

MINUTES OF THE 119th FRAB MEETING HELD ON FRIDAY 13 DECEMBER AT NAO

Present: Kathryn Cearns (Chairman)

Ron Hodges	Jason Dorsett
Larry Honeysett	Ian Carruthers
Andrew Buchanan (items 1 to 5)	Maggie McGhee
David Aldous	Andrew Baigent
David Hobbs	Mike Usher
Fiona Hamill	Bob Branson
Gawain Evans	Kathryn Gillatt
Aileen Wright (by phone)	

Secretariat: Philip Trotter (Secretary)
Dennis Lu
Jessie Turner

Guests: Sarah Sheen
Ross Campbell
Graham Fletcher

1. Apologies were received from Veronica Poole, Bruce West, Sir Edward Leigh, Janet Dougharty and Roger Marshall. Guests at the meeting included Sarah Sheen from CIPFA, Graham Fletcher from DCLG, and Ross Campbell from HM Treasury.

Item 1: Matters Arising

2. There was one matter arising relating to the relevant authority for Clinical Commissioning Groups (CCGs). The Department of Health has confirmed that this will be NHS England and David Aldous asked whether this has any implications for the FRAB.

3. Andrew Baigent indicated that the NHS Manual for Accounts is applicable across all NHS bodies except for Foundation Trusts. The manual for CCGs will just be application guidance and provide the format for the accounts. If an issue arises with CCG accounting then this will be brought to the FRAB.

Item 2: IFRS 13 Fair Value Measurement (FRAB (119)02)

4. Sarah Sheen from CIPFA presented this paper, which provided the Board with an overview of the current approach to the valuation of property, plant and equipment in the FReM and the Code, what the objective of the valuation basis for is, and a suggested approach that will be taken forward to consultation that will allow the introduction of IFRS 13.

5. Proposals for the application of IFRS 13 Fair Value Measurement have been considered by the Board on a number of occasions. To date HM Treasury and CIPFA have not convinced the Board of the merits of the approaches that have been proposed and there has also been some divergence between HM Treasury and CIPFA as to the correct approach to take which has resulted in the standard not yet being adopted. This has regrettably resulted in the standard not yet being adopted in the Financial Reporting Manual or the Code.
6. At FRAB 118 the Board advised HM Treasury and CIPFA to look again at the current approaches to valuation in the FReM and the Code. The Board suggested that if fair value wasn't actually the conceptual valuation basis that HM Treasury and CIPFA were seeking to apply when valuing property, plant and equipment in particular, then the way forward could be found by building on current adaptations in the Manuals, in particular IAS 16.
7. The FReM and the Code adapt IAS 16 to remove (i) the option to hold most assets at historical cost and (ii) effectively require the valuation of all other assets on the basis of either existing use value (non-specialised) or depreciated replacement cost (specialised). This is to ensure alignment as far as possible with National Accounts, to provide the correct incentives to those charged with stewardship of assets, and to ensure that intergenerational equity issues are addressed.
8. Above all though the measurement of tangible fixed assets in the UK public sector has sought to value the service potential or operational capacity of assets used to deliver goods and services. It is service potential, rather than the opportunity cost of holding assets in terms of the cash flows that could be generated through sale that has been deemed to be the primary driver of financial reporting.
9. HM Treasury and CIPFA therefore propose to now explicitly note that the measurement objective for public sector assets that are used to provide services directly to the public is to value their service potential and not their fair value. For public sector assets that are not used to provide services directly to the public, and which are not subject to any service or other constraints that would restrict the ability of the reporting entity to sell the asset, the measurement objective is proposed to be to measure the fair value of the asset in accordance with IFRS 13.
10. It is expected that under these proposals, the majority of asset classes will maintain their existing valuation methodologies as these are based on the objective of measuring service potential. The main change is expected to be in relation to land and buildings which are not used to directly provide services to the public and where there are no additional constraints which would restrict the ability of the reporting entity to sell the asset as if it were a commercial entity.
11. The paper also provides tentative support for the disclosure of highest and best use values where assets have been valued using methodologies designed to value service potential, although the practicality of this needs to be discussed with valuers while asset valuation guidance is being developed.
12. A 2014-15 CIPFA Code introduction will not be possible, so it is proposed to delay of the introduction of IFRS 13 into the Manuals until the 2015-16 financial year.

13. The Chairman noted that the paper provided clarity on how we have reached the current position and in particular that measurement has been based on service potential and not fair value as now defined. Comments were requested from Members.

14. Ron Hodges indicated that it was not surprising that this was an issue as when government decided to move to IFRS, measurement was always likely to be contentious. He was broadly supportive of the approach in the paper as applying exit values and in particular market values for public sector assets did not always reflect the different objectives of public sector entities. He was, however, concerned at the use of direct service provision as a determinant of valuation base. How do you decide between front and back office? What happens when an entity reclassifies a building between front and back? A change in valuation would be difficult and cause confusion. He did support the use of fair value when there were no constraints on the use and disposal of assets.

15. Gawain Evans thought that the paper did not provide a strong enough case to move from the standard, and that in particular there was an issue with noting that even for those assets valued using service potential fair value information was useful and should be disclosed. This would be a major burden. He noted that delivery organisations need to be near their clients so fair value measurement was important, and Fiona Hamill agreed indicating that as public services could be delivered by different providers then fair value measurement of assets seemed the correct basis. She also raised the issue of multi-organisation offices, with Andrew Baigent agreeing that splitting the valuation of something that is multi-unit would not be right. He objected to fair valuation measurement for these sorts of assets, and indicated that exit value does not work where short and medium term restrictions on assets exist.

16. Kathy Gillatt raised the issue that much of the government estate was now multi-use, and digital by default meant a move away from front-line services to back office IT. As service delivery models were changing it was necessary to reflect this and also to keep the accounting simple.

17. Andrew Buchanan said that it was appropriate to consider why there was widespread use of valuations, rather than historic cost measurement. For him the main rationale appeared to be the cost of capital charge and he suggested that if this had never been applied it was likely that assets would have been held at historic cost. He supported IFRS 13 fair value where appropriate and did find himself persuaded by the arguments in the paper, but it was necessary to look at the boundary and the unit of account. For example, does a valuation base apply to the whole of a hospital or to the various units within it? On the question of how to deal with properties for which components were capable of alternative use, he noted that there is guidance within IFRS on mixed use properties which might be of use. He also agreed that fair value disclosures, where this was not the basis for valuation, were not needed. However, there was the question of how to value assets when there is a change from specialised use (when assets might not be recorded at an open market value that took into consideration an alternative use, and instead being valued according to their service potential in current use) to being held for sale. For this an IFRS 5 approach might be of assistance.

18. Ian Carruthers noted that there were two issues. The first related to the determinant of different valuation bases in the public sector, the second how to categorise assets between those bases. He indicated that the basis of valuation has to be accountability. If an entity is constrained in the way that it can use assets then it is meaningless to hold them at market value when this isn't the reason why the entity is holding the asset. This needs to be acknowledged and is why entry values/service potential would be the right approach. He agreed that some good points had been made during the discussion on the issues to be addressed in deciding which basis to apply in practice especially those related to relevant guidance that is already available in IFRS. What is required is something practical that doesn't cause valuations to jump around.

19. David Aldous indicated that it was possible to make the conceptual argument for either route but he struggled to follow the logic of the argument in the paper. Would it not be more practical to follow the proposal put forward by Andrew Buchanan whereby assets are held at service potential until they are held for sale at which point fair value applies.

20. Jason Dorsett indicated that he was conceptually attracted to the argument but that this is a big move away from IFRS. There is a significant issue here, however, with the notion of services delivered directly to the public. Andrew Baigent agreed, noting that the phrase has been used for some years and he was not sure if it was correct. In health there are clear restriction on moving sites which might not be picked up by this phrase and fair value would be the wrong valuation.

21. Fiona Hamill reiterated her discomfort at not showing assets at fair value. Surely the purpose of disclosing information is to allow us to make correct decisions. The Chairman noted that what was being proposed was the continuation of a standard RICS valuation methodology. In the end the decision needs to be made on what users want to see and what decisions will be made on the basis of this.

22. Gawain Evans asked whether if we were to use exit values would it lead to better decisions on assets use and disposal as opposed to only revaluing when the decision was made to sell. Kathy Gillatt raised the issue that valuations can have real impacts on organisations like trading funds that bill based on costs and that charging regimes take time to alter so any change could have a real impact on customers.

23. Andrew Buchanan noted that IFRS 13 requires that restrictions on assets must travel with the asset if those restrictions are to be taken into account in its valuation. A potential alternative approach would be to include entity restrictions.

24. Ron Hodges stated that there appeared to be a distinction between operating and financial assets and a distinction could be drawn between those assets that are ultimately to be used by an entity to carry out a public service and those that are not.

25. Jason Dorsett noted that Monitor has rules for specific service locations and the assets that need to be used to deliver those services. Ian Carruthers asked how this practically worked and Jason Dorsett responded noting that Monitor focussed on the service guidance and then relied on entities to do the accounts.

26. The Chairman summarised the debate noting that while the views that we shouldn't derogate from the fair value standard could be understood this wasn't the intention of government when it decided on current value. If a different approach is to be undertaken then it would be useful to get direct feedback from users of accounts. If the next step is to develop this further then it is necessary to address both the boundary issue and also practical guidance on issues like mixed-use buildings. Significant progress has been made but some questions do remain and where possible IFRS guidance should be used to answer these. On the timing issue while it is regrettable that the application of the standard will be delayed until 2015-16 but it was important to get this right. Andrew Baigent agreed noting that it was necessary to work through the impact on the performance regime. The Chairman noted that it was understandable that people were concerned about changes year on year but this is what the standards expect. If the boundary was right then we would expect a fairly stable situation. To facilitate that it would be useful to have guidance that creates broad categories.

Item 3: Simplifying and Streamlining Accounts – verbal update on recommendations and implementation plan

27. Ross Campbell updated the Board on the final recommendations provided by Deloitte to the steering group in November along with a proposed high-level implementation plan. The final recommendations were based on a first principles approach allowing entities to tell their own story, while maintaining certain key accountability requirements and having GAAP compliant audited financial statements in accordance with GRAA2000. The overarching aim is to develop more integrated and relevant reporting that links performance and financial information while ensuring those aspects of the current reporting structure that are useful to users are maintained.

28. The next step was a detailed designed phase, but before this there needed to be consultation with the Finance Leadership Group, sign-off by the Chief Secretary of the Treasury and ongoing dialogue with the Liaison Committee, the Public Accounts Committee and the Parliamentary Scrutiny Unit. The detailed design will then be outlined in a Command paper in the Spring/Summer. For 2013-14, Treasury is encouraging quick wins by departments through FD ownership, a red pen approach and close working with the NAO.

29. There are a large number of mandatory disclosures required by other Government Department that will require Ministerial agreement for removal so Treasury will be working on this over the coming year to ensure improvements for 2014-15 the proposed introduction of the new reporting format in 2015-16. The Board will be kept up to date with progress in future meetings.

30. Maggie McGhee noted that short term actions being taken in 2013-14 should still have a significant impact, particularly red pen exercises, a clearer understanding of materiality and a focus the overall document hanging together. The NAO are looking to encourage a move away from the template approach currently taken by many departments. She noted that the Statement of Parliamentary Supply had equal

importance with the other primary financial statements, although agreed that the current reconciliations did not need to be included in the accounts.

31. Ian Carruthers agreed with points already raised and noted that CIPFA also consulted on the topic over the summer. Similar findings were received including entities not being clear of their users, materiality and a reliance on templates. There are also specific issues in local government related to council tax statutory requirements. The Chairman confirmed that there were very similar discussions in the private sector noting that everybody had their part to play (e.g. preparers, auditors, regulators, standard setters) and that all needed to work together for the desired outcome.

32. Bob Branson queried how the accountability section would apply to NDBPs. Maggie McGhee outlined that this would include things such as losses and special payments, the remuneration report and the governance report. He also noted that he struggled to see the point for some disclosures such as all of the detail related to pension funds. The Chairman indicated that in the private sector some preparers are removing the detail from the main body of the accounts and putting this in an appendix.

33. Andrew Baigent noted that immediate guidance on materiality from the NAO would be very useful. The FRAB Secretary suggested that entities needed to discuss materiality from a qualitative and quantitative perspective with the Parliamentary Scrutiny Unit and select committees. Ross Campbell noted that Treasury would be holding follow up workshops in early 2014 to support the implementation plan. These would cover what departments can be doing now, materiality and the amendments to the Companies Act.

34. Larry Honeysett highlighted his concern that this approach could lead to preparers not including and highlighting important issues in the Annual Report as they have more freedom. The Chairman noted that it would be useful to have a Board Statement providing confirmation the report is “fair, balanced and understandable” and that this is audited. Ross Campbell stated that Audit Committees would have a role to play in this.

35. Larry Honeysett noted that it was important that examples were provided to Parliament in the early stages. Ross Campbell confirmed that there would be a mock-up set of accounts in the Command paper. This had already been done on the Treasury annual report and accounts and would also be carried out for a more frontline department.

Item 4: Accounting for schools (FRAB (119)07)

36. The FRAB Secretary presented the summary report submitted by the Chairman of the Accounting for Schools Working group who was unable to attend the meeting. The Public Sector Schools Working Group concluded, at its meeting on 19 November 2013, that community schools, voluntary controlled schools, voluntary aided schools and foundation schools are separately identifiable entities within local authority control and that, in accordance with the requirements of IFRS 10

Consolidated Financial Statements, they should be consolidated into local authority group accounts.

37. The Working Group had not yet received a draft report based on the conclusions reached, and as such the FRAB Secretary noted that the paper from the Chairman of the Working Group provided the Board only with a summary of the technical arguments behind the conclusion and the planned next steps. The basis of the assessment is that (i) schools are separate entities capable of consolidation and (ii) the balance of control rests with local authorities for community schools, voluntarily controlled, voluntarily aided and foundation schools based on consideration of:

- Local authority powers to close or cease to maintain a school;
- Local authority powers to make significant changes to a school;
- Local authority intervention powers which exist in the event of poor operational performance; and
- The effective existence of 'de facto' control arising from local authorities' monitoring and guidance of schools.

38. The Working Group agreed that a draft final report would be circulated for final approval before the end of December 2013. The agreed report would then be passed to CIPFA/LASAAC for its consideration and subsequent deliberation on an appropriate consultation process. The appropriate technical answer has been reached, however on a practical level the Working Group recognised that there are questions over whether it is desirable for a local authority to split out and re-consolidate schools, given that it is unlikely to alter decision making. The Group tasked the CIPFA Secretariat to revisit the arguments considered previously by CIPFA/LASAAC on the usefulness of the financial information to the users of local authority accounts and the final report would seek to address this area.

39. The Chairman noted that she was keen for the Board to make progress on this issue and asked if anyone had anything to add to the Chair's brief. Ross Campbell confirmed that the report fairly reflected the outcome of the final working group meeting.

40. Sarah Sheen thanked the Chairman of the working group and those Board members who had been part of the group. She confirmed that while agreeing with the overall conclusions in the Chairman's brief, CIPFA believed there was not sufficient evidence as of yet to support some of the conclusions of the working group e.g. de facto control and that this would be needed prior to consultation. She also noted that Welsh schools and special schools had not yet been considered.

41. The Chairman challenged whether any additional evidence was required before a consultation and why these questions had not been addressed at the working group. A full paper to the Board would be expected to follow in due course but this would not be expected to change the conclusions, just provide slightly more detail. This should then lead to guidance that clarifies the treatment for different schools in different situations for preparers to use. The consultation could include

specific questions address these concerns and de facto control is only one element in this assessment and therefore should not be the only focus.

42. David Aldous noted that he was optimistic with the progress outlined in the Chairman's brief and content with the conclusions. He agreed that the outstanding questions that CIPFA outlined should be part of a consultation which would provide evidence if necessary.

43. Ian Carruthers indicated that he thought the decisions were still quite marginal and explained that if this was to gain the support of the FD community in local government CIPFA needed more evidence to support the conclusions. The Chairman responded that she thought that this was clear from the paper. Standards aren't black and white but have principles that can be applied and a consultation will gather evidence to support the application.

44. Andrew Buchanan noted that the assessment of control in IFRS 10 was a balance of all factors. De facto control isn't definitive, indeed in his view step in rights available to authorities were sufficient in isolation and the rest just add flavour. He was concerned about the suggestion that further validation of the working group's conclusions was required, because sufficient and appropriate knowledge should have been captured within the group already. It had included a wide range of members in order to capture the concerns and views of all affected organisations. The Chairman concurred stating that it was always known that there would be a consultation process which would ask these questions and that as there is a rigorous technical analysis no further work is needed.

45. Ian Carruthers noted that it would not be possible to go out to consultation with what was currently presented, and while not disagreeing with the overall shape of the conclusions the best possible case needed to be presented. David Aldous responded indicating that if this was the case then entities would never consult. The Chairman agreed indicating that a consultation was needed to ask if this is what happens in practice and the conclusion were therefore correct.

46. Andrew Baigent noted that other devolved circumstances should be reviewed against the four criteria set out by the working group to ensure consistent treatment. Mike Usher noted that there were no specific or additional Welsh issues that needed to be considered. Ron Hodges agreed that it was important that the basis of the accounting treatment was principles-based to ensure there is consistency across the public sector.

47. Gawain Evans asked about the timing of implementation. Sarah Sheen outlined that CIPFA would like to carry out a three month consultation, which is longer than their minimum eight week consultation, because a wide group needed to be consulted and a significant number in the group were non-accountants. Based on this timeline a 2015-16 implementation would be recommended.

48. The Chairman noted her concern with the timeline set out by CIPFA because the issue had been ongoing for so long now. Ian Carruthers explained that a 2014-15 implementation was not possible because it was a significant change to accounting policy. The Chairman challenged whether the change was in fact significant and asked to what extent there would be a change from the current situation. Sarah

Sheen noted that she believed most local authorities were treating schools as branches but some were treating them as separate entities. Andrew Baigent asked what current guidance was available and whether or not this just reflected the need for application guidance rather than a substantial change. The Treasury noted that clear guidance was available for DfE to consolidate academies and free schools, and if there were no changes to the Code local authorities would be expected to bring in local authority maintained schools as separate entities under the 2014-15 CIPFA code. If we wanted to alter this treatment then it would be necessary to adapt. Andrew Buchanan indicated that he was relaxed about whether schools are included in the financial statements of local authorities as branches or consolidated entities. It was, however, important that the approach adopted would be cost effective.

49. The Chairman explained that she was concerned about the current timeline outlined by CIPFA, which could lead to new consolidation standards being adopted into the CIPFA code with no guidance for preparers. She queried whether guidance could be produced in-year, which would allow a 2014-15 implementation of these conclusions. David Aldous noted his full agreement for this approach. Ian Carruthers explained the CIPFA did not want to rush the implementation of an issue that is controversial, has existed for a long time and has taken a lot of time to develop an agreed solution. This is a difficult issue and CIPFA is trying to resist in-year CIPFA code updates and would like to continue with an approach that requires only updates where there are statutory changes.

50. The Chairman outlined the next step for this issue was for the working group to submit a detailed paper to the Board, which can be an out of meeting paper. She requested that CIPFA ascertain whether this can now be put to consultation and if not outline what needs to happen for this to be the case. She supported a consultation on this issue as soon as possible, for three months if required, and the strength of the responses should steer the timing of implementation.

Item 5: Whole of Government Accounts 2011-12 (FRAB (119)04)

51. Ross Campbell presented this paper which updated the Board on audited WGA 2011-12 which were published on 17 July 2013 along with a short summary document designed to increase accessibility of the information contained within the accounts. This was a significant improvement in timeliness with the accounts being published three and a half months earlier than the previous year. As in prior years there were a number of qualifications on the account, and in a number of these areas such as the accounting Boundary, accounting for schools and local authority transport, the Board has previously provided advice to the Treasury. The Treasury is seeking to address these issues with other stakeholders.

52. As this is the third year of audited WGA, useful trend data has developed which allows for a meaningful analysis of the figures over time. For the first time it has also been possible to see the results of policies pursued by the Coalition Government. The Public Accounts Committee held a hearing on WGA 2011-12 on 21 October 2013 at which Treasury officials were questioned on the content of the accounts and how they have been used across government. WGA is now a key tool

in the Treasury's public finance management framework, and a process of developing financial skills widely in spending teams will ensure that WGA, Department Annual Report and Accounts, and other financial information will be more readily understood and put to direct practical use in managing the public finances. Ross explained his plans to promote the use of WGA across the public sector.

53. The Chairman noted that she was very encouraged by the progress shown and also how much the document is being used by decision-makers. Andrew Buchanan also noted how encouraged he was with the progress and the four page summary produced. The forward plan to remove qualifications was very welcome, and he suggested a prospective application approach which might assist in dealing with the MOD lease qualification. Ross Campbell confirmed that this is the suggested approach for MOD. An external report had been produced reviewing the major sites and the type of information that would be needed from suppliers which may need to be set out in contracts. He also noted the financial management issues being highlighted and tackled in this area.

54. Gawain Evans asked whether there was a role for FRAB to consider changes to reporting requirements that may lead to these qualifications being lifted. The Chairman was less supportive of this approach, noting that accounting and financial reporting requirements were driving better behaviour from a financial management point of view and this was equally if not more important. However she did note that ongoing qualifications were a reputational risk for the WGA and the communications needed to be considered very carefully. Going forward she asked for clear guidance setting out estimated timescales and details of plans to remove the qualifications.

55. Kathy Gillatt asked at what point some of these qualifications would be downgraded to emphasis of matter in the C&AG's opinion. Ross Campbell noted that for some, like intra-government balances, it was hoped that this would be in the next couple of years.

56. Larry Honeysett also praised the four page summary, although he noted that it was often difficult to track trends due to restatements or changing presentation between years. He drew the Board's attention to the PAC report on WGA, this included challenge on usage of the document. Ian Carruthers noted that if WGA was published by the date of Autumn Statement this may increase usage, although timescales for accounts publication in local government and the statutory central government deadline are issues in delivering this.

57. Ron Hodges also noted he was happy with the progress being made. He queried whether supporting information regarding RBS and LBG would be enough to remove the qualification. Maggie McGhee confirmed that this was a fundamental issue of principle and supporting information would not be sufficient for the NAO. The Chairman noted that the inclusion of RBS and LBG would swamp the core government financial information and was not desirable.

58. Kathryn Gillatt suggested that issues identified at the interim audit of the accounts were escalated to ensure early resolution. Treasury confirmed that issues are discussed at the WGA advisory board and suggested a summary be provided to the Board to keep members informed of progress. Ross Campbell confirmed he

planned to talk to stakeholders about how WGA could be further promoted and used. He also indicated that the Treasury would look to analyse the financial information as it was being processed for WGA so that this information can be put to more timely use. The Chairman suggested that description/removal of jargon in the four page summary would enhance the document and ensure that it was of maximum value to the lay user.

Item 6: EPSAS (FRAB (119)05)

59. The Secretary presented an update to the Board regarding recent developments with EPSAS. The Board had been updated at the last meeting on early EPSAS proposals and the first governance task force meeting which had been held. Eurostat have now released a public consultation on the governance framework and have proposed two sets of EPSAS governance principles. These are inspired by the governance principles of the Statistical Law, the European Statistics Code of Practice, and the consultation draft of IFAC's International Framework on Good Governance in the Public Sector. The first set of governance principles relate to the EPSAS governance structure and process, and the second set relate to the EPSAS standards that are to be developed and endorsed by means of sound EPSAS governance. These principles will be enshrined in a Framework Regulation that will provide the legal basis for the introduction of EPSAS and also establish the governance structure.

60. The governance structure is designed to ensure the direct participation of national standard-setters and government accounting authorities in the standard setting process while also ensuring that EPSAS governance is subject to oversight by the Commission, the Council, the European Parliament and the European Court of Auditors.

61. The Secretary asked Board members to provide (i) views on the sets of principles described for the EPSAS governance structure and process as well as for the EPSAS standards and (ii) views on the proposed governance structure. This will help inform relevant authority responses to the consultation and discussion at the scheduled relevant authority meeting on ESPAS in January 2014. Board members are also asked to consider whether they wish for the Board to provide their own formal response to the consultation.

62. The Chairman noted that the Eurostat document displayed the usual tension between independence and accountability when setting up this type of body and governance structure. The proposals were becoming clearer but it was still not clear who the users are. The Chairman suggested that rather than a standalone FRAB response, any relevant authority response should instead explain governance, structure and terms of reference for the FRAB. Treasury confirmed that the current focus was just on governance.

63. Kathy Gillatt asked where the developments were expected to take public sector financial reporting. The Secretary noted that this is still unclear but given the suggested timescales put forward by Eurostat we would expect to have a much

better understanding over the next 12 months. Ian Carruthers indicated that the starting point was almost certainly IPSAS but beyond that there was much uncertainty as to how EPSAS would be developed. Ron Hodges indicated that there was a meeting at FEE in Brussels in January where there would be further discussion on governance issues. David Hobbs asked how the standards were expected to interact with statistical accounting rules. Treasury confirmed that the expectation was a clear link between EPSAS and ESA, indeed improvements to statistical reporting were the driving force behind the project.

64. The Board confirmed they were happy with the approach outlined by the Chairman, who requested that the Board remained updated with progress.

Item 7: Discount rates (FRAB (119)06)

65. HM Treasury presented this paper outlining the discount rates set at 30 November 2013. The rates had been set using the agreed methodology and reporting entities were informed of the new rates in early December 2013 in time to make any adjustments for Supplementary Estimates. HM Treasury also noted that during the Simplifying and Streamlining Accounts project there had been a lot of feedback on discount rates, in particular related to multiple different rates and an inability to see underlying trends when rates changed. As such current methodologies were being examined.

66. The Chair noted that volatility and understandability should not be confused. What we were currently witnessing was not unprecedented market volatility, and similar issues were found in the private sector and resolved by increased disclosure showing the underlying reasons for movements.

Item 8: FReM 2013-14 update and FReM 2014-15 (FRAB (119)08)

67. HM Treasury presented the 2013-14 FReM, 2014-15 FReM and illustrative statements for both years. The Treasury took the Board through the changes:

- Minimal changes to 2013-14 FReM – updates following amendments to the Companies Act and reference to the new www.gov.uk website. Preparers are aware of these changes.
- Illustrative statements for 2013-14 – small errors have been corrected, updates have been made following changes to Managing Public Money and additional emphasis on materiality has been added.
- New format for 2014-15 FReM – positive feedback has been received from RASIG and FLG.
- More stable 2014-15 FReM – more significant changes expected in 2015-16 as part of the Simplifying and Streamlining Accounts project.

Treasury reminded the FRAB that it agreed that the existing FReM wording regarding impairments was not clear, was causing significant preparer confusion,

and that this situation was unsustainable. The updated wording in the 2014-15 FReM is now consistent with the decisions previously made at FRAB and the CBG. This change would not have resolved the specific MOD 2012-13 impairment issue, however, as it was noted that this was a wider valuation issue.

68. Andrew Baigent noted that the CBG was still not clear. Treasury confirmed that the 2014-15 CBG will be circulated to departments for consultation and clarifications can be made.

69. The Chairman outlined her understanding of the intended impairment treatment (consumption of economic benefit/reduction of service potential recorded in the SoCNE and market value changes recorded in the revaluation reserve if available) and Treasury confirmed this was correct. Maggie McGhee confirmed that the NAO had been involved and were happy with the outcome except for one minor drafting point that she would pick up with Treasury outside the meeting.

70. The Chairman explained the 2013-14 FReM still needed some minor drafting changes to ensure the changes related to the Companies Act were clear and compliant with the revised legislation. The Chairman kindly agreed to work with Treasury in the next two weeks to update the relevant sections before they were issued.

Item 9: Draft Code of Practice on Local Authority Accounting 2014-15 – including update on local authority transport infrastructure (FRAB (119)09)

71. Sarah Sheen presented the draft 2014-15 CIPFA code and updated the Board on the main changes that had been made from the previous draft provided as an out of meeting paper in the summer. Changes to the text of the 2014-15 Code had been proposed in relation to: (a) Group Accounts Standards issued in 2011 (b) IAS 32 *Financial Instruments: Presentation* – Offsetting Financial Assets and Financial Liabilities (c) *Annual Improvements to IFRS 2009 – 2011 Cycle* (d) Local Government Reorganisations and Other Combinations – clarification of the Code's requirements and alignment with other public sector bodies; and (e) Other minor and drafting amendments. A few minor changes were still required before the Code could be finalised but these are mainly small clarifications.

72. The Board was also updated on accounting for local authority transport infrastructure. The consultation process sought the views of interested parties on the adoption of depreciated replacement cost measurement (DRC) for transport infrastructure assets in accordance with the requirements of the CIPFA *Code of Practice on Transport Infrastructure Assets* for 2015-16. The consultation responses were supportive of a phased move to the new measurement requirements but, as with previous consultations, expressed some concerns over practical implementation including the quality of underlying data. A number of the key stakeholders (including the Department for Transport) were not supportive of the additional phasing of the requirements i.e. by applying them to carriageways before the other asset groups and argued for the adoption of the measurement requirements for all transport infrastructure assets in the same year.

73. CIPFA/LASAAC considered that evidence from the consultation responses indicated that there was a significant risk that a percentage of local authorities would not be able to comply with the reporting requirements by 2015/16 whilst recognising that data quality may not improve until DRC is adopted by the Code. Taking this into account, CIPFA/LASAAC decided that it would move to formally adopt the measurement requirements in 2016-17 and that it would confirm this position in a new Appendix (Appendix D) to the 2014-15 Code. Adoption in 2016-17 would provide audited data for 2015-16 as full comparative data would be required. This Appendix will also stipulate the information requirements for the move in the years prior to full adoption.

74. David Aldous noted he was happy with the progress made but highlighted the communications regarding changes to the highways infrastructure valuation were important. Ian Carruthers noted that successful implementation needed to focus on the policy context and workshops would be held to support this message. He confirmed they were in discussion with the NAO and the Audit Commission regarding a preparatory year. Treasury updated the Board that a letter to FDs would be sent out next week confirming what was agreed at the infrastructure highway meeting. The Chairman noted that a hard deadline was essential to a successful implementation and this needed to be clear in the communications.

75. Sarah Sheen noted that Treasury and CIPFA were looking at updating and clarifying the guidance on Carbon Reduction Commitment. The main point of discussion was assets that could be held by the entity for longer than a year but according to the guidance should be presented as current assets. The Chairman suggested that guidance setting out that these assets should be held as current but additional disclosure outlining they “could be non-current” would be acceptable and may be sufficient. Sarah Sheen and Graham Fletcher confirmed that this would be very useful.

Any Other Business

76. The Chair asked if Board members had any other business and noted that Ron Hodges had submitted a paper on Obligations Off Balance Sheet to be discussed.

77. Ron Hodges outlined his concern regarding accounting for Obligations Off Balance Sheet in the public sector, especially with a significant rise in guarantees being issued in recent years. He noted the danger was that liabilities were not being recognised leading to poor decision making as this became “the only game in town”. He referred to his paper (*FRAB (119) AOB – Guarantees and Obligations Off Balance Sheet*) submitted to the Board outlining key questions to the Treasury.

78. Treasury explained that in accounting for guarantees, entities can either apply IFRS 5 *Insurance Contracts* or IAS 39 *Financial Instruments*. The majority of guarantees are issued by Treasury and accounted for under IAS 39. Before entering into a guarantee or obligation, departments will need Treasury approval and will need to notify Parliament through a Written Ministerial Statement. The pricing of guarantees is subject to a lot of scrutiny. As well as ensuring that the price adequately compensates the department for the risk being taken on, it also needs to

be state aid compliant, or have specific state aid approval. The price will take into consideration the expected loss, a notional cost of capital, and administration costs. The overall costing of schemes is reviewed by the OBR when they are announced at fiscal events.

79. Treasury explained the cost methodology for “Help to Buy” and confirmed the Hinkley fee will also be at a commercial rate. The guarantee liabilities and discounted fee debtors are recorded on the balance sheet in accordance with IFRS. The guarantee liabilities are amortised over the life of the guarantee and are assessed each year to see if they need to be increased to the amount that would be derived from an assessment under IAS 37 of the amount that would be recorded as a provision. Transactions related to financial guarantees are also included in departments’ budget and Estimate. This includes initial net expenditure upon issuing the guarantee (if the fee has been set at a subsidised level), amortisation in future years, and payouts in future years (which are a charge to CDEL). In departmental accounts there is a large amount of disclosure including the carrying amount and fair value of the guarantee liability, payouts under the guarantee, guarantees offered but not yet issued and the total exposure under guarantees.

80. Ron Hodges thanked the Treasury for clarifying the accounting treatment of these types of arrangements. He queried whether the information was easily accessible to users and provided in sufficient detail. The Chairman noted that this was an interesting and topical area and was encouraged by the Treasury’s response.

81. Jason Dorsett noted that the WGA return included off balance sheet arrangements and queried how well this is populated. Treasury explained that the powers to enter into guarantees are not devolved down to ALBs/agencies which acted as a strong control in this area.

82. Kathryn Gillatt asked for an update regarding the tax and spend arrangements. The Secretary explained that the Board was updated at the last meeting and the Chief Secretary to the Treasury is awaiting a response from Parliament about the proposed treatment and accountability arrangements. Members would be updated at the next meeting.

Dates of Next Meeting

83. The next FRAB meeting is due to be held on Thursday 3 April 2014 at HM Treasury.