

MINUTES

Committee	CIPFA/LASAAC LOCAL AUTHORITY SORP BOARD	
Date	12 September 2008	
Time	10:30am	
Venue	CIPFA, 3 Robert Street, London WC2N 6RL	
Members	Nick Bennett (Chair)	<i>Scott Moncrieff</i>
	David Aldous	<i>Audit Commission</i>
	Ian Robbie	<i>Henderson, Loggie</i>
	John Buchanan	<i>Local Government Audit – NI</i>
	Peter Davies	<i>Monmouthshire CC</i>
	Tim Day	<i>Independent Consultant</i>
	Robert Dowey	<i>Newry and Mourne DC</i>
	Russell Frith	<i>Audit Scotland</i>
	Nick Gibbins	<i>Hampshire CC</i>
	Lynn Hine	<i>PricewaterhouseCoopers</i>
	Grant Macrae	<i>KPMG</i>
Observers	Larry Pinkney	<i>HM Treasury</i>
	Graham Fletcher	<i>CLG</i>
	Alan O'Connor	<i>ASB</i>
	Ian Skinner	<i>Welsh Assembly Government</i>
In attendance	Colin Stratton (Secretary)	<i>CIPFA</i>
	Paul Mason	<i>CIPFA</i>
	Ian Carruthers	<i>CIPFA</i>
	Gareth Davies	<i>CIPFA Scotland</i>
	Julian Smith	<i>CIPFA</i>
	Dave Baldam	<i>CIPFA</i>

1 APOLOGIES

Apologies were received from Angela Brown, Lynn Brown, Paul Dransfield, Ken Finch, David Jones and Hazel Black.

2 CHANGES TO CIPFA/LASAAC PARTICIPANTS

The meeting noted the change of HM Treasury observer from David Watkins to Larry Pinkney, following Mr Watkins' move to the Foreign and Commonwealth Office. Ken Finch, the new Chair of the Local Authority Accounting Panel (LAAP), had accepted an invitation to become a member of the Board. The Secretary had written to the ASB for their formal approval of both these changes in CIPFA/LASAAC participants.

3 MINUTES

The minutes of the meeting held on 23 June 2008 were approved, including those items for which the June meeting had not been quorate.

4 MATTERS ARISING

4.1 The following matters were discussed:

Code governance arrangements

4.2 CIPFA's Public Finance and Management Board (PFMB), LASAAC and relevant outside organisations had supported the move to a FRAB-linked Code governance system. The related Memorandum of Understanding (MoU) and amended Terms of Reference for the Board had also been widely supported. The remaining stage was for FRAB secretariat to gather other organisations' approval for the MoU text. The first FRAB meeting under its new arrangements was to take place in October. There would be three new local authority sector appointments to FRAB: Ian Carruthers who would be the CIPFA/LASAAC representative; Janet Dougherty who would represent CLG; and an accounts preparer member of CIPFA/LASAAC. A decision was still needed on the CIPFA/LASAAC representative and practitioner members were asked to consider whether they might be interested in the role.

Form of the audit certificate

4.3 No change in law would be needed in Scotland in order for the form of the audit certificate to be changed. In England, the relevant changes to legislation had been drafted and were expected to come into force before the end of March 2009. It was expected that public consultation would be undertaken in autumn 2008. In Wales and Northern Ireland, a similar timescale to England regarding consultation and implementation of changes to legislation was expected.

SORP RELATED ITEMS

5 DEVELOPMENT OF THE 2009 SORP

5.1 It was agreed that implementation of Community Infrastructure Levy by the Government was not yet advanced enough to be included in the 2009 SORP Exposure Draft. It was also agreed it would not be appropriate to include work on the consolidation of charities in group accounts as it seemed very likely that the matter, which is also relevant to central government, would be considered by a FRAB working party on which CIPFA had been invited to be a member.

5.2 It was agreed that the following amendments to the 2008 SORP would be proposed in the 2009 SORP ITC:

- (a) Adopting IFRIC 12 *Service Concession Arrangements* based requirements as adapted for the public sector in the FReM for accounting for PFI and similar schemes.
- (b) Accounting for property taxes.
- (c) Removal of larger parishes and community councils from the list of bodies to which the SORP applies.
- (d) The renaming of the Capital Grants Unapplied Reserve to Capital Grants Unapplied Account.
- (e) Updating for accounting standards and UITF abstracts.

Accounting for PFI

5.3 The main points discussed and matters agreed were:

- (a) It would be useful to include a definition of 'property' as the term was being used with a specific meaning in the context of PFI.
- (b) Where the interest implicit in a PFI contract could not be determined, the proposal was that the PWLB interest rate should be used. It was explained

that the reasoning behind the proposal was that the i-FReM required that where the implicit interest rate could not be determined the Government's risk-free rate be used. There was consensus that wherever possible the rate implicit in the contract should be estimated and that using an alternative 'standard' interest rate should be the exception not the rule. The Secretariat was asked to give the matter some further consideration.

- (c) At paragraph 6 of the Exposure Draft (ED), the text would be amended to make it clearer that "this expenditure" is referring to where the operator enhances property already recognised on the authority's balance sheet.
- (d) At paragraph 9 of the ED, the second sentence on recognising enhancements would be deleted.
- (e) At paragraph 10 of the ED, the text would be added to refer to the revaluation of the fixed assets.
- (f) At paragraph 16, of the ED, further consideration would be given to the matter of loan fund accounting in Scotland.
- (g) At paragraph 21 of the ED, the phrase "a corresponding liability" would be replaced with text that dealt with the matter more clearly.

Accounting for property taxes

5.4 The main points discussed and matters agreed were:

- (a) It would be helpful to refer in the ITC to the outcome of the consultation on agent versus principal issues in accounting for council tax and NNDR that was undertaken as part of the 'Back to Basics' initiative.
- (b) A sentence should be added to the ITC to make it clear that no further changes arising from the adoption of IFRS would be required in the 2010 SORP.
- (c) The text on property taxes was too long and it needed to be simplified, in particular it might help to remove Northern Ireland Rates to a separate section and to signpost the sections more clearly.
- (d) The number of questions related to accounting for property taxes should be reduced.
- (e) On balance it was agreed it would not be better to substitute the more familiar term 'provision for doubtful debts' for 'impairment allowance for doubtful debts' as suggested by a member, since practitioners would need to get used to the new IFRS terminology over the next couple of years.

Removal of larger parishes and community councils from the list of bodies to which the SORP applies

The Wales Assembly Government observer said a small change to the Wales Accounts and Audit Regulation was probably needed and that this should be reflected in the proposed ITC. With this amendment the proposals contained in the ITC and Exposure Draft were approved.

The renaming of the Capital Grants Unapplied Reserve to Capital Grants Unapplied Account

The proposals contained in the ITC and Exposure Draft were approved

Accounting standards and UITF abstracts

The proposals contained in the ITC and Exposure Draft were approved

IFRS ITEMS

6 ANALYSIS OF RESPONSES TO THE 'BACK TO BASICS' CONSULTATION

- 6.1 The secretariat's paper was considered. 105 consultation responses had been received from a wide range of authorities across the UK. Respondents generally supported the consultation proposals, as the current statement of accounts was seen as difficult to understand. Views differed over how best to change the statement of accounts, with some respondents suggesting preparing different versions of the accounts for different audiences that gave the level of information appropriate to the audience, such as summarised accounts for the general public and detailed accounts for regulators. Views also differed on which was the key statement within the accounts with some favouring the Statement of Changes in Equity and others the Income and Expenditure Account. The consultation suggestion that the Statement of Changes in Equity should be the first statement was well supported. However, some respondents did not want the Code to mandate the order of the statements but only to suggest an order.
- 6.2 The term "equity" in 'Statement of Changes in Equity' was not seen as particularly appropriate for local authorities. Based on comments from authorities, the Secretariat suggested 'Statement of Statutory Financial Performance and Changes in Reserves'. The word 'Statutory' was included to highlight the difference between the statutory element of financial reporting, which focuses on reporting outturn on a basis consistent with the budget setting and tax raising, and the Income & Expenditure Account which measures resources consumed and income generated on a GAAP basis. CIPFA/LASAAC did not find the suggested title ideal but no better title was forthcoming at the meeting. It was also suggested that a future re-working of the title might draw attention to the theme of 'performance against budget'. It was agreed that the Secretariat's suggestion would be used as a working title, which would hopefully be improved in due course in the light of feedback.
- 6.3 The issue of whether budget corresponding amounts as well as previous year corresponding amounts should be shown in the statement of accounts was discussed. It was understood that some authorities already do this. It was agreed that the practitioner Working Groups that were currently being established as part of the Back to Basics initiative should consider the matter. It was agreed that a paper on the role of budgetary information in the statement of accounts should be prepared and that Peter Davies would work with the Secretariat on the matter.
- 6.4 The separate consultation on *Telling the Whole Story*, which the Local Government Policy Panel was overseeing, was discussed. It was agreed that this was also of key relevance for the future of financial and performance reporting to stakeholders. Annual reports and summary financial statements can help stakeholders to access key information more easily than the detailed statement of accounts. It was agreed that the secretariat should ensure that the work on the two consultations were appropriately linked.
- 6.5 Other matters discussed were:
- (a) Whether the HRA needed to be presented as a separate statement or whether it could be disclosed adequately in the service information with the statutory aspects such as ring-fencing dealt with in the notes to the accounts.

- (b) There had been 92% support for the consultation's suggestion that Pension Fund accounts should not be included in administering authorities' statement of accounts in England and Wales. In England and Wales there is a requirement for a separate Pension Fund report, which is required to include Pension Fund Accounts; and it was considered that this made it unnecessary to include the accounts in administering authorities statement of accounts. In Scotland (where there is no statutory requirement for a Pension Fund Annual Report) 93% of respondents agreed that the Scottish Government should be consulted about introducing regulations requiring a separate Pension Fund Annual Report. However, with regard to this, one matter that needed to be considered was that it was generally considered that Pension Funds were not separate legal entities in Scotland. There was broad agreement that a Note to the accounts, to alert readers to the separate Pension Fund accounts, would address the point. It was agreed that further research and discussions with stakeholders and a paper on the matter would be required before firm conclusion about removing Pension Fund Accounts from administering authorities statements of accounts could be reached and that Graham Fletcher and David Aldous would be two of the key contacts for this.
- (c) The consultation responses strongly supported the removal of the SORP/legislative requirement for a number of note disclosures. It was agreed the secretariat would explore with CLG and the devolved administrations the scope for removing certain note disclosures in time for inclusion in the 2009 SORP.
- (d) Regarding officers' emoluments, there was support for the view that local government should be brought into line with practice in the rest of the public sector.
- (e) 67% of respondents wanted the current SORP requirement to prepare single entity and group accounts to continue and the secretariat's recommendation supported the view that it was not appropriate at this time to change to preparing group accounts only. CIPFA/LASAAC approved the recommendation. A small majority (54%) of respondents that wanted both single entity and group accounts to be prepared, wanted the single entity accounts to be shorter and simpler than at present. It was agreed that the Working Groups should look at how this simplification might be achieved. Transport for London, Birmingham City Council and Glasgow City Council, who had large groups requiring consolidation would be participating in the Working Group looking into the matter.
- (f) The key point that emerged from consultation on the appropriate level of information on the face of the statements was that the level of information should be appropriate to the users of the accounts. The level most favoured by respondents was one lying between the IFRS minimum requirements and the current level of detail in the statement of accounts. It was agreed that this matter would be examined by the Back to Basics Working Groups.
- (g) With regard Service information, CIPFA/LASAAC agreed that, pending consideration of the views of the Working Groups, it would provisionally recommend authorities be allowed the option of using either the BVACOP format for reporting or an internal management approach, reconciled to the BVACOP approach. This matter would however continue to remain on the Board's agenda, as a matter to be considered within the wider context of the overall work to simplify accounts.

- (h) With regard to the interaction of financial reporting and Government returns, the consultation feedback would be discussed with CLG. However, care would be needed to avoid reducing the number of returns leading to information being reported instead within more a more complex statement of accounts.

6.6 CIPFA/LASAAC participants were asked to contact Paul Mason if they were interested in assisting the secretariat follow up the issues arising from the consultation.

7 COMMUNICATING CIPFA/LASAAC'S DECISIONS ON IFRS TO LOCAL AUTHORITY PRACTITIONERS AND OTHER STAKEHOLDERS

7.1 The secretariat's paper was approved with the following amendments:

- (a) Target dates at which the CIPFA/LASAAC would consider the draft text of the 2010/11 IFRS based Code to be included. The related consultation dates to gather authorities' and other stakeholders' views also to be included.
- (b) Some brief background information to be provided on the standard setting organisations involved, including the IASB and IPSASB.

7.2 It was also agreed that:

- (a) The 2010 Code should include information on the governance arrangements underpinning the preparation, public consultation on and approval of the Code.
- (b) The secretariat should use the forthcoming communications with local authorities and other stakeholders to urge practitioners to begin planning how they will implement IFRS.

8 NEW SECTIONS OF REVISED DRAFT 2010 IFRS-BASED "CODE"

Leases

8.1 The draft section of the IFRS-based Code on leases was approved subject to the following comments:

- (a) The adaptation to IAS 17 proposed in paragraph 3.8 for reducing the burden of separating the land and building element of property leases was supported but further consideration should be given to the way the proposal has been worded.
- (b) It was agreed that the title of this section should be 'Leases and Lease-Type Arrangements'.
- (c) The wording on the borrowing rate at 4.2.2.12 (Appendix A) should be amended in the light of the meeting's earlier discussion of interest rates in the context of PFI. The same amendment would be needed where interest rates are referred to in Appendix B.
- (d) Amendment would be required when it had been resolved whether in Scotland finance leases constituted borrowing within the meaning of the legislation applying to the loans fund.

Intangible assets transition

The draft section of the IFRS-based Code on intangible assets transition was approved subject to amending the text to distinguish between the research phase and development phases of developing an intangible asset. It was agreed that the section could be made available to the FRAB.

Impairment of assets

The draft section of the IFRS-based Code on impairment of assets was approved subject to amending references to 'historic cost' and instead referring to recording the cost at a specific date.

Other matters

- 8.2 The secretariat reported on the need for 3 balance sheets in the first IFRS statement of accounts. CIPFA/LASAAC considered this an important point to explain to practitioners and suggested an item should be placed on the Board's website.

9 ANY OTHER BUSINESS

Helping authorities prepare for the transition to IFRS

- 9.1 CIPFA/LASAAC discussed how authorities could be helped to prepare for the transition to IFRS. The key points agreed were:

- (a) In future more use should be made of the CIPFA/LASAAC website to provide authorities with guidance.
- (b) Email messages or letters should be sent to local authority Chief Financial Officers to advise them of the work needed in the run-up to IFRS to help them project-manage the transition
- (c) To assist the transition to IFRS, the first IFRS Code (2010 Code) would be issued in spring 2009 for comments, and published in the autumn 2009.
- (d) The secretariat would liaise with CIPFA Publications colleagues, so that when issuing the 2008/2009 Guidance Notes, recipients would be asked to sign-up for an email news list, through which advance copies of draft Code and IFRS guidance would be circulated.
- (e) Feedback on draft sections of the IFRS Code from practitioners and stakeholders would also be encouraged so that problems could be identified early and addressed by the secretariat.
- (f) Messages from the CIPFA Chief Executive and Policy & Technical Director might be used to flag up the need for early work by finance directors and their authorities, rather than allowing authorities to believe that the necessary work could largely be accommodated as part of the normal 2010/2011 accounts closure process.
- (g) Authorities should be made aware through the CIPFA website of other useful sources of guidance such as the NAO toolkit on IFRS and the Audit Commission IFRS information provided to the NHS.

CIPFA/LASAAC Chair

- 9.2 Members interested in applying to be the next Chair were encouraged to contact the Chair or the Policy & Technical Director.

Meeting dates

- 9.3 The Chair raised the issue of whether both the November and December meetings were essential. It was agreed that the secretariat would seek to manage the Board's upcoming business so that one of the scheduled meetings for November and December would not be needed. Priority subjects for the next meeting included work on investment properties and IAS 16.