

## MINUTES OF THE 118<sup>th</sup> FRAB MEETING HELD ON THURSDAY 10 OCTOBER AT MONITOR

**Present:** Kathryn Cearns (Chairman)

Ron Hodges	Jason Dorsett
Bruce West	Ian Carruthers
Karen Sanderson	Maggie McGhee
Veronica Poole	Andrew Baigent
David Hobbs	Sir Edward Leigh
Larry Honeysett	Sue Higgins
Aileen Wright (by phone)	Bob Branson (by phone)
Gawain Evans (by phone)	

**Secretariat:** Philip Trotter (Secretary)  
Dennis Lu  
Mike Sunderland

**Guests:** Sarah Sheen  
Michelle Samson  
Cris Farmer

1. Apologies were received from David Aldous, Andrew Buchanan, Kathryn Gillat, Fiona Hamill, Janet Dougharty, Roger Marshall, and Mike Usher. Guests at the meeting included Sarah Sheen from CIPFA, Michelle Samson from the Financial Reporting Council, and Cris Farmer from the Department of Finance and Personnel Northern Ireland.

### ***Item 1: Matters Arising***

2. There was one matter arising from FRAB 117. At the last meeting the Board was informed that Treasury would be bringing proposals for accounting for Tax and Spend schemes to this meeting. Currently the only 'imputed tax and spend' scheme included in the national accounts is the Renewables Obligation. ONS have also classified Feed-in-Tariffs as tax and spend but have yet to incorporate them into the public sector finance statistics or national accounts. In light of recent developments in ONS' approach to new 'imputed tax and spend' schemes Treasury do not anticipate that other similar schemes will be incorporated into these statistical publications in the near term.

3. Treasury has, therefore, gained approval from the Alignments Review Committee to include such schemes in departmental budgets where ONS classify them as tax and spend or where HMT anticipate they would seek to do so, but they will be excluded from departmental Estimates and accounts. Treasury will review the potential for an accounting treatment in light of any outcome from the IASB's reactivated project on the Emissions Trading Scheme and other schemes. Treasury will return to the FRAB where appropriate in light of such IFRS developments. An

alternative means of reporting on the Renewables Obligation will be developed to deliver accountability to Parliament. This means of accountability will seek to build on existing statutory reporting arrangements (for example, the annual report on the Renewables Obligation produced by Ofgem), and Treasury is currently liaising with key stakeholders to develop suitable proposals for such a report (including content, assurance arrangements and lines of accountability).

4. The Chairman asked if Members had any questions or comments on the proposals. None were raised.

**Item 2: Simplifying and streamlining annual report and accounts (FRAB (118)02)**

5. Karen Sanderson presented this paper, which provided the Board with an overview of the work undertaken on the Simplifying and Streamlining Annual Report and Accounts project since FRAB 117.

6. Significant progress has been made on the project, with stages 1 to 4 now almost complete and initial recommendations based on them having been developed. Key findings have been grouped into a number of themes which both users and preparers have suggested they would find most useful in an annual report and accounts. These being:

- Accountability: How much was spent against budgets and estimates and how the entity is accountable to parliament
- Financial information: Detail on the categories of spend
- Performance: Measurement against objectives and plan and reasons for variances
- Materiality: Highlighting areas of particular relevance and importance to the entity

7. The project team from Deloitte then presented an overview of the initial recommendations for change. The presentation will highlight a “first principles approach” to financial reporting requirements with recommendations based around:

- Cohesive narrative and consistent KPIs/trend data
- Financial statements based on WGA format/summary financial reporting
- Improved segmental analysis/reporting and risk reporting
- Reduced disclosures – potential for a “small entity” FReM
- Separate section for Parliamentary accountability and the potential for two audit opinions – one on regularity and one on true and fair.

This is being developed into an emerging vision for the annual report and accounts which the Board was invited to comment upon. In the short-term Departments and other entities were being encouraged to take a “red-pen approach” to the annual

report and accounts, focusing on materiality and ensuring that senior staff were engaged with the accounts and production process.

8. The Chair thanked the presentation team and requested questions and comments from the Board. Karen Sanderson noted that there were two key issues that Board Members could assist with: (i) is this proposal radical enough and (ii) will this direction of travel actually improve things and benefit users. Sue Higgins indicated that a number of Board Members also sit on the project's steering group and that this group has really tested the radical end of the options, overall the group is happy with the direction. Ian Carruthers indicated that it is worth not losing sight of the radical options and that the project had really raised the profile of this as an issue that, particularly in local government, doesn't often get engaged with at a CFO level. He also noted that it is essential to bear in mind integrated reporting when looking at the issue.

9. Andrew Baigent expressed a positive view of the project noting that presently what he is required to do currently in order to prepare the annual report and accounts of the Department of Health is very different to the proposals for the future. This is especially true of the narrative front-end, where lots of compulsory and formal information is required and linking this to the accounts to provide a coherent whole is very difficult. While expressing support for segmental reporting he noted that doing this within a FReM/IFRS framework is challenging as although underlying functions are similar over time the structure of the "business" changes regularly.

10. Cris Farmer raised a query regarding group accounting, asking whether this would mean the end of individual entity accounts. Karen Sanderson noted that there was no plan for this at the moment, it was a radical option that was then not taken forward, but the Treasury is looking at what is appropriate for ALBs and whether lessons can be learned from private sector small entity reporting.

11. Jason Dorsett asked for clarity as to the ambition of the project. Is the objective to take the public sector to the level of clarity seen in large private sector organisations or beyond? Karen Sanderson responded that this has never been a stated ambition, Treasury is instead looking at something that is fit for purpose for the users of public sector accounts and there is no "gold standard" that is being aspired to.

12. Bob Branson welcomed the commitment to improve reporting, noting that last week the Environment Agency was in the top 3 at the Building Public Trust Award. He indicated that it is presently very difficult to link the management commentary to the financial information, it's simply not possible at present to create one coherent document. This is not helped by a rigid audit view that requires the inclusion of non-material irrelevant items. He also noted that he was unsure if the latest vision works as the real need is to link money to outcomes

13. Bruce West raised a potential problem, noting that the red-pen approach could lead to items being removed from the financial statements only to require additional disclosure in the front-half. He also indicated that there was a need for clarity as to whether the focus was only on financial performance or also wider

performance. Accounts can be relatively easy but performance is difficult, particularly if a wider group.

14. Ron Hodges stated that this was an important project and it was necessary to consider who the actual users are. Evidence is that there are no significant wider users of public sector accounts, the same is true for the private sector. For him the principal user is Parliament and at the Department level the primary objective must be Parliamentary accountability. At the sub-level then there is a case for potential use by users of services. He also noted that the link with entity objectives is really important, as these are principally non-financial objectives and need to carry through the whole document. There was clearly a need to get rid of the tick-box approach.

15. Sir Edward Leigh agreed that it was right to focus on who the primary user is and that is Parliament and MPs. Accounts need to satisfy the NAO, and at the front there is the need for an “executive MP’s summary”. The annual report and accounts need to be produced so MPs and select committees can easily understand them, so we need to get rid of superfluous information and provide things like trend data and analysis. Larry Honeysett agreed that it was vital that everyone remembered who the audience was, and that a dry run test of the proposed solution might be useful.

16. The Chairman noted that there were lessons to be learned from the private sector but that these needed to be appropriate. Looking at the strategic report for example there are still a number of compulsory elements that might appear to provide superfluous information. Some are therefore looking for a short “6 page” strategic report and then having all compulsory disclosures behind this. It should also not be forgotten that the back end is very important. Users might not look at all the detail but they are looking for the “black holes” and the details provide reassurance, even if it is necessary to have the technical ability to understand it. What has been achieved by the project does look very positive so far, and this mirrors if not leads what has been done to date in the private sector.

17. Gawain Evans indicated that he agreed with much of what was said but that there may be issues with resources to achieve this. He would also like to see the audit side going along with this. Maggie McGhee stated that the NAO had been engaged with the project throughout and have continually stated the importance of Parliamentary accountability. She noted that the NAO does recognise the materiality concerns raised by others.

18. The Chairman asked what the next steps were for the future of the project. Karen Sanderson noted that there was more work to do on road testing the recommendations and particularly working with the NAO to ensure they were comfortable with the direction of travel. The aim is to have the recommendations signed off at the next Steering Group meeting in November and then work will begin on implementation. The Chairman noted that an update on the progress of the project should be a standing item on the agenda, and that the Treasury should continue to look at private sector developments even if just to show why a different path was being taken. Sir Edward Leigh concluded that the focus need to be on telling the story in as visual and accessible a way.

**Item 3: Mid year reporting (FRAB (118)03)**

19. The Treasury presented this paper which provided an update to the Board on proposals to introduce a new “mid-year report” to Parliament by the 17 main central government Departments that are subject to the Business Plan Indicator performance regime.

20. Autumn Performance Reports were last produced for Parliament in 2009. Plans were in place to introduce a new “mid-year report” in 2012-13 but the decision was taken to postpone this to 2013-14. Proposals for mid-year reporting, were finalised on 7 October 2013 and will be introduced in the main 17 departments in central government this year.

21. The mid-year reports are not intended to be IAS 34 compliant interim financial reports but instead provide a high level summary of performance against key Departmental policies and objectives with some consistent financial information included to assist Parliament in understanding the Department’s position and performance before the Supplementary Estimates.

22. Treasury is also considering the alignment of segmental reporting between Estimates, internal reporting, mid-year reporting and Annual Report and Accounts as a medium term aim so is seeking for the financial information in the mid-year reports to be presented on a segmental basis. Initially, however, Quarterly Data Summary information will be allowable.

23. The Chair invited comment from Members. Sir Edward Leigh noted that he was part of the liaison committee that started the process of “mid year” reporting and that MPs would want something simple to look at. Larry Honeysett indicated that he would want to see the reaction of the committees to the reports, not all the answers but enables an informed discussion.

24. Sue Higgins stated that the Treasury had got to a sensible place with the reports, with a light touch approach that could be agreed between Departments and committees. Andrew Baigent agreed, noting that this allows the use of management information to show how the entity is managing group finances and allows a dialogue with the select committee. He also noted that the key was flexibility and that it needed to be recognised that burdens should be reduced as far as possible.

25. David Hobbs asked whether something similar to this reporting format would be useful for year end accounts. The Treasury confirmed that there was an ongoing discussion to ensure that there could be an easy read across all reports. The Chairman noted that Parliament will want an audited set of year end financial statements but asked to what extent the simplification project and mid-year reporting had help shape each other. Karen Sanderson indicated that the Treasury does view the mid-year report as a halfway house along the way to a more streamlined year end report.

26. Ron Hodges noted that he was nervous of the template provided to Departments as a tick-box approach would not provide useful reporting. He further stated that he did not see the purpose of staff number data, and that the mid-year report should focus on projects, outputs and outcomes. Sir Edward Leigh agreed that templates would not be helpful and the Chairman also noted that the people data was confusing and could get in the way of the story being told.

27. Andrew Baigent noted that he would be concerned at the use of QDS, with Bob Branson expressing his agreement with the position that mid-year reporting only should apply to Departments but that some NDPBs would face a resource burden due to their material size. Sue Higgins noted that one of the advantages of using QDS is that big ALBs are included. Karen Sanderson concluded by noting that it was key for Departments to focus on the needs of their select committees.

***Item 4: IFRS Group Accounting Standards (FRAB (118)04) and verbal update on accounting for schools***

28. The Treasury presented this paper, which noted that following consultation the Treasury is now in a position to recommend the application of the Group Accounting Standards to the FReM with adaptation to maintain the departmental and WGA accounting boundaries. To assist practitioners in implementing the changes, Treasury has also produced additional guidance which was also been provided to the Board for comment.

29. After bringing papers to the Board on a number of occasions for advice and incorporating advice from the TAG, the Treasury produce an exposure draft on the proposed application of the Group Accounting Standards to the FReM. Based on the results of the consultation, Treasury will maintain the existing adaptation to the current group accounting standards in respect of the departmental consolidation boundary, reflecting the ONS's classification of an entity to the central government sector, should continue. This will maintain alignment with financial control applied through the budgets and the Estimates processes. As is also currently the case Executive NDPBs and trading funds will apply the consolidation standards in full without adaptation.

30. Treasury is, however, proposing that the recognition of departmental investments in associates and joint ventures outside of the public sector will now be in accordance with the equity accounting method under IAS 28, as opposed to the existing requirements to disclose interests under IAS 39, Financial Instruments: Recognition and Measurement. Although this represents a misalignment to budgeting and Estimates, the Treasury considers that this will present a more useful understanding of the public sectors joint arrangements with the private sector, notably as government bodies invest in more joint arrangements with the private sector. The misalignment will be monitored and managed.

31. The Chairman asked the Board for comments on the proposals and guidance. Andrew Baigent raised a technical question around how a subsidiary of a body within

the Departmental boundary would be accounted for. The Treasury noted that there were effectively three different treatments. If the body is classified to central government it would be consolidated in full, if a public corporation then it would be held as an investment, and if classified to the private sector then either as an associate or a joint venture. The Chairman raised the issue that in the case of a misalignment between the ONS boundary and the IFRS boundary it was necessary to think about accounting in a different way, especially disclosure. Veronica Poole noted that the argument is that this is a mechanism that shows the relationship with the subsidiary as an enabler. The interesting point is that when outside of the boundary do you need to show investment in accordance with IAS 39 or are you just disclosing an interest.

32. The Chairman noted that under IFRS 12 we may need to view these subsidiaries as non consolidated structured entities. Andrew Baigent noted that in many ways this is done now with details included in the accounts. The Treasury noted that there are additional disclosure requirements where the entity is a public corporation. Andrew Baigent further raised the example of PFI LIFT being held by a subsidiary company in DH, the subsidiaries hold shares in individual companies that now need to bring in equity. Jason Dorsett also noted that there are examples of PFI SPVs which have no debt equity interest. DH has a large number of contractual relationships with SPVs and it isn't certain whether these are captured under the new proposals.

33. The Chairman indicated that even under the new standards there is still a judgement call as to whether you fall in or not. The Treasury noted that following the change to ESA 10 there may be some further clarification on investor relationship/agency treatment. The IFRS and national accounting frameworks are coming more into line here. David Hobbs agreed noting that there isn't much conceptual difference. One issue was that the ONS made classification decisions on those cases referred to it by HM Treasury's classification team, or via other routes, e.g. by the institutional units themselves, directly. The published classification process clarifies that, for many cases, the classification rules are clear and classifications are made by government bodies themselves. There was therefore no guarantee that classification decisions were either entirely accurate or comprehensive.

34. Ian Carruthers noted that the New Zealand external reporting board has done a detailed review of the difference between SNA and IFRS for consolidation that effectively covers the same areas as the Treasury. It would be worth considering whether the two frameworks could be brought together, especially for the WGA boundary.

35. The Chairman noted that additional work was required on the drafting of the guidance. By correspondence Andrew Buchanan had raised the need to clarify the difference between substantive and protective rights in the guidance. The Chairman also noted issues with examples in this area that may require drafting to be tightened. Jason Dorsett indicated that it was important to get this drafting right as Monitor for example has rights to remove Boards of FTs. Veronica Poole stated that this isn't an issue in the private sector but in the public sector you find that the Secretary of State will always have an overriding public interest protection right, so if

too restrictive then everything may be consolidated. The Chairman agreed that it was important to bring out the protective right point. Michelle Samson noted that when looking at protective and substantive rights it is useful to separate those that arise from contractual relationship and those that arise due to government powers.

36. CIPFA then provided a verbal update on the status of accounting for schools. The Working Group (WG) has met three times since the last meeting of FRAB. It has been considering the relationship between local authorities and (local authority) maintained schools under IFRS 10 and IFRS 11 and other pronouncements. The WG has used a structured analysis analysing the criteria for control under IFRS 10 (and IFRS 11, where relevant) and has considered:

- whether schools are entities capable of consolidation into local authority accounts;
- returns that a local authority might gain from its relationship with schools;
- relevant activities that significantly affects these returns;
- rights that exist as a result of the authority's involvement in schools that might enable a local authority to use its power to effect the level of variable returns;
- whether there is joint control with other promoters (e.g. the churches through their diocese) of the activities of the governing body.

37. The arguments are proving extremely complex and reflect collaborative arrangements that have evolved over a long period of time. The Group is a disparate group with a number of members having very strong different views reflecting their specialisms. A number of possible approaches have been put forward by the technical accounting expert members of the group. These include:

- the consideration of the schools as structured entities, and
- the possibility that in accounting terms the schools are acting as agents of local authorities.

38. A final paper will be produced which will bring forward all the technical arguments and proposed solutions for the next meeting of the Working Group anticipated to be at the end of October or early November. This is likely to require consultation with the technical expert representatives on the Group.

39. CIPFA/LASAAC is concerned that the introduction the new Group Accounting Standards to the 2014/15 Code of Practice on Local Authority Accounting (the Code) is accompanied with clear guidance on the accounting treatment for schools. It has therefore indicated in its current Code consultation on the 2014/15 Code that it intends to consult on the issue in the autumn (a single issue consultation). In order to bring forward changes to the 2014/15 Code for schools any proposals of the Working Group would need to be available by the end of October 2013 for handover to CIPFA/LASAAC to enable it to develop its consultation papers for inclusion in the 2014/15 Code.



40. The Chairman noted that it was unlikely that proposals would be agreed by the end of October and requested that CIPFA indicate what the backstop would be. Ian Carruthers indicated that as it would be necessary to consult then realistically it will be necessary to delay a financial year. The Chairman noted that it needs to be recognised that this problem is not caused by the new standard, which actually give a possible solution, but it is important to get right so a delay is probably necessary.

41. The Board indicated that it was disappointed that this issue had not been brought to a conclusion and it would encourage all involved to redouble efforts to get this resolved.

**Item 5: IFRS 13– Fair Value (FRAB (118)05)**

42. The Treasury presented this paper, which provides the Board with an update on responses received to the public consultation on the application of IFRS 13 Fair Value and asks for comment on the final proposals for adoption. Treasury has concluded from the consultation that the adaptation of the standard proposed related to geographic location can be removed and instead replaced by additional guidance within the FReM. Treasury is also proposing a further delay in the implementation of the standard until 1 April 2015 due to budgetary funding issues within the NHS.

43. Following further discussion at the last Board meeting, Treasury produced an exposure draft seeking comment on the application in full of IFRS 13 Fair Value save for an adaptation where assets were subject to a restriction based on geographic location. As a result of the consultation Treasury is no longer proposing this adaptation but will seek application of the standard in full. This is because the additional restrictions that Treasury was seeking to highlight through the adaptation are all ready covered in the standard.

44. Treasury is, however, seeking delay of the application of the standard for one further year to 1 April 2015. This is because NHS bodies will be subject to higher PDC dividends where asset values increase and while these increased costs can be managed in Departmental budgets it will not be possible to estimate these in advance of the first valuation cycle using the new standard. As 2014-15 budgets are nearly finalised the delay in application will ensure individual bodies are not unfairly penalised.

45. CIPFA's consultation is not finished and as such Treasury is uncertain as to whether CIPFA/LASAAC will recommend maintaining the proposed geographic location adaptation in the Code.

46. The Chairman requested comments from the Board. Ian Carruthers indicated that he was very disappointed with the paper. He noted that it was not helpful for the FRAB to form a view on these issues prior to the CIPFA/LASAAC discussion., He was not content that the responses to issues raised by Departments had been adequately analysed, and was also not content to leave these matters in the hands of valuers. He was particularly concerned that the draft FReM section had been written as if exit value was the correct valuation basis for the public sector, when even the IASB had recently raised the issue of entry price as a valid measurement basis for items held for their service potential in its Conceptual Framework

Discussion Paper. Overall he felt that IFRS 13 was being inappropriately forced around the actual reality.

47. Andrew Baigent raised the issue that on a conceptual level there was a question as to what to do with non-specialised buildings on a specialised site.

48. Veronica Poole noted that proposals to adapt IFRS 13 are not an adaptation but rather a departure from a general principle. Using entry values is fundamentally different to fair value, and the discussion of the IASBs conceptual paper that raised entry values was characterised by significant criticism. Essentially if you are looking to use fair value then you must subscribe to exit values and use the fair value standard. If for some public sector assets than it is deemed that fair value is not appropriate then it is necessary to revisit other standards and ask whether fair value is being used correctly. If departure from the principles of fair value was needed then it would be necessary to adapt other standards and not IFRS 13.

49. Ian Carruthers indicated that this was useful and that he felt that common ground had been reached and that the current FReM adaptation of IAS 16 should be looked at as the basis of the way forward, The IPSASB conceptual framework for example looks at when the use of fair value is appropriate and notes that for some asset groups fair value is not an appropriate basis of valuation.

50. The Chairman noted that this sounded like a sensible approach. We need to question why assets are being fair valued and whether we are using the correct terminology for assets. It would be useful to approach this by describing the valuation bases of asset classes, which would aid transparency and would ensure that accounting and policy were appropriately aligned.

51. Jason Dorsett raised the possibility that the currently suggested approach would necessitate a lot of additional work between finance and valuers. Veronica Poole noted that the real question remained that it is not how but when to fair value. The Chairman agreed and asked the Treasury and CIPFA to return to the Board in December with consideration of that and clarification of the outstanding issues. The introduction of fair value accounting was due to (i) the lack of historical cost information (ii) intergenerational equity considerations and (iii) the cost of capital charging regime, What was needed was a discussion of measurement objectives and whether to fair value or not. On the issue of whether delay to 2014/15 was appropriate this would be considered at the December meeting.

52. A specific issue was also raised regarding the valuation of finance lease assets. A number of entities had finance lease assets that were being revalued upwards but as the period to expiry of the lease was shortening they were facing significant depreciation charges. There was consensus that this seemed to be a strange accounting treatment but that it was right under the existing standards to value the asset and not the lease as had been proposed to some Departments facing this issue. Veronica Poole noted that such an odd result would seem to suggest that the wrong measurement basis had been applied in the first place

**Item 6: Draft FReM 2014-15 (FRAB (118)06)**

53. The Treasury presented this paper which notes that it has reviewed the FReM to identify whether it could be simplified and improved for the 2014-15 financial year. Two versions of the FReM are in development for 2014-15, one in an unchanged format and another which makes it easier to identify all interpretations and adaptations relating to a standard. Both versions contain proposed removal of some interpretations and adaptations.

54. A number of changes to the FReM are proposed at the meeting in respect of

- (i) Accounting for subsidiaries, joint arrangements and associates under IFRS;
- (ii) Future adoption of IFRS 13 Fair Value; and
- (iii) Preparation of a strategic report and other minor changes, under the Companies Act 2006

55. In addition, HM Treasury has reviewed existing interpretations and adaptations throughout the FReM to check whether they continue to be relevant and to check that they are internally consistent within the FReM. Treasury is proposing to remove a number of interpretations and adaptation following this review, with the most significant being (i) IAS 36 – amendment to clarify an existing adaptation for the definition of impairment losses to be taken through the SoCNE; (ii) IAS 38 – delete interpretation around the capitalisation of internally generated assets; (iii) IAS 39 – delete interpretation around liabilities under financial guarantee contracts; and (iv) IAS 19 – delete interpretation around the use of the corridor approach in IAS 19 Employee Benefits (previously agreed at FRAB but FReM not amended). Treasury also sought comment on a proposed amendment in format to the FReM, which is no longer deemed to be meeting the needs of preparers. The new format is designed to make it easier for preparers to identify all relevant adaptations and interpretations by referring to one chapter; improve the internal consistency of the document by explaining each adaptation and interpretation only once; make it clearer to preparers which standards have been adopted and should be applied; and to shorten the FReM by removing text which duplicates accounting standards.

56. The Chairman asked Members if they had any comments or questions. Cris Farmer raised some concerns with the new version, indicating that a lot of material had been removed and that they would need more time to look at this. Given the aims of the simplification project would it not make sense to wait and introduce this in 2015-16? Sue Higgins indicated that she thought the new format was in the right space and was glad to see the removal of inconsistencies. The Chairman asked if this was too disruptive, with their being strong argument for stepped improvements. Cris Farmer felt signposting and cross referencing was essential.

57. Sue Higgins raised the issue of qualifications, indicating that there were several in 2012-13 due to different interpretations of the FReM so anything that minimises interpretation would be welcome. The Chairman indicated that in a principles-based system we can't be too prescriptive. Maggie McGhee noted that

there were actually very few true and fair qualifications. Karen Sanderson stated that when you follow a principles based system there will always be differences of opinion, what was needed was to avoid self-inflicted confusion on approaches and this was why the Treasury was looking to clarify certain interpretations and amendments.

58. Ian Carruthers noted that there were issues with the wording of the introduction section and that careful use needs to be made of certain terms, such as relevant authority. He also noted that in his opinion the FReM was becoming a “group reporting manual” , primarily because of WGA, and this raises a tension as to how it interacts with the other manuals. Karen Sanderson affirmed that it was not a group accounting manual and was only for central government bodies.

59. Sue Higgins asked whether RASIG were sighted on the changes. Treasury noted that they were to a degree but they had not been fully consulted. The Chairman noted that it would be useful to get the sighted to see if this iteration worked.

60. On the specific changes to interpretations and amendments Jason Dorsett noted that more was needed on the rationale for changes to accounting for impairments. How will this apply without defining economic benefit and service potential? The Chairman noted that what was being attempted with this treatment was to keep a UK GAAP treatment on the move to IFRS. Jason Dorsett noted that the debate at the FRAB when this was first introduced was related to Parliamentary accountability and management actions which reduce the value of assets. Treasury stated that they were attempting to align to the CBG with this treatment, but Andrew Baigent noted that in this area the CBG was ambiguous at best. Karen Sanderson noted that this was one of those self-inflicted problems that the Treasury was trying to correct.

61. The Chairman concluded that the Board would need further work to be undertaken before it could support this change, and asked for this to return with the final 2014-15 FReM at the December meeting.

***Item 7: NHS Manual for Accounts 2013-14 (FRAB (118)07)***

62. Andrew Baigent presented this paper, which sought Board approval of the 2013-14 NHS Manual for Accounts following consultation over the summer. He noted that the Department’s aim is eventually for the Manual to be almost identical to the FReM or to be a chapter of the FReM. For now this is the NHS group manual.

63. The only substantive change from the draft provided to the Board in May will be the inclusion of further disclosures on severance pay. This development is in part a response to PAC and Cabinet Office concerns in this area and may also require an amendment to the 2013-14 FReM. For the NHS Manual a new Note will be added to the mandatory accounts format, with detailed guidance in Chapter 5. The format and content of the disclosure is under discussion at present, but once agreed with Treasury and stakeholders will be published as a formal amendment to the Manual.

64. The Secretary noted that two comments had been received from David Aldous regarding the Manual. Firstly is this the manual for Clinical Commissioning Groups, to which Andrew Baigent responded that it is. Secondly with respect to the NHS consolidation of charitable funds, David had noted that the Audit Commission was liaising with DH and NHS TDA on approach to consolidation. Where there is a corporate trustee it is likely that full consolidation will be required unless the charity is not material to the trust accounts. Andrew Baigent noted this comment.

65. The Chairman requested what the timing would be for the delivery of the 2014-15 Manual with the Secretary noting that prior to the April 2014 meeting would ensure delivery in accordance with the Relevant Authority MoU. Andrew Baigent noted that he would get back to the FRAB on this point. The Chairman and Maggie McGhee agreed to approve the 2013-14 Manual on behalf of the Board between meetings.

**Item 8: Local Authority Transport Infrastructure – verbal update**

66. Sarah Sheen provided a verbal update on the status of work on resolving accounting issues related to Local Authority Transport Infrastructure. Following the last meeting of FRAB two consultations have been issued by CIPFA on the measurement of local authority transport infrastructure assets i.e.:

- As a part of the consultation proposals for update of the 2014/15 *Code of Practice on Local Authority Accounting* (the Accounting Code) which was subject to review by FRAB in June 2013.
- An update of CIPFA's *Code of Practice on Transport Infrastructure Assets* (the Transport Infrastructure Code) – this sets out the detailed measurement requirements i.e. Depreciated Replacement Cost (DRC) for local authority infrastructure assets.

Both consultations were issued on 30 July 2013. The Transport Infrastructure Code's consultation closed on 13 September whilst the Accounting Code consultation will close on 11 October 2013.

67. The Transport Infrastructure Code consultation achieved 29 responses. The changes to the Code included clarifications and augmentations of its provisions, particularly in respect of the reporting requirements of the Accounting Code. The Project Implementation Steering Group (PISG) met on 30 September 2013 to consider the consultation responses and recommended a small number of changes. CIPFA's Public Finance and Management Board will meet on 9 October 2013 with the recommendation that the final amendments are devolved to the chair of PISG (Ian Carruthers).

68. The 'virtuous circle' paper – which proposes a coordinated approach to the adoption of the Transport Infrastructure Assets measurement requirements (reported to the FRAB at its last meeting), was included in the consultation papers. CIPFA is also working with HM Treasury colleagues to finalise a workshop on 16 October to be hosted by HM Treasury, attended by both the Departments for Communities and

Local Government and for Transport and chaired by the HM Treasury Director of Public Spending.

69. In its response to both Code consultations the Department for Transport has indicated its intention to review the way in which funding for highways maintenance is allocated to local authorities over the next spending review period starting 2015-16. It also stated that it is planning to consult on how it can reward those authorities that have taken up good asset management practices and achieved efficiencies.

70. The consultation on the 2014/15 Accounting Code is proposing a staged approach to implementation including a dry run process for 2014/15 with full implementation proposed for 2015/16. The consultation papers also propose a further option for the staged approach for implementation by focussing first on carriageways in the dry run year with the remaining transport infrastructure assets in the following year. The consultation papers, however, do make it clear that in order to implement the measurement requirements of the Transport Infrastructure Code CIPFA/LASAAC will need to first gain appropriate assurance from the outcomes to a number of events and processes including the consultation itself and evidence that decision makers plan to use.

71. Karen Sanderson noted that the aim of the workshop on 16 October was to re-engage on the wider policy matters to ensure that this was being driven by the need for quality asset management planning and not a technical accounting requirement. Ian Carruthers indicated that CIPFA PFMB had had a strategic discussion about the broader landscape and that if the policy approach was heading in this direction then it begins to strengthen the case, while recognising the difficulties and risks. CIPFA are also trying to ensure that the virtuous circle will work with auditors.

72. The Chairman asked if 2015-16 was a realistic date. Sarah Sheen noted that comments had been received that this change is a big burden, especially in times of austerity. The Chairman recognised this, but noted that it would be a big burden whenever introduced but the asset planning incentives was key. Sarah Sheen replied that much depends on data quality here as individual entities have a much lower materiality threshold than WGA.

73. The Chairman recognised this but noted that there was a clear need for a set timetable. Karen Sanderson agreed that there was a requirement for a definitive plan, especially as some Local Authorities are in the position to begin. Ian Carruthers noted that in this regard the strategic discussion at PFMB was important, and that CIPFA would update the Board further at the next meeting.

### ***Item 9: Revised Companies Act proposals (FRAB (118)09)***

74. The Treasury introduced this paper, which examines changes in the legislation that affects aspects of the reporting requirements for companies and

notes changes to the FReM required for reporting entities under its remit to remain compliant.

75. Treasury presented the expected amendments to the Board in May and there were no significant changes to the Department for Business, Innovation and Skills proposals before it became legislation. The main change for central government reporting entities will be the single remuneration figure for Directors. Treasury is working with the Cabinet Office (who lead on remuneration disclosures) to ensure that Departments will be provided with the information necessary to disclose this figure.

76. The Chairman noted that reference to the ASB OFR document was out of date and that it would be more useful to link to the FRC's guidance on strategic reports, even if still in draft. Michelle Samson indicated that while still an ED it was likely to be finalised in early 2014. The Chairman also noted that the Human Rights disclosure may be more significant than the Treasury realised, and the Treasury agreed to look further into the specific requirements. Jason Dorsett also requested clarity on when these changes were being introduced. Treasury noted that while it had expected them to be for years beginning on or after 1 October 2013 the legislation noted that it was years ending on or after 1 October 2013 so it was applicable for 2013-14.

### ***Item 10: European Public Sector Accounting Standards – verbal update***

77. The FRAB Secretary provided a verbal update to the Board on the latest developments in EPSAS following the first meeting of the EPSAS governance taskforce in Luxembourg on 2 October 2013.

78. The first EPSAS governance taskforce meeting was attended by around 50 representatives from Member States, European Union Institutions and other international bodies. The purpose of the meeting was to allow Member States to highlight the accounting standard setting governance structures that applied for the public sector in their own countries, and to comment on proposals from Eurostat for EPSAS governance. The proposed structure follows that which governs the statistical accounting framework in the European Union and not for the adoption of IFRS.

79. Following feedback from Member States some amendments will be made to the proposals and the governance principles and structure will be put to a public consultation this month. Next steps are a further meeting of the governance taskforce following the consultation, and the first meeting of a standards taskforce in the new year. The aim is for a framework regulation to be in place by the end of 2015 although there is still considerable uncertainty as to what that regulation will contain and mandate.

80. The FRAB Secretary invited comment from Ian Carruthers, who also attended the EPSAS governance taskforce meeting as the IPSASB Observer. He noted that a more coherent view from Eurostat could be expected early in 2014 and that the vision was at present not fully clear. The impression was that IPSAS would be the starting reference point based on comments by Eurostat at the meeting.

81. Karen Sanderson indicated that given the potential implications of this project it was necessary for an EPSAS group composed of relevant authority representatives to form to look at this. The Chairman asked for EPSAS to be made a standing agenda item and for the Board to be kept updated of any significant developments between meetings.

### ***Any Other Business***

82. The Chairman thanked Karen Sanderson for her service as this would be the last Board meeting she would attend before starting in a new role at the New South Wales Treasury. She also thanked Michelle Samson for her support to the Board as she would also be taking up a new position soon at the IASB.

### ***Dates of Next Meeting***

83. The next FRAB meeting is due to be held on Friday 13 December 2013.