MINUTES OF THE 123RD FRAB MEETING HELD ON THURSDAY 26TH MARCH 2015 AT HM TREASURY

Present: Kathryn Cearns (Chair)

Ron Hodges	David Hobbs
Jason Dorsett	Gawain Evans
Larry Honeysett	Bob Branson
Maggie McGhee	Anthony Appleton
Andrew Buchanan	Ian Carruthers
Ross Campbell	Ruth Elliot
David Aldous	Gareth Caller
Andrew Baigent	Neil Hartley
Joanne McBurney	

On the phone: Aileen Wright

Secretariat: Michael Sunderland (FRAB Secretary)

Guests: Sarah Sheen CIPFA

1. Apologies were received from Sir Edward Leigh, Veronica Poole, Derek Yule and Mike Usher.

AGENDA ITEM

1	Matters arising
2	Discount rates
3	IFRS 9 Financial Instruments
4	IFRS 15 Revenue Recognition
5	Leases update
6	IPSAS update
7	NHS Manual for Accounts 2015-16
8	Mid-Year Reports 2014-15
9	EPSAS update
10	FRAB Report 2014-15
11	Any other business

Item 1: Matters Arising

2. Ross Campbell announced the publication of the 2013-14 WGA. It was completed in less than a year after year end compared with 20 months for the first publication.

3. The Chair noted this was a great achievement and to continue pushing on the timing of the publication. The Chair advised that reactions to the publication would be discussed in the next meeting.
4. Ross Campbell advised that HM Treasury would mail out copies of the printed WGA to FRAB members.
5. Andrew Buchanan raised the frequency of meetings as an issued raised at the previous FRAB and questioned whether there is a loss of rhythm.
6. The FRAB Secretary said this would be given some thought and HM Treasury would do some thinking around the timing of meetings even if changing the frequency was not appropriate.
7. The Chair advised this would be picked up at the next meeting and may warrant an offline discussion.

Item 2: Discount Rates

8. HM Treasury introduced the paper on discount rates and highlighted that this issue was last brought to the Board in April 2014. That paper outlined that feedback from the 'Simplifying and Streamlining of Accounts' project (SSA) and the PAC had indicated users find the use of different rates and frequent changes in those rates confusing. The April 2014 paper was a reflective analysis which aimed 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 moved on to focus more specifically on the discount rates applied to non-financial liabilities recognised under IAS 37 (provisions) and IAS 19 (post-employment benefits)
9. HM Treasury explained that the paper for this Board meeting expands further on the detail of the lead option outlined in April 2014, which was to discount with reference to forecast real GDP growth, as a general measure of the public sector's changing capacity over time to meet obligations. It addresses in more specific terms the Treasury's proposed adaptations in respect of IAS 37 and IAS 19, and why they may be appropriate in the public sector context. The paper also considered two further options, in light of the feedback from Board members; applying a zero real rate and a change in the presentation in the financial statements to show more clearly the effect of discounting (showing the gross and net position on the statement of financial position).
10. The Treasury highlighted the key questions that the paper addresses to the Board, namely; whether any further narrowing of the scope of the lead option is appropriate, in light of the public sector arguments made; whether the Board support the principle of aligning the rates set by HM Treasury for provisions (IAS 37) and for unfunded post-employment benefits (IAS 19); which of the two rates proposed to the Board is the more appropriate public sector adaptation of IFRS; and whether the Board believed a gross and net presentation of liabilities enhances users understanding of the financial information.
11. The Chair provided some context for those new to the Board. She emphasised that there had been a long series of papers on discount rates and this was not a straightforward issue. The position as it stands is that rates for provisions is set by allocating them into 3 buckets: the short-term and mid-term rates are market rates (in accordance with the standards) set yearly in good time for the Supplementary Supply Estimates and the long-term rate is set at each spending review. The Chair suggested recirculating the previous December 2013 paper, which summarised the current approach. She explained that the different rates (between IAS 37 and IAS 19) is most likely an historical anomaly and the IASB have a project on discount rates. A likely outcome of this project would be to align the rates across the two Standards given they

are roughly following the same objective i.e. to represent a market risk free rate on monetary assets. The Chair posed 2 questions to the Board: should there be an alignment of rates for IAS 37 provisions and IAS 19 post-employment benefits for unfunded schemes? What do the Board think about the gross versus net presentation? The Chair noted that neither of these two questions are mutually exclusive.

12. Anthony Appleton agreed the difference in risk free rates between IAS 37 and IAS 19 is an anomaly and that the IASB project may shine light on the question of what was intended by using a risk free rate for the time value of money. There is no clear conceptual basis outlined for the pensions' rate, other than it is trying to model a risk free rate by referencing high quality corporate bonds, rather than government bonds.
13. Anthony Appleton said he didn't see a problem in alignment as they both were intended to represent a risk free rate with the key question being at what rate would someone be indifferent about paying now versus paying later?
14. Ian Carruthers responded that he thought there was no conceptual reason why there needs to be different rates. If looking from a whole of government perspective, liabilities are funded out of future tax revenues, or deferred further through borrowing, so it is conceptually an allocation of the overall pool of cash. It is a primarily therefore a time frame issue so he can't see a reason for different rates.
15. Andrew Buchanan agreed that it was perhaps not a conceptual difference but rather that IAS 19 is older than IAS 37 and was developed from the thinking at the time. There is still a problem with low rates from a corporate entity perspective and this is a similar issue from the public sector perspective.
16. Ron Hodges emphasised that discounting is inherently very complex and whatever change is made won't change that it is difficult to do and explain. He supported what was said and that if we are looking long term for the public sector, it is reasonable to use consistent discount rates if it would make it marginally less complex than using different rates. Discount rates need to be looked at as what is relevant to the public sector rather than the private sector.
17. The Chair noted agreement on the alignment of the rates, but wasn't sure if it would cause a misalignment between funded and unfunded pension schemes.
18. The Chair moved the discussion on to question 2 about presenting the gross and net liability on the face of the accounts and whether this was a useful way of helping users understand the impact of discounting, but noted she believed the issue was really about greater disclosure in the notes and explanatory paragraphs about what discounting is trying to do.
19. Anthony Appleton was concerned this may mislead people as it is not just an arithmetic calculation and may lead to focus on the gross figure, which is just the cash flows. People need to focus on the net liability, if the net number is the right number, and there is a risk that in presenting both numbers on the face of the accounts this may lead them to focus on the wrong number. The aim should be to show the value of the liability today.
20. Andrew Baigent agreed it could be misleading and stated this wasn't something to be done on the face of the accounts but rather that more should be done to improve disclosures.
21. Ian Carruthers agreed with both and noted that a gross presentation may cut across the aim of the SSA project. If looking at public sector pension schemes, one would expect commentary, and so there is no reason why, if useful, it can't be disclosed in the annual report.
22. Gawain Evans responded by stating that giving people a clearer explanation of discounting would get the point across.

23. Chair agreed there was scope for better disclosure. She was not keen on proforma disclosures but some guidance on disclosure and setting a standard across the board may be the best way.
24. Andrew Buchanan thought that a gross and net presentation may make the face of the accounts look too busy. However, the component movements in the liability should be explained to the reader in the notes showing that, for example, gross cash outflows are decreasing but the discount rate is decreasing, so there is a balancing effect. Time banding would be required to get it right.
25. Bob Branson questioned why it was appropriate for funded schemes but not unfunded schemes to have pages of disclosures explaining the movements and queried whether unfunded schemes should have something similar.
26. The Chair noted that funded schemes must make some disclosures and that the solution may be having upfront summary information to give the big picture, with the detail laid out in a mandatory disclosure elsewhere, and to pull out significant differences.
27. The Chair raised the question of what can be done in the manuals for better, more focused disclosure packages and how to coalesce around key packages? What would work across the board? The Relevant Authorities should discuss amongst themselves for the manuals.
28. The Chair outlined the next issue to be addressed; seeking the Board’s views on the question of the rate itself and the frequency of change. The Chair questioned whether the real issue was the volatility in the rates (frequency of change) or the size of the changes. The latter raises the question of whether it is the frequency of updating the rate that was the problem.
29. The Chair restated the 3 proposals on the table: option 1 to use GDP; option 2 to have a zero rate; and option 3 a risk free rate.
30. Ron Hodges responded that option 2 seems attractive at first for simplicity but doesn’t make it simple because if one applies a zero rate it would have to be justified. His view was that option 2 is convenient in the short term but in the long term would create more complications.
31. Ian Carruthers said he was not supportive of no discounting, for similar reasons. He was concerned this would reduce consistency, especially with loans. He noted that unfunded pension schemes or unfunded decommissioning are likely to be paid out of future tax receipts or borrowing, whereas funded schemes have investments behind them, so there may at face value be merit in considering whether GDP makes more sense but that this should be looked at in more detail. He raised the question of whether it stacked up conceptually. He noted this issue was circled around a few years ago and there were lots of debates around the AA corporate bond rates which presented practical problems. GDP is potentially a rate with some form of external validity – for example, though the OBR’s independence.
32. Anthony Appleton did not find it attractive. He noted that however affordable the liability is today, it will remain so in the future. This is a liability on the balance sheet and so to fix the liability to be in a constant proportion of annual income does not make sense. The valuation of the liability should not be linked to the success of the economy. The question is what else could one do with the money today. Anyone should rationally reach a decision of equivalence; that the present value is the same. For government could raise more funds/finance today and pay off the obligation and would do so at a risk free rate. Linking with growth in revenue – i.e. the better you do, the less the liability but the greater your finance cost – doesn't make sense. It doesn’t make sense to link it to GDP, a link to a corporate bond is better as it shows indifference between paying cash today and cash in the future. The issue of negative interest rates is temporary, an historic anomaly and not a basis for changing.

33. The Chair noted that low interest rates looks like the new norm.
34. Ian Carruthers stated he could understand this view in a corporate environment but they have commercial advantage which is not the case for government. Government doesn't transfer liabilities to the private sector so the funding model is going to be different.
35. Andrew Baigent agreed but noted that it is not such a clear cut decision, that it is nuanced with it not being either or neither: the decision is taken in constrained resources but without a fixed level of outcome. The health sector does consider options for transferring or settling clinical negligence obligations.
36. Andrew Buchanan responded by acknowledging there is difference between looking at the obligation from an affordability and valuation perspective. On the GDP option, he was not keen. He stated that he did not see it reflecting what the obligation actually is and was analogous to a corporate suggesting that its own long term obligation is discounted at a rate based on future revenue or profit forecasts. He did not feel comfortable with this approach. On the zero rate, he agreed with Ron Hodges that this wouldn't work; in addition, it may seem attractive now with current low rates, but what about in 5 years when the conversation will revert back to discounting because the effect on the amount of recorded liabilities would be greater? He questioned the technical rationale of setting a real, rather than nominal rate, and suggested there may be merit in looking at government bond rates applying the rate implied by the yield curve which could be updated annually. In terms of explaining the amount of the liability, this would give the equivalent value in appropriately dated government bonds.
37. Maggie McGhee provided the view that the zero rate is simple but not the right answer. GDP provides a link with potential future tax revenue, and is therefore not appropriate. So gilt rates look better. For IAS 37, where setting a real rate then the real yield curve from index linked gilts seems appropriate.
38. HM Treasury responded by noting that the current methodology for determining the risk free rate for IAS 37 rate as agreed with FRAB is precisely that: based on the Bank of England real yield curve derived for index linked gilts.
39. Ron Hodges noted that it seemed the Board's proposed solution was what is currently being used.
40. HM Treasury responded that the reason for reviewing the existing methodology is that users find the use of different rates confusing, but also because users are interested in the question of whether these liabilities are sustainable. The answer to this question may have a closer connection with growth of national income than the prevailing risk free rate of interest.
41. Ron Hodges acknowledged that he is supportive of fewer rates and that discount rates should be appropriate to the public sector, but the issue of long term affordability is an issue for fiscal projections not financial reporting. In financial reporting, valuation is the issue, not affordability.
42. Ian Carruthers and Andrew Baigent agreed the best approach was to focus on valuation rather than affordability. Government needs an objective rate and the government debt rate is closest to it.
43. The Chair noted that the fundamental issue is despite there being differences between the public and private sector, this isn't one of them. These issues were raised in the development of the Standard. Some issues are still relevant but the quality of the liabilities is no different between the private and public sector and so it is not relevant for a GDP-based rate. From a financial reporting perspective it is about the neutrality of valuation and so a market rate is

deemed the best rate. She outlined that a further paper was needed in June setting out what the Relevant Authorities intended to do.

44. Ross Campbell noted that from a HM Treasury perspective this debate plays closely to the fiscal sustainability debate. HM Treasury understands the arguments regarding valuation but are also trying to draw connections with debates on fiscal sustainability, considering how the numbers can be used, and be useful, beyond reporting on financial position.
45. Andrew Baigent queried the timing of the impact of any decision, noting that that any decision should be made in good time for 2016-17.
46. HM Treasury advised that the existing policy was to update the long term rate at each spending review and that the Treasury had previously indicated to the Board that it expected to update the rate for the Spending Round 2013 which determined the 2015-16 budgets i.e. that rates would be updated for 2015-16 in advance of the Supplementary Estimates.
47. Andrew Baigent queried whether Spending Round 2013 could be considered a spending review in this context, given that it set budgets for only one year.
48. The Chair noted that if the overall view is to stick to the Standard then the fundamental issue is to look at resetting the rates more frequently to avoid a cliff-edge effect of changes; it may be better to reset everything annually. The Chair emphasised the importance, in setting the rate for the next spending review, of ensuring there is some future proofing and putting this issue to bed.

Item 3 and 4: IFRS 9 and IFRS 15

49. The Treasury introduced the Relevant Authorities' high level work plan for the adoption and implementation of IFRS 9 in the public sector. It summarises initial discussions between the Authorities in planning for the implementation of the Standard with one the key drivers behind collaborative early planning is to prevent divergence of views at a later stage. The paper outlined 3 steps that have been agreed: securing external technical assistance; creating a technical working group and scoping the public sector landscape. HM Treasury envisage running the process in parallel to the implementation plan of IFRS 15. This would mean working to a timetable as if the Standard is to be implemented in the public sector in 2017/18, when actual implementation will be 2018/19, allowing a longer lead-in time and providing a year of contingency. HM Treasury asked the Board to suggest sources of external technical assistance for this project. HM Treasury indicated that the purpose in creating of a technical working group early was in part aimed at ensuring an appropriate focus for the consultation processes (i.e. making sure the key issues in the Standard can be signposted). The primary aim of the consultation will be to identify and engage with the 'key players' who will be most affected by the implementation of the Standard. Each of the Relevant Authorities will survey their respective landscapes as an initial impact assessment, using their own preferred mechanisms to better understand the potential impact of introducing IFRS 9 to the public sector. The Treasury plans to utilise a Finance Director letter to maximise participation. The Treasury sought the Board's views on whether they agreed with the work plan.
50. The Chair noted that this looked sensible and is what the Board asked for at the last meeting (setting out the high level plan), and in light of the similarity in approach prompted the Board to discuss the plan for IFRS 15 implementation in tandem.
51. Andrew Buchanan raised the point that with a 1st January 2018 introduction there is not quite as much scope for slippage; if comparatives are going to be restated then the work plan needs to be brought forward to allow time to calculate comparatives.

52. The Chair agreed and stated that early work is needed on deciding the transition approach for IFRS 9 and IFRS 15. A blanket approach to transition would make the work plan more straight forward.
53. Andrew Buchanan suggested that initially the largest piece of work (particularly for IFRS 15) is on transition with the rest of the timetable following from those requirements.
54. The Chair advised building on the timetable by working on transition arrangements which could cut out loads of issues and that surveying is important as this would help flush out things to be aware of.
55. Ron Hodges asked about sources of technical assistance and how to volunteer to the technical working groups and whether this should be done via the FRAB Secretary.
56. The Chair agreed this process for volunteering external assistance.
57. Maggie McGhee advised that scoping is important and that some public sector areas (e.g. guarantees) need to be thought about as early as possible.
58. The Chair advised IFRS 15 is running to a shorter timeline and that the IASB is considering changes to this Standard in the summer.
59. Andrew Baigent queried whether we work to IASB or EU-adopted introduction.
60. The Chair advised to work to the date that is known.
61. Andrew Buchanan provided context and noted that IFRS 15 is a fully converged Standard with US GAAP, although current developments indicated a US deferral of the date of adoption by 1 to 2 years. Discussions arising from the IASB/FASB Joint Transition Resource Group for revenue had resulted in the two standard setters revisiting certain aspects of the new standard. An exposure draft of proposed clarifications to IFRS 15 is expected in June/July which should include a compendium of changes which are taking place. The Standard provides options on the transition approach, including a modified retrospective adoption. It would be important for all parts of the public sector to adopt the same transitional approach.
62. Andrew Baigent made the point that capturing the relevant information may be difficult as it would be redefining long held principles of the NHS.
63. Ian Carruthers advised that the IPSASB has approved a project on revenue Standards. The first stage is to decide whether to bring together the existing standards into one or whether to keep separate ones on exchange and non-exchange transactions. He is happy to make the connection between the two secretariats.
64. David Aldous noted the need to consider approaches to assessing uncertainties and probabilities in relation to recognition issues and the potential need for guidance on making reasonable estimates and suggested that it would be helpful if the technical working group considered the scope for guidance to help consistent application. This might also help inform which transition method to adopt.
65. The Chair noted this will depend upon the public sector, how it is affected and how to focus resources. If the easiest transition approach is better due to time frame, then there is a need to liaise closely with the Health sector. But the Relevant Authorities need to look at the options first then let that inform the timetable.
66. Bob Branson has an interest, due to significant fees and charges, and wants to be involved as a volunteer in the technical working group.
67. The Chair advised that getting technical input from the firms should be easier for IFRS 15 whereas for IFRS 9 specialist firms may be required. The Relevant Authorities should trawl quite widely to get input.

Item 5: Leases Update

68. HM Treasury provided a verbal update on leases. The IASB has issued two project updates following the exposure draft in 2013. The headline message is that there is no dramatic change from the proposal in the exposure draft – the proposal remains to remove the distinction between a finance and operating lease with the notion that both types of lease give rise to a "right of use" asset and associated liability. The updates are twofold; one is a communications piece describing the similarities and differences between IASB's and FASB's lessee accounting models and the other focuses on how a lease will be a defined under the new standard (which will be consistent with the definition under IFRIC 4). The IASB are still on track to issue an updated Standard at the end of 2015.
69. The Chair acknowledged that leases can be very complicated and are prevalent (due to volume) in the public sector. The project directors came to speak at ICAEW: transitional arrangements are an issue. Large portfolios of small items and how to apply materiality will be a crucial issue for the public sector. Work will need to be done on the impact of this but the proposed approach may make it simpler, with greater flexibility in application.
70. Anthony Appleton noted that there are two exemptions: short leases (less than a year) and small assets, and there is a very high blanket level and fairly straightforward approach to materiality – possibly around $4000 to $6000 in value is considered small. This is a very loose approach and stronger protocol may be needed in the public sector on where to draw the line for small assets.
71. The Chair noted there are boundary issues particularly for example where there is one small asset versus one big contract which covers many small assets. The overall implications are great and early work is needed around scale for the public sector – looking at what the likely impact is.
72. Andrew Buchanan noted that once the IASB definition of a lease is introduced, it seems that any take or pay contract may be within scope. This should be looked at carefully and should drive the scope of the public sector project.
73. Ian Carruthers noted there is an alignment issue with treatment in the National Accounts. He queried what falls within the scope of SNA 2008 and raised the potentially big issue of treatment of Public Private Partnerships.
74. David Hobbs noted ESA 10 guidance includes a small reference to the importance of 'control' but otherwise ESA-based assessments focus on tests of the balance of risks and rewards. However the introduction of a new accounting standard could increase pressure to National Accounts guidance setters to focus more on the issue of control.
75. The Chair concluded that once the final standard is published high level work on the potential impact should be undertaken. This should be done earlier rather than later as the Board would need quite a bit of discussion on this before actual work is done on it.

Item 6: IPSAS Update

76. Ian Carruthers provided an update on IPSAS development including the finalised conceptual framework (started in 2006) and the forward strategic work plan.
77. He summarised the key chapters of the conceptual framework and outlined the differences with the current position of IASB's own review of its conceptual framework which, because it has yet to be finalised, is something of a moving target.

78. Giving an overview of the conceptual framework he noted that the preface of the conceptual framework articulates systematically what the differences are in public sector reporting and the characteristics of the public sector that the IPSASB have considered in developing the framework. They provide essentially an indication of the characteristics that could be considered in deciding whether IPSAS may take its own line (compared to IFRS). The role and authority of framework is similar to the IASB conceptual framework.
79. The qualitative characteristics (chapter 3) has the same approach as the IASB, though there is no distinction (in hierarchy) between the characteristics, and the concept of the reporting entity is similar to IFRS. The elements were the most difficult part of the conceptual framework. There were questions over the definitions of assets and liabilities. There are 6 basic elements: assets; liabilities; revenue; expenditure; ownership contribution and ownership distribution. The recognition of elements has been kept out of the definition and is a separate chapter (chapter 6) as this is considered to be a different decision. He noted the most debate for the IPSAS Board has been on the non-exchange side. 'Other economic phenomena' such as deferred inflows and outflows may not fall within the definition of the elements, and this is acknowledged in the framework in a separate sub-section (net financial position, other resource and other option). He noted on 'recognition', the IPSAS Board has gone a different way to the IASB on information selection and it has been kept at a high level.
80. There is a separate chapter on measurement but fair value has not been defined as a basis of valuation. The IPSAS Board recognised, though, that fair value (as defined under IFRS 13) may be useful to use as a form of current value. The chapter makes a distinction between historical cost and a number of current value measures. He said that he recognised that IPSAS may need to go further into the development of the bases of measurement.
81. The IPSAS Board may consider whether to revisit the Framework when the IASB finalises its project to evaluate the differences between the Frameworks in order to make minor changes to bring them into line where appropriate.
82. He provided a brief summary of some of the IPSAS Boards ongoing projects including; public sector combination, government business enterprises, emission trading (in collaboration with the IASB), public sector financial instruments and also noted that the project on social benefits has been restarted.
83. He noted that the development of the work plan is a strategic objective of the Board and it has been consulting with stakeholders to support awareness and links with public financial management. He suggested that the IPSAS Board's work will need to focus on 'big ticket' public sector specific issues, such as non-exchange expenditure like social benefits. In areas like heritage and infrastructure assets there are differences of opinion and so these are on the work plan to think over again. Employment benefits will need to be looked at where they are out of line with IAS 19.
84. He summarises that there is a lot of work ongoing and there is uncertainty where impacts to the conceptual framework will play through and influence projects.
85. The Chair responded that this update was very helpful, particularly the focus on some of the issues.
86. Bob Branson queried how IPSASB and IPSAS fit in with IFRS and the role this Board.
87. The Chair explained this part of the hierarchy for the FReM and confirmed that IFRS is consulted first and then one can look at IPSAS Standards, if IFRS is silent, for guidance on public sector issues.

88. Ian Carruthers advised that IPSAS is a source of guidance if going to interpret or adapt when applying IFRS in the public sector.
89. Larry Honeysett asked for clarification of the difference between IPSAS and EPSAS.
90. Ross Campbell responded by advising that the European Commission had concluded that governance arrangements around IPSAS were not appropriate for direct wholesale adoption in the EU, so they had concluded it would be preferable to develop its own standards but IPSAS would be a key reference point for the development of such standards. Some Member States may desire to take a different view on their consolidation boundaries or exclude certain liabilities so there could be divergence with IPSAS in those areas.
91. Ian Carruthers acknowledged that there had been a gap in the overall oversight/governance arrangement for IPSAS, and that there was not the same oversight process as for IASB. The Board had reviewed this and announced the results of that review in February. A Public Interest Committee will perform an oversight function and will be made up of members from the IMF, OECD, INTOSAI and the World Bank which will concentrate on the Board's due process and will report to the Board where there are concerns. A consultative advisory group, a more direct route to obtain input from IPSASB's various stakeholder interests, will be established in 2016, however details on this are not yet available.

Item 7: NHS Manual for Accounts 2015-16

92. Andrew Baigent introduce the two health manuals, and advised that they aimed to produce a single converged manual but had been unable to do this, this year, due to time constraints. Progress in convergence has been made and the plan is to reach the goal of a single manual next year. He noted that there were lots of changes in the manual, but there were no material changes. The Better Care Fund (BCF) section is currently incomplete in the manual and this is the only area of missing guidance. This is because it was only internally approved shortly before the FRAB meeting. He advised it follows the Standard and no part has been changed or adapted, but it is relatively long (about 40 pages) as it includes a significant amount of practical guidance. He suggested he could distribute this section outside of the meeting for approval.
93. The Chair queried with the Board as to whether volunteers would be prepared to look at the BCF once it has been circulated and requested that it was circulated to all members. The Chair also queried the timescale and proposal to consult on the draft manuals.
94. Andrew Baigent advised that the bulk of the work is to be done in May and the consultation would be soon, however, he would confirm to the Board when he would need comments by. He also noted that he is aware that there is concern around entities setting up artificial legal arrangements.
95. The Chair requested an indication of when comments are needed by.
96. Andrew Baigent responded that the manual may be exposed to the sector in advance due to its complexity but advised that entities would be made to follow the Standard.
97. The Chair requested that the Board be kept in touch with the timetable.
98. David Aldous was supportive of bringing this forward and of the engagement process. He requested clarification of the timetable of engagement with practitioners.
99. Andrew Baigent advised again that there are no real substantive changes so no real engagement or consultation has been undertaken with the BCF, however, he raised a concern about comparatives between the local government sector and the health sector; this is due

to the possible disparity of treatment between the two sectors. He advised that there may be issues and the best way forward is to discuss and refine practice notes.

100. David Aldous agreed this would be useful for the Board to see as a wider view may be required.

101. The Chair requested for the BCF document to be circulated to the Board with the timetable and for the Board to be kept in touch so that the Board can assess developments.

102. David Aldous noted that the group manual is showing good progress but there may need for greater clarity on whether aspects described as guidance form part of the direction and/or might need to be more clearly defined as group requirements rather than guidance.

103. Andrew Buchanan noted that the pooling of resources (joint operations) is producing unexpected accounting results in the private sector where there are two parties and one operator. Rather than each showing it net: one may show 100% of the liability with a 50% recoverable. Applying Page 92 of the manual on pooled budgets, NHS bodies are required to bringing in only their portion – i.e. their share of the transactions and balances – in practice this is not always the case and some entities need to gross up their balance sheet position.

104. Andrew Baigent advised that who gives the direction is dependent on who the entities are and guidance may need to be clarified. Some group bodies are subject to different directions, for example, NHS England and the provider sector. So this gives rise to this being sorted before the convergence of the manuals; so the manual needs to be very clear on GP wide guidance/directions etc.

105. Jason Dorsett acknowledged that this is part of the reason the manuals were not able to converge.

106. The Chair queried whether the scoping issue can be included in the introduction.

107. David Aldous noted there are wider issues which need clarification.

108. The Chair responded that this should be looked at as part of the consultation process for the manuals.

Item 8: Mid-Year Reports 2014-15

109. Larry Honeysett introduced this paper updating the Board on 2014-15 Mid-year reports. He advised that mid-year reporting was introduced in the last financial year (2013-14) following a recommendation of the Liaison Committee. The reports are primarily intended to meet the needs of Select Committees, to provide in year information on spending and performance. The Scrutiny Unit's review of the 2014-15 reports (published in December 2014), concluded that there was a noticeable improvement from 2013-14, however the quality of reports continues to vary quite significantly. The Scrutiny Unit's assessment used a twin track approach: based on a RAG rating/Scorecard of their strengths and weaknesses and engagement with committees on their own requirements. In general the reports demonstrated an improved use of charts, graphs and other visualisations of data and better trend analysis. Many departments, however, needs to improve the executive summaries, put greater emphasis on reporting on progress and performance, and better explanation of the financial performance of the department and its major projects. He noted the Liaison Committee's legacy report, published on 24 March 2015, will include reference to the new reports. A paper on the 2014-15 reports will be put to the new Liaison Committee shortly after it is established (following the general election) with a more detailed analysis and recommendations, and proposals for communication with

government. He noted that HMRC and DWP's reports both had strong elements and BIS, DECC and DCMS all demonstrated engagement with their relevant Secretaries of State in producing their reports. He advised that it is encouraging to see that these reports are more widely used, partly through heightened awareness by committees, and great efforts have been made by the scrutiny unit to help committees engage with the reports. He concluded that this is a valuable exercise and the introduction of new simplified annual reports and accounts should help with a greater consistency of narrative reporting and that this should be taken further with departments looking at the information going to Parliament at the beginning of the year on the budgetary side too.

110. The Chair noted that it is helpful for the Board to have insight into how these are used and their content, even though the FRAB is not directly involved. The Chair acknowledged that this is an iterative process with a virtuous cycle and that it is valuable to receive reports of this nature and an update in November may be useful.

111. Ron Hodges queried whether the reports are publicly available.

112. Larry Honeysett advised that they are and they can be found on the Scrutiny Unit and gov.uk websites.

Item 9: EPSAS Update

113. Ross Campbell updated the Board on the outcome of the final governance taskforce meeting. He indicated that Eurostat had intended to issue a draft communique in the autumn, however, they are now not going to do so. Eurostat indicated that the new Commission does not see the need for a communique as EPSAS has become a less significant priority but that Eurostat will be progressing the process of developing regulations for towards the end of this year, beginning of next.

114. There remains a planned move from a taskforce to a working group, which constitutes a step up in activity, and there appears still to be funding available for the work. Eurostat, in light of the change of approach, are looking to increase the level of engagement with member states and the working group. Eurostat has encountered more resistance from member states, although some momentum remains as the project is still being resourced and is running.

115. The UK will continue to engage as this does not necessarily present a problem for the UK, however, concern remains over quality and the risk of any degradation in the quality of financial reporting in the UK. The UK policy remains the same, and is supportive of the adoption of accruals accounting across the EU but it needs to conform to UK quality expectations; it should not be a step backwards and should be based on an internationally recognised set of Standards. The EPSAS timetable remain unchanged and very optimistic (with full implementation by 2020) and can reasonably be expected to slip.

116. Ian Carruthers, who also attended the meeting as the IPSASB Observer, agreed with the summary. He advised that PWC provided a useful report of what is going on in individual member states. He advised that 18 IPSAS Standards could be adopted without adaptation but others could not be. For example, the principle-based IPSAS 23 on tax would need further guidance to apply the principles to specific taxes such as VAT. He advised that Eurostat is interested in the IPSASB process and criteria for developing guidance from IASB literature as a basis for developing EPSAS from IPSAS, and considering any necessary differences between ESA and EPSAS.

117. Ron Hodges advised that, given the governance arrangements, it was quite possible for EPSAS to diverge from IPSAS which may affect a number of countries and therefore this is something the FRAB should watch out for, particularly if Europe is going to introduce standards that are less robust than those of the IASB. He noted that the responses to the public consultation on future EPSAS governance principles and structures had not yet been published by Eurostat.

118. The Chair noted that the lack of transparency is indicative and requested that the Board be kept informed.

Item 10: FRAB Report 2014-15

119. The FRAB Secretary advised that an initial draft of the Board's 2014-15 draft report had been circulated and that it follows the prior year format. The FRAB Secretary raised queries on: whether a Chair's foreword and Executive Summary are needed; whether the year's activity is balanced; and whether the 2015-16 priorities for the FRAB are correct.

120. Andrew Baigent noted that there is nothing in the report commenting on the effectiveness of the Board and whether something along these lines is needed, for example, attendance at meetings. He commented that this is the Board's report and it should include how it operates and not just what it did in the year.

121. The Chair stated that she was not adverse to this provided it was reported in general terms and not an attendance tick-box exercise – i.e. something on high level effectiveness could be included. The Chair stated that the report should be focused and kept short and since there have been no demands for effectiveness to be included to date that the report should therefore be kept brief. The Chair noted that there has been change in the membership and that this turnover should be commented upon in the report. The Chair advised that if there is a Chair's foreword in the report that it should not repeat what is included in the Executive Summary, but should flag issues of fundamental importance.

122. Gawain Evans raised a concern over the audience of the report and noted that the draft towards the end of the report utilised more acronyms and advised these should be explained. He also requested that the references to the Welsh Assembly Government be changed to reflect the formal change in name (to Welsh Government)

123. Aileen Wright advised that she had some comments and would feedback points to the FRAB Secretary.

124. Maggie McGhee advised that WGA was certified and published in June last year and in March this year and so the report should reflect this improvement.

125. The Chair agreed that this should definitely be updated in the report.

126. Larry Honeysett requested that the final tone of the mid-year reports be changed in line with the update made earlier in the meeting.

127. Ross Campbell noted that the report omits who the FRAB members are and this could be linked to the website.

128. The Chair accepted that this could be re-included in the report and that an acknowledgment should be made of the time the members give to the Board. The Chair stated that the report needed to be refined in the next couple of weeks.

129. The FRAB Secretary advised that the objective is to lay the FRAB report before Parliament's summer recess and the ideal process is to approve the report outside of meeting so that it doesn't fill up the agenda.

130. The Chair advised that in a normal year the report should be done by April, however, this year it should be circulated for comments to the Board after Easter and the Chair made a request for 1 or 2 volunteers to contact the FRAB Secretary to help review the report after Easter.

Item 11: Any other business

131. Bob Branson raised a point on sustainability reporting, in line with the Simplifying and Streamlining of Accounts project and what users want to see, specifically with regards to EA's pension fund joining other investors to pressure Shell and BP to include more in the accounts on how they are responding strategically to climate change.

132. The Chair responded that the new Parliament will most likely have something to say on sustainability reporting.

133. Gawain Evans queried how to report on this if this is not done in the annual report. He raised the issue of the Future Generations Bill and working with CIPFA on the pilot, so when the Bill is in place it would need to be recorded and reported on and one way of doing so is through the annual report and accounts.

134. The Chair advised the Board that the next meeting would be in June.

Date of next meeting

135. The next FRAB meeting is currently due to be held on Thursday 18th June 2015 at HM Treasury.