

MINUTES OF THE 81st FRAB MEETING HELD ON THURSDAY 21st SEPTEMBER 2006 AT HM TREASURY

Present: Elwyn Eilledge (Chair)
Mike Ashley
Miranda Carter
Martin Evans
Russell Frith
David Hobbs
Nigel Reader
Martin Sinclair
Jeff Tomlinson
Ken Wild
Ian Carruthers
Russell Coleman
Rob Ffello
David Heald
Alastair Matthews
Peter Ryland
David Thomson
John Thornton

Secretariat: Larry Pinkney (Secretary)
Sarah Solomon
Chris Ruston

1. The Chairman welcomed everyone to the meeting. Apologies were received from Kirstin Baker (substituted for by Russell Coleman), Christine Daws (substituted for by Peter Ryland), Robin Lynch (substituted for by David Hobbs), Alyson Stafford, and Trevor Woolley (substituted for by John Thornton).
2. Since the last meeting, Michael Romberg has left the Treasury and is replaced by Kirstin Baker as the Treasury representative.
3. The Chairman welcomed Larry Pinkney to his first meeting as the newly appointed Board Secretary to replace David Watkins.

Item 1: Minutes of the Last Meeting: Paper FRAB (81)01 and Matters Arising

4. The minutes of the last meeting were agreed subject to the following amendments:
 - The fourth line of paragraph 8 was amended to “tax relief into its component parts”
 - The second sentence of paragraph 20 was amended to “He felt that it was important to get the accounting treatment correct and that so long as the practical effects were identified, they could be managed out.”
 - The fifth line of paragraph 22 was amended to “differences in applying the AN”

- The fourth from last sentence of paragraph 34 should be amended to 'pension provision as at 31 March 2007'
 - The second line of paragraph 57 should be amended to "the Freedom of Information Commissioner".
5. An article about the FRAB by the Chairman was published in Whitehall and Westminster World on 1 August.
 6. The Chairman highlighted the announcement of the Building Public Trust Awards, which celebrate the commitment of the UK's largest corporations and public sector bodies to build public trust through their communication of the key building blocks of sustainable performance. PwC, in conjunction with the NAO, invited the largest 80 public sector bodies to forward nominations for the award. The Ministry of Defence won the prize "For Telling It How It Is" in the Public Sector in relation to the publication of its Annual Report and Accounts for 2005-06, which was awarded to the organisation which demonstrated a high level of disclosure in its published stakeholder information, or on its website. The Chairman requested that the Secretariat circulate copies of MOD's prize-winning Annual Report and Accounts to Board members.

Item 2: PFI – Oral Update on Progress

7. The Treasury gave an update on the progress made by the PFI working group, which has met twice since the last FRAB meeting. At the last FRAB meeting the Treasury had reported that the working group had identified areas of Application Note F to FRS 5 (AN) that were being interpreted differently by the firms.
8. The Audit Commission and the NAO prepared high-level case studies for a prison, school and hospital project, to circulate within the working group to determine whether they would reach the same accounting opinions using solely the AN. All four firms offered the accounting opinion that the prison and school projects would be regarded as on the public sector balance sheet. There was a difference in opinion between the firms in relation to the hospital case study. The firms recognised that both the on and off decisions in the case of the hospital were finely balanced and relied on taking a view using professional judgment. The Treasury representative noted that it was interesting that in the process of the firms reaching their conclusions, that the issue of demand risk was not a prominent factor in these cases, and that there was a similarity in how the different firms were thinking. One of the differences was around property costs and an emphasis placed on quantitative rather than qualitative amounts.
9. The case studies had allowed the group to stand back and look at the reasonableness of their stances. The discussions helped to flush out some of their initial differences and confirmed that some of these were due to being within the scope of reasonable professional judgement, and that the firms were starting from the same point. The Treasury

plans to report back to the Board in December on further progress of the working group with a paper and related draft interpretative guidance as necessary, in respect to the AN, that could be included in the FReM. The working group had agreed in its Terms of Reference that the final report to the Board would be submitted in February 2007. This was still the plan.

10. Martin Sinclair commented that the working group process was progressing well. He felt that the withdrawal of the Technical Note (TN) would help reduce the scope for differing interpretation between the firms. He was concerned that any new guidance paper should not be an alternative TN. He also commented on the potential impact on broader policy this work could have, and its timing (specifically in relation to coordinating changes with the PBR) which could be problematic.
11. David Heald was concerned that the longer the discussions continue, the more delay there would be in implementing any proposed changes. He felt that there was a risk that even if agreement was reached in changes recommended to the Board, the timing of the FSBR could mean that any proposed changes would not be able to be implemented in the forthcoming Comprehensive Spending Review (CSR), given existing spending and funding obligations. Russell Coleman stated that that need not be a direct concern of the Board, who wish to concentrate on getting the accounting correct.
12. Russell Coleman explained that the spending envelope set for the CSR would, amongst other things, be dependant on the agreed accounting treatment in effect at the time. But he didn't feel that, in itself, this should be a concern of the FRAB however, but rather that was a matter for Government. In his view the Board was naturally concerned to ensure that the accounting advice was correct, robust and workable, although the context was of course the impact this could have. Ken Wild advised that although the issue of retrospection needed to be debated, it would not necessarily mean that retrospection would apply from an accounting perspective. Russell Coleman commented that although UK GAAP may allow the changes required to be made without retrospection, it will be necessary from a fiscal position so that year on year comparisons of spending can be made in relation to the National Accounts. He confirmed that retrospection would have an effect on spending and debt numbers to date which are themselves part of the considerations in setting the CSR spending envelope. He was concerned however that the Board focus on establishing the correct accounting treatment, rather than consequential issues that were rightly for Government, i.e. affordability and spending decisions. If the TN were to be withdrawn, then he asked whether there would be a need for appropriate guidance in its place, interpreting the AN as required, to ensure people were clear on how the standard was to be interpreted in absence of the TN. Others commented that this would be

dependent on what the working group recommended, and may not therefore be necessary.

13. The Board discussed the TN. Ken Wild questioned why the TN couldn't be withdrawn immediately when it seemed likely that it would be recommended that it be withdrawn in due course. Martin Sinclair explained that while the last meeting of the working group had worked on the assumption that the TN be withdrawn for the purpose of considering the case studies, the working group had not yet formally discussed recommending the withdrawal of the TN.
14. Martin Evans questioned whether the Board could recommend that the TN be withdrawn before December. Some Board members argued that the Board could not pre-empt the recommendations of the working group, due in February with a progress report due at the December FRAB meeting.
15. Rob Ffello suggested a compromise would be to put departments on notice that in December the Board is likely to recommend to Treasury that the TN be withdrawn. This was agreed by the Board.
16. The Chairman asked when a decision needed to be reached in order for departments to be able to promulgate changes in time for the CSR. It was considered that the existing working group timetable should be adhered to, with the working group reporting back to the Board in December, as planned, aiming for a final recommendation in February. This would allow sufficient time for the Treasury to consider the effects should it subsequently decide to withdraw the TN, including the possible effects of retrospection, and the timing of potential changes. Treasury would use the normal communication routes to disseminate information to departments, as necessary.
17. The Office of National Statistics advised that it would give an update to the Board on its further work on PFI at the October FRAB meeting.

Item 3: Oral Update on Work of Asset Valuation and Capital Charging Group

18. The Treasury gave an update on the Asset Valuation and Capital Charging Group. At the May FRAB meeting a substantive update was promised in September. However, there has been a delay in RICS issuing its valuation information paper, due a difference of opinion with the international standards committee on DRC values of a building on an existing site. This has led to a delay in issuing an exposure draft. The Treasury was intending to amplify this paper for use in the central government sector; however, it is not possible to produce the paper until these issues have been resolved. It is hoped that the paper will enable departments to deal with the issues they are facing. The paper will emphasise the need for valuers to discuss with the client the basis of valuation of property. The paper will also address other problem

areas such as impairments (discussions on this area in relation to budgeting continue) and will hopefully lead to better asset management.

19. Russell Coleman agreed that while some decisions relating to assets should be funded by public money, some valuation issues such as fluctuations in the property market should not have an adverse effect on funding (e.g. whether or not a hospital is built). DRC was a more problematic issue.
20. This is being discussed by valuers and accountants from departments at the next AVCC Group meeting on 25 September. The group is planning to discuss indexation, including whether to give departments the freedom to decide whether or not they want to use indexation. This will allow departments to decide the best method for their circumstances. It will also discuss Valuation of Land and Building Assets, and Enhancements to Specialised Properties.
21. John Thornton welcomed the proposed flexibility for departments to determine the best valuation method for their circumstances.
22. The Treasury acknowledged concerns that departments will need time for implementation and confirmed that new SCOA codes were currently being set up. However they confirmed that departments would not need to provide comparatives in their accounts since the proposals were not a change in policy, they would not change the system, but would provide more flexibility.
23. The Treasury hoped to return to the Board with a final proposal later in December depending on the timing of the RICS paper. It was envisaged that implementation would be in 2007-08.

Item 4: IAS 2 Inventories (FRAB(81)04)

24. The Treasury presented this paper which considered the implementation of IAS 2: *Inventories* in the IFRS based FReM. IAS 2 does not materially change the accounting treatment for inventories in the public sector. The proposed text for the IFRS based FReM is very similar to the existing FReM. Accounting Conventions in Chapter 2 of the existing FReM requires that stock is held at current cost. In the IAS 8 paper presented to the FRAB the Treasury have represented this requirement as an adaptation. In the completed IFRS-based FReM it is likely that this requirement will be presented in the same form as in the existing FReM. There are a number of interpretations of SSAP 9 relating to specific stock items held by certain departments. These departments were contacted to ensure the interpretation specific to them remains relevant. All those departments contacted confirmed this was the case with the exception of ECGD who no longer require the interpretation in respect of foreclosed property.

25. The Board agreed that the IAS 2 should be applied in full as adapted and interpreted.

Item 5: IAS 11 Construction Contracts (FRAB (81)05)

26. The Treasury presented this paper which considered the implementation of IAS 11 *Construction Contracts* in the IFRS based FReM. IAS 11 is similar to SSAP 9 and will not result in any change in the method of accounting construction contracts in the public sector. However, there is a minor change in the application of the modified historical cost accounting convention to construction costs. In the existing FReM Accounting Conventions requires that stocks be held at current values. Under IAS 11 no work in progress is recognised, IAS 11 instead recognises the gross amount owed to or from the customer in the appropriate asset or liability category. There is also a difference between the balance sheet presentation for IAS 11 and SSAP 9. The Treasury also noted that the balance sheet treatment of construction costs in IAS 11 differs to those in the National Accounts.

27. The Board agreed that the IAS 11 should be applied in full.

Item 6: IAS 12 Income Taxes (FRAB(81)06)

28. The Treasury presented this paper which recommended that IAS 12 *Income Taxes* should apply in full in the IFRS based FReM. A vast number of bodies are not subject to the tax regime. The Treasury received seven responses to its consultation, all of which agreed with the proposals.
29. There have been two revisions to IAS 12: SIC 21 and SIC 25. However it is unlikely that any bodies covered by the FReM would need to consider these. Income taxes are also the subject of a short-term project currently being undertaken jointly by the IASB and the US Financial Accounting Standards Board (FASB). A joint exposure draft is expected later this year, having been postponed from early in 2006.
30. The requirements of IAS 12 are similar to FRS 16, although there are presentational differences. However IAS 12 is conceptually different from FRS 19 in respect of deferred tax. Instead of accounting for timing differences it uses a balance sheet concept of temporary differences. The implementation of IAS 12 will have no impact on National Accounts or on the budgetary regime.
31. Mike Ashley questioned whether these requirements would be incorporated into UK GAAP.
32. IAS 12 will only affect a small number of bodies covered by the FReM, e.g. public corporations and Foundation Trusts. Miranda Carter confirmed that this would become more significant for Foundation Trusts, but that it constituted a very small proportion of its business. She agreed to look at implementation within the context of the FT FReM and recognised that there was more work to do.

33. Ian Carruthers felt that the applicability of the standard needed to be rephrased in the IFRS based FReM. The Treasury agreed to revise the sentence on the applicability of IAS 12 by adding, "to the extent that they have taxable activities".
34. Subject to these changes the Board agreed that IAS 12 should be applied in full.

Item 7: Salary and Pensions Disclosures (FRAB(81)07)

35. At the March FRAB meeting (FRAB 78) the Treasury circulated a note by the Cabinet Office summarising the results of its study into compliance with salary and pension disclosures within departments and agencies. In response to the Board's request, the Treasury provided an update for 2005-06 in respect of NDPBs. The results showed that only 13 departments have NDPBs. Of these, 5 reported full disclosures, 6 reported varying degrees of compliance and 2 did not provide information.
36. The results also confirmed that there seemed to be a problem with the disclosure requirements relating to some charitable NDPBs. The FReM notes that charities should follow the requirements of the Charities SORP, but should provide the additional disclosures required by the Manual where these go beyond the SORP. However the FReM also states that the section on Annual Reports (which includes the requirement for a salary and pensions disclosure as part of the Remuneration Report) doesn't apply to charities, and it is apparent that some charitable NDPBs are strictly following the requirements of the SORP, rather than those of the FReM on this issue. The Treasury reported that it is actively considering proposed amendments to the FReM to clarify that charitable NDPBs are required to make the salary and pensions disclosures, possibly by bringing the Remuneration Report outside the scope of the Annual Report.
37. The Treasury also confirmed that there had been full disclosure within departments for 2005-06 in all but 4 departments and that the position in executive agencies was much improved (particularly within the MOD agencies) with only 5 agencies not complying. The Chairman noted that the Board had made great progress on this issue since discussions started on the subject.
38. John Thornton recommended against moving the Remuneration Report outside the Annual Report, but was keen for a solution to be found which would stop charities bypassing the requirements of the FReM. Martin Sinclair felt that the decision by the Information Commissioner that – other in Scotland – departments and other entities will not have to obtain the prior consent of key managers for disclosure would be enough to ensure greater compliance. However, on balance, the Board agreed that the FReM should be appropriately amended to make clear the requirements for charitable NDPBs to comply with the FReM salary and pensions disclosures.

Item 8: Implications of Information Commissioner's decision regarding salary and pension disclosures (FRAB (81)08)

39. The Treasury presented this paper which proposed that the FReM be amended following the decision of the Information Commissioner that prior consent is no longer needed for the disclosure of salary and pension information for named individuals. This followed a case against a Health Trust in Northern Ireland under the Freedom of Information Act, but is also relevant in England and Wales, although not Scotland. The Commissioner held in this case that although the data is "personal data" under the Data Protection Act, it is was not exempt under the Freedom of Information Act as none of the data protection principles would be breached by its release. Therefore entities are entitled to publish details of salary and pension entitlements of staff without their prior consent. If the disclosure would be prejudicial to an individual, then the onus is on them to make their case for the information not to be disclosed; therefore departments have to inform those affected that a disclosure will be made.
40. Russell Frith suggested that the FReM draft wording regarding Scotland should be amended to "consider whether consent would need to be obtained". Mike Ashley felt that the FReM needs to make it clearer that it is interpreting the UK Act. David Thomson suggested that the wording should be amended to include, "Employees may have the right to claim non-disclosure".
41. It is anticipated that the Cabinet Office will be issuing relevant guidance by the end of this year or beginning of next year. Jeff Tomlinson felt that departments needed direction in the interim. It was agreed that the Treasury would liase with the Cabinet Office in order for information to be circulated around the PEO network.

Item 9: Review of Intra Government Balances notes (FRAB (81)09)

42. In 2004 the Board considered and approved a paper (FRAB (68)02) that proposed enhanced disclosure within resource and other accounts from 2004-05, of debtor and creditor balances between reporting entities and other parts of the public sector. There was a FRAB concern at the time that this could cause an undue burden on departments. There were also Board concerns over materiality and timing issues, and the Board whilst approving the amendment, decided that the situation should be reviewed in two years.
43. In the subsequent review, the Treasury consulted entities on the usefulness of the current disclosures required by the FReM. Seventeen entities did not support the continuing requirement for the disclosures, due principally to the following reasons:

- The disclosure does not add value to the accounts and is extra work/ burdensome;
- It is perceived of no benefit to users of the accounts/stakeholders;
- There are timing differences between the disclosure in accounts (under the Faster Closing initiative) and the WGA disclosure, and it is viewed as superseded by the WGA disclosure;
- Immaterial balances are required in accounts, which are not required for WGA purposes.

44. NAO support the continuation of the disclosures. Scotland, while of the view that they don't think the disclosures provide particularly useful information in the accounts, does not consider the requirement burdensome, since the information is required for WGA/CGA purposes. On balance, and due to ensuring continued transparency in accounts, the continued disclosure is supported. The Treasury would also like to see the disclosure continue in its present form as this has proved very useful to the CGA/WGA process, but recognises that there is an issue on timing of submission of the respective data for accounts and WGA.

45. Some of the Board members were against the disclosure. Alastair Matthews felt that the disclosure added little value to the accounts and was used to put discipline in accounting sections. David Thomson In Northern Ireland commented that the use of shared services between the 11 departments there, meant that the disclosure was achievable but involved a huge amount of work. MOD's main concern was that it was impossible to agree balances with some other departments as at 31 May. He also pointed out that the disclosure involved agreeing transactions of differing orders of magnitude.

46. David Heald asked why the Treasury and the NAO required the information and whether it is indeed a discipline for departments. Martin Sinclair confirmed that this was the case, but he welcomed the fact that Treasury was considering further work on the disclosures to take account of the materiality and timing issues, and noted that Treasury was considering adding transaction stream reporting by entities to the current disclosures. However, this is future work, which would be the subject of a separate paper to the Board. The continuation of the current disclosures represented an interim solution.

47. Ian Carruthers, who had led the WGA project, said that where balance agreement had been part of the process, then control had improved. This had been the case in the Health Service and in Local Authorities. There had been persistent problems, but the disclosure had the effect of increasing awareness of controlling these amounts.

48. The Chairman summarised that although there were mixed views amongst Board members, on balance, the current disclosures should be retained until the completion of the WGA project (in 2 years time). There should then be a further review, with a default position of discontinuing the disclosure requirement, unless there are convincing reasons for its continuation.

Item 10: Forward Work Programme (FRAB (81)10)

49. The forward agendas for the FRAB had been circulated. Ian Mackintosh will make a presentation to the Board in October on the IASB/FASB convergence programme. The Board asked for two items to be added to the forward agendas: an update on the progress of the WGA project and the 2006/07 FT FReM (The Board Secretary will liaise with Miranda Carter on this item.)

Item 11: Any Other Business

50. Sarah Solomon informed the Board about the Transformational Government Initiative and the possible impact on the FReM website. The initiative aims to reduce the number of freestanding websites and requires all government departments to review their freestanding websites with a view to incorporating them into departmental websites, Directgov or Business Link. Sarah had already consulted with Board members in the devolved administrations and their replies had been fed into the draft submission to Treasury Ministers. She now sought to inform the rest of the Board and gather any additional views to feed into the final Treasury submission. The collective view of the Board was that they would very much prefer to see the FReM website continue as a free standing website. The Board see this as a reflection of their independent status - as an advisory body to HM Treasury. For example, having a free standing website is conducive to the perception of the Board's independence when considering matters relating to the existing and future expanding Board remit. The Board is proud of the fact that it has managed to expand its remit over the years and hopes, for example, that in the future that it can establish closer working links with Local Government. The Board Secretary reported that the collective view of the Board would be fed into the Treasury consultation process. The Board agreed that if it was not possible to retain the FReM website as a freestanding site, a possible solution would be to have a link to it via the FRAB website.
51. The Board was also keen to confirm that access to the FRAB website, which is located on the Treasury website, but accessed via its own address, i.e. www.frab.gov.uk, was not affected by the Transformational Government reorganisation.
52. The Board Secretary informed the Board that, from 31 March 2006, the Cabinet Office had reclassified the Board from an 'ad hoc advisory group' to an 'Internal Stakeholder Group', although this is not thought to have any practical effect on the activities of the Board. The Board was concerned that this could be perceived as undermining their

independent status, and the Board Secretary agreed to gather further clarification from the Cabinet Office about the change, and report back to the Board.

53. The Chairman announced that it was likely to be Mike Ashley's last FRAB meeting. He thanked him for his contribution.

Item 12: Date of the Next Meeting

54. The Board confirmed the dates of the next meetings as:

Tuesday 31st October 2006
Monday 11th December 2006
Monday 12th February 2006