

## **MINUTES OF THE 73<sup>rd</sup> FRAB MEETING HELD ON MONDAY 9<sup>th</sup> MAY AT HM TREASURY**

**Present:** Elwyn Eilledge (Chair)  
Mike Ashley  
Beverley Evans  
Andrea Keenoy  
Nigel Reader  
Martin Sinclair  
John Thornton  
Steve Warren  
Heather Foster

Miranda Carter  
Russell Frith  
Robin Lynch  
Michael Romberg  
David Thomson  
Kerry Twyman  
Ken Wild

**Secretariat:** David Watkins (Secretary)  
Sarah Solomon  
Chris Ruston

1. The Chairman welcomed everyone to the meeting. Apologies were received from Martin Evans (who was substituted for by Steve Warren), David Heald, Jeff Tomlinson, Trevor Woolley (substituted for by John Thornton) and John Aldridge (substituted for by Kerry Twyman). Andrea Keenoy from the Scrutiny Unit stood in for a parliamentary observer.
2. Ross Cranston, the Parliamentary observer, stood down from the Board at the last meeting since he was not intending to stand for re-election in the general election. The Chief Whip would be approached to identify a new Parliamentary observer.
3. This was Beverley Evan's last meeting as she is leaving Monitor. Miranda Carter attended as she will be nominated as Beverley's successor.

### ***Item 1: Minutes of the Last Meeting: Paper FRAB (73) 1 and Matters Arising***

4. The minutes of the last meeting were agreed.
5. FRAB members had been promised a copy of the new Corporate Governance Code which was expected to be issued at the end of March. However, although the draft code had been approved by the Civil Service Management Board, the general election was called before it could be approved by Ministers. As soon as it is published it will be circulated to Board members.

6. The Government Financial Manual Reporting Manual (FReM) website went live on 4 April. Mary Keegan wrote to Finance Directors announcing the launch on 5 April.
7. The Chairman had written to the Cabinet Office concerning their progress towards getting legislation to put the salary and pension disclosures on to a statutory basis, but had not yet received a formal response. The indication is that the Cabinet Office is committed to having the same disclosure requirements for senior civil servants as for the private sector. Letters of appointment to senior civil servants in departments now include a clause requiring disclosure of the details of remuneration packages. The situation is less clear for NDPBs and trading funds but the Cabinet Office doesn't have the same sort of powers over them and are not responsible for their appointments. It has, however promised to assess the position.
8. Interpretation for Public Benefit Entities of the Statement of Principles for Financial Reporting has come back on the ASB agenda. The intention is to publish an exposure draft in June; however there is a lot of work to do and this may be an ambitious target. Nevertheless, the chairman of the ASB sees this as an important issue.
9. Updates on the work of the IPSASB had been circulated. Ken Wild suggested that the UK member and Vice Chairman of IPSASB (Mike Hathorn) should be invited to meet the FRAB. This could be linked to the discussion of Non Exchange Revenues.

***Item 2: UITF Abstract 40 Revenue Recognition and Service Contracts (FRAB (73)2)***

10. The Treasury presented this paper which sought the Board's approval to proposed amendments to the FReM (chapter 4) to reflect the implementation of UITF Abstract 40.
11. Following the issue of Application Note G: Revenue Recognition, the Urgent Issues Task Force issued Abstract 40 in response to a number of questions about when entities are permitted, or required to recognise revenue from contracts to provide services. The overriding consideration is whether the seller has performed, or partially performed, its contractual obligations. The abstract supplements application Note G and does not introduce significant changes in the approach adopted by most entities in the recognition of revenue and turnover. The Application Note is consistent with the principles of recording income as outlined in the FReM. The Board agreed to the proposed amendments.

**Item 3: Treatment of Student Loans – Change in Cost of Capital Charge (FRAB (73)3)**

12. The Treasury presented this paper which sought the Board's approval for the cost of capital to match the discount rate for long-term liabilities for student loans only.
13. Student loans are subsidised. They carry, in effect, a rate of interest equivalent to the rate of inflation; they are presented as interest free loans, with students making equivalent payments to inflation. The subsidy is calculated as the difference between the cost of capital on the outstanding loans and the interest earned. A provision for the subsidy is set up at the time that the loan is made and will be a discounted figure in accordance with FRS 12.
14. In December 1998, (Paper FRAB 30 (3)), the Board agreed the current accounting treatment for student loans. This assumed that the rate for cost of capital would reflect the discount rate, with the result that inflation, cost of capital, provision release, interest receivable and unwinding transactions within the OCS balance to nil. With effect from 1 April 2005 the discount rate for non-pension liabilities changed to 2.2%, but the cost of capital remained unchanged at 3.5%. This means that DfES can no longer comply with the agreed accounting treatment for student loans.
15. There are three options to restore the accounting treatment to what was agreed in 1998:
  - *Retain the discount rate at 3.5%.* However, it was felt that it would be inappropriate to consider a further additional rate specific to student loans.
  - *Make an accounting adjustment.* This would mean an unnecessary complication to an accounting treatment which is already complex.
  - *Amend the cost of capital to 2.2%.* This is the preferred option and the Treasury have the discretion to do this.
16. The Board recognised that this was a unique situation and agreed that the cost of capital for **student loans only** should always be amended to reflect that of the discount rate for long-term liabilities (currently 2.2% real).

**Item 4: Accounting Treatment of Grants and Grant in Aid - Update (FRAB 73(4))**

17. The Treasury gave an update on the discussions to change the basis on which grant in aid is accounted for in the accounts of NDPBs. FRAB 73(4) summarises the arguments supporting a proposal to treat grants in aid for revenue purposes as "contributions from controlling parties" and crediting to reserves rather than being shown as income. Since the

last discussion, the Treasury had received comments from DfES. It had also arranged a meeting with the Research Councils. The Treasury agreed to invite Nigel Reader to this meeting.

18. The Board had a wide ranging discussion on the paper, during which the following points were made:
19. Nigel Reader felt that there was less support for the proposals than indicated in the paper. He suggested that the direction of the paper was out of line with the delivery agent status of NDPBs, whereby work is not currently broken down into individual programmes of work, and micro management is avoided. He felt that the proposals would cause there to be less transparency and that there were also governance issues.
20. The Board considered how a subsidiary might be treated in the private sector. If the subsidiary provides a service then the grant would be treated as income; if the parent company gets nothing in return for its grant then it is considered capital.
21. The Board looked at whether various examples of NDPBs followed this model. There was some debate over whether NDPBs were providing a service to their parent department who had overall responsibility for a particular service to the public or whether the body was providing a service to the public, funded by the department.
22. David Thomson gave an example where the treatment of the grant in aid and the fact that income was not matched with expenditure had caused the bodies to exceed their budget and show a deficit. It was noted that this was the problem that had given rise to the whole debate – when comparing cash based income with accruals-based expenditure, is the result a true measure of performance?
23. Robin Lynch expressed the National Accounts view, which was that government bodies shouldn't be allowed to decide the accounting treatment used. They supported the view that grants and grant in aid were not income.
24. The Board debated how this would be best presented in the published accounts, ie, determining whether the department appears to make a surplus or loss (depending on whether the cash-based grant in aid was more or less than the accruals-based expenditure) or show a net operating cost.
25. Grant in aid can't be accrued for because NDPBs lie outside the Resource Accounting boundary. Nigel Reader felt that this reinforced annuality rather than encouraging better money management in the longer term. Heather Foster agreed and felt that this opened a wider debate.

26. Robin Lynch was particularly interested in the control issues and the affects of the boundary.
27. Mike Ashley suggested that the term “controlling parties” was misleading since departments didn’t necessarily collaborate to decide, eg levels of charges. The reality is that departments fix their contribution in advance and bodies work up their budget around this.
28. The Board concluded that there were several models whereby departments gave NDPBs grant in aid. These included where agencies are contracted to carry out function for a department, and also where a department gets an agency to carry out a function that they have a statutory responsibility to make happen. There were also differences in the relationships between departments and their NDPBs, eg where departments are required to fund deficits. The Treasury would look at the standard format of the terms on which grant in aid is given.

**Item 5: Revised Format of the Resource Accounts (FRAB 73(5))**

29. The Secretary presented this paper which brings together the proforma resource account (Department Yellow), the Magenta Pension Scheme accounts, plus worked examples for MHCA, CFERs and PFI. The aim was for the changes to Department Yellow to carry through to the Magenta pension scheme proforma.
30. The Secretary asked if Board members were content that the level of disclosure, where material, between the core department and consolidated results is sufficient to meet the needs of the users of the accounts and whether they were prepared to accept this departure from UK GAAP. The purpose of this was to produce more meaningful information for parliamentary committees and other users of the accounts. Mike Ashley pointed out that reducing the amount of information required was going against the direction of the IFRS. Ken Wild pointed out that the requirement to analyse the Operating Cost Statement between core and consolidated is an additional requirement to GAAP, rather than being a departure from it. The Board was content with the proposals. There was one small amendment. The Secretary would ensure that note 3 is the same in Department Yellow and Magenta.
31. The Scrutiny Unit has started a consultation exercise with the Comptroller and Auditor General, the Committee of the Public Accounts and the Treasury Select Committee to see whether it would be possible for information on the links between Estimates, accounts and budgets to be included in the Operating and Financial Review from 2006-07, with a further option of moving the information to the notes to the accounts (and therefore covered by the audit opinion) at some point in the future. This will come back to the Board in November.

32. The fictional examples have been taken out and numbers have been replaced with text. (The numbers in the previous examples were inconsistent). Russell Frith felt that the examples were particularly helpful for smaller bodies. The Secretary pointed out that the worked examples were intended to recognise areas that are rare or unique to central government. These included a PFI example, which was based on reality and a Supply and CFERs example, which was the same one used in chapter 16 of the RAM. If the Board wanted to include a further hypothetical example, then one could be developed. However Ken Wild felt that an example of this type would be more in the nature of training.
33. The Board was content with the proforma resource accounts and pension scheme accounts. John Thornton had some minor queries on the worked examples which he would raise directly with the Secretary outside the meeting.

**Item 6: Corresponding Amounts (FRAB 73(6))**

34. The Secretary introduced this paper which outlined the impact of the proposals in FRED35 *Corresponding Amounts* on the accounts of central government entities and proposed revised text for chapter 7 of the FReM. Apart from some of the previous exemptions being removed, there will be no practical impact on the disclosure requirements discussed in the FReM and no impact on resource accounts. The FRED proposes a move towards greater transparency. Mike Ashley asked where government reserved the right to determine disclosure requirements in relation to notes specific to government entities. The Secretary explained that the only example where this would apply related to parliamentary supply and that this disclosure would not identify any trends that would be of interest. Indeed any information of interest would be available elsewhere in the accounts. The paper proposes that the FRS will apply and that the topic will not return to the Board unless the FRS differs greatly from the FRED. The Board agreed that the revised text would be added once the ASB issues the FRS, subject to a confirmation that the text does not need to be changed.

**Item 7: FRS 27 Life Assurance (FRAB 73(7))**

35. The Secretary introduced this paper on FRS27 Life Assurance. The Board agreed that the FRS had no relevance in the public sector context and that it should not be included in the FReM. It will be added to the added to the list of extant standards and marked as not applicable.

**Item 8: IFRIC Draft Interpretation 12-14 (FRAB 73(8))**

36. A sub-group was set up at the last meeting to deal with the FRAB response to IFRIC's draft Interpretations on service concession

arrangements. A draft response had been circulated. The following suggestions were made:

a. Paragraph 2:

“fully” should be changed to “adequately”

b. Paragraph 9:

“needs to be determined” should be changed to “is better determined”

37. In the Annex the following suggestions were made:

a. Paragraph 5:

This paragraph was removed because a more complicated example covering the points raised was available on the IFRIC website.

b. Paragraph 12:

The third from last sentence should read: “where this type of financial asset could not be measured at fair value.”

38. The response was agreed, subject to these amendments. The final version will be added to the FRAB website once it has been sent. The responses were due to be considered at the June IFRIC meeting, but because the deadline was extended will now go to the following meeting. There is pressure for this to be implemented quickly and the aim is for IFRIC to consider this as soon as possible, so that they can give an indication of the direction they are taking. The final version will be implemented by the end of the year.

**Item 9: *Foundation Trust Divergences from the FReM***  
**(FRAB 73(9))**

39. Beverley Evans introduced this paper which asked Board members to approve the list of divergences from the Resource Accounting Manual (RAM) for the NHS Foundation Trust Manual for Accounts and Capital Accounting Manual 2004/05. Both manuals have been through a consultation process and have been circulated in HM Treasury. The Department of Health has also been consulted and is content. Foundation Trusts follow UK GAAP as far as possible.

40. Differences between the Foundation Trust Manuals and the RAM are outlined in the paper at Appendix A. Two main areas to note where this list differs from the NHS Manual for Accounts are in the treatment of impairments and applying indexation to the Foundation Trust accounts.

41. Steve Warren expressed his surprise that clinical work in progress wasn't included in the list of exceptions. Beverley Evans acknowledged

that this was a valid point and agreed to take the issue back to Monitor. He suggested that it would be worth flagging it as an exception.

42. Mike Ashley suggested that the definition of a capital item should not include single managerial control as this would imply it was at a lower level than a Trust. Beverley Evans agreed to amend the definition in the list.
43. Mike Ashley was in favour of disclosing research and development expenditure separately. Beverley accepted that this needed to be looked at but pointed out that Foundation Trusts would need to have systems in place in order to be able to address this.
44. The Board agreed the list of divergences subject to the points raised.

***Item 10: 8<sup>th</sup> FRAB Report (FRAB 73(10))***

45. The Secretary introduced the latest draft of the report and the accompanying draft press notice. Comments on the drafts will be incorporated into the final versions. The publication date depends on the appointment of the new Chief Secretary.

***Item 11: Forward Work Programme (FRAB 73(11))***

46. The Secretary introduced the paper on the forward work programme which included agendas for the next three meetings. He pointed out that these would be reviewed at each meeting and that the comments of the Board were welcomed. It was agreed that the secretariat would ensure that all the topics raised in the report were added to the agendas.

***Item 12: Date of the Next Meeting***

47. The Board confirmed the timing of the next meetings as:

Friday 24<sup>th</sup> June 2005  
Wednesday 28<sup>th</sup> September 2005