

LASAAC MINUTES

[FINAL Approved by Committee on 26 May 2015]
Meeting of 11 March 2015,

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

Present: Fiona Kordiak (Chair), Russell Frith, Nick Bennett, Joe McLachlan, Hazel Black, Ian Lorimer (Vice Chair), George Murphy, Stephen Reid, Derek Scott, Gary Devlin

Apologies: Derek Glover, Carolyn Earl, Hugh Dunn, Gillian Woolman; Derek Yule

Guests: Archie Rintoul; Mike Brown [on behalf of RICS Scotland]

In attendance: Gareth Davies

Minute Ref		Action
01/15	<p>Introductions</p> <p>Fiona welcomed the new members attending.</p>	
02/15	<p>Council Dwelling Valuations</p> <p><u>DCLG Guidance</u></p> <p>Mike Brown and Archie Rintoul provided an overview of the current DCLG guidance. It was noted that:</p> <ul style="list-style-type: none"> • DCLG allowed use of Discounted Cash Flow (DCF) although this was not apparently common practice in England • LASAAC has already specified that in Scotland the Beacon Approach – Adjusted Vacant Possession (BV-AVP) should be utilised by 15/16 • Net rents can be considered inappropriate for use since overheads differ between landlords and this level of detail is not usually available • It is for the individual valuer to determine the appropriate adjustment factor • The DCLG guidance may be regarded as being inconsistent with market conditions. In particular the owner occupied market is depressed. Build to let is now more common and is a maturing market. • Properties are not usually directly comparable so yields will normally be adjusted • For EUV-SH social housing is valued as a single unit, not an aggregate of the value of each individual dwelling, which would not be expected to give the same result. • The starting point for BA-AVP is the vacant possession open market value. 	

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	<ul style="list-style-type: none"> • There are approximately 200 social housing 'bulk' sales transactions in the UK per year. <p><u>Right To Buy (RTB)</u></p> <ul style="list-style-type: none"> • The impact of Right To Buy (RTB) was queried. Mike noted that RTB values were not used. While the level of RTB may affect the housing stock prospects (expected rental flows) the withdrawal of RTB in Scotland would reduce this impact. Archie noted that RTB would end from July 2016. <p><u>Draft Text for RICS Approval</u></p> <ul style="list-style-type: none"> • Mike reviewed the draft text. The wording of the EUV-SH definition in the accounting Code may be slightly different but was not considered to affect practical implementation • It was noted that EUV-SH was an 'entry' value i.e. what the authority would need to pay to replace the service potential. The difference between an entry and exit value would probably be relatively immaterial. <p><u>RSLs and Rent Setting</u></p> <ul style="list-style-type: none"> • The ability of RSLs to charge mid-market rents, whereas authorities probably would not, was raised. Archie agreed that RSLs could do this and that therefore direct use of RSL transactions was not possible without making an adjustment to reflect this. Mike indicated that the yield expectation would be adjusted to reflect limitations in social rent increases • The impact of forward council rent setting policy (e.g. where the planned basis for rent setting for 3 years ahead was already announced) was raised. Mike indicated that valuation would normally be based on definite decisions existing at the date of valuation. • It was noted that this may mean that political decisions on rents could affect the valuation. Council practice regarding rent setting and the fact this was normally communicated in the budget not in the financial statements was noted. <p><u>Valuation frequency</u></p> <ul style="list-style-type: none"> • The need to ensure interim valuations, between the full valuation normally undertaken at 5 year intervals, are correct was noted. • Archie indicated this was a common item to be reviewed and noted that a Scottish Government change in policy on rents could be an example which may require a change in value. • The impact of welfare reform, which might affect actual rent income (after impairment/ non-collection), was raised. This could affect valuation. 	
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	<p><u>Identification & Evidencing of Valuation Factors</u></p> <ul style="list-style-type: none"> • Identification of factors affecting valuation, for example the factors affecting the choice in yield, was raised as being relevant for comparison purposes. • Archie noted that RICS guidance would normally identify factors to be taken into account. Mike indicated stock condition as an example, although SHQS meant that in Scotland there was now less variation in this. • The impact of geography / location was queried. Mike noted that this could affect the 'aggregate' starting value but that the discount factor that was then applied could tend to equalise some of this effect e.g. the discount for Edinburgh may be bigger than that for Kilmarnock. Applying a single discount factor for all of Scotland was noted as being inappropriate practice. • The need for evidence to support assumptions and valuation factors for audit purposes was highlighted. • Derek Scott queried the visibility of factors affecting valuation. Fiona suggested that more transparency would help to reduce inconsistencies in practice. Mike noted that the proposals would make it easier to identify anomalous valuations and investigate the factors causing this. • Stephen commented that the granularity of factor identification would be relevant. • Nick queried whether council dwellings or stock mix were broadly comparable or whether this would cause differences. Mike suggested that this could affect valuation differences. • It was suggested that LASAAC may wish to consider whether specific disclosures on the assumptions made in the valuation should be disclosed. The balance between simplification of the financial statements and transparency was noted. Archie noted the valuer report would state the assumptions. <p><u>Social Housing Investment Market</u></p> <ul style="list-style-type: none"> • Derek Scott commented that pension funds were increasingly being offered investment opportunities in social housing. A social housing index may potentially become available, with potential use for interim valuations. • Mike concurred that this would provide additional evidence to support valuer judgement. • Reference to the more mature social housing market in the Netherlands was made, although the difficulty of using international comparisons and transactions for valuation was noted. <p><u>RICS UK Approval</u></p>	
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	<ul style="list-style-type: none"> • Noted that DCLG Guidance allowed local discretion, enabling adaptation or specification of practices in Scotland • RICS UK apparently content that Scotland may not exactly follow English practices • It was noted that LASAAC could remove Scottish reliance on DCLG Guidance and/or specify that the valuer should determine the appropriate yield and discount factor. • RICS formal approval of the proposals is unlikely before April <p><u>Role of ACES (Association of Chief Estates Surveyors) Scotland</u></p> <ul style="list-style-type: none"> • The draft text discussed was a 'high level' approach. ACES Scotland would be anticipated to develop more detailed guidance (eg a best practice note) to promote consistent application and practice. • ACES apparently agree that the proposals are reasonable <p><u>LASAAC Role</u></p> <ul style="list-style-type: none"> • Fiona commented that LASAAC were unlikely to endorse a specific methodology, regarding this as a professional valuation issue • LASAAC would consider the way forwards, and potential LASAAC guidance changes, after RICS UK consent was indicated, and would also consider whether DCLG planned any further changes to the guidance • Housing stock generally represents a significant asset and value changes would presumably require explanation. The need to ensure the valuation was relevant and useful to statement users, including councillors, was highlighted. • LASAAC would primarily be concerned with: <ul style="list-style-type: none"> ○ Consistency ○ The clarity of guidance ○ Avoiding sudden changes ○ Implementation timing – it was not considered appropriate to issue for 2014/15 at this stage • Archie indicated that the intention was to 'trial run' the proposed approach on 3 or 4 valuations to assess the impact on valuation • Gary commented that large movements in valuation could be problematic. Ian suggested this could arise with a change in the appointed valuer, resulting in changes to assumptions. <p><u>Valuer Implementation</u></p> <ul style="list-style-type: none"> • Consistency in practice – it was noted that valuers had to adhere to professional requirements • It was suggested that some councils may have resource limitations in changing the valuation approach.. 	
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	<ul style="list-style-type: none"> The importance of guidance for valuers was highlighted as they have recently also had to adopt new professional requirements. <p>Action:</p> <ul style="list-style-type: none"> RICS Scotland to be provided with the EUV-SH wording from the Code of Practice RICS Scotland to be invited to return to LASAAC when RICS and ACES agreement to proposals has been obtained RICS Scotland to be requested to provide details of the financial impact on valuations where this has been assessed LASAAC to consider the assumptions affecting council dwelling valuation once the new proposals are developed 	<p>G Davies</p> <p>G Davies</p> <p>G Davies</p> <p>G Davies</p>
03/15	<p>Minutes</p> <p>The minutes were approved.</p> <p>There were no matters under actions arising.</p> <p>Action:</p> <ul style="list-style-type: none"> Approved minutes to be loaded to website and distributed to LASAAC contact list after Chair authorisation 	<p>G Davies</p>
04/15	<p>Membership</p> <p>Fiona noted that both David Watt and Ian Robbie had stepped down, with Stephen and Derek now attending.</p> <p>Action</p> <ul style="list-style-type: none"> Letter of thanks to David Watt to be drafted Appropriate arrangements for recognition of Ian Robbie's extensive support for LASAAC to be made for the next meeting [26 May] 	<p>G Davies</p> <p>G Davies</p>
05/15	<p>Work Plan 2014/15 and 2015/16</p> <p>The work plan for 2014/15 was noted.</p> <p>A report on LASAAC activities would be submitted to the funding bodies in early April.</p> <p>Action</p> <ul style="list-style-type: none"> Draft 2014/15 activities report for funding bodies to 	<p>G Davies</p>

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	<p style="text-align: center;">be circulated to members</p> <p>The work plan for 2015/16 was discussed:</p> <p><u>Integration / LFR Completion</u></p> <ul style="list-style-type: none"> • Joe noted discussions had been held relating to 2015/16 plans for LFR 3 in response to IJB establishment. Scottish Government approach was not yet finalised. Hazel indicated that IJBs would be required to complete LFRs. Joe and Hazel anticipated further meetings to discuss LFR3 completion. <p><u>Management Commentary</u></p> <ul style="list-style-type: none"> • Hazel stated 14/15 would be a transition year. Compliance with the code would be expected with the Scottish Government providing general principles as guidance. • Fiona suggested early issue of guidance • Ian noted that minimal changes for 14/15 would be expected • Hazel commented that detailed guidance was a complex area which overlapped with simplification and other initiatives • Ian noted that the management commentary should be a key step towards simplification. Guidance for 2015/16 could be developed over the next 6 months. Ian is to draft potential guidance • Hazel stated the commentary should link to the financial statement figures. The approach should be principles based not formulaic. Less narrative with more focus on illustrations and graphics would be regarded as the preferable direction. Derek Scott concurred. • Stephen suggested that an emphasis on how the accounts are used would also assist. <p><u>City Deal</u></p> <ul style="list-style-type: none"> • It was agreed that a watching brief would be kept on the financial reporting aspects of City Deals <p>Action</p> <ul style="list-style-type: none"> • LASAAC to be notified of details of Scottish Government LFR requirements with possible implications for financial reporting • City Deal to be added to 2015/16 work plan on a 'watching brief' basis • Draft management commentary guidance to be drafted for consideration during 15/16 	<p>J McLachlan, H Black</p> <p>G Davies</p> <p>I Lorimer</p>
06/15	CIPFA-LASAAC Code Board	

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	<ul style="list-style-type: none"> Hazel queried Asset Decommissioning Obligations treatment in 13/14. Glasgow was noted as having capitalised obligations. The deadlines for statutory mitigation were mentioned. External auditors have been requested to review preparations for infrastructure valuation during the 2014/15 audit. 	
09/15	<p>Scottish Government Update</p> <ul style="list-style-type: none"> A draft scheme on treatment of equal pay and severance costs has been issued. Feedback is awaited. A possible change to the proposals the mechanism used to achieve the objectives may be required. A Loans Fund Review is proceeding which proposes largely adopting the English approach to requiring a 'prudent provision' for the repayment of statutory debt. Some discussion regarding whether annuity profiling of statutory debt will still be permissible is ongoing. Borrowing to on lend to some organisations or for some purposes (eg common good, for subsidiaries, for 3rd party use on capital assets) is being considered. Implementation in 15/16 is expected. The above is subject to ministerial approval. 	
10/15	<p>CIPFA / LAAP Update</p> <ul style="list-style-type: none"> Holiday pay calculation (Lock vs British gas) was raised. It was noted that there was no significant additional clarification from the 13/14 situations. At least one council has received back dated claims for payment. 	
11/15	<p>Any Other Business</p> <p>LASAAC Self Review</p> <p>Hazel commented that, following CIPFA-LASAAC, the committee should undertake a self-review process. In particular the achievement of committee objectives could be assessed. The role of the report to the funding bodies was raised. It was agreed that the funding report should support a LASAAC self-review process.</p> <p>Action:</p> <ul style="list-style-type: none"> LASAAC report of activities to funding bodies to 	G Davies, LASAAC

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	support self-review by the members	members
12/15	Date of Next Meeting Next meeting 26 May, 2pm, Edinburgh	

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ACTION POINTS FROM LASAAC MEETING OF 11 March 2015

	Minute Ref	Action	Action By	Status At 19/5/15
A	02/15	RICS Scotland to be provided with the EUV-SH wording from the Code of Practice	G Davies	Complete
B	02/15	RICS Scotland to be invited to return to LASAAC when RICS and ACES agreement to proposals has been obtained	G Davies, RICS	Ongoing
C	02/15	RICS Scotland to be requested to provide details of the financial impact on valuations where this has been assessed	G Davies, RICS	Ongoing
D	02/15	LASAAC to consider the assumptions affecting council dwelling valuation once the new proposals are developed	G Davies	Ongoing
E	03/15	Approved minutes to be loaded to website and distributed to LASAAC contact list after Chair authorisation	G Davies	Complete
F	04/15	Letter of thanks to David Watt to be drafted	G Davies	Complete
G	04/15	Appropriate arrangements for recognition of Ian Robbie's extensive support for LASAAC to be made for the next meeting [26 May]	G Davies	On agenda
H	05/15	Draft 2014/15 activities report for funding bodies to be circulated to members	G Davies	Complete
I	05/15	LASAAC to be notified of details of Scottish Government LFR requirements with possible implications for financial reporting	J McLachlan, H Black	On agenda
J	05/15	City Deal to be added to 2015/16 work plan on a 'watching brief' basis	G Davies	Complete
K	05/15	Draft management commentary guidance to be drafted for consideration during 15/16	I Lorimer	Ongoing
L	06/15	CIPFA-LASAAC paper and timetable on simplification to be circulated to LASAAC members	G Davies	Complete
M	06/15	Transport Infrastructure: Scottish finance volunteer PISG (Project Implementation Steering Group) to be sought via the Directors of Finance section	I Lorimer	On agenda
N	06/15	LASAAC members to be canvassed for a nominated CIPFA-LASAAC substitute	G Davies	Complete
O	06/15	Improvement in telephone conferencing facilities to be investigated	G Davies	Ongoing
P	07/15	LASAAC Guidance on IJBs to be issued as draft (subject to comment) to relate only to local government	G Davies	Complete
Q	07/15	Incorporation of LASAAC IJB guidance in IRAG Guidance to be discussed at IRAG	F Kordiak	Complete
R	11/15	LASAAC report of activities to funding bodies to support self-review by the members	G Davies, LASAAC members	Complete

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