funding. Potentially a decision on which is the focus is required. Most respondents were preparers. The comments were not surprising. Statutory adjustments introduce complexity. Clarity regarding users would exist (eg FReM specification of parliament as the primary user cited). Support for the EFA was noted. Asset and pensions valuations were identified as key issues. CIPFA/LASAAC seeks to balance user needs. A positive focus on how to improve and focus the accounts should be taken. The requirement for group accounts is affected by a Code adaptation specifying they are prepared even if no subsidiary exists. Governments may be concerned at any lack of transparency in relation to the use of, and transactions with, associates and joint ventures. The role of related party disclosures was noted. The IFRS work on Primary Financial Statements was noted, as it draws a distinction between 'integral' and 'non-integral' associates and joint ventures. The importance for England of the Redmond Review findings was noted. 	
8.6	The Chair considered that the evidence base was neither large nor conclusive, and that further comprehensive stakeholder feedback would be required to inform and support any proposals for change.	Sec All
9.	Redmond Review	
9.1	A recent PSAA (English audit appointments body) report Future Procurement and Market Supply Options Review was noted.	
9.2	Discussion of the potential impact of the Redmond Review arose. It was noted that the timing of publication of findings and recommendations would be important for the Code process. Some flexibility may be required in the Code process.	Sec.
10.	Lynn Pamment: FRAB Chair	
10.1	Lynn was warmly welcomed.	

10.2	Lynn noted that her FRAB role provided a different perspective in relation to the various views, processes and stakeholder engagement between different parts of the public sector.	
10.3	It was suggested that there a high focus at CIPFA/LASAAC on due process. A key issue for CIPFA/LASAAC related to communicating this to FRAB, to demonstrate the detail and thought involved in proposals.	
10.4	FRAB will primarily seek to understand the accounting principles involved, and potentially the cost / benefit factors affecting proposals.	
10.5	IFRS 16 Leases was cited as an example, indicating that a more co-ordinated and collaborative approach to public sector consideration of standards implementation was attainable.	
10.6	<p>In discussion:</p> <ul style="list-style-type: none"> • The ability for the UK public sector to influence IFRS and IPSAS standards during development was noted. • CIPFA/LASAAC could undertake more early assessment of key issues relating to a standard to support earlier discussion at FRAB of potential implementation proposals. Deferring until consultation responses have been considered was not optimal. • Potentially CIPFA/LASAAC should consider reducing the emphasis on the ITC process, and use other more flexible consultation and engagement options to assess local government impact and implementation. • The scope to amend existing local government treatment of standards (eg IAS 19) would probably be limited, with pan public sector desirable prior to approaching FRAB. IPSASB standards, however, may provide the opportunity to review decisions as they may refine public sector treatments. • Central government generally deal with financial impacts through the budget process; local government relies on statutory adjustments. • The differences in operation and nature between CIPFA/LASAAC and FRAB were discussed. • It was suggested that CIPFA/LASAAC could improve 'accounts user' engagement and feedback to inform the Code and to improve balance compared to preparer and auditor views. • The Code process was suitable for the previous SORP framework but may not be applicable for the FRAB environment • Early work and identification of local government needs is important. • Feedback is that the ITC is not currently accessible or helpful for respondents. • Statutory adjustments were compared to the tax adjustments which affect private sector accounts. 	
11.	Presentation to Lynn Pamment	
11.1	As the previous Chair of CIPFA/LASAAC Lynn was thanked for her service and leadership. A gift was presented.	
11.2	David Aldous announced that he was retiring. The Board thanked David for his long-standing service, support and advice. A gift was presented.	

12.	Code Development Proposals	
	<u>Code 21/22 and Later</u>	
12.1	The regulations relating to Dedicated Schools Grant (England) were discussed.	
12.2	<p>In discussion:</p> <ul style="list-style-type: none"> • The background to, and purpose of, the regulations was noted • Audit firm representatives noted that the regulations did not provide a clear statutory override in comparison to normal statutory arrangements which create a separate unusable reserve. • The status of a CIPFA bulletin was noted as guidance not mandatory. Consensus support would be required. • The potential to issue a Code Update for 2020/21 also affecting 2019/20 was raised. Discussion indicated this was not feasible in the 2019/20 accounts timeline. • There may be little change to the Code requirements as it primarily affects the presentation of reserves and the disclosure of recovery arrangements. • It was noted that s151 (CFO) concerns related to the point at which it became evident that the proposed financial recovery arrangements were insufficient and an application to the Secretary of State to use General Fund resources would be necessary. • One authority has already approached MHCLG on the matter. • A Code Update later during 2020/21 could be considered, but this would not affect 2019/20 closure. 	
12.3	CIPFA bulletin to be circulated to CIPFA/LASAAC for comment during development.	Alan Bermingham
12.4	<p>Items arising from 2020/21 ITC (section 2): Recommendation approved with amendment:</p> <ul style="list-style-type: none"> • IFRS 16 Lease application to HRA tenancies to be included in 2021/22 ITC (see also earlier action) • Pensions lump sum contributions to be referred to LAAP as it is a legislative application matter 	Sec/ Alan Bermingham
12.5	The NIAO will be launching the development of a new Code of Audit Practice later this year effective from 1 April 2021.	
12.6	Financial Reporting (section 4): IBOR Reform and its Effects on Financial Reporting—Phase 2 should be added to the items as it may be effective from 1 January 2021.	Sec
12.7	The proposals regarding 'Definition of a Business' could be important for local government.	
12.8	IFRS 17 <i>Insurance Contracts</i> was noted as potentially significant with potential application for local government as the definition encompasses risk transfer and is not limited to or based on the use of the word 'insurance'.	

12.9	HM Treasury were noted as having significantly progressed work on IFRS 17 with central government departments with potential application guidance being developed.	
12.10	Early engagement with local government on IFRS 17, potentially using HMT work, to be taken forwards.	Sec
12.11	IPSAS items (Section 4.5) may require to be revisited.	
	<u>Code 2021/22 and Later: Consultation Processes</u>	
12.12	A strategy away day is to be organised for after the Redmond Review to: <ul style="list-style-type: none"> • Consider the review findings • Change the Code consultation process and development cycle 	Sec
12.13	The recommendations and proposed actions to improve consultation processes were approved for implementation.	Sec
12.14	The forward plan requires revision to reflect the strategic plan (eg to include financial instruments and pensions etc)	Sec
	<u>Materiality and Disclosures</u>	
12.15	The proposal to support a pan public sector working group was supported. HM Treasury noted that this would be discussed at the next relevant authorities working group with potential action and timescales subject to discussion. Nick Bennett volunteered for involvement in any working group arising.	Sec Nick Bennett
12.16	The Guidance Notes could be reviewed to support improved practices (eg re significant judgements and estimates).	
12.17	The proposed disclosures framework was approved in outline, with amendment required to clarify that 'Exclude from Code, cross ref to IFRS' does not remove the disclosure requirement for local government.	Sec
	<u>Code Format and Structure</u>	
12.18	It was commented that the Code currently appears to include part of the role of FRS 102 (for local government purposes) and part of the role of SORPs.	
12.19	The draft example was considered. The changes made the Code more readable and clearer in some respects, but did not address the key issue of what role the Code should fulfil.	
12.20	Two or three example drafts of a more complex section of the Code are to be developed for consideration, potentially as part of the strategy away day.	Sec
13.	Feedback Statement on 20/21 Code Development	
13.1	It was questioned whether the current format of feedback statement was useful to readers. Potentially it focused on process rather than communication.	

13.2	Improvements to the feedback statement to be developed.	Sec
14	Dates of Next Meetings	
14.1	<ul style="list-style-type: none"> • 5 June 20 Edinburgh • 3 November 20 London 	
14.2	Conference call for post FRAB to be arranged, possibly first week in April.	Sec
15.	Any Other Business	
15.1	CIPFA's Accounting and Auditing Standards Panel is to review the IFRS exposure draft on Primary Statements. Referral will be made to CIPFA/LASAAC members for comments.	S. Cain
15.2	Stephen Boyle has been nominated as the next Auditor General for Scotland. Parliamentary approval is to be sought.	