

Draft Notes

CL 04 11 22B

Board	CIPFA/LASAAC Local Authority Accounting Code Board
Date	27 June 2022
Time	16:00 – 17:00
Venue	Microsoft Teams

Present

Chair	Conrad Hall (Chair)	<i>London Borough of Newham</i>
CIPFA Nominees	Deryck Evans	<i>Audit Wales</i>
	John Farrar	<i>Grant Thornton</i>
	Joseph Holmes	<i>West Berkshire Council</i>
	Christine Golding	<i>Essex County Council</i>
	Paul Mayers	<i>National Audit Office</i>
	JJ Tohill	<i>Mid-Ulster Council</i>
LASAAC Nominees	Nick Bennett	<i>Azets</i>
	Gary Devlin	<i>Azets</i>
	Hugh Dunn	<i>City of Edinburgh Council</i>
	Joseph McLachlan	<i>East Ayrshire Council</i>
	Paul O'Brien	<i>Audit Scotland</i>
Observers	Jenny Carter	<i>FRC</i>
	Sudesh Chander	<i>HM Treasury</i>
	Mike Sunderland	<i>HM Treasury</i>
	Peter Worth	<i>Chair, former Local Authority Accounting Panel</i>
In attendance	Karen Sanderson	<i>CIPFA, Head of Programme IFR4NPO</i>
	Sarah Sheen	<i>CIPFA, Secretariat Advisor</i>
	Steven Cain	<i>CIPFA, Secretariat Advisor</i>

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16	Apologies	
16.1	Apologies were received from, Jake Bacchus, Collette Kane, Alison Scott, Liz Thomas, Gillian Woolman, Emma Smith, Jeff Glass, Richard Lloyd-Bithell, and Alison Bonathan.	
17	Declarations of interest	
17.1	No declarations of interest were noted.	
18	Chair's Introduction	
18.1	<p>The Chair made opening comments on infrastructure assets reporting and its impact. This was an important issue. There were also views on the usefulness of the information being discussed as infrastructure assets had no use other than their specific function for the local authority, they couldn't be sold or utilised for other purposes.</p> <p>The Board also noted that any final approach should be considered against a backdrop of the due process to produce the Code, particularly the advice it might receive from FRAB, and the different views put forward by stakeholders including in response to the consultation.</p>	
19.	Review of responses to the consultation on infrastructure assets	
19.1	<p>The Board understood that the consultation had generally been well received by respondents.</p> <p>There was substantial support for the proposed adaptation for the removal of the reporting requirements for gross (historical) cost and accumulated depreciation.</p> <p>Although not an issue for amendment to the Code there was a significant response to the consultation paper comments that local authorities should ensure that they have effective depreciation policies.</p> <p>In relation to the adaptation for the adjustments made to derecognise the net carrying value where parts of infrastructure assets were replaced or restored, it was noted that a number of respondents had supported a more affirmative approach and other respondents had suggested a rebuttable assumption-based approach.</p> <p>One authority, TfL, indicated that it was able to apply the Code without any adaptations.</p>	
19.2	<p>The Board was informed that the Secretariat had attended the NAO Local Auditors Advisory Group (LAAG) that morning to discuss the outcomes of the consultation and issues arising. It was a constructive and positive meeting. There were four issues for auditors at the Group:</p> <ol style="list-style-type: none"> 1. The reporting of Gross Cost and Accumulated Depreciation – the Secretariat was of the view that LAAG supported the proposed/anticipated outcomes. 	

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	<p>2. The issue around effective depreciation policies – this would be resolved by means of the guidance in the Bulletin.</p> <p>3. The adaptation on derecognition – see below.</p> <p>4. The treatment of impairment – note that this issue exists whether there are changes to the Code as value in use is the present value of an asset's remaining service potential and value in use is likely to be significantly more than depreciated historical cost for these long-lived assets. This would mean that even when an asset is physically impaired the numbers will mean that it isn't. This issue could be addressed via guidance in the Bulletin.</p> <p>It was noted that there appeared to be a concern at the meeting about regulators views (the quality review function at the FRC) on the treatment of the transaction.</p>	
19.3	<p>The Secretariat noted that the changes since the Exposure Draft were to move to the single Highways Network Asset. This was the rationale which sits behind the approach in the Exposure Draft and consultation – one of the Task and Finish Group Members was opposed to this change because he was of the view that this would introduce a current value measurement approach. It was noted that the temporary solution did not intend this. The Code Draft issued with the papers also outlines the historical detail of the Code's specifications for the measurement of infrastructure assets.</p> <p>The adaptation on derecognition when there is replacement expenditure had been amended to be more affirmative but also to allow for occasions where local authorities were of the view that they had reliable information to estimate an amount for the part of the replaced asset to be derecognised.</p> <p>This had been updated post LAAG. LAAG members indicated that they considered that this should be an accounting policy choice and that the adaptation itself should not refer to the rationale behind the proposals. Note that this should still be included in the Code but separately in section 4.1 as a description of the adaptation. The Secretariat tabled a suggestion allowing for both these suggestions (this was suggested as a temporary paragraph after paragraph 4.1.2.51).</p> <p><i>A local authority shall assume for the Highways Network Asset that from the introduction of the IFRS-based Code in 2010/11 to the 2023/24 Code the carrying amount (net book value) of a replaced or restored part of the asset is or was nil. However, in the rare circumstances where a local authority has evidence for material parts of the Highways Network Asset that this is not the case, a local authority may make the accounting policy choice of following paragraph 4.1.2.51.</i></p>	
19.2	<p>Members debated the following issues:</p> <ul style="list-style-type: none"> • The impact on TfL and Passenger Transport Authorities. It was recognised that these bodies should be approached to ensure the changes do not impact on their infrastructure assets. • It was noted that the current draft generated some confusion as to what would happen when authorities consider they have reliable information and were of the view that there was an amount that should be adjusted for on derecognition. The rationale behind this change was that auditors 	

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	<p>raised concerns about having to seek evidence where authorities might have information to make the adjustment. It was noted that if an authority had reliable information, they should not be prohibited from making the adjustment and that the drafting should be reviewed to allow it.</p> <ul style="list-style-type: none"> • Whether the solution should be considered temporary, any changes to the Code even when intended to be short-term would have a permanence until a longer-term solution was clear. • The understanding of the approach to the single highways network asset and whether components were being derecognised where there was replacement expenditure. It was confirmed that both the Exposure Draft and the Code Draft anticipated derecognition of parts of assets where replacement expenditure took place but that derecognition adjustment was for a nil amount. • A member indicated concerns about the ability, particularly based on the information availability in local authorities to apply the second sentence from the tabled Code Draft for the proposed adaptation. • An observer member commented that it was difficult to support an approach based on a situation where entities did not have information to explicitly follow accounting practice in this area. However, where information was available to expedite the transaction, the Code should allow authorities to do this. The member also wondered about the interaction of the accounting policy choice and individual instances where local authorities were able to identify material adjustments to derecognise the replaced parts. • The importance of the identification of a longer-term solution. • There was a debate about whether the paragraph should refer to the need for evidence. • It was noted that the Code should be clear for the circumstances for when the adaption applied. 	
19.3	A CIPFA LASAAC Member noted that there were very few possible approaches for the longer-term. The current approach, indicating that there was a single highways network asset with no components or a form of reset, for example setting a year zero. The Secretariat noted another possible option ie to move to a form of current value measurement.	
	Note that Joseph Holmes had to leave the meeting at this juncture.	
19.4	<p>The Chair sought confirmation the principle of what the Board is trying to achieve – this did not achieve a quorate vote. One Board member sought confirmation on the optionality where local authorities consider they have reliable information.</p> <p>Although the meeting was not quorate, members at the meeting agreed that the proposals should not be viewed as 'temporary'. Though the Board recognised that a longer-term solution would need to be sought.</p> <p>The Chair indicated that the Secretariat would continue to draft a clear way forward but that any comments should be sent to the Secretariat in 24 hours.</p>	

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19.5	It was noted that a draft would be available for FRAB on Wednesday 29 June 2022 (ideally by lunchtime).	Secretariat
19.6	A member noted that it was not satisfactory that an optimum solution was not yet available. It was noted that an option appraisal was necessary to properly evaluate a longer-term solution.	Task and Finish Group
19.7	The Chair and Secretariat thanked the Board members for their consideration of the complex issue. The Board recognised the positive support of respondents to the consultation.	