



Minutes of Meeting of 25 August 2016

[approved by LASAAC on 17 November]

CIPFA, 160 Dundee Street, Edinburgh EH11 1DQ

Present: Ian Lorimer (Chair), Gillian Woolman (Vice Chair), Fiona Kordiak, George Murphy, Hazel Black, Joe McLachlan, Gary Devlin, Nick Bennett, Russell Frith, Hugh Dunn, Darren McDowall

Apologies: Derek Yule, Stephen Reid, Derek Glover

In attendance: Gareth Davies

Minute Ref		Action
28/16	<p>Apologies</p> <p>Derek Yule, Stephen Reid, Derek Glover</p>	
29/16	<p>Minutes</p> <ul style="list-style-type: none"> The minutes of 25 May were approved subject to the removal of reference to BRIS on page 10 <p>Action:</p> <ul style="list-style-type: none"> Approved minutes of 25 May to be loaded to website 	G. Davies
30/16	<p>Membership</p> <p>i) Membership List</p> <p>The proposed co-options were approved with the new members being</p> <ul style="list-style-type: none"> Darren McDowall [from 25 August 2016] Lesley Bairden [from 17 November 2016] <p>The Chair welcomed Darren to LASAAC.</p> <p>It was noted that Donna MacKinnon was replacing Stephen Gallagher as the Scottish Government funding contact.</p> <p>ii) Attendance</p> <p>The attendance paper was noted with amendment to reflect the revised CIPFA-LASAAC representatives required.</p> <p>Joe McLachlan's prospective role as a practitioner representative</p>	

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	on FRAB was noted. Russell will also attend as Audit Scotland's representative.	
31/16	<p>LASAAC Work Plan 2016/17</p> <p>Profile The manner in which LASAAC profile was maintained and the rationale for this was discussed.</p> <p>Integration of Health & Social Care</p> <ul style="list-style-type: none"> • Lesley Bairden, on commencement, could not represent all IJBs due to the variety in Integration Joint Board [IJB] working practices • A few 'no transaction' 2015/16 IJB accounts had been submitted for audit. There was some concern that both the Chief Officer and external audit costs were therefore not reported as expenditure. • Appropriate treatment for 2016/17, when all IJBs would be responsible for services, will be important. • There were apparent differences between some elements of the LASAAC and IRAG guidance. More consistency in guidance for 16/17 would be desirable. • An auditor reported that the Remuneration Report coverage appeared to have raised the most queries. • Some IJBs had not initially complied with the accounts and audit regulations (SSI 2014/200, FC 7/2014), for example regarding public inspection <p>Action:</p> <ul style="list-style-type: none"> • Feedback to be sought from IJB CFOs and practitioners on areas for integration accounting guidance clarification • Areas for Integration accounting guidance clarification, including audit report matters to be identified <p>Management Commentary</p> <ul style="list-style-type: none"> • Audit Scotland will be preparing a report in October or November on local government, focusing on the figures in the 15/16 annual accounts, and on the management commentary statements. This may help to provide good practice examples and inform LASAAC considerations. • Initial feedback on 15/16 unaudited accounts indicates significant improvement and more widespread use of graphics • It was noted that judgements about the management commentary involved significant subjectivity and personal style preferences • Showing progress to improve the management commentary should be the objective rather than seeking standardisation 	<p>G. Davies</p> <p>LASAAC members</p>

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	<p>across councils</p> <ul style="list-style-type: none"> • Corporate publication teams may be helpful, if given clear direction on the financial interpretation issues <p>Council Dwelling Valuations The position regarding updated RICS guidance was queried.</p> <p>Action:</p> <ul style="list-style-type: none"> • RICS to be contacted regarding Council dwelling valuation guidance and when this may be available 	G. Davies
32/16	<p>CIPFA-LASAAC Code Board</p> <p><u>Going Concern</u></p> <ul style="list-style-type: none"> • The going concern statement change principally arose due to the change in England towards the removal of government grant and more reliance on local taxation. This however would presumably still involve some redistribution of NDR income between authorities. • In combination with the English funding changes concerns had been raised about the financial sustainability of some councils. • Generally a 'machinery of government' treatment would apply, meaning that going concern would not normally be relevant 	
33/16	<p>Statutory Adjustments Review</p> <p>Overview of Applicable Statutory Adjustments</p> <p>Hazel's paper was discussed, including:</p> <ul style="list-style-type: none"> • The 'capital' related adjustments should be considered as a collective group, however the 'revenue' adjustments could be assessed individually • The 'Icelandic Banks' adjustment (FC5/2011) could potentially be removed. It was noted that the KSF bank may still be making payments but generally any remaining investments had been written off with any further cash received being treated as income. • Short term accumulating compensated leave (STACA) could be restricted to only refer to teachers, which could be large and volatile due to Easter holiday timings. Annual changes were less significant for other staff. • Quantification of impact should be sought before a statutory adjustment is removed • Potentially legislation regarding capital receipts could be added. LASAAC guidance was not specifically included. <p>The objective of the review was discussed, with the minutes of 25 May being cited "elimination of statutory adjustments was not the objective rather [] presentation of the effect of adjustments was the key issue".</p>	

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On this basis identification of immaterial adjustments and their withdrawal may help to simplify the financial statements and facilitate suitable presentation options.

It was noted that adjustments were often implemented to avoid an immediate 'one off' transition adjustment but that there was not usually a planned end date specified to support the eventual elimination of the adjustment.

Presentation

- The difficulty of presenting both the accounting and statutory financial position and performance was noted.
- It was commented that statutory adjustments were an additional complexity but usually arose because of concerns on Council funding positions.
- Presenting IFRS based accounts could result in showing a deficit in reserves. This would highlight the need to explain the framework applying to taxation resources and the basis for a going concern assumption
- Significant changes in the legislation which could affect Council Tax or financial management, including the removal of material existing adjustments, would become a political matter. This especially applied given the elections in 2017.
- There is a natural tension between the desire to simplify the accounts and the impact the removal of statutory adjustments could have on Council finances and spending decisions which would need to be overcome.
- Consequently, while not necessarily insurmountable, change may need to be planned as a long-term project
- The scope of the project allows LASAAC to consider radical approaches looking at accounting and funding issues
- A preference was expressed by some members for a pure IFRS based balance sheet.

Example Impact of Removal of Statutory Adjustments

Joe tabled papers illustrating the impact of removing statutory adjustments for one council in respect of the MiRS, CIES and the balance sheet:

- The impact on usable reserve balances was significant, with the movements on the pensions liability noted as a material, and volatile, factor.
- The impact on the HRA was also specifically noted.
- It was noted that for the private sector the 'Pensions Reserve' directly impacted on the level of distributable reserves
- The intention was to restate all years since IFRS implementation (10/11). Another council may also be selected for a similar restatement.
- The Revaluation Reserve had been implemented on 1 April 2007 with a zero balance. This would prevent challenges in showing 'pure' IFRS based reserve balances.

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	<ul style="list-style-type: none"> • A request was made for additional scrutiny and verification of the working papers • There may be a need to adjust for the treatment of capital receipts <p>Quantification of Impact [Scotland Level] Potential quantification issues were discussed:</p> <ul style="list-style-type: none"> • Some items (eg financial instruments allowances for soft loans and LOBOs) were restricted to pre-existing arrangements as at 1 April 2007. Some of these (pre 1 April 2007) were thought to still exist. • Audit Scotland are unlikely to hold detailed records analysing each statutory adjustment for Scotland • It was proposed that the two restated authority examples should be prepared, with any decision on information gathering to follow this • The implications for the HRA were raised. It was noted that RSLs/ Housing Associations were not provided with mitigation, but removal of adjustments for HRA could lead to increased funding requests being made to the Scottish Government. <p>It was noted this part of the workplan was a work in progress and that good progress had been made on the legislative position and potential impact. More work is required before any final conclusions can be reached.</p> <p>Action:</p> <ul style="list-style-type: none"> • An updated version of the statutory adjustments chart is to be made available to Directors of Finance/practitioners • Excel workbook of the example statutory adjustment removal is to be circulated to LASAAC members • Statutory Adjustments: The tabled example restatement accounts are to be reviewed • Another council's accounts are to be restated to remove statutory adjustments 	<p>H. Black, G. Davies</p> <p>J. McLachlan, G Davies LASAAC members G. Murphy</p>
34/16	<p>Highways Network Asset</p> <p><u>Guidance Due / Measurement Uncertainty</u></p> <p>Additional CIPFA guidance, on the valuation process and the accounting requirements, is due to be issued in September:</p> <ul style="list-style-type: none"> • It was not expected to mandate the use of a polygonised approach to carriageway measurements • One authority in Scotland had reported a 10% drop in length when they implemented a polygon approach. This raised questions regarding the accuracy of existing measurements. <p><u>GRC Rates</u></p>	

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It was noted that the UK Government required to commission work to bring the GRC rates up to date.

- GRC (Gross Replacement Cost) rates have been indexed but not reviewed since 2010. The HNA Code anticipates review at least every five years and this may be a significant compliance issue if a review of GRC rates is not undertaken.
- Contingency plans are being developed for consideration by CIPFA-LASAAC
- GRC rates used in Scotland had recently had an indexation update

Reliability of Asset Management Planning Data

The basis for HNA current value was queried. Whole of Government Accounts was generally cited as a key driver.

It was suggested that the initial expectation had been that the available asset management planning data used by the engineers, and used for WGA returns, could be used to provide the financial current value figures in the annual accounts.

- Potential concern over the readiness of asset management planning data to be subjected to audit was noted.
- Any clarification of expectations regarding audit expectations, for example in relation to sampling, would need to be timeous since time to actually implement could be required.
- Re-measurement or revised condition surveys were not anticipated to be particularly feasible, especially assuming no increase in available resources for roads services.
- The ability of auditors to verify the asset data was discussed. It was suggested that the data could be verified, with the main concern being whether it is reliable enough for accounting and audit purposes – these requirements being more stringent than for asset management planning purposes.
- More transparency and communication of how the rates (GRC and DRC- Depreciated Replacement Cost) were derived, what they included and how they were adjusted for application (eg regional factors) were noted as critical.
- The experience of Transport Scotland (TS) was discussed with a degree of materiality noted as applying.
 - There had however been some significant verification by auditors, including physically checking road measurements, when TS adopted current value.
 - TS experience did however show a degree of volatility in the valuation
- Tim Bridle's (Audit Scotland) sensitivity analysis on one authority was noted:

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	<ul style="list-style-type: none"> ○ Carriageways were about 53% and land about 29% of the total valuation. This emphasised the degree to which road measurement and rate value reliability were central to HNA <p><u>Potential Concerns and Risks</u></p> <p>Currently there appeared to be a number of areas of concern raised including:</p> <ul style="list-style-type: none"> • Measurement data reliability • Rate applicability at an authority level • HNA Code treatment of technological obsolescence • The lack of recently updated GRC rates <p>These could potentially lead to:</p> <ul style="list-style-type: none"> • Pressure to utilise limited resources and budgets to improve accuracy of measurements and rates; and/or • A material number of annual accounts being qualified <p>The perception of councillors and the public would be important in terms of:</p> <ul style="list-style-type: none"> • the valuation figures, and understanding why the figures have changed and what they represent • the significance of a HNA based audit qualification • the importance of providing a current value figure <p>The implementation of FRS 17 (pensions liability measurement) was cited as a possible precedent in terms of public and councillor reaction.</p> <p><u>Assurance Responsibilities</u></p> <p>It was suggested that possibly not all engineering colleagues were fully aware of the level of assurance evidence required for audit purposes:</p> <ul style="list-style-type: none"> • Engineers appeared generally satisfied that the processes met their asset management planning needs, and that more detail was not regarded as helpful • CFOs (section 95 officers) could be encouraged to meet with their Chief Officer of Transportation to ensure that respective responsibilities are understood and agreed • CFOs and auditors could raise HNA valuation readiness at their 2015/16 audit clearance meetings <p><George Murphy left the meeting></p> <p><u>Longer term Implementation</u></p> <p>It was commented that implementation and improvement in measurement could be seen as a longer-term goal.</p> <ul style="list-style-type: none"> • Although the LASAAC guidance on council dwelling 	
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	<p>valuation, which allowed a five year lead in, was cited this was not regarded as directly comparable.</p> <ul style="list-style-type: none"> In particular the measurement basis for HNA was being changed and a true and fair view presentation in line with that basis would be expected. <p><u>LASAAC Guidance</u></p> <p>Two practitioners have volunteered to be involved in a working group: Anne-Marie Campbell (Glasgow City Council) and Lorraine O'Hagan (South Lanarkshire Council).</p> <p>The appropriateness of LASAAC guidance in the current context was debated:</p> <ul style="list-style-type: none"> It would be preferable to review the CIPFA guidance, once available, to establish whether there was any need for LASAAC guidance There is a need to ensure that any LASAAC guidance is available sufficiently early to influence implementation Authorities may not be able to implement sudden additional detailed requirements Audit reports for 2015/16 will comment on authority readiness for HNA current value Gillian volunteered to be involved in the group and to nominate an auditor with Transport Scotland experience <p>Action:</p> <ul style="list-style-type: none"> HNA Working group to be requested to review available guidance, when issued, to identify whether areas for LASAAC guidance exist HNA: SCOTS to be approached for working group participation Director of Finance Section to be notified of HNA current value considerations 	<p>G. Davies</p> <p>G. Davies</p> <p>I. Lorimer</p>
35/16	<p>Existing LASAAC Guidance</p> <p>The paper which listed existing LASAAC guidance in date order was reviewed. An overview discussion included:</p> <ul style="list-style-type: none"> Due to accounting terminology and technical changes many of the existing guidance papers did not match to the current Accounting Code of Practice terminology and presentation requirements In many cases however the underlying principles and purpose of the guidance remained valid Some guidance could be withdrawn, for instance on the basis that it had assisted with implementation and clarification at the time but the desired treatments had now been well established in practice and reference to the guidance was no longer required 	

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	<ul style="list-style-type: none"> • Some guidance items were however useful reference documents. For example the paper on reserves detailed the legislative basis for most reserves, and the common good paper contained significant references which would still be useful. • Old (non-operational) hyperlinks should be removed <p>In reviewing the list it was agreed that:</p> <ul style="list-style-type: none"> • LASAAC should review the existing guidance. • A full review in a short period was not pragmatic given the resources that would be required. • Therefore a programme of review and revision could be developed. • Any changes should be undertaken in consultation with stakeholders, including authority practitioners <p><Gary Devlin left the meeting></p> <p>Action</p> <ul style="list-style-type: none"> • List of existing guidance to be reviewed with items to be provisionally classified as (a) for withdrawal; (b) no change; or (c) updating • Guidance review to be added to the workplan (core business) for 2016/17 and future years 	<p>I. Lorimer, G. Woolman, G. Davies G. Davies</p>
<p>36/16</p>	<p>Audit Scotland Update</p> <p><u>Annual Accounts 2015/16</u></p> <ul style="list-style-type: none"> • The unaudited 2015/16 accounts generally indicated improvements in management commentaries • Not all IJBs had initially complied with the 2014 regulations (SSI 2014/200) for example regarding public adverts. • Public inspection complaints had been received regarding the value for money (VFM) of LOBOs. Many of these were historic and the initial decision and VFM needs to be seen in context. <p><u>PPP/PFI Information Requests</u></p> <p>PPP/PFI: There had been requests under the public inspection process to see contracts relating to PPP/PFI schemes.</p> <ul style="list-style-type: none"> • One authority's legal advice had indicated that if external audit were entitled to see the documents then the public inspection right to view would also apply. • On this basis the spreadsheet model was likely to be provided to view. • The special purpose vehicle apparently have some concerns 	

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	<p>regarding commercial confidentiality.</p> <ul style="list-style-type: none"> • Previous legal rulings were cited that generally supported the width of access involved under public inspection. • Requests received outside of the public inspection process dates may be treated as freedom of information (FOI) requests and therefore the extent of information provided may be less. <p><u>'Maintaining Scotland's Roads' report by Audit Scotland</u></p> <ul style="list-style-type: none"> • The variation between authorities in cost/km of road was raised • The extent of spend did not always appear to correlate with the road condition • The issues and sensitivity regarding comparison and benchmarking were noted • The lack of scope provided to authority CFOs and finance staff to provide feedback on the report was commented on <p><u>Equal Pay Audit / Living Wage</u></p> <ul style="list-style-type: none"> • The Accounts Commission is aware of authority concerns regarding the scope of the work. • The potential impact on the closure of existing settlement negotiations is the key concern. • Implementation of the 'Living wage' was noted as possibly raising similar risks to equal pay. • The living wage impact of equalising many grades of work, so supervisors are paid the same as their staff, is a concern and possible cost pressure. • Authorities may have different approaches to the implementation of Living Wage. 	
37/16	<p>Scottish Government Update</p> <p><u>Local Financial Returns (LFRs)</u></p> <ul style="list-style-type: none"> • The LFRs are being re-formatted to enable easier reconciliation to the annual accounts. • This should support improved validation • Feedback from the pilot/testing process by authority practitioners had been positive • LFR3 (social care) was being reviewed in more depth due to the integration of health and social care, with work continuing 	
38/16	<p>CIPFA Update</p> <p>The plans for additional guidance on the valuation of, and accounting for, the Highways Network Asset, were previously noted.</p>	

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39/16	<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="373 365 1246 439"> <thead> <tr> <th data-bbox="373 365 488 398">Time</th> <th data-bbox="488 365 871 398">LASAAC 2016</th> <th data-bbox="871 365 1246 398">CIPFA/LASAAC 2016</th> </tr> </thead> <tbody> <tr> <td data-bbox="373 398 488 439">2pm</td> <td data-bbox="488 398 871 439">Thursday 17 November</td> <td data-bbox="871 398 1246 439">9 Nov (London)</td> </tr> </tbody> </table>	Time	LASAAC 2016	CIPFA/LASAAC 2016	2pm	Thursday 17 November	9 Nov (London)	
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ACTION POINTS FROM LASAAC MEETING OF 25 August 2016

	Minute Ref	Action	Action By	Status At 09/11/16
A	29/16	Approved minutes of 25 May to be loaded to website	G. Davies	Complete
B	31/16	Feedback to be sought from IJB CFOs and practitioners on areas for integration accounting guidance clarification	G. Davies	On agenda
C	31/16	Areas for Integration accounting guidance clarification, including audit report matters to be identified	LASAAC Members	On agenda
D	31/16	RICS to be contacted regarding Council dwelling valuation guidance and when this may be available	G. Davies	On agenda
E	33/16	An updated version of the statutory adjustments chart is to be made available to Directors of Finance / practitioners.	H Black, G Davies	Complete
F	34/16	Excel workbook of the example statutory adjustment removal is to be circulated to LASAAC members	J. McLachlan, G, Davies	Complete
G	34/16	Statutory Adjustments: The tabled example restatement accounts are to be reviewed	LASAAC members	Complete/ On agenda
H	34/16	Another council's accounts are to be restated to remove statutory adjustments	G. Murphy	Complete
I	34/16	HNA [Highways Network Asset] Working group to be requested to review available guidance, when issued, to identify whether areas for LASAAC guidance exist	G. Davies	On agenda
J	34/16	HNA [Highways Network Asset] : SCOTS to be approached for working group participation	G. Davies	Complete
K	34/16	Director of Finance Section to be notified of HNA [Highways Network Asset] current value considerations	I. Lorimer	Complete
L	35/16	List of existing guidance to be reviewed with items to be provisionally classified as (a) for withdrawal; (b) no change; or (c) updating	I. Lorimer, G. Woolman, G. Davies	Ongoing
M	35/16	Guidance review to be added to the workplan (core business) for 2016/17 and future years	G. Davies	On agenda (workplan)

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