



Minutes of Meeting of 12 November 2015
[Approved by LASAAC on 10 March 2016]

Clydesdale Bank Plaza, Business Centre, Lothian Road, Edinburgh

Present: Fiona Kordiak (Chair), Ian Lorimer (Vice Chair), Derek Yule, George Murphy, Hazel Black, Gillian Woolman, Joe McLachlan, Carolyn Earl, Gary Devlin, Derek Scott, Nick Bennett*, Russell Frith* (*= arrived during item 41/15)

Apologies: Stephen Reid, Hugh Dunn, Derek Glover

In attendance: Gareth Davies

Minute Ref		Action
36/15	Apologies Apologies (per above) were noted.	
37/15	Minutes <ul style="list-style-type: none"> • The minutes of 26 August were approved No matters arising were raised. Action: <ul style="list-style-type: none"> • Minutes to be loaded to the website 	G Davies
38/15	Membership i) Membership List The membership list was reviewed with some amendments required regarding Audit Scotland's address, Scottish Government e-mail addresses; and other member's details. Action: <ul style="list-style-type: none"> • Membership details to be amended ii) Attendance The attendance paper was noted. iii) Review of Co-option Membership In discussion: <ul style="list-style-type: none"> • The existing co-optees indicated they were content and able 	G. Davies

LASAAC is funded by:



The Scottish Government

	<p>to continue to attend LASAAC meetings.</p> <ul style="list-style-type: none"> • The Chair indicated that generally a 2 year membership was probably envisaged. • The positive contributions from co-optees was welcomed • It was noted that two additional co-options were possible, for instance to allow subject specific experts to contribute <p>It was agreed that the existing co-optees would continue to serve on the committee.</p>	
39/15	<p>Council House Dwelling Valuation</p> <p>Mike Brown and Archie Rintoul, attending as Royal Institution of Chartered Surveyors (RICS) representatives, provided an indication of progress in updating valuation guidance relating to the application of the Beacon Approach (Adjusted Vacant Possession) [BA (AVP)] methodology. This is to provide a valuation complying with Existing Use Value – Social Housing [EUV-SH] as defined in the accounting code of practice.</p> <p>A paper was tabled outlining the RICS proposals with key elements being:</p> <ul style="list-style-type: none"> • The focus of additional guidance is on the determination of the discount factor to be applied. This is a matter for local authority discretion in Scotland. • The 'property' being valued is the entire housing stock as a portfolio, not individual units • There is a market of investors, such as RSLs, in social housing who seek returns on their investment • The 'gross yield' (gross rents compared to the price of the housing stock) is a key factor to be determined. Evidence should be based on market gross yields, which may need to be adjusted for the housing stock being valued. <p>In discussion:</p> <p><u>Timeline</u></p> <ul style="list-style-type: none"> • RICS formal approval processes for the proposals have to be completed. Ratification expected in February 2016. • RICS approval will provide the over-arching 'architecture' for guiding valuation practice. The Association of Chief Estates Surveyors (ACES) in Scotland would participate in discussions on detailed implementation. • After RICS approval it is anticipated to take 3-4 months to gather and provide evidence to support implementation. Allowing for summer holidays a target for 30 September was suggested. • On this basis a formal live implementation date could be anticipated to be 1 April 2017 (2017/18). • Training for valuers, via RICS and ACES, is likely to be provided to ensure that all parties are ready for 1 April 2017 	

LASAAC is funded by:

	<ul style="list-style-type: none"> • The detailed ACES process will need to be certified and clearly set out. • It was noted that there could be work for finance staff arising from the proposals <p><u>Impact of Change</u></p> <ul style="list-style-type: none"> • Consistency of approach is a key objective, with fully transparent reasons and explanations for differences in key assumptions affecting the valuation • The impact of the change for City of Edinburgh, which has already adopted the practice, was queried. The actual change from the prior year (opening balance) was not itself significant but it was indicated that the difference compared to what the valuation at the year end would have been under the previous practice would probably have been material. It was suggested that Edinburgh may not be representative of all councils. • Mike Brown had undertaken a rough initial assessment of impact for councils based on gross rents and existing values for housing stock. This work however needs to be refined before it can be reliably utilised. • The possibility of smoothing changes in the accounts over a period of years was raised. It was suggested that this would be problematic, particularly for audit qualification purposes. • The issue of explaining any valuation change to councillors was raised. <p><u>Evidence Base</u></p> <ul style="list-style-type: none"> • The evidence base for the discount rate was queried, including the number of comparable or usable market transactions for social housing stock. • Mike Brown noted that the income stream was the primary driver of housing stock value. It was indicated that generally there was a sufficient base of market sales evidence for housing stock for valuation purposes. These may not be in the same geographic area as the stock being valued. • The s95 officer and auditors will need to assess and gain assurance on the reasonableness of assumptions. • The possibility that some councils may argue for specific treatment was raised. It was suggested that this was why transparent and clear evidence had to be available and open for inspection. • Other factors affecting valuation will include stock quality (eg the percentage of the portfolio meeting the Scottish Housing Quality Standards, voids etc) • RICS have recently implemented a 'Valuation Certification' requirement for its members which means that valuers have to retain documentary evidence of compliance with requirements • Valuers are aware that auditors will query the evidence 	
--	---	--

LASAAC is funded by:

	<p>supporting the valuation, including adjustments</p> <p><u>Office for National Statistics</u></p> <ul style="list-style-type: none"> • The recent Office for National Statistics (ONS) determination that Housing Associations were public sector bodies was raised. This was not envisaged to mean any immediate change to valuation practices by RICS (eg to align practices for all social housing). • The impact of different social housing policies in Scotland as opposed to England was discussed. For example in England there is more of a focus on 'affordable rents' with some associations have different rent 'tiers'. <p><u>Existing LASAAC Guidance</u></p> <ul style="list-style-type: none"> • It was noted that existing LASAAC guidance required the use of BA (AVP) but did not specify the process to be followed. It noted, but did not require adherence to, the Department of Local Government and Communities (DCLG) guidance on BA(AVP) • Mike Brown noted that the guidance could therefore be updated with a reference to RICS guidance on discount factor determination • It was noted that the DCLG guidance was effectively the only source of guidance for BA (AVP). • It was suggested that reliance on English methodology should be approached with care in case it is not appropriate for Scotland. Reference to the DCLG guidance could be removed from the LASAAC guidance <p><u>Basis of Valuation (EUV-SH)</u></p> <ul style="list-style-type: none"> • The impact on possible consolidated accounts for Scotland was raised, especially regarding possible swings in valuation. It was suggested that realism and some consistency would be anticipated. • It was noted that the balance sheet valuation would not significantly affect the financial management of HRAs (eg borrowing was not secured or based on asset values) • This raised a question as to whether a valuation approach was relevant. It was noted that a historic cost approach would probably see fewer assets shown on the balance sheet even although they are currently providing service. <p><u>Next Steps</u></p> <ul style="list-style-type: none"> • Ratification by RICS in February 2016 with implementation for 2017/18 anticipated • Strategic guidance from RICS following ratification • ACES roll out of implementation guidance and training • On consideration of the RICS / ACES valuation approach LASAAC will review existing LASAAC guidance • It was suggested that an early indication of the financial impact of the valuation process change would be helpful 	
--	--	--

LASAAC is funded by:

	<p><Mike Brown and Archie Rintoul left></p> <p><u>LASAAC Considerations</u></p> <ul style="list-style-type: none"> • The professional approach and drive for consistency by RICS was welcomed by the committee • The fact that the external auditors of City of Edinburgh Council had not found fault with the valuation process already adopted was noted, suggesting that there is sufficient evidence to support implementation. <p>Action:</p> <ul style="list-style-type: none"> • Review of existing LASAAC guidance on council dwelling valuation to be added to the forward work plan for 2016/17 	G. Davies
40/15	<p>LASAAC Work Plan 2015-16</p> <p>The work plan was reviewed.</p> <p><u>Integration</u></p> <ul style="list-style-type: none"> • The engagement approach of LASAAC with Integration Joint Boards (IJBs) was raised. • It was noted that generally NHS Boards or local authorities would be expected to assist IJBs with the annual accounts. Particular areas of interest would be the management commentary, the annual governance statement etc. • It may take time for the financial management operations and responsibilities of IJBs, including annual accounts, to be clarified. <p>Action:</p> <ul style="list-style-type: none"> • IJB CFO contact representative to be invited to a future LASAAC meeting, probably May • IJB CFOs to be added to the LASAAC distribution list <p><u>City Deal</u></p> <ul style="list-style-type: none"> • The Scottish Government was clear that grant could not be accrued in advance. • The new 'City Deal' bids throughout Scotland were noted. • The importance of being able to defer loan fund advance repayments in order to match the grant funding profile was emphasised <p><u>Review of Statutory Adjustments</u></p> <ul style="list-style-type: none"> • It was noted that CIPFA-LASAAC anticipated reviewing the approach to statutory adjustments. For example whether reporting could be simplified and potentially whether all adjustments were material. • Based on this it was proposed that LASAAC could initiate a review of statutory adjustments in Scotland to ensure that debate is informed. 	G. Davies G. Davies

LASAAC is funded by:

	<ul style="list-style-type: none"> It was agreed that this should be added to the work plan, potentially for progress in 2016/17 <p>Action:</p> <ul style="list-style-type: none"> Review of statutory adjustments to be added to the LASAAC work plan, potentially for 2016-17 	G. Davies
41/15	<p>Management Commentary Examples</p> <p>In discussion:</p> <p><u>Previous Review of Unaudited Accounts</u></p> <ul style="list-style-type: none"> Tim Bridle's work on the unaudited accounts management commentaries was noted. Good practice excerpts identified in Tim's initial work were regarded as being unlikely to have been amended, and could still be relevant Some councils had seen significant changes between the unaudited and final version of the management commentary For example performance indicators were not available in one authority for the unaudited statements, but this information was included for the final version <p><u>Content and Audit</u></p> <ul style="list-style-type: none"> Getting the balance of providing sufficient technical detail while providing a readable report was a challenge One authority noted that there could be some judgement regarding what was an absolute requirement for the commentary, noting that auditors had desired so many changes that it could almost be regarded as an "auditor's commentary". Clarification in this area would help. The auditor's role was suggested as being to check for consistency with the financial statements and to identify whether the commentary (or parts of it) was helpful for the reader <p><Nick Bennett, Russell Frith arrived></p> <p><u>LASAAC Approach</u></p> <ul style="list-style-type: none"> Possible review work could include <ul style="list-style-type: none"> Requesting feedback on the Scottish Government guidance that was issued (eg a survey) Identify good practice examples The capacity of Audit Scotland to support a review was discussed, with a linkage to the planned Overview report made. The potential to request appointed external auditors for good practice examples was also noted. <p>Action:</p> <ul style="list-style-type: none"> Audit Scotland to establish whether any analysis of 	F. Kordiak, R.

LASAAC is funded by:

	the audited management commentaries would be available	Frith, G. Woolman
42/15	<p>CIPFA-LASAAC Code Board</p> <p><u>Code 2016/17 Main Consultation – Highways Network Asset (HNA)</u></p> <ul style="list-style-type: none"> • HNA was the most significant item in the main consultation • CIPFA-LASAAC was generally not in favour of a proposal to require only a disclosure note of current value for 2016/17, with no change in the balance sheet valuation (historic cost) • Audit Scotland proposed adoption for 2016/17 with no requirement to restate 2015/16 figures. Reference was made to the exemption from restatement allowed in IAS 8 when revaluing. It was however noted that normally a reclassification (as included in the HNA proposals) would require restatement. • Further deferral was noted as having reputational risk • CIPFA-LASAAC concluded that 2016/17 adoption of the HNA proposals with no restatement of 2015/16 was appropriate. • Some concerns were expressed regarding the risk of significant and widespread audit qualifications • In relation to the preparedness for HNA implementation no Scotland specific analysis was available, however the understanding was that Scottish authorities were generally well placed to proceed, assisted by the Society of Chief Officers of Transportation Scotland (SCOTS) co-ordination work <p>Action: SCOTS representatives to be invited to discuss implementation of current value for the Highways Network Asset</p> <p><u>Telling the Story Consultation</u></p> <p><u>2016/17 Proposals</u></p> <ul style="list-style-type: none"> • Generally responses were supportive of the proposals • ICAS had submitted a response strongly supporting IFRS only accounts • Concerns re the Funding Analysis had been received, particularly the proposed placement in the management commentary. Consequently this would now be provided as a disclosure note, it may be re-titled and some items will be aggregated. • The CIES would no longer be required to be shown on a Service Expenditure Analysis (SEA) basis. • Hazel Black noted that government returns (eg Local Financial Returns) would however continue to use the 	G. Davies

LASAAC is funded by:

	<p style="text-align: center;">SEA</p> <p><u>Future Streamlining Work</u></p> <ul style="list-style-type: none"> • The potential future extent and direction of streamlining work was raised, • Reference was made to CIPFA-LASAAC plans to review statutory adjustments. • The earlier addition to the LASAAC work plan for a review of Scottish statutory adjustments was noted (see item 40/15) • Discussion arose on the adoption of 'pure IFRS' accounting (no statutory mitigation), including the presentation of 'negative reserves' which would require explanation. • The difficulty of establishing a 'pure' Revaluation Reserve balance was noted, given that simplifying assumptions were made when the accounting code for local authorities instituted the Revaluation Reserve (1 April 2007 – see Accounting Code 15/16 definition of Historical Cost 4.1.2.12). • It was suggested that establishing a working group to consider the issues would assist. Possible participants could include Joe, George, Gary and support from Audit Scotland <p>Action:</p> <ul style="list-style-type: none"> • Potential further streamlining work to be added to the future work plan, subject to the conclusion of the review of Scottish statutory adjustments' <p><u>Approval of Code 16/17</u></p> <ul style="list-style-type: none"> • The draft Code 16/17 has been issued to CIPFA-LASAAC members for approval / authorisation • It will shortly be considered by FRAB • Following FRAB review a final version will be presented for approval (specific acceptance or rejection) to all LASAAC members. This is anticipated to take place by e-mail. • CIPFA will also be requested to formally accept or reject the final Code 16/17 version <p><u>Other Items</u></p> <ul style="list-style-type: none"> • A query regarding the application of IFRS 15 <i>Revenue from Contracts with Customers</i> to Integration arrangements was raised. No major issues are currently anticipated. • Derek indicated that he was stepping down as a preparer representative, nominated by CIPFA-LASAAC, on the Financial Reporting Advisory Board (FRAB). 	G. Davies
43/15	<p>Audit Scotland Update</p> <p>The following were noted:</p> <ul style="list-style-type: none"> • A proposed new Audit Scotland 'Audit Code of Practice' is currently issued for consultation. The consultation closes on 3 December. Responses were encouraged. • Audit procurement: tenders had been issued with returns 	

LASAAC is funded by:

	<p>due by 16 December. Firms will tender to work in sectoral areas of the public sector with a list of possible clients indicated.</p> <ul style="list-style-type: none"> • The approach to Best Value audits is being amended. The focus will be on a more cross-cutting approach, with at least one report for each council every 5 years, based on already established evidence over the period. Some authorities, particularly those with specific challenges, may be the subject of more reports. • Comments are likely to be fed back to councils on implementation of the 2014 regulations (SSI 2014/200, FC 7/2014, FC 5/2015), for example committee arrangements. • Discussion arose on the practicalities of compliance, such as the signing of accounts. The need for pragmatic approaches was generally recognised. • The potential for electronic signatures for the accounts was raised. It was suggested that some physically signed copies were required, but the number could be minimised. • Client surveys will be issued to local government • The Controller of Audit may write to each authority individually, highlighting key areas of the annual audit report. <i>[Post meeting: The Chief Executive will receive the letter].</i> <p><Derek Scott left the meeting></p>	
44/15	<p>Scottish Government Update</p> <p>Review of borrowing legislation:</p> <ul style="list-style-type: none"> • A draft of the consultation materials has been circulated to the review group for comment • The consultation is expected to be issued soon and to last for 6 weeks, however the draft legislation must be submitted to the Scottish Parliament by 18 January to adhere to the planned implementation timetable • The potential impact of the Community Empowerment Act was noted 	
45/15	<p>CIPFA Update</p> <ul style="list-style-type: none"> • CIPFA Modern Apprenticeships scheme was noted 	
46/15	<p>Any Other Business</p> <p>Previously notified AOB relating to the transparency of public sector remuneration and expenses was discussed:</p> <ul style="list-style-type: none"> • Aggregation of pension benefits tends to inflate the apparent remuneration • Generally a distinction is made between taxable and non-taxable benefits. It may be difficult to scope exactly what 	

LASAAC is funded by:

	<p>non-taxable benefits would be the subject of disclosures. It was suggested that the central issue is probably one of governance rather than of financial reporting.</p> <ul style="list-style-type: none"> • Media comment was often based on Freedom of Information requests rather than specific financial reporting information and relied upon the appropriate and balanced interpretation of the information. • It was suggested that the Remuneration Report could explicitly state that it excludes non-taxable expenses or reimbursements. 																
47/15	<p>Future Meeting Dates</p> <p>The meeting schedule for 2016 is shown below. All LASAAC meetings are planned to be at CIPFA 160 Dundee Street Edinburgh EH11 1DQ.</p> <table border="1" data-bbox="373 754 1246 931"> <thead> <tr> <th>Time</th> <th>LASAAC 2016</th> <th>CIPFA/LASAAC 2016</th> </tr> </thead> <tbody> <tr> <td>2pm</td> <td>Thursday 10 March</td> <td>3 March (London)</td> </tr> <tr> <td>2pm</td> <td>Wednesday 25 May</td> <td>7 June (Edinburgh)</td> </tr> <tr> <td>2pm</td> <td>Thursday 25 August</td> <td>N/A</td> </tr> <tr> <td>2pm</td> <td>Thursday 17 November</td> <td>9 Nov (London)</td> </tr> </tbody> </table>	Time	LASAAC 2016	CIPFA/LASAAC 2016	2pm	Thursday 10 March	3 March (London)	2pm	Wednesday 25 May	7 June (Edinburgh)	2pm	Thursday 25 August	N/A	2pm	Thursday 17 November	9 Nov (London)	
Time	LASAAC 2016	CIPFA/LASAAC 2016															
2pm	Thursday 10 March	3 March (London)															
2pm	Wednesday 25 May	7 June (Edinburgh)															
2pm	Thursday 25 August	N/A															
2pm	Thursday 17 November	9 Nov (London)															

LASAAC is funded by:



The Scottish Government

ACTION POINTS FROM LASAAC MEETING OF 12 November 2015

	Minute Ref	Action	Action By	Status At 02/03/16
A	37/15	Minutes to be loaded to the website	G. Davies	Complete
B	38/15	Membership details to be amended	G. Davies	Complete
C	39/15	Review of existing LASAAC guidance on council dwelling valuation to be added to the forward work plan for 2016/17	G. Davies	Complete
D	40/15	IJB CFO contact representative to be invited to a future LASAAC meeting, probably May	G. Davies	Ongoing
E	40/15	IJB CFOs to be added to the LASAAC distribution list	G. Davies	Complete
F	41/15	Review of statutory adjustments to be added to the LASAAC work plan, potentially for 2016-17	G. Davies	Complete
G	41/15	Audit Scotland to establish whether any analysis of the audited management commentaries would be available	F. Kordiak, R. Frith, G. Woolman	Ongoing
H	42/15	SCOTS representatives to be invited to discuss 2016/17 implementation of current value for the Highways Network Asset	G. Davies	On agenda
I	42/15	Potential further streamlining work to be added to the future work plan, subject to the conclusion of the review of Scottish statutory adjustments'	G. Davies	Complete

LASAAC is funded by:



The Scottish Government