LASAAC MINUTES

[Approved by LASAAC on 26 August 2015]

Meeting of 26 May 2015,

CIPFA Scotland, 160 Dundee Street, Edinburgh, EH11 1DQ

Present: Fiona Kordiak (Chair), Russell Frith, Nick Bennett, Joe McLachlan, Hazel Black, George Murphy, Stephen Reid, Gary Devlin, Derek Glover, Derek Yule Gillian Woolman, Hugh Dunn,

Apologies: Carolyn Earl, Derek Scott, Ian Lorimer (Vice Chair),

In attendance: Gareth Davies

Minute Ref		Action
13/15	**Apologies** Apologies from Carolyn Earl, Ian Lorimer and Derek Scott were noted.	
14/15	**Minutes** Amendments to be made: • Page 5 /Action Points : Additional action point re 02/15 council dwellings to be inserted regarding LASAAC examination of assumptions affecting valuation once RICS / ACES proposals are received • Page 6 & Actions Points: the references to drafting an example management commentary for 2015/16 to be amended to refer to provision of good practice guidance. Subject to the amendments the minutes were approved. Matters arising were reviewed. **Action:** • **Minutes to be amended as requested and loaded to the website**	G Davies
15/15	**Membership** The reports were noted.	
16/15	**Work Plan 2015/16** The work plan was discussed with the following identified as potential additional work areas:	

LASAAC is funded by:

AUDIT SCOTLAND ICAS CIPFA The Chartered Institute of Public Finance & Accountancy The Scottish Government

	• Local Tax Reform: Noted that although any potential changes to the local tax system would take time to implement this will affect financial reporting
	• Asset Decommissioning Obligations:
	  ○ The profile of the existing guidance should be raised and maintained to ensure that all local government bodies apply it to all situations, not just landfill
	  ○ Wind turbines were cited as an example.
	  ○ The risk of default / financial failure on the part of a third party was highlighted
	  ○ The importance of compliance monitoring was noted
	  ○ Service Concession Asset (PFI) schemes should also be considered
	  ○ A taskforce paper on the coalfields re-instatement liabilities experience is to be issued which will raise the subject profile
	  ○ Primary responsibility is now with auditors and authorities to refer to the LASAAC guidance
	  ○ Authorities will also need to be aware of decommissioning when developing capital plans
	• LASAAC profile:
	  ○ Fiona noted the intention of circulating the LASAAC report on activities within Audit Scotland, suggesting that all members could consider this
	  ○ LASAAC website use for profile and news was raised
	
	Actions:
	• **Members to consider circulation of LASAAC activities report within organisations**
	• **LASAAC activities report to be loaded to website with an appropriate news item**
	• **LASAAC activities report to be circulated to LASAAC e-mail list**
		All members
		
		G Davies
		
		G Davies

17/15	**CIPFA-LASAAC Code Board / Streamlining of Accounts** The report was noted. **Streamlining of the Accounts** The draft CIPFA-LASAAC consultation proposals on streamlining the accounts were discussed. Overall, members were supportive of the streamlining initiative and appreciated the various tensions and mixed views the working group had been dealing with. A broad ranging discussion was held with the following aspects being raised: <u>Funding Statement</u>	

	• The title of the 'funding statement' was queried as not properly informative as to the purpose of the statement. • The requirement for a separate equivalent for HRA was noted. • The funding statement could more helpfully explain the purpose and application of statutory adjustments / mitigation. The wording in the consultation document was suggested as being helpful and could be incorporated. • The provision of the technical note analysis of statutory adjustments (Appendix 6) was queried. It was suggested that it would not be regarded as a simplification, although it is not intended as a primary statement. <u>Wider Considerations</u> • It was generally considered that it would be preferable to see a full set of accounts example, rather than individual elements, to gain a better overview of the proposals and how they will improve the statements. • The potential move away from SeRCOP/ the SEA was welcomed by a member • The inclusion of budget information was not supported by one member with the view that this confused readers by providing figures on different bases which should not be compared. The difficulty of explaining this to councillors was raised. • It was noted however that central government were keenly interested in the funding applied (statutory basis) to support services. • It was generally agreed that the financial statements should reflect accounting costs as these have important long-term planning implications. The need to reconcile the statutory (tax) and accounting positions was the core issue. • The previous 'Statement of Movement on the General Fund Balance' was cited as providing clarity in this respect. <u>Comparability with Other Sectors</u> • A member suggested that making the accounts understandable to and comparable with other sectors (eg charities, private sector) should be a key objective. • Potentially a reconciliation between the statutory (tax) position and the accounting position could be provided separately. Central government practice was cited as an example, although the lack of comparability of budget and other financial information was noted. • The existence of statutory mitigation and whether some items should be repealed so that council tax was based on accounting information. It was noted that council tax is not the largest source of taxation funding, and that Scottish Government grant would presumably continue to be based on Treasury criteria (eg Scottish Government cannot give	

	AME or depreciation 'non-cash' grants).
	• The need for the accounts to address two aspects was noted:
	  ○ The immediate taxation position reflecting how an authority is financially managed, particularly in the short to medium term, would presumably be relevant for councillors and the public, and Scottish Government
	  ○ The longer term implications of service delivery, reflected by the accounting standards, should also be addressed (eg pensions liability) as these will affect longer-term funding needs
	• The potential for showing a 'negative' General Fund balance was highlighted. This would demonstrate the accounting position with an analysis of the balance to show the statutory position. Alternatively the term 'general fund' could be removed from IFRS based accounts so that the term is used purely for statutory purposes.
	
	<u>Linking Budget & Out-turn to the Annual Accounts</u>
	
	• The management commentary can play a part in explaining the statutory and the accounting position.
	• It was stated that most readers will have a focus and understanding of the budget and explaining the out-turn against the budget is the key role.
	• A key strength of IFRS is in providing transparency regarding the financial position
	• Simplification would not necessarily be equivalent to shorter accounts
	• The cost burden of preparing accounts should also be considered, with any potential to reduce this considered
	• The ability to separately identify the impact of statutory mitigation was discussed:
	  ○ Separation prospectively may be possible, but reliable retrospective separation would be problematic especially due to the manner in which the Revaluation Reserve and CAA balances were established in 2007
	  ○ A member suggested that most readers would not need full details of the statutory adjustments applied
	
	<u>Proposals</u>
	
	• A member suggested that the content and intention of the proposals was understandable but the presentation format was not entirely suitable
	• A member suggested that the funding statement could be obviated by providing a column in the CIES which showed the use / receipt of taxpayer resources (e.g. a CIES 'net expenditure' column but on a statutory basis). This may cut down on the need for additional statements.	

	• The potential for Scotland specific treatments was raised. <u>General Conclusions</u> LASAAC reached the following general consensus: • There are concerns regarding whether the streamlining consultation proposals will sufficiently achieve the desired outcome • It would be desirable to see an example set of accounts to gain a better understanding of the extent to which streamlining or simplification would be achieved **Actions:** • **LASAAC representatives to relay the LASAAC conclusions on streamlining to CIPFA-LASAAC on 2 June** • **LASAAC volunteers to devise a mock example of streamlined single entity accounts based on IFRS**	G Murphy, R Frith, F Kordiak, J McLachlan, N Bennett H Black, J McLachlan
18/15	**Integration of Health & Social Care** The current status of IRAG Guidance was queried. It is understood that IRAG has issued the final guidance by e-mail with some consultation with Scottish Government required before loading to the website. It was commented that the proposed initial 'light touch' approach to IJB accounts may not be achieved in practice. The Scottish Government direction that IJBs had responsibility for services, and were not just agents, was noted as a key factor influencing the requirements. The implications of 2015/16 service commencement was raised. It was noted that there would not generally be a separate ledger or coding structure. This may make separating out spend on 'IJB commissioned' service transactions difficult, affecting the audit process. The need to close accounts and confirm balances early after the year end was also a concern. The desire to ensure timely guidance for 15/16, and compatibility with Health Boards treatment, was noted. An additional area for guidance would be Whole of Government Accounts. The establishment of a working group was agreed, with TAG representation to be sought as well. **Actions:**	

	• **LASAAC members to provide suggested nominations for the integration working group (non-LASAAC nominations welcome)** • **TAG representative on integration working group to be sought**	All members G Davies
19/15	**Transport infrastructure Valuation** It was noted that some areas raised in the paper would be covered by the now published guidance notes. Additionally the application of UK wide experience to some areas would presumably assist, so some co-ordination with English practices may be indicated. Scottish representation on the Project Implementation Steering Group was being sought, but it was noted that much of the detail was determined via HAMFIG, which was largely English focused in fulfilling the role that SCOTS undertook in Scotland. The change of auditors for 16/17 was noted with the need for a good handover process to be undertaken. The potential significant impact of small errors in any spreadsheets used was commented on, highlighting the desire for provided spreadsheets to be verified centrally rather than at each individual council. Common rates used to establish Gross Replacement Cost would also benefit from central verification. It was noted that SCOTS were now more aware of the timelines for the annual accounts process, but this would benefit from more formal confirmation. The role of LASAAC was discussed with the following noted: • S95 officer responsibilities for the accounts are already established, including the use of professional valuation experts • The code 16/17 will address some issues, however it will presumably also explicitly place reliance on the Transport Infrastructure Code • CIPFA-LASAAC or LASAAC could potentially issue short bulletins to answer some specific questions, even if just noting that the normal requirements apply (eg for capitalisation of expenditure) It was concluded that a working group should not be established but authorities and auditors should be requested to notify LASAAC of any issues. **Action:** • **Authorities and auditors to be requested to notify LASAAC of any Transport Infrastructure issues**	G Davies

20/15	**Council Dwellings Valuation** Following recent discussions with a RICS representative a verbal update was provided including: • Mike Brown & Archie Rintoul (RICS Scotland) attended a meeting last week at which the proposed amendment to the calculation of the adjustment factor for the beacon approach was agreed • Consideration will be given as to how RICS Scotland and ACES progress with the proposals • It is not clear whether current practice in England would change • The gross yield (gross rent/ EUVSH) was calculated for Scottish authorities based on 13/14 accounts. They ranged (excluding DCF valuations) from approx. 5% to some 13%. • RICS Scotland had queried whether a 'Scotland wide' yield should be utilised or it should vary for each authority e.g. due to stock condition, different rent collection percentages and rent setting policy. • A Scotland wide report on social rent yields may be commissioned to inform valuations. • Use of a standard spreadsheet for valuation may assist in consistency and audit • Mike Brown proposed an initial meeting with an Audit Scotland representative and the LASAAC secretary to initially discuss any issues **ACTION:** • **Progress update on council dwelling valuation to be brought to the next LASAAC meeting**	G Davies
21/15	**Audit Scotland Update** • The Borrowing and Treasury Management report was noted • Four Best Value reports are to be issued in future: East Dunbartonshire, Falkirk, Aberdeen, Moray • Consolidated Scottish public sector financial reporting was discussed	
22/15	**Scottish Government Update** • Work on the amendment of borrowing legislation is ongoing. • The importance of this to City Deal arrangements, to address funding timing differences, was noted. ○ In later years local authorities will receive Scottish Government grant with details of how much should cover statutory repayment of debt.	

22/15	**CIPFA / LAAP Update** The recently announced joint CIPFA-ICAS Audit Qualification was noted.	
23/15	**Date of Next Meeting** Next meeting 26 August, 2pm, Edinburgh	

LASAAC is funded by:

AUDIT SCOTLAND
ICAS
CIPFA The Chartered Institute of Public Finance & Accountancy
The Scottish Government

ACTION POINTS FROM LASAAC MEETING OF 26 May 2015

	Minute Ref	Action	Action By	Status At 12/08/15
A	14/15	**Minutes to be amended as requested and loaded to the website**	G Davies	Complete
B	16/15	**Members to consider circulation of LASAAC activities report within organisations**	All members	Ongoing
C	16/15	**LASAAC activities report to be loaded to website with an appropriate news item**	G Davies	Complete
D	16/15	**LASAAC activities report to be circulated to LASAAC e-mail list**	G Davies	Complete
E	17/15	**LASAAC representatives to relay the LASAAC conclusions on streamlining to CIPFA-LASAAC on 2 June**	G Murphy, R Frith, F Kordiak, J McLachlan, N Bennett	Complete
F	17/15	**LASAAC volunteers to devise a mock example of streamlined single entity accounts based on IFRS accounts**	H Black, J McLachlan	Ongoing
G	18/15	**LASAAC members to provide suggested nominations for the integration working group (non-LASAAC nominations welcome)**	All members	Complete
H	18/15	**TAG representative on integration working group to be sought**	G Davies	Complete
I	19/15	**Authorities and auditors to be requested to notify LASAAC of any Transport Infrastructure issues**	G Davies, All members	Complete
J	20/15	**Progress update on council dwelling valuation to be brought to the next LASAAC meeting**	G Davies	On agenda

LASAAC is funded by:

AUDIT SCOTLAND
ICAS
CIPFA The Chartered Institute of Public Finance & Accountancy
The Scottish Government