MINUTES OF THE 131st FRAB MEETING HELD ON THURSDAY, 16th NOVEMBER 2017 AT HM TREASURY

Present:	Ian Mackintosh (Chair)	Alison Scott
	Andrew Buchanan	Larry Honeysett
	David Hobbs	Russel Frith
	Ruth Elliot	Ron Hodges
	David Aldous	Alison Scott
	Gawain Evans	Gareth Caller
	Bob Branson	Karl Havers
	Anthony Appleton	Christopher Young
	Joseph Mclachlan	Ian Webber
	Bob Richards	

On the phone: Aileen Wright, Sarah Sheen (CIPFA)

Secretariat: Vikki Lewis (FRAB Secretary)

Apologies: Craig Mackinlay MP, Veronica Poole, Ian Bulmer, Joanne McBurney

Agenda Items (in order tabled)

1. Matters arising
2. FReM 2017-18 and 2018-19
3. IFRS 16 update
4. Discount rates
5. CIPFA/ LASAAC 2018-19 Code
6. Health Manual for 2018-19
7. FRAB Annual Report 2016-17
8. FRAB forward agenda
9. Any other business

Item 1: Matters arising

1. The Chair welcomed members to the meeting. The Board discussed the minutes to the previous meeting on 15 June 2017, which were agreed subject to some minor amendments. The Chair also spoke about changes to the Board, with Ian Bulmer taking up the post as HM Treasury's representative during Vicky Rock's leave of absence. Vikki Lewis will be taking on Ian's previous role as FRAB Secretary.

Item 2: FReM 2017-18 and 2018-19

2. HM Treasury presented the updated FReM and illustrative statements for application from 2017-18 for the Board to consider. Amendments have been made to improve clarity, make minor corrections and to reflect the introduction of Non-Financial Reporting Regulations.

3. HM Treasury also presented the 2018-19 FReM and illustrative statements, which have been updated for the introduction of IFRS 9 and IFRS 15 with the adaptations and interpretations for the public sector previously agreed by the Board. Alongside the FReM, HM Treasury presented application guidance developed to assist implementation of IFRS 9 and IFRS 15 in the public sector. HM Treasury also provided a summary of the minor amendments to IFRS effective from 2017 and 2018, noting that no significant public sector issues have been identified.

4. HM Treasury highlighted that there was a divergence from the FReM in the CIPFA/ LASAAC Code of Practice i.e. the Code has not mandated the simplified approach for impairments in local government. The Board discussed that the impacts of the divergence between the FReM and the Code would need to be assessed during the production of WGA.

5. The Board discussed the inclusion of the Non-Financial Reporting Regulations, querying whether there had been a deliberate omission in the FReM to not include all concepts of NFRR. HM Treasury confirmed that most elements had been added, along with updates in line with the revised Strategic Report Guidance but that there are plans to broaden reporting in the 2018-19 FReM.

6. The Board discussed the accounting treatment for the Apprenticeship Levy in the public sector, and agreed that there was a need to include a section within the FReM. HM Treasury

agreed to include the relevant financial reporting treatment to adopt in the public sector within the FReM (i.e. deemed a tax when paid and a government grant under IAS 20). HM Treasury also plan to issue guidance regarding the budgeting treatment, in advance of the Supplementary Estimates. HM Treasury informed the Board that once the Department for Education, as policy holders, agree the supplementary guidance paper with the NAO it will be issued. CIPFA and the Department of Health will reflect the same accounting treatment within the guidance they produce as Relevant Authorities.

7. The Scottish Government requested a late addition to the FReM on how Devolved Tax Accounts are produced in Scotland. The Scottish Government agreed to circulate this amendment to FRAB members out of meeting for approval.

8. The Board agreed to the amendments and additions to the FReM for 2017-18 and 2018-19.

Item 3: IFRS 16 - findings from Exposure Draft and next steps

9. HM Treasury presented a paper to the Board on the discussions from the technical working group and the feedback from the initial impact consultation exercise conducted over the summer. The paper provided potential areas of adaptations and interpretations to IFRS 16 for the public sector context.

10. From the 37 responses received across central government, covering a significant proportion of the sector, over 55,000 lease contracts were identified. The Board suggested that more leases may be discovered as work progresses on IFRS 16, as has been the case in the private sector.

11. The Board stated that it was an accounting policy choice for government whether it wished to mandate the exemption for short term leases, though agreed this was a sensible choice. The Board also stated that it was content for the revised definition of a contract to be included as a legitimate public sector adaptation. The private sector was not advanced in its thinking about low value leases with some entities choosing to use the exemption to reduce administrative burdens. The Board agreed that the FReM should not specify a monetary value for which assets would be determined as low value but suggested HM Treasury could offer some guidance to assist preparers.

12. HM Treasury noted that the misalignment between IFRS 16 and ESA 10 is the most significant since the adoption of IFRS and would impact transition and accounting policy choices within the Standard that were preferred by the technical working group and consultation respondents. HM Treasury will continue to work closely with the ONS over the coming months to conclude the alignment issues on adopting IFRS 16. The ONS agreed to provide a paper on IFRS 16 to the Board for the next meeting in March 2018. HM Treasury also identified the significant impacts on fiscal mandates as well as financial reporting.

13. HM Treasury clarified to the Board that the initial presumption was that the discount rate implicit in the lease would be used and only when this could not be ascertained, would entities look towards the internal rate of borrowing (IRB). The Board highlighted that there were significant challenges in obtaining the rate implicit in the lease and that HM Treasury is

correct to consider exploring how the IRB could be calculated. The Board suggested that gilts may be a suitable basis for calculating the IRB or whether the rate could be zero as departments do not shoulder borrowing costs. Further work was needed in this area.

14. The Board noted the progress made on considering the public sector impacts of IFRS 16, recognising the challenges HM Treasury faced in maintaining alignment. The Board agreed to receive the Exposure Draft outside the meeting if needed.

Item 4: Discount rates

15. The Board discussed HM Treasury's paper on discount rates and the options on the general provisions' methodology proposed by HM Treasury. It noted that in members' experience, nominal rates are predominantly used in the private sector and that there is an insufficiently deep market covering 50 years to apply robust real/index linked rates. Consequently, there are large fluctuations in the values of provisions.

16. The Board stated that if there is a move to a nominal approach, entities would need to consider a specific rate of inflation to apply to future cash flows. In addition, a deeper market of nominal rates to apply is available and therefore a more accurate discount rate could be produced.

17. The Board also commented that some departments are looking at current prices and are extrapolating them over 10, 20 or 30 years. The Board proposed that departments should instead look at the expectation of future price increases and decreases . The Board considered the effectiveness of cash flows discounted at nominal rates. The Board also discussed the practical implications of negative discount rates and providing suitable explanations to audit committees and other interested parties.

18. In conclusion, the Board agreed to Option 2 in the discount rates paper i.e. the provision of nominal rates. The Board recommended that HM Treasury provides guidance to entities around inflationary assumptions for future cash flows. The Chair also highlighted that the matter of discount rates would continue to be an important and complex issue going forward.

Item 5: CIPFA/LASAAC 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom

19. The CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2018/19 has been updated as set out in FRAB 131 (04) but there are a small number of clarifications to finalise, and the relevant extracts will be circulated to the Board outside of the meeting.

20. The Code has not mandated the IFRS 9 simplified approach to impairment and therefore it was acknowledged that HM Treasury may need to ask for additional information from the local government sector when preparing WGA. In a manner similar to the FReM, the 2018/19 Code includes an interpretation where an impairment allowance is not required where the counterparty is either central or local government (this is linked to specific

legislative requirements). A new adaptation for hedge accounting has also been included as set out in FRAB 131 (04) and earlier reports on adoption of IFRS 9 in the Code.

21. Going forwards, CIPFA/LASAAC in its forthcoming consultation on IFRS 16 is also proposing mandating short -term lease exemptions for the application of IFRS 16. In terms of the subsequent valuation of assets, CIPFA/LASAAC proposals prefer the revaluation model because the Code on a principle basis adopts current valuation measurement subject to the relevant cost/benefits analysis. The consultation will consider costs and benefits of this approach.

22. CIPFA also updated the Board that from 31 March 2018, local authorities will be closing their accounts at the end of May with the audit completed at the end of June. It was pointed out that this should help with reducing delays in the WGA consolidation but that this process will not apply in Scotland, who will continue with the original timetable (i.e. two months later).

23. The Board asked CIPFA/LASAAC to remain aware of any further FReM developments regarding the implementation of the new accounting standards and the potential implications on WGA as a result of possible misalignments with the Code.

Item 6: Health Manual

24. The first draft of the 2018-19 Group Accounting Manual (GAM) was presented by the Department of Health. It interprets the FReM for the health sector and is proposed to be published in April 2018. The GAM will align with the FReM with regards to accounting for the Apprenticeship Levy, as discussed earlier in the meeting.

25. The Board had minor comments on the GAM but were broadly content with the document and the timeline for publication.

Item 7: Annual FRAB Report

26. HM Treasury presented the draft 2016-17 FRAB Annual Report to the Board and advised that it is due to be laid in Parliament in the new year. The FRAB Annual Report summarises the Board's discussions, future considerations and for the first time includes an attendance record to align it with other general board reporting. The structure of the FRAB report has changed this year to improve clarity.

27. The Board suggested some minor comments and recommendations for the report which HM Treasury agreed to action. Subject to these, the Board approved the Report and its laying in Parliament in early 2018.

Item 8: FRAB forward agenda

28. The Board suggested that a standing agenda item be added on the issues discussed by the IFRIC Committee to track potential future changes and to assess impacts on the public sector.

29. The Chair suggested that a paper should be put together summarising potential future agenda items. HM Treasury agreed to take suggestions on these outside of the meeting via email.

Item 9: Any other business

30. The Chair thanked members for their attendance and contributions.

Date of next meeting: 15th March 2018