

## Financial Reporting Advisory Board Meeting 19<sup>th</sup> March 2020: Minutes

**Location:** Dial in Conference

**Time:** 1pm – 3pm

**Attendees:** Lynn Pamment (Chair)

Vicky Rock

Ian Webber

Gareth Davies

Joseph McLachlan

Larry Honeysett

Anthony Appleton

David Aldous

Kim Jenkins

Bob Richards

Gareth Caller

Stuart Stevenson

Karl Havers

Andrew Buchanan

Fiona Kordiak

Ian Ratcliffe

Andrea Pryde

Gawain Evans

Aileen Wright

### Secretariat:

Vikki Lewis, HMT

### Apologies Received:

Craig Mackinlay

Iain King

Conrad Hall

Chris Young

Richard Barker

Jen Nicholls

Pam Beadman

## Agenda:

Item	Presented by	Time	Paper
1. Minutes and matters arising	Chair	13:00	FRAB 139 (01)
2. IFRS16 – interaction with PPP arrangements	Sarah Geisman	13:10	FRAB 139 (05)
3. CIPFA/LASAAC Code & Local government update	Gareth Davies	13:40	FRAB 139 (06)
4. DH Group Accounting Manual and health sector update	Ian Ratcliffe	14:10	FRAB 139 (07)
5. FRC update	Anthony Appleton	14:40	Verbal update
6. AOB	Chair	14:55	
<b>ITEMS TO NOTE AND INVITATION FOR COMMENT;</b>			
Government Financial Reporting Review and FReM review			FRAB 139 (02)
IFRS 17 implementation plan			FRAB 139 (04)
FRAB terms of reference and forward strategy			FRAB 139 (09)
Relevant authority working group – paper to note only			FRAB 139 (10)
FRAB Forward Agenda			FRAB 139 (11)
<b>OTHER ITEMS TO CARRY FORWARD TO JUNE MEETING:</b>			
Redmond Review update			

### Agenda Item 1: Welcome, minutes and matters arising

1. The Chair welcomed the Board to the meeting and thanked members for their flexibility in attending the meeting by phone at short notice.
2. The Board approved the minutes and the matters arising from the previous meeting held in November which had already been circulated. Members with any further minor comments agreed to send them to HMT.

### Agenda Item 2: Coronavirus impact on annual reports and accounts production for 2019-20

3. The Board agreed to alter the running order of the agenda in order to facilitate the best possible discussion.

4. The Board started by hearing an update from Vicky Rock outlining the ongoing work surrounding the impact of the Coronavirus outbreak on accounts production and civil service staff. The Board was informed that staff are being redeployed from finance roles to fill vital public service roles and that currently policy responses are being prioritised.
5. The Board was told that guidance is being provided to finance teams on the work that needs to continue during this period, outlining priority areas such as cash forecasting and budgeting, accountability and data for Estimates.
6. The Board discussed the potential actions that could be taken in order to ease the burden of financial reporting in government. Discussion included the options to delay the administrative deadline for accounts production until after the summer recess, reducing content within the accounts, producing interim accounts for this financial year or requiring 24-month financial accounts next year with no formal reports for 2019-20.
7. The Board discussed the potential implications of reducing reporting burdens on the level of assurance that could be given in the accounts. Some Board members expressed a preference for delay in reporting over extensive reduction in the reporting requirements so as to reduce the impact on audit quality.
8. HMT explained that they are responding to the situation by exploring ways to minimise the end of year reporting burden on entities, including potentially reducing existing performance reporting requirements and/or staggering reporting of different parts of the ARA. All options would take into consideration WGA requirements, though HMT advised that thinking was at a very early stage and had only emerged in the last few days as the broader situation had quickly developed.
9. The Board discussed the effects of delays to producing ARAs and potentially producing 24-month accounts. Though this could ease immediate resource pressures, it could push problems to the following period and affect reporting in 2020-21. The possibility of publishing interim accounts was also discussed.
10. The Board discussed the effects of the virus outbreak on the NHS and the measures that have been announced to support the NHS with finance processes being simplified as much as possible. The Board was informed that block contracts are now in place, additional money is being made available and cash is going to NHS providers so that they can best support the service and sub-contractors.
11. HMT outlined that the legislation governing government annual reports and accounts, the Government Resource and Accounts Act (GRAA) is being reviewed to see how much flexibility it gives. HMT outlined that SOPS reporting remains a priority in order to maintain Parliamentary accountability, as well as the importance of continuing with cash forecasting and budgetary controls. The Board agreed and recognised the impact on the public sector is extremely high due to the need to reprioritise resources in order to keep public services running.
12. The Board agreed that it was important to retain a degree of financial reporting but accepted the need to consider how this could be minimised. The Board highlighted the potential impacts of the private sector failing to continue reporting including the potential impact on markets that could deepen the economic impacts of the virus

outbreak, though recognised that a different solution was probably needed in the public sector

13. The Board agreed that an out of meeting paper should be produced by HMT setting out proposals for the 2019/20 annual reports and accounts and that they would hold a further meeting would be held via conference call to discuss the proposals. The paper will outline the pros and cons of various options to reduce the reporting burden, exploring what can be done within existing statutory requirements and consider the importance of maintaining a degree of Parliamentary accountability. If possible, options to amend the legislation will also be explored. HMT explained that they had already begun engaging with their legal team, and that further engagement with other relevant authorities, the NAO and Parliament would be undertaken. An additional meeting in April will be arranged to agree next steps.

### **Agenda Item 3: IFRS 16**

14. The Board received a paper on the interaction of IFRS 16 and PPP arrangements prior to the meeting. However, due to the changes in circumstances since the paper was distributed, discussion moved to the proposal to defer the implementation of IFRS16 Leases for a further year, meaning the introduction of the Standard would begin from 1 April 2021.
15. Recognition was given to the complex nature of the Standard, the extensive resources needed to implement it and the ability for each sector to dedicate resource at this time. Significant and complex valuations are necessary in applying the Standard which may be prone to high levels of uncertainty without expert resources, expected to have limited availability. The risk of unreliable information in ARAs is significantly increased.
16. The Board also noted that the private sector is experiencing some complex implementation issues which would add to the difficulty for the public sector at the year-end unless it was deferred. The Technical Accounting Centre of Excellence had also picked up on a number of potential issues through queries they have received from departments.
17. Following extensive discussion, the Board agreed to defer implementation of IFRS 16 to the next financial year i.e. 1 April 2021.
18. HMT noted that the deferral would create the potential for inconsistency of application for WGA if entities were given a choice of implementing the Standard in 2020-21. The Board therefore agreed that deferral should be mandated across the public sector unless early implementation of the Standard in 2019-20 had been already been agreed. This would therefore only apply to DCMS, DfT in central government, and TfL in local government in 2019-20 and 2020-21.
19. The Board also discussed the potential for delaying the additional performance and accountability requirements that were introduced in the 2020-21 Government Financial Reporting Manual until 2021-22. HMT outlined that due to the increased interest in the manuals from Parliament this decision would need to be taken once Parliament had been consulted.

20. The Board did not make a decision on the paper that had been circulated prior to the meeting, instead agreeing that HMT should come back in light of the agreed deferral with a proposed solution on a longer-term basis.
21. The Board briefly discussed the FRAB terms of reference and the fact their remit did not include the budgeting framework. HMT explained that budgeting was set by HMT and based on the National Accounts framework rather than IFRS and linked to the fiscal aggregates. It was agreed that this would be revisited when the terms of reference of the Board was considered in future.

#### **Agenda Item 4: CIPFA/LASAAC Code and local government update**

22. In light of the discussions, the scheduled discussion on the CIPFA Code and IFRS 16 related issues was postponed.
23. The Board received a paper prior to the meeting and heard a verbal update on the work ongoing within CIPFA/LASAAC. The Board was informed that CIPFA will go out for consultation on the impact of IFRS 16 on the Housing Revenue Account (HRA) with a focus on establishing an evidence base of the potential impact.
24. Gareth Davies thanked Lynn Pamment for having a helpful and open discussion with CIPFA/LASAAC about what areas the Board could consider going forward and its strategic direction.

#### **Agenda Item 4: Health sector update**

25. The Board received an update on the current developments in the health sector which built on the earlier discussion in respect of the impact of Covid-19 on the sector.
26. The update extended further to include information that some work is being suspended due to the virus outbreak. The paper circulated prior to the meeting set out the Group Accounting Manual (GAM) developments, reflecting the changes within the Government Financial Reporting Manual. However, the GAM would be further updated to reflect the decision to defer IFRS16.
27. The GAM was agreed, subject to the deferral of IFRS16 amendments.

#### **Agenda Item 5: FRC Update**

28. Anthony Appleton gave a presentation on the FRC strategy for 2020-23. The Board was informed that some areas are now likely to change due to the impact of the virus outbreak.
29. The presentation focused on highlighting the background to the new strategic plan, including recommendations from the Kingman, Brydon and CMA reviews.
30. The presentation included a proposed new purpose statement for the FRC, revised objectives, the adoption of new principles and recognition of the relevant stakeholders. The presentation also outlined plans for the FRC's business model and governance structure.
31. The Board highlighted how the public sector may be impacted by the changes to the FRC going forward and its successor organisation. It was also noted that the ongoing

impact of the virus may similarly impact on proposed changes to the FRC and forward agenda.

32. Any further comment from members was invited by email.

#### **Agenda Item 6: AOB**

33. The Board was invited to comment on any of the papers that had been circulated but had not been discussed as part of the revised agenda and noted that any remaining issues would be followed up at a later meeting.

34. The Board briefly discussed the FRAB terms of reference and the fact their remit did not include the budgeting framework. HMT explained that budgeting was set by HMT and based on the National Accounts framework rather than IFRS and linked to the fiscal aggregates. It was agreed that this would be revisited when the terms of reference of the Board was considered in future.

35. The Board agreed that next steps are for HMT to circulate proposals on the way forward for the 2019/20 annual reports and accounts in light of the impact of Covid-19. HMT thanked the Board for their help in this difficult time.

36. The Chair thanked David Aldous for all his contributions in what could be his last meeting as he is retiring at the end of April.

37. The Chair thanked all members for dialling into the meeting.