MINUTES OF THE 120th FRAB MEETING HELD ON THURSDAY 3 APRIL AT HM TREASURY

Present: Kathryn Cearns (Chairman)

Ron Hodges	Jason Dorsett
Larry Honeysett	Ian Carruthers
Andrew Buchanan	Ross Campbell
David Aldous	Andrew Baigent
David Hobbs	Mike Usher
Fiona Hamill	Bob Branson
Gawain Evans (by phone)	Kathryn Gillatt
Aileen Wright (by phone)	Sir Edward Leigh
Bruce West	

Secretariat: Philip Trotter (Secretary)

Guests: Anthony Appleton

1. Apologies were received from Veronica Poole, Janet Dougharty and Roger Marshall. Guests at the meeting included Anthony Appleton from the Financial Reporting Council.

Item 1: Matters Arising

2. There were no matters arising.

Item 2: IFRS 13 Fair Value Measurement (FRAB (120)02)

3. HM Treasury presented this paper which refined the approach proposed at FRAB 119 to IFRS 13 implementation and recommended a new principles-based approach to determining the use of IFRS 13 in the public sector. The paper addressed practical difficulties to implementation noted at that meeting, whilst still ensuring that the objectives of the valuation basis for PPE are met.

4. HM Treasury and CIPFA's final proposal is that IAS 16 is adapted such that IFRS 13 applies to assets which are not held for their service potential and to surplus assets which can be disposed of. This principles-based approach is driven by the financial reporting objectives of reporting public sector assets that have existed since the introduction of accrual accounting throughout the public sector, as well as practical considerations for implementation.

5. Under the proposal, IAS 16 will continue to be adapted to ensure that assets in use that are held for their service potential are held at current value, which is likely to be market value in existing use for non-specialised assets and DRC for specialised assets. For those assets that are surplus where there are no restrictions on disposal IFRS 13 will apply. Where there are restrictions a current value

measurement will continue to be applied. Assets not held for their service potential will be accounted for under IAS 40 or IFRS 5 as appropriate.

6. Addressing a perceived problem that non-specialised assets held at current value will sometimes be held at a lower value than if IFRS 13 applied, an alternative option was highlighted based on an examination of restrictions and constraints on assets to highlight the problems that would be encountered under this approach. It was noted that Treasury and CIPFA contend that the use of IFRS 13 without adaptation was previously discounted as an option on the basis that the public sector does not, on the whole, subscribe to exit values as assets are maintained in order to deliver services. Mirroring IFRS 13 within IAS 16 in this way and adding a consideration of constraints would seemingly result in the public sector applying a rules-based system without agreeing the exit value principle which those rules are based on.

7. Treasury acknowledged that it was unlikely that there would be unanimous agreement, but that this was a principles based approach grounded on the conceptual basis of measuring service potential and would be simple to implement

8. The Chairman thanked the Treasury and CIPFA for the paper and reminded the Board that there were two issues here: which values should be used for non-current assets in general and where fair value is applied whether IFRS is appropriate for the public sector without adaptation.

9. Sir Edward Leigh explained that what was important was that information is presented enabling Parliament to make decisions about the best use of the assets within the public sector. The Chairman agreed noting that it was important to refocus the debate on to users, their information needs and the understandibility of the information presented.

10. Andrew Buchanan indicated that the final option outlined in the paper was not his preferred option because it implied the adoption of IFRS 13 when this would not, in fact, have happened. He suggested that the public sector might initially have used existing use values to ensure that there was a level playing field when resource accounting was first introduced as historical cost values were not available for many assets. He questioned whether existing-use should continue to be used and whether cost less depreciation would not be the more appropriate measure with existing use value now being taken as historical cost. This might bring some simplification due to the elimination of future revaluations. He explained that he understood the practical difficulties but he did not believe they were insurmountable and felt there was a need to conduct outreach with users on the valuation information that they would want to see in the financial statements.

11. Andrew Baigent supported the outcome presented in the paper but felt that it could be presented differently. He noted that the NHS still had capital charges and this needed to be considered in the debate. Although attracted by Andrew Buchanan's proposal he noted that there were some areas where the cost of replacing operational assets rises rapidly and as such current values are needed. He also indicated that the majority of hospitals are impaired immediately when valued at DRC so purely using cost information could result in that information being lost.

12. The Chairman indicated that this showed confusion over what the valuations actually mean, and the fact that this issue was not really about IFRS 13 but instead was about what is the best form of measurement. Comments provided from Gawain

Evans were noted. These included the fact that not applying the standard would prevent fair comparison being made between public and private provision, and that the proposals would add complexity as it was not clear who would define which assets were held for service potential.

13. Veronica Poole in comments provided to the Board noted that she could see merit in the current value objective rather than fair value for those assets that were held for their service potential, but did think that fair value needed to also be disclosed for accountability. The Chairman noted that she did have some issues with the comments on the appropriateness of exit values in the paper, which were echoed by Maggie McGhee in comments provided to the Board. She noted that the Board has not fully debated nor concluded that conceptually exit values are inappropriate in the public sector and she did not feel that the justification for the proposed adaptation should be predicated on this assertion. Nevertheless she would overall support the proposals to adapt IAS 16 and to implement IFRS 13 without amendment as a practical solution.

14. Jason Dorsett indicated that he was not specifically concerned about adopting standards where it was necessary as surely this was the purpose for which the Board exists. He was supportive of the approach outlined by HM Treasury, although felt that the Exposure Draft could be clearer. He explained although he could see the theoretical simplicity of a cost basis, but did not believe it would give the right incentives from a financial management perspective.

15. David Aldous was supportive of the approach and saw option 1 as presented in the paper as the practical option. He noted he was relieved to see that the approach only refers to restrictions not constraints. Bruce West also noted his support of the approach proposed by HM Treasury and felt that it was a pragmatic solution.

16. Ron Hodges explained that although it would be nice to avoid complexity, in fact any approach is complex. He noted that the comparison with the private sector was a red herring as the vast majority of the private sector uses historical cost. He was supportive of the basic principle of the approach presented but he believed that there are still likely to be practical difficulties in its implementation.

17. Andrew Buchanan indicated that if the proposed approach was followed, he did not think that the boundary would be in quite the right place – opportunity cost should be applied when there is a realistic possibility to redeploy and dispose of surplus assets. He noted that IFRS 13 is specific that restrictions are only valid when they travel with the asset not the owner. An IFRS 13 valuation could adjust the exit value for the restrictions imposed.

18. Ian Carruthers stated that this was an approach that CIPFA supported as a pragmatic way forward. Due to timing this had not be debated by CIPFA/LASAAC. He agreed with Andrew Buchanan partly on why current value had been introduced in the first place as historical cost information did not exist. It was also, however, because current values were deemed to provide better information for fiscal and financial management purposes. This bottom-up audited data was needed for the National Accounts and deemed historical costs would quickly become out of date and not provide the correct financial management incentives.

19. HM Treasury agreed noting that a deemed historical cost approach would be problematic for these reasons. HM Treasury agreed that the view that exit values

were not appropriate for the public sector was a Treasury position not one currently held by the whole Board. HM Treasury noted that they agreed with Andrew Buchanan regarding the boundary, especially from a financial management point of view; however it was difficult to go much further for practical reasons and therefore the wider financial management package was important to consider.

20. The Chairman noted that HM Treasury needed to ensure they addressed a number of comments by Veronica Poole as part of the consultation and implementation process including disclosing alternative market values, IFRS 5 requirements and temporary surplus requirements. She also noted that the issue of exit values had not been resolved but may need to be part of a longer term project regarding the understandability of information. She summarised that the HM Treasury approach had general support with some exceptions, and with this broad consensus the Board will recommend that the HM Treasury approach goes to consultation. She suggested that the discussion regarding exit values was a wider issue that need to be decoupled from the IFRS 13 consultation and perhaps folded into the Simplifying and Streamlining accounts project. The Board agreed that an Exposure Draft should be brought to the June meeting.

21. Ian Carruthers noted that in parallel the IPSAS Board has been considering this area as part of its Conceptual Framework project. He has shared experience from the UK as the project has progressed, and he hoped this would continue.

22. The Chairman concluded by reiterating that what was important here was focussing on users' needs and to understand what information they want to see in the financial statements.

Item 3: Accounting for Schools and CIPFA Code addendum

23. Ian Carruthers introduced this paper, which asked the Board to consider the final amendments to the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 in relation to accounting for local authority maintained schools.

24. The paper set out the need to include an adaptation to the 2014/15 Code in respect of accounting for local authority maintained schools by including an adaptation to the definition of the single entity financial statements. The adaptation is currently subject to a consultation process which commenced on 21 February 2014 and will conclude on 4 April 2014.

25. The consultation is primarily based on the report of the Joint Working Group of HM Treasury and CIPFA/LASAAC (the Working Group) which concluded that the balance of control lies with the local authority and thus local authority maintained schools should be included in the local authority group boundary. The adaptation to the single entity financial statements requires that the transactions of local authority maintained schools are recognised in the single entity financial statements and not solely in the group accounts.

26. The consultation also requests responses on amendments to the reporting requirements under IFRS 12 Disclosure of Interests in Other Entities, as CIPFA/LASAAC has proposed that the Addendum should include a recommendation that the disclosures in IFRS 12 that would apply to schools should be aggregated in

the interests of not obscuring the key messages in local authority financial statements, and whether the other maintained schools (i.e. community and foundation special schools and local authority maintained nurseries) should be treated in the same way as maintained schools included in the report.

27. CIPFA/LASAAC has sought to include the changes to the Code in an Addendum which, subject to the consultation process, can be added to the main body of the 2014/15 Code and published at the same time. This will mean a slight delay in the timetable for publication of the 2014/15 Code (anticipated to be 25 April 2014). Subject to FRAB's views on the Addendum (included in the Annex), FRAB is requested to delegate approval of the Addendum to the FRAB Chair.

28. The Chairman asked for comments on the paper. David Aldous welcomed the position reached and echoed Ian Carruther's comment on the quality of the Working Group's work. Ron Hodges asked for clarification on IFRS 12, asking if an adaptation was not given then would a local authority have to provide a summary for every school.

29. Ian Carruthers indicted that this approach got to the right practical answer, with the Chairman noting that this would ensure presentation on the face of the accounts with the schools treated as branches. She asked if any local authorities had systems in place to allow for the consolidation of schools, with David Aldous and Ian Carruthers noting that they did not believe this to be the case. The Chairman noted that there could be a case for noting that this was a pragmatic approach to allow consolidation as branches rather than requiring entity consolidation.

30. She asked for the Board's thanks to the Working Group and the Chair Mike Hathorn to be placed on record.

Item 4: Discount rates (FRAB (120)04)

31. HM Treasury introduced this paper which presents the Treasury's initial conclusions on a broad review of the use of discount rates in financial reporting. Consultation feedback from the Treasury's project on Simplifying and Streamlining departmental accounts has indicated that users of the accounts find the use of different types of discount rates and frequent updating of those rates (to reflect changes in market conditions) confusing. The Public Accounts Committee has also made similar comments at hearings on Whole of Government Accounts, indicating that frequent changes in rates obscure underlying trends that are impacting on significant provisions and pension liabilities.

32. This feedback has prompted the Treasury to consider from first principles its objectives in the use of discount rates in financial and other reporting to assess whether the current approach is fit for purpose, including whether the financial information reported can be made more useful for decision making. It also fits into wider developments in public finance management, which have increased the use made of financial reporting information within the public finance framework.

33. The paper notes the different discount rates used within financial statement covered by the FReM, the objectives for deciding on a financial reporting policy on discount rates, and issues to be considered in evaluating against the objectives. An assessment of options has been made against these objectives and a provisional conclusion reached that financial reporting policy on discount rates could be

improved to better reflect the public sector context and to more simply reflect the inter-temporal or time value comparability of different obligations. Treasury noted notes that this would produce financial information that both enhances comparability and the decision usefulness of the Government's statement of financial position.

34. The paper also concludes that credibility, impartiality and transparency can be achieved by means other than market based rates and that the Treasury's initial preference it to align with other aspects of fiscal policy in using rates drawn from the forecasts of the statutorily independent Office for Budget Responsibility.

35. The proposal is that where the FReM currently permits discounting of non-financial liabilities (i.e. those outside of the scope of the financial instrument standards) to adjust for the time value of money (as is the case for provisions and post-employment benefits), that future cash flows expressed in current prices should be discounted based upon OBR forecasts of long term real GDP growth, with the Treasury producing a fixed, and transparent, methodology for determining an appropriate duration to reflect a reasonable range of different profiles of future cash flows (i.e. that there will be single rate). It was noted that this is Treasury in reflective mode and that the views of Board members were welcome.

36. The Chairman moved to comments received by email from Veronica Poole and Maggie McGhee. Veronica Poole noted that this does not appear to accomplish the goal of reduced volatility as it will still be there even though the discount rate will be calculated in a different way. The rate will also be based on forecasts rather than observable data. Maggie McGhee noted that the provisional conclusions would require an adaptation of IFRS and would not be in compliance with IPSAS. The "confusion of users" does not appear to be compelling enough an argument to require an adaptation of an IFRS for the accounts to be true and fair in the public sector context and it would be more appropriate to focus on the explanations in the financial statements. The argument that market based rates are not relevant in the public sector due to its tax raising powers would have been considered by IPSAS but no adaptation was considered necessary in this area. She could, however, see that this may reduce volatility.

37. Jason Dorsett indicated his agreement with most of these comments and indicated that it was government's ability to print money to meet obligations rather than its tax raising powers that was the key public sector difference. HM Treasury noted that what was being aimed at was to highlight the intertemporal effects of what is a sustainable level of taxation.

38. The Chairman noted that this did not seem different from a company that could produce higher profits; the point is to determine if the private sector solution is not appropriate. Andrew Baigent drew this back to Sir Edward Leigh's comments about users. He noted that while the change in the discount rate does affect how Departments manage long-term liabilities this is ultimately through access to cash. Users are confused by volatility but this is a reason to explain and not change the approach. The Chairman agreed noting that the private sector user of accounts also gets confused.

39. Larry Honeysett indicated that the comments of the PAC needed to be put in perspective and that it was necessary to weigh up stability of rate against other factors, which may take precedence.

40. Andrew Buchanan noted that it was necessary to start by looking at the purpose of discounting. This was to find the present value of an obligation and this takes into account interest rates and risk profiles which will necessarily change year on year. Some things are necessarily complex and need to be explained rather than simplified, indeed the simplest approach to discounting is not to do so at all. He further indicated that the IASB was starting a project on discount rates and he would not support change now except to update rates more regularly and have additional rates where necessary. Kathy Gillat noted that it was also necessary to determine whether discounting was primarily for internal or external use as it can have significant real world impact such as in compensation cases.

41. Anthony Appleton confirmed that the IASB will be undertaking work on this issue and indicated he had concerns in looking at non-financial liabilities divorced from other financial statement components subject to discounting. He noted that the Treasury proposal did not seem to be about how much an entity would be willing to pay now to get a liability off its hands, and for that it is necessary to have a market rate. Andrew Baigent indicated that where there is a market then that is fine but there are a number of things the state has to hold that cannot be sold on. The Chairman indicated that this was also the case in the private sector.

42. The Chairman indicated that she saw two issues here. The first was users and confusion around discounting, an issue which is shared with the private sector and what is missing from this proposal is better disclosure. Disclosing a non-discounted cash flow would be a way to show the underlying position. The second issue is what discount rate to use and here there is no compelling reason at present to move away from the standards. While we are where we are with the standards a debate is developing within the private sector and a conceptual debate is needed. Anthony Appleton raised the point that the AA rate for discounting post-employment benefits had been meant to represent a “risk-free” rate.

43. Ross Campbell agreed indicating that this was going to be a debate that would continue to be had within the Treasury and while the Treasury was looking at disclosure based solutions these would not address the wider financial management issue. Ron Hodges noted that complexity here could not be avoided if it was accepted that discounting was needed. It was, however, important that rates were set outside of government.

44. The Chairman concluded the discussion by noting that if the Treasury wished to pursue potential changes in discount rate methodology it needed to review the accounting literature around the setting and use of rates and to look at the work produced by the ASB and IASB.

Item 5: Tax and Spend (FRAB (120)05)

45. HM Treasury introduced this paper which provided an update on accounting for imputed tax and spend schemes in departmental accounts. In accordance with the Treasury’s policy intentions outlined in the verbal update of October 2013 to the Board, the Treasury has further considered how to best resolve the imputed tax and spend issue to meet Treasury’s objectives of controlling and maintaining accountability for public spending and taxation.

46. In November 2013, in accordance with the protocol agreed under Clear Line of the Sight, the Chief Secretary to the Treasury wrote to the relevant committees in Parliament requesting approval to create the first misalignment between departmental budgets and Estimates since the beginning of Clear Line of Sight. Under this proposal a further derogation would be given to these schemes in 2013-14, but from 2014-15 they will be included in departmental budgets, but not Estimates or accounts unless they meet the recognition criteria in accordance with the FReM.

47. Departments will be required to report annually to Parliament on such 'imputed' tax and spend schemes, as recognised by the Office for National Statistics. These report(s) will be subject to audit and be implemented for the 2013-14 financial year onwards. The Treasury does not intend to make any amendment to the FReM in respect of these schemes.

48. The Treasury also provided an update on accounting for Contracts for Difference, which a technical working group of the FRAB considered in early 2013. This is not a potential 'imputed' tax and spend scheme, as the economic (and cash) flows of the subsidy and levy funding mechanism will flow through a central government body. The technical working group considered the accounting treatment for Contracts for Difference under IFRS and the FReM and concluded that the contracts fell within the scope of IAS 39 as derivatives held at fair value.

49. Contracts for Difference will be funded through the Supplier Obligation which the ONS provisionally concluded will be a tax. DECC had expressed some concern that reporting the liability created under IAS 39 for Contracts for Difference, but not recognising a matching asset under the Supplier Obligation, would misrepresent the overall financial position. Government financial statements do not typically recognise assets derived from a right to fund expenditure through future taxation and consistent with this approach the Treasury are not planning to amend the FReM to accommodate the recognition of a matching asset.

50. On Contracts for Difference the first (or precursor instruments called Final Investment Determinations) are expected to be signed in 2014-15 and Treasury expects DECC to account for them in accordance with the FReM.

51. The Chairman asked members if they had any comments on the paper. Andrew Baigent noted that on tax and spend he thought the approach was very sensible and absolutely right. On contracts for difference he noted this was also right on financial reporting terms and the question of hypothecated tax. Bob Branson indicated support for the treatment, although noted that this does cause an issue for entities who are funded through fees and charges but have to recognise a liability in advance.

52. Andrew Buchanan noted his agreement with where the Treasury had arrived at, but noted that this does not feel too far away from a private sector regulatory asset base issue where there were future rights to charge. There may be a reimbursement right here. Larry Honeysett indicated that there were issues with timing, with significant delays in getting data.

53. The Treasury explained that agreement was being reached with DECC on the report timing, and currently this was on the same basis as the OFGEM report on Renewable Obligations. The Treasury will get Parliament approval for this process,

and Larry Honeysett noted it was also necessary to get Parliamentary approval for spending this level of funds in advance.

54. Kathy Gillat noted that when this was discussed last year that the issue seemed very complex so she welcomed this simple and easy to understand approach. The Chairman asked Ian Carruthers whether the IPSASB was looking to undertake any work on such hypothecated tax schemes, but he noted that there was currently no intention of doing so.

Item 6: NHS Manual 2014-15 (FRAB (120)06)

55. Andrew Baigent introduced this paper, which updated the Board on proposals for the issue of the NHS Manual for Accounts 2014-15 and provided a draft of this version to highlight changes from the 2013-14 version.

56. The Department of Health will issue the NHS Manual for Accounts (the Department's Consolidation Group Manual) at the start of each relevant financial year. The 2013-14 Manual was issued in October 2013, and the aim for 2014-15 is to issue the Manual with sector-specific Annexes in July 2014.

57. The Annexes will cover requirements for Clinical Commissioning Group's and NHS Trust regulatory regimes. Monitor is to issue the NHS Foundation Trusts Annual Reporting Manual for 2014-15 separately, and it has been brought to this meeting for approval. The Department intends to bring Monitor's ARM into this Manual in due course. It was noted that as the sector is relatively immature there will still need to be detailed guidance provided to assist accounts preparers and the preference will be for this to be in one place rather than have multiple guidance documents.

58. The Chairman requested comments from Board members. David Aldous noted that he welcomed the direction that this was travelling in and agreed with the need for clarity on supplementary information. He raised a question on Chapter 2 and the role of NHS England in producing guidance.

59. Andrew Baigent noted that there is lots of complexity here in legislation but while NHS England directs the format of the reports only the Department can direct the format of the accounts.

60. Jason Dorsett noted that there was unnecessary complexity in legislation and that it would be good to get to a set of simplified unified guidance. One issue is that each different community likes their current manual. It may be necessary for the FRAB to exercise some leadership in order to assist in moving to a better place.

61. The Chairman raised the issue that a manual can never be entirely comprehensive and it was thus better to take a minimalist approach. It was recognised however that moving to this would be on a gradual basis. The Chairman also raised an issue regarding the timing of the Manuals release and whether this new approach would raise further difficulties.

62. Andrew Baigent indicated that this should not cause additional problems but there are complexities that mean a longer lead time is needed, such as the cost of capital charge. This year there may also be some late changes to accommodate CCGs.

63. Andrew Buchanan raised some points of detail with the Manual regarding pooled budgets and IAS 2, and Veronica Pool provided comments on disclosures in the annual report section.

Item 7: FT Annual Reporting Manual (FRAB (120)07)

64. Ian Ratcliffe presented this paper, which provided the Board with a final draft of the 2014-15 Foundation Trust Annual Reporting Manual that will be issued for consultation in late May 2014.

65. It was noted that the 2013-14 FT ARM was approved and released in December 2013. It was updated in March 2014 to reflect changes to the FReM related to the Companies Act and additional off-payroll disclosure arrangements. As these only reflected changes approved by the Board for the 2013-14 FReM it was not deemed necessary to bring the Manual back to the Board for further approval.

66. The 2014-15 ARM adopts new group accounting standards in line with the FReM and makes further changes to the remuneration report which go beyond the FReM requirements and adopt more of the Companies Act Regulations. Monitor's FT ARM has previously adopted Companies Act requirements relating to the annual report that go beyond the FReM and changes were deferred in these areas until 2014-15 in order to limit the late 2013-14 changes.

67. Monitor will issue the 2014-15 FT ARM for consultation at the end of May as FTs will be preparing their year-end accounts and working through the audit process in April and May. As part of this consultation Monitor will obtain NHS foundation trusts' views on how they would like their reporting manual to be presented in the future, with a view to including it as an Annex to the Department of Health's NHS Manual for Accounts.

68. The Chairman asked if Members had any comments. Andrew Buchanan raised a number of technical queries with the draft Manual including reference to consolidated accounts, the multiple references to materiality when a standalone section would eliminate the requirement and issues around joint operations guidance. David Aldous also queried reference to Monitors Code of Governance and the implications for the auditor's report. He indicated that if ISA 700 were adapted as result then this could be more significant.

69. Ian Ratcliffe noted that this had been considered and would be consulted upon due to the potential audit cost implication. Jason Dorsett noted that some informal consultation had already taken place.

70. A number of queries had been raised by Veronica Poole including the potential overkill on remuneration reporting requirements, the audit report issue raised by David Aldous and a going concern issue. Jason Dorsett noted that he would follow up on these issues raised, indicating that much of the additional reporting burden is driven by PAC and FReM requirements and that they did receive many queries on going concern so they had thought it useful to refer to the FReM to help clarify. The Secretary noted that he would send through the detailed comments raised to Monitor.

Item 8: Simplifying and Streamlining Annual Report and Accounts (FRAB (120)08)

71. Ross Campbell introduced this paper, which provided the Board with an update of progress on the Simplifying and Streamlining Annual Reports and Accounts project since the December 2013 meeting and sought views on proposals for the more detailed design of future reporting requirements.

72. Since the December meeting, further consultation was undertaken with the Finance Leadership Group on the high level principles to ensure there was continued senior buy-in across Whitehall to the projects initial outputs. The Chief Secretary to the Treasury then wrote to the Chairs of the Liaison Committee and the Public Accounts Committee providing an overview of the high level principles, the aim being to ensure that these key stakeholders were content with the general direction of travel prior to more detailed design work being undertaken.

73. A positive response was recently received from both Chairs, indicating support for measures that can improve the quality and usefulness of financial reporting and which can improve scrutiny and the accountability of reporting entities to Parliament. Based on the first principles approach that was presented to the Board and taking into consideration the recent feedback received from Parliament, the FLG and other stakeholders, the detailed design is now being built on restructuring the current Annual Report and Account into three more integrated reporting requirements. These are Performance – "telling the story", Accountability and Financial statements.

74. An explanation of the purpose and expected content of each section was provided, along with an indication of key stakeholders and work that needs to be performed in the coming months to develop the final proposals. The main addition from previous discussions is the "Overview" section of the Performance reporting requirement, which is intended to be a summary document that should be enough for the lay user to not need to look further into the rest of the annual report and accounts unless they were interested in further detail or had specific accountability or decision making needs to be met.

75. Sir Edward Leigh noted that the average member would not generally go into the main body so the addition of the Executive Summary "overview" section was welcome. He advised to carry on with the progress made and to keep a focus on graphics, trends, telling the story and telling the truth. Larry Honeysett agreed noting that the summary WGA was something that could guide design rather than providing a summary of a summary which would add little value. On WGA format accounts he would need to understand what data would be lost and what the final product would look like. While he was not against the removal of common core tables in principle it would be useful if that information could still be accessed elsewhere. The Chairman indicated that this mirrored debates in the private sector where detail could be held in an audited data file that could be accessed by analysts.

76. Ian Carruthers noted that from a local government angle CIPFA/LASAAC had consulted on the same document as the treasury and there was support for moving forwards. The use of the red-pen approach has been encouraging as it was still the

case that comparable bodies would produce documents that differed in size significantly.

77. Andrew Baigent welcomed the direction of travel and believed it would make a significant difference. On a conceptual level he noted that there are some groups dominated by a single entity and others that are not so there may need to be some flexibility in presentation. Jason Dorsett also noted that the scope of the project need to be considered and whether this applied elsewhere where Parliament was not the primary users. David Aldous also questioned how this would apply in the local government context.

78. Andrew Buchanan welcomed the direction of travel but cautioned that some things were inherently complex and could not be overly simplified. There is currently a lot of discussion in the private sector on this issue and the IASB has a disclosure initiative and is focussing on materiality in amendments to IAS 1 and to which the public sector should refer. This will also need buy-in from everyone, including preparers, auditors and users of the annual reports and accounts.

79. Ron Hodges welcomed the report and developments and indicated his support for providing flexibility in performance reporting. Bob Branson noted that his organisation was open and honest in its accounts and that transparency is very important but it can cause issues with the press. Mike Usher also supported the importance of dialogue between preparers, users and auditors and raised the importance of materiality by context and nature, as well as amount. Gawain Evans also noted that he would provide support in addressing the particular issues associated with the devolved administrations.

80. Maggie McGhee provided comment noting that the NAO had been actively involved in the process and that the key point they have emphasised is that Parliamentary accountability must retain the same prominence in the documents as it does currently and must be subject to the same level of audit scrutiny. They believe this provides an opportunity to enhance the accountability perspective and for departments to be required to clearly articulate the flow of accountability from Parliament to the Accounting Officer. In terms of the red pen exercise, The NAO technical team is working with Audit Teams to support engagement with audited bodies. Early indications demonstrate a range of appetite from the audited bodies to embrace this. The NAO has re-launched the disclosure guide to support this initiative – including a not material explanation

81. The Chairman noted that it was importance to focus on language and to remove technicalities and jargon where unnecessary. Bob Branson noted that he ensured the communications team assisted in writing the management commentary of his annual report and accounts to ensure it was jargon free. Anthony Appleton indicated that the FRC had produced strategic report guidance that provides useful principles on signposting, removing unnecessary details etc.

82. Ross Campbell thanked the Board for the feedback and noted that the Treasury was keen to ensure that this was an iterative process which would reinforce success.

Item 9: Mid year reporting – verbal update (FRAB (120)09)

83. Larry Honeysett from the Parliamentary Scrutiny Unit provided a verbal update on the first Departmental mid-year reports, which were presented to Parliament earlier this year.

84. He noted that all the reports have been received apart from the Department of Health's and have been reviewed by the Scrutiny Unit which is working with Committees on follow up. There will be a report to the Liaison Committee on the lessons learnt from the first year of reports, conclusions, recommendations etc. This will be fed back to Departments through a follow up seminar to departments and will be taken into consideration for next year's revised guidance.

85. He noted that the level of engagement of the Department's had varied considerably, but that in general it was agreed that the format of these reports was easier to digest than the Annual Report and Accounts. There had clearly been some value in the exercise, with a good effort to produce visually and to include trend data and with most being well structured, easy to follow and short. There were some issues, such as a tendency to paint a rosy picture and a failure to link to expected changes in Supplementary Estimates. However, in general if you had taken the best parts from various reports something really worthwhile would have been produced.

86. Sir Edward Leigh pointed to the example of HMRC's Mid Year report, which he felt was very good for a lay user, giving a good idea of what the Department was doing. He noted that in general Departments had a tendency not to tell Parliament of issues, but that acknowledging these earlier would assist at a later date.

87. Ron Hodges noted that he would support the production of a report indicating what went well and what went not so well and Larry Honeysett indicated that this was very much the intention. Sir Edward Leigh reiterated that Departments were aware of what Committees and Parliament wanted, which was a strong visual outline of trends.

88. The Chairman noted that with respect to concerns as to the lack of balance in reports, ensuring that reports were balanced was a requirement in the corporate world, where the Corporate Governance Code requires annual reports to be "fair, balanced and understandable". It may be worthwhile to introduce that sort of requirement, which could also assist in moving away from crystal ball gazing towards a factual account of what has actually happened. She also asked whether the Board could receive a copy of the report once it was completed.

89. Andrew Baigent noted that guidance for next year would be required pre-recess so that Departments could plan over recess. Sir Edward Leigh noted that this guidance should not add any extra requirements. Ross Campbell noted that it was not the Treasury's intention to add requirements and that the report being prepared by the Scrutiny Unit would be enormously useful in ironing out the first year difficulties. He noted that having discussed this with FLG members and some lead accounts preparers in Departments, most had found this to be a positive development that could potentially improve financial management and would assist with streamlining and year end account production.

90. The Chairman thanked Larry Honeysett for his verbal updated and requested a copy of the report be sent to Members once published.

Item 10: European Public Sector Accounting Standards (FRAB (120)10)

91. The FRAB Secretary introduced this paper, which provided an update to the Board on further developments related to the EPSAS project that have occurred since the previous meeting. Over the past four months a number of further developments in the project have occurred, including a meeting of the Relevant Authorities on the subject of EPSAS, a Eurostat/PwC fact finding visit to the UK, two Fédération des Experts-comptables Européens (FEE) events in Brussels, and a number of Eurostat Taskforce meetings.

92. The Secretary noted that currently there is very limited agreement by Member States with Eurostat's proposals.

93. Firstly a number have questioned the legality of the proposals and whether they meet the requirements for the Commission to respect the principles of subsidiarity and proportionality. Secondly one Member State has questioned IPSAS as a reference point for the standards, while others have noted that the fact the IPSAS exists means there is no need to develop an entirely new suite of European standards. If a new suite of standards are to be developed, there is also deep unease at the governance structure proposed by Eurostat, particularly after a recent meeting in which they noted that due to a lack of support in the public consultation they would not be looking to have a governance advisory board to oversee the standard setting committee.

94. Thirdly, the timescales proposed by Eurostat, namely full application and consolidated while of government accounts by 2020 are clearly unrealistic. This is especially true given that the current Commission's term runs out in October and it is uncertain as to whether there will be the political will needed to implement the proposals at all, let alone over such a short timescale.

95. There is not yet an official UK position on the proposals, although Treasury officials will be putting advice to Ministers shortly.

96. At the Relevant Authority meeting there was general consensus that Eurostat's central aim of improving macro-level statistical reporting by ensuring the application of accrual accounting standards at the micro-level could be met by other more proportionate approaches. This could include requiring Member States to introduce a recognised suite of internationally accepted accruals-based accounting standards (be that IPSAS or IFRS) throughout the general government sector by a set date with an understanding that the individual context of Member States will lead to a need for some local adaptation or interpretation. Safeguards around such adaptation could be ensured by having independent advisory boards, with a requirement for these boards to report to Eurostat on such adaptations.

97. The Secretary noted that the Board would continue to be updated on this important project as further developments take place.

98. Ron Hodges noted that the responses to the EPSAS Governance consultation were interesting, with the majority coming from German regional government bodies disagreeing with the proposals. He further noted that without German and French support he could not see the project being achievable. Ross Campbell indicated that from his perspective there were two camps, those that see this as an imposition and those that see it as a way of improving financial management

99. Andrew Buchanan also questioned the achievability of the project. He noted that there needed to be a focus on what the Commission actually wanted to achieve, and for him the best way of doing this would be the gradual introduction of accruals accounting in those Member States where accounting was currently applied on a cash basis with improvements over time rather than one big jump from cash to accruals.

100. Andrew Baigent asked if the Treasury's intention was to seek the Board's advice before obtaining a Ministerial position. The Chairman noted that from a political perspective she could not see there being much movement on the project due to the European elections and the end of the current Commission. She noted that what was needed was to get Member States to a decent standard; what those standards are is not really relevant. She noted that for the UK this was a political decision not really within the Board's locus.

101. Andrew Baigent noted that if this was to result in a move to IPSAS from IFRS then this is something for the Board to comment on. The Chairman noted that this potentially might be the case, but again reiterated that the question about which standards might not be relevant. Rather it would be any moves to adapt those standards.

102. The Chairman thanked the Secretary and asked for the Board to be further updated, including out of meeting, as and when necessary.

Item 11: FRAB Report 2013-14 (FRAB (120)11)

103. The FRAB Secretary presented this paper, which provided Members with an overview of the final draft of the FRAB report for 2013-14. The draft FRAB report was also provided to Members, who were asked to provide comments on the new format of the report and to provide any suggested amendments on content to the FRAB Secretariat by email with all Members in copy by Wednesday 9 April 2014 so as to ensure a timely publication.

104. Members had been requested in the paper to agree to the delegation of the approval of the final report to the FRAB Chairman and Secretary, but the Secretary had received volunteers from the Members to approve the report along with the Chairman.

105. Ian Carruthers indicated his support for the new format, but questioned the extent to which a Chairman's foreword and an Executive Summary were both necessary.

106. The Chairman noted that she would like to see one addition, namely the inclusion of the names of Board Members who had served during the year. The Secretary noted that this would be included, but that for now the Foreword and Executive Summary would both be included pending further review. Andrew Baigent and Andrew Buchanan agreed to serve as final approvers of the report with the Chairman on behalf of all Members.

Any Other Business

107. The FRAB Secretary had one piece of AOB, asking for comment on the approach taken to the two out of meeting papers on minor issues that had been sent to Members. Andrew Baigent noted approval of the approach, as long as a deadline was set for comments and all such comments had to be sent to all Members. This was agreed and the Secretary noted that further minor issues would be dealt with by such an approach in future.

Date of Next Meeting

108. The next FRAB meeting is due to be held on Thursday 19 June 2014 at HM Treasury.