

**MINUTES OF THE 71st FRAB MEETING HELD ON
THURSDAY 7th FEBRUARY AT HM TREASURY
COMMENCING AT 12.00**

Present: Elwyn Eilledge (Chair)
John Aldridge
Ross Cranston
Heather Foster
David Heald
Michael Romberg
John Thornton
Ken Wild
Mike Ashley
Martin Evans
Russell Frith
Robin Lynch
Martin Sinclair
Jeff Tomlinson

Secretariat: David Watkins (Secretary)
Sarah Solomon
Chris Ruston

1. The Chairman welcomed everyone to the meeting. Apologies were received from Beverley Evans, Nigel Reader, David Thomson, and Trevor Woolley (substituted for by John Thornton).

***Item 1: Minutes of the Last Meeting: Paper FRAB (70) 2
and Matters Arising***

2. The minutes of the last meeting were agreed, subject to the following amendments:
 - a. Beverley Evans asked that Paragraph 22e be changed to clarify the position of NHS Trusts and Foundation Trusts in terms of cost of capital charge on donated assets. The following amendment is suggested:

“Chapter 5 of the FReM does not suggest any changes to the treatment of donated assets, however the draft does propose that the requirement that, to qualify as a donated asset, capital charges, if imposed, would reasonably be expected to deter prospective donors from offering such assets in future should be dropped. Some felt that it would be a good idea to drop this requirement as it rarely applied; however, there was a concern in connection with the treatment of donated access roads. Neither NHS Trusts nor Foundation Trusts currently have a requirement for a cost of capital charge on donated assets. It was agreed that the original wording would be reinstated. The secretariat would investigate who is ignoring the rule and if necessary an amendment would be brought in, in the normal way.”

- b. Martin Sinclair asked that Paragraph 21a be amended to read:

“The section on accounting boundaries had originally been specific to departments, but was now generic. Martin Sinclair asked that the FReM should revert to referring specifically to departments, since FRS2 does apply to NDPBs and agencies.”

3. The minutes of the meeting on 29 September had been reissued to take account of the comments received at the last meeting.
4. The formal report of the November meeting of IFAC PSC in New Delhi had now been received, and had been circulated.
5. There was no further information about the uncertainty regarding funding of IFAC IPSASB and there was unlikely to be any further news before the next FRAB meeting.
6. Further to paragraph 14 of the last minutes the Treasury had cleared additional changes with Mike Ashley to the Statement of Accounting Officer’s responsibilities for Central Government Accounts.
7. The Secretary had amended the FReM to take account of the Board’s comments at the last meeting. The whole manual will be considered at the next meeting in March.

Item 2: FRS25 Financial Instruments: Disclosure and Presentation and FRS26 Financial Instruments: Measurement

8. The Treasury presented a paper which sought the Board’s approval to the proposed implementation strategy for these two FRSs.
9. The paper outlined what was covered by the two FRSs and suggested their implementation should be deferred until 2006/2007, rather than a staged implementation starting in 2005/06. Board members had sympathy with the proposal, however they felt that further explanation was needed as to why the implementation posed particular problems for the public sector. This was especially important since it was the first time that the FRAB had sanctioned a delay in implementing an FRS. The Treasury explained that there were particular problems concerning contingent liabilities, particularly in deciding whether they are contractual or non-contractual, and this would be exacerbated by implementing the FRS in stages. The Department of Health and Monitor nominees supported a deferred implementation to ensure that the effects of the changes could be fully accommodated. The ASB nominee was also broadly supportive of deferral, however he wanted to see momentum building in the meantime and for the subject to feature at a Board meeting later this year. The board agreed to the deferral. A further paper on the way forward is to be discussed by the FRAB later this year - between the summer break and November. The subject

should also be considered at the next meeting in the context of the FRAB Report. The Secretary would work with the Treasury on this.

Item 3: FRS23 The effects of changes in foreign exchange rates

10. The Treasury presented papers on FRS 23 and FRS 24 (see item 4). This FRS is mandatory for listed entities for accounting periods beginning on or after 1 January 2005. Other entities have the option of applying the standard, though only if they also apply FRS 26. Since the Board had agreed that adoption of FRS 26 would be deferred, adoption of FRS 23 will also be deferred. FRS 23 replaces SSAP 20 and there is little difference between the two:
- SSAP 20 permitted the contract rate to be adopted whereas FRS 23 does not. FRS 23 requires the transaction to be measured at the spot rate; subsequently, if a monetary item is involved it should be translated each balance sheet date at the relevant closing rate.
 - There is an option in the FRS 23 to choose the presentational currency, but this will be removed in the FReM, so that the presentational currency will be the same as the functional currency, (ie pounds sterling).
 - FRS 23 only permits the net investment method to be used for preparing consolidated accounts, as opposed to SSAP 20 which also permits the temporal method to be used. The difference in the requirement ought not, however, to result in a difference in accounting practice.
 - Hedge accounting rules are now set out in FRS 26.
 - FRS 23 proposes disclosure of all exchange differences.

Item 4: FRS24 Financial Reporting in hyperinflationary economies

11. FRS 24 replaces UITF 9. It is not expected to be relevant. Adoption of this FRS is also dependant on implementation of FRS 26. Like FRS 23, adoption will be deferred until FRS 26 is adopted.
12. In terms of presentation it was suggested, and the Board agreed, that the wording be changed to follow the format of the rest of the manual and should read:
- “FRS 24 Financial reporting in hyperinflationary economies is not likely to be relevant and is not discussed further in this Manual. However, should it become applicable, it should be applied in full.”

Item 5: Grant in Aid: income or financing?

13. The Treasury presented an update on the discussions regarding the treatment of grants and grants in aid and in particular whether grant in aid should be regarded as a “contribution from controlling parties” ie as financing, rather than, as at present, income. The Treasury issued a further consultation paper in December based on the conclusions in the ASB’s Discussion Paper “Statement of Principles for Financial Reporting: Proposed Interpretation for Public Benefit Entities”. There was some opposition to the proposals in the paper on the grounds that:
- a. The approach is based on a draft interpretation for public benefit entities of the ASB’s Statement of Principles, which, therefore, does not form part of GAAP;
 - b. Whereas the paper proposes that grants in aid are not given in exchange for goods or services, there is an argument that this is not true in some cases, eg where a department gives grant in aid to an NDPB to enable the NDPB to provide an agreed range of tasks and activities in support of the department’s objectives. In that sense, grant in aid is given in exchange for direct benefits (ie services) which the department would otherwise have to undertake itself or pay a third party to undertake. As far as the NDPB is concerned it should be treated as income.
 - c. By showing grant in aid as financing, the performance statement becomes a statement of net expenditure.
14. The Treasury was concerned that by going ahead with the proposals, NDPBs may consider that their views are not being taken into account.
15. There were mixed opinions amongst the Board. It was pointed out that some Scottish bodies have been following the proposals set out in the paper for some time with no problems. However, the Department of Health nominee felt that grant in aid should be treated as income and included in the income and expenditure account.
16. There was some discussion on how the sponsoring department treats grants (ie currently as expenditure) and the relationship between the NDPB and the sponsoring department. The aim was to achieve a good interpretation of the statement of principles which was analogous with the way that government departments are treated, ie not earning money.
17. It was pointed out that Grant in Aid extended beyond the Government boundary and any decisions taken could have a knock on effect on transactions outside government departments.
18. The Board was not convinced by the objections raised through consultation.

19. As it was not clear that agreement would be reached before March 2005 (when the FreM for 2005-06 will be finalised), it was likely that any changes to the current arrangements would not be introduced until 2006/07. It was agreed that the Treasury would gather more information on the grant/ grants in aid distinction. This will include gathering examples from NDPBs which will be brought back to the FRAB in May.

Item 6: *Directors Remuneration Report Regulations 2002, and further work on Greenbury disclosures*

20. The Treasury presented this paper, which invited the FRAB to approve a proposal to require the preparation of a Remuneration Report for 2005/06 onwards (which will replace some of the information currently given in notes to the accounts). This picks up Companies Act requirements. There is still an issue with disclosure. Information is currently aggregated, whereas the Companies Act requires separate disclosure. The Cabinet Office is reluctant to divert further from the information which is currently released but there may be some further consultation on this issue. In response to a question from the Chairman about progress on obtaining legislation to put the disclosures on to a statutory footing, the Treasury noted that the Cabinet Office had advised that the proposed bill would be a hand out bill rather than a government-sponsored bill and that there was no guarantee that an MP would present it. The ASB nominee pointed out that there was not an easy read across to government since, unlike directors in quoted companies, senior civil servants didn't set their own salaries. Other Board members felt that avoiding disclosure did the public sector a disservice. Only a small number of people had taken advantage of the Data Protection Act to withhold details of their salary. The Parliamentary Observer said that Select Committees were becoming increasingly interested in any unusual aspects of senior officials' pay and expressed unease that separate disclosure of the elements of the remuneration package (in particular bonuses) would not be made.
21. Senior civil service remuneration is part of Cabinet Office policy. The Treasury would relay the thoughts of the Board to the Cabinet Office and, in particular, the concern of the Board's Parliamentary Observer. [The Treasury has since written to the Cabinet Office]. If this approach is not successful, the FRAB Chairman will write. This issue will feature in the FRAB Report.
22. The following amendment was suggested to the final sentence of paragraph 7.2.9:
- “Certain of the information is subject to audit and will be referred to in the audit opinion; the audit report will also note that the other information will be read by the auditor who will consider whether it is consistent with the financial statements”.

23. The Treasury would give more thought as to whether the chair of the Remuneration Committee should sign the report.
24. The Department of Health nominee noted that the guidance in the FReM should make it clear that the prior consent of individuals named in the Remuneration Report has to be obtained before personal information could be disclosed. Although this point is covered in 7.2.15, it is agreed that this point can be overlooked, and the FReM will be amended to introduce the point at an earlier stage.

Item 7: Government Financial Reporting Manual: Chapter 8

25. The Secretary presented this paper. Chapter 8 sets out the proposed wording for the chapter on Retirement Benefits and Early Departure Costs. It is based closely on the current chapter 15 in the RAM and introduces no new concepts.
26. The Board was content with this paper.

Item 8: Freedom of Information

27. The secretariat presented this paper. Elwyn Eilledge reported that he, as Chairman, and the Secretary had been appointed jointly as the Qualified Person under the Freedom of Information Act for the FRAB. The FRAB secretariat had sought further legal advice in advance of the Act being introduced in January this year. They confirmed that there were unlikely to be any exemptions which could apply, unless a paper raised a particularly sensitive matter. The IASB and ASB sites made information about meetings available. The Board was asked whether the current publication scheme should be expanded to include eg notes of meetings. The Board discussed whether it should wait to establish the demand in terms of Freedom of Information before agreeing to expand the publication scheme. It was agreed, however, that starting from now, minutes and the associated papers should be published once they had been agreed by the Board. If anybody is approached under the Freedom of Information Act they should contact either David or Elwyn.

Item 9: FRAB Report

28. Sarah Solomon presented this paper. The outline of the Report had been circulated. The Chairman was content with the format which followed the same pattern as last year's report. Board members were asked if there were any other key issues which needed to be included. It was suggested that a small paragraph on Freedom of Information should be included. It was suggested that in paragraph 1.10 the word "representative" should be replaced by "nominee". Another draft of the report will be produced in time for the next meeting and the Report writing group will be meeting after that.

Item 11: Any other Business

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

Monday 7th March 2005 (FRAB72)

Monday 9th May 2005 (FRAB73)

30. The ASB nominee suggested that it would be helpful to see the forward agenda for the Board. The secretariat will produce a paper for the next meeting.