

<p>19/13</p>	<p>Membership and Attendance</p> <p>Membership</p> <p>Hazel provided contact details for Stephen Gallagher as the Scottish Government funding contact. Stephen has not received the funding request. Fiona and Ian Robbie supplied updated contact details.</p> <p>Action: Funding request to be sent to Scottish Government (Stephen Gallagher)</p> <p>Attendance:</p> <p>Derek Yule noted that maintaining practitioner representation was important. This particularly affects CIPFA and ACCA representatives. Bruce noted that there may be limited numbers of ACCA representatives available at director level. Gareth indicated that contact would be established with Craig Vickery to discuss the matter.</p> <p>Action: Liaison with ACCA (Craig Vickery) to be established</p>	<p>G Davies</p> <p>G Davies</p>
<p>20/13</p>	<p>Work Plan 2012/13</p> <p>Gareth reviewed the paper noting that there were no significant changes to the 12/13 situation since the report submitted to the LASAAC meeting in March.</p> <p>Bruce volunteered to lead the Simplification of the Accounts project.</p> <p>The work plan report was noted.</p>	
<p>21/13</p>	<p>Funding and Work Plan 2013/14</p> <p>Gareth noted that actual time and resources used in 13/14 on CIPFA/LASAAC and Code 13/14 development were not yet included.</p>	
<p>22/13</p>	<p>CIPFA-LASAAC Code Board</p> <p>It was noted that the next CIPFA-LASAAC meeting was 10 June not 26 June. A telephone conference to approve the Invitation to Comment is scheduled for 26 June.</p> <p>Derek Yule, Russell and Nick confirmed their expected attendance on 10 June. Fiona noted her apologies. Ian Robbie and Ian Lorimer indicated they could not attend as the nominated substitutes.</p> <p>Hazel stated she would be attending as the Scottish Government observer by video conference from CIPFA Scotland.</p> <p>Gareth provided a summary of the agenda recently issued for 10 June.</p>	

<p>23/13</p>	<p>Simplification of the Accounts / Summary Accounts</p> <p>Valerie's observation that the number of responses were an insufficient evidence base for major change was noted.</p> <p><u>ICAS Response</u></p> <p>Gareth tabled the ICAS response and summarised the suggestions including:</p> <ul style="list-style-type: none"> • The vital importance of a clear and helpful explanatory foreword (cf management commentary) • Preference for clear adherence to accepted cross-sectoral accounting requirements to enhance consistency and comparison between private, third and public sectors • Separation of the impact of statutory mitigation affecting taxation from the accounting information • Preference for a clear and standard order of presentation of the content of the financial statements • Nick also commented that the response supported a potential move towards UK GAAP (FRS 102) based statements <p><u>Review of Responses</u></p> <p>Bruce commented that the sample was not representative of all users, with a bias towards treasury advisors and one council. Bruce suggested working with an academic institution and queried whether one document could realistically satisfy the diverse needs of all users. The potential to address this through the 1985 regulations amendment consultation was noted, possibly indicating that direct engagement with users should be postponed.</p> <p>The 'twin track' suggestion was discussed regarding less detailed and technical information for general readers, with a separate (possibly spreadsheet format based) publication for those requiring more technical detail.</p> <p>Hazel noted that improvements to existing practice were possible e.g.:</p> <ul style="list-style-type: none"> • Explanatory narrative on reserves • The presentation and description of the statutory mitigation adjustments • Consistent positioning of information <p>Derek Yule suggested that quality, rather than specification, seemed to be a common theme. Standardisation across councils had not previously been supported. A 'best practice' guide or illustrative example could assist.</p> <p>Hazel noted that the treasury advisor responses highlighted areas around capital and borrowing strategy that could be explored. This has been raised at the Capital Finance Working Group.</p> <p><u>Focus on Improvement</u></p> <p>The potential for awarding a prize for good statements or for a good explanatory foreword was raised. Hugh commented that each</p>	
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set of statements would probably have a mix of 'good' and 'poor' presentation. Fiona said that any suggestions had to be practical not theoretical. Hazel concurred suggesting that help and support rather than additional guidance would be preferable.

The variety of initiatives around 'reducing clutter and complexity' was noted, including reference to Integrated Reporting.

Nick indicated that the Explanatory Foreword should be the initial focus. Bruce suggested that improvements could be achieved with minor changes to the existing structure.

Impact of Statutory Mitigation

Ian Robbie indicated that the statutory mitigation adjustments had a large impact in adding complexity to the accounts. Derek Glover commented that the IFRS standards were not designed to address the funding / taxation aspects of the public sector. David suggested that the relevance of the financial reporting information to taxation funding was important.

Russell noted that FRAB was generally focused on information provision and the Whole of Government Accounts.

Nick suggested that the MIRS should be a note to the statements. The potential for the accounting information to present a 'negative' General Fund balance was discussed. Hazel indicated that the legislation did not specify presentation and this was feasible. The political consequences of negative balances were discussed.

Derek Glover stated this should not be underestimated given the experience of some government bodies having followed this route.

Bruce noted that the volatility of the pension liability in particular (e.g. re changes in discount rate and market-based asset valuations) would be problematic. In discussion it was commented that this was the current situation for the private sector, charities and FE/HE. The same approach for local government would support comparison.

Hazel stated that a clear and strong explanation of the relationship between the accounting information and the application of taxpayer funds would be critical.

Derek Yule noted that there would be need to link the information to the approved budget. This was sometimes done in the explanatory foreword.

The potential for 'intergenerational' information on the use of taxation resources was raised (e.g. to show current tax supporting (i) historic services; (ii) current services; and tax required in the future to pay for current services).

	<p><u>Standardisation / Legislation</u></p> <p>David suggested the 1985 regulations consultation could support some standardisation e.g order of statements. Russell and Derek Glover noted that legislation could be inflexible if the ability to change in the future was desirable. Leaving more scope for guidance may be preferable. Russell added however that 'encouragement' would not often be sufficient to promote change.</p> <p>Ian Lorimer indicated that as Chair of the DoF section he would support the sharing and adoption of good practice examples.</p> <p><u>Explanatory Foreword</u></p> <p>An exercise to review the explanatory forewords was suggested. Hazel indicated subjective judgement was allowable. David Watt stated that the explanatory foreword shouldn't be viewed in total isolation. Hazel agreed.</p> <p><u>Example Financial Statements</u></p> <p>Ian Robbie commented on the need to engage practitioners. The potential for a LASAAC example set of accounts was raised. Hazel suggested a variety of examples could be developed and compared.</p> <p>The complexity of the existing approach was highlighted by Ian Robbie and Russell. Derek Glover noted that credit rating agencies could also have problems with interpretation but often also assumed that some element of 'government guarantee' existed.</p> <p>Nick commented that the removal of Police & Fire provided a suitable basis for considering alternative presentations.</p> <p>Derek Yule queried whether the intention was a UK wide approach or Scotland only. Russell suggested developing Scotland only example(s) which could then inform a UK approach.</p> <p>Derek Glover queried whether WGA returns could be used as a basis for developing an example.</p> <p>Derek Yule queried which council(s) might wish to be involved. Bruce indicated he would take this forward with the group.</p> <p>Fiona volunteered to be involved in the group from an auditor perspective..</p> <p><u>Actions</u></p> <p>Action: Explanatory Foreword Review (unaudited accounts 12/13) to be undertaken.</p> <p>Action: Example set of accounts to be developed for consideration</p>	<p>G Davies</p> <p>G Davies, B West, F Kordiak, T Simpson</p>
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	Action: examples of best practice in reducing clutter, duplication and complexity to be identified	G Davies
24/13	<p>Integrated Reporting</p> <p>Fiona, Hazel, Russell and Ian Lorimer plan to attend on 12 June.</p> <p>Derek queried whether LASAAC wished to respond to the consultation. Ian Lorimer suggested a response may not be required, except possibly to support the general principles.</p> <p>Bruce suggested the outline concept proposed was fair but that it would be a challenge to avoid length and complexity.</p> <p>Russell added that such a report would need to fit within or amend the overall reporting framework as currently required by legislation.</p> <p>It was agreed that a decision on whether to respond would be deferred until after the event, to be informed by the views of those attending.</p> <p>ACTION: Requirement to respond to Integrated Reporting consultation to be considered</p>	F Kordiak, R Frith, H Black, I Lorimer,
25/13	<p>Landfill Restoration – Accounting Considerations</p> <p><u>Capital Financing Requirement</u></p> <p>The potential impact of the requirements on the Capital Financing Requirement (CFR) was discussed.</p> <p>Bruce noted that there should be an intention to minimise the impact on the General Fund, either through statutory mitigation or application guidance.</p> <p>In debate on the potential for borrowing in advance of the need for actual cash payments concerns were voiced, especially given the problems of safeguarding / investing cash. Hazel noted that the CFR merely allowed borrowing, it did not force borrowing to be undertaken.</p> <p>Ian Robbie noted that the need to spend on decommissioning was a significant issue, citing disparity between existing practices in the public and private sector.</p> <p>Hazel commented that there would be a need to assess the impact before any policy was developed.</p> <p><u>Wider Application</u></p> <p>Valerie’s concern that this did not just apply to landfill assets but could apply to other assets in local government was noted. David suggested there were probably few other assets with similar decommissioning obligations. Russell noted that newer quarries</p>	

may be affected, but that old ones probably did not have the same licence or permit obligations.

Derek Yule noted that decommissioning obligations were usually treated as separate capital projects.

East Ayrshire

The recent media coverage of East Ayrshire mining re-instatement exposure was raised. Nick noted that South Lanarkshire and Fife were other authorities that may have some exposure. Russell queried the basis for the council's exposure.

[Post meeting note: reference to the East Ayrshire report to the council's cabinet appears to suggest the primary obligation may be to 'make the site safe' which potentially is not equivalent to 'full re-instatement'. The council's responsibilities are currently being assessed].

Requirement for Provision

Ian Robbie suggested that SEPA licence terms left little doubt that a decommissioning provision would be required.

Derek questioned the timing of the provision charge. Fiona noted that expert assessment of the pattern of obligation recognition would be needed. Russell indicated that potentially a large element of the decommissioning costs could require a provision from the start. Nick concurred noting that recognition of lease dilapidation / building restoration commitments could technically be required from the outset of a lease in some cases.

Derek Glover commented that the primary objective of the treatment was to ensure appropriate depreciation charges.

Derek Yule questioned whether increased clarity on the accounting was required.

Valuation

Nick noted that valuation may be a challenge and would need to follow RICS guidance. The need to state the valuation gross (not netted down by including the liability) was noted.

Russell commented residual values would not be high due to the presence of methane and extraction pipes etc. Fiona concurred.

[Hugh left the meeting]

Capitalisation

Hazel noted that some decommissioning costs may not meet the test of capital expenditure. Russell commented that demolition costs were sometimes capitalised on the basis that it increased the land value.

Ian Robbie identified that under current practice there was the potential for a large capital cost which was not recognised until the end of the asset's life. Derek Glover suggested this may reflect

	<p>intergenerational inequity in service funding.</p> <p><u>IFRIC 1</u></p> <p>Gareth noted the apparent IFRIC 1 inconsistency between the cost and revaluation models in the determination of 'historic cost'. Nick referred to WGA treatment of nuclear decommissioning. Therefore this is presumably already an issue in the public sector.</p> <p>Derek noted concern that the IFRIC 1 revaluation model treatment may result in potentially significant charges to the General Fund.</p> <p><u>Implications for 2012/13</u></p> <p>Bruce suggested that it was unlikely that authorities would be in a position to amend treatments for 12/13 accounts.</p> <p>Russell, Nick and David indicated that this would be an issue for auditors for 2012/13. Russell indicated the matter would need to be discussed with the appointed auditors. There may be a focus on materiality however the argument that costs are not quantifiable may be tested. David indicated that councils now probably had sufficient experience of decommissioning projects to estimate future obligations.</p> <p>[Derek Glover left]</p> <p>Hazel indicated that the recognition of non-cash backed provisions could be likened to the situation when PFI assets were recognised, where some authorities had prepayments for residual ownership which had not been funded.</p> <p><u>Action</u></p> <p>Discussion on appropriate action occurred. Bruce offered Argyll & Bute landfill as a real life example for an illustrative exercise.</p> <p>Action: Directors of Finance to be alerted to the position on decommissioning obligations (not just landfill) potentially suggesting a review be undertaken. Draft communication to be circulated.</p>	G Davies
26/13	<p>Embedded Financial Guarantees (e.g. Local Authority Mortgage Scheme)</p> <p>As per the report it was noted that the consideration received (any premium over and above the normal rate of return for such a deposit) would not necessarily reflect the 'fair value' of the guarantee. This may be due to the fact that the contract is entered for policy reasons rather than purely commercial ones. Derek Yule indicated that the additional premium would probably be marginal in any event.</p> <p>Russell noted that the approach recommended in the paper appeared to be reasonable.</p>	

	<p>Derek Yule and Bruce noted this was a 13/14 issue since no Scottish authority had a 'live' scheme at 31 March 2013. Ian Lorimer noted English schemes were live</p> <p>Derek Yule indicated that most councils would have a fairly low limit to the overall total deposited under the scheme. Fiona commented that a £1m limit would mean a small overall premium from any enhanced return. David indicated that an assessment of materiality of the guarantee may still be required.</p> <p>Ian Robbie suggested that the initial business case would provide a clear indication of the risks and benefits of the scheme.</p> <p>Hazel noted</p> <ul style="list-style-type: none"> • the deposit would be an 'investment' (per legislation) • the investment strategy would need to note the risks • given the General Fund policy objectives of the scheme any losses should presumably not be charged to the HRA • the deposit must be based on pre-existing surplus cash for the period concerned. No element of the deposit should be sourced from additional borrowing. <p>Ian Lorimer commented that most councils were unlikely to be increasing borrowing to provide cash to invest. Bruce concurred.</p> <p>Following discussion it was agreed that no formal LASAAC guidance or Code amendments were required. It was noted that any amended guidance may overlap with existing practice in England but would presumably only apply to material guarantees.</p> <p>Action: LAAP to be requested to incorporate more detail on embedded financial guarantees in any guidance for practitioners.</p>	G Davies
27/13	<p>Audit Scotland</p> <p><u>Charity Accounts & Audit 2013/14</u></p> <p>There were some 1,200 charities affected. Legislative change to align OSCR and local government requirements is required to avoid a 'full accounts & formal audit' approach for 13/14, which would exceed OSCR requirements for non-local govt charities. This would be easier to accomplish by amending secondary legislation (the Charities Accounting Regulations) rather than primary legislation (Local Govt (Scot) Act 1973 sect 106).</p> <p>Audit Scotland are preparing a report and are liaising with OSCR. Latest communications indicated that the interpretation of the legislation was agreed.</p> <p>David and Russell commented that the scale of accounts and audit was disproportionate for the many small charities affected. Further charity amalgamations and re-organisations were noted as a route forwards. Following a query from Nick, Russell noted that OSCR had previously anticipated more progress on this aspect and this was why the legislative situation was now pre-eminent.</p> <p>Ian Lorimer noted that the DoF Section was awaiting feedback from OSCR.</p>	

	<p>ACTION: Accounts Commission opinion and intended action on 13/14 charity audits to be notified to LASAAC when determined</p> <p>Russell also noted no significant 12/13 local government issues re Police & Fire reform as yet.</p>	R Frith
28/13	<p>Scottish Government Update</p> <ul style="list-style-type: none"> • Police & Fire: no changes to the guidance issued on clearing reserves. Where usable capital reserves existed the Scottish Government had liaised directly with the board/authority • 1985 regulations: consultation by the end of June. All relevant bodies to be consulted. Revised regulations expected to be applicable to the 13/14 financial statements. • HRA Guidance Consultation (Capital Finance Working Group): this was not envisaged to require an amendment to the Service Expenditure Analysis but authorities may use the guidance to enhance transparency in the financial statements. Russell noted that it was likely to promote consideration of which assets should be in the HRA. Hazel noted that the guidance also reflected required practice to re-allocate significant trading account surpluses / deficits. Presenting this in the financial statements could be challenging. 	
29/13	<p>CIPFA Update</p> <ul style="list-style-type: none"> • Prudential Code- Updated Guidance has been issued. 	
30/13	<p>AOCB: Pension Liabilities</p> <p><u>Treatment of Retained Pension Responsibilities Following Staff Transfers (e.g. to ALEOs)</u></p> <p>Derek Yule noted that the accounting treatment adopted by an authority was currently being reviewed by the external auditors. This may have implications for other authorities with leisure trusts and similar ALEOs.</p> <p>Russell indicated that it also meant that any planned integration of Adult Health & Social Care would need careful consideration of pension rights when staff transfers were involved.</p>	
31/13	<p>Next Meeting</p> <p>Thursday 29 August 2013 (am) – CIPFA Scotland</p>	

ACTION POINTS FROM LASAAC MEETING OF 4 June 2013

	Minute Ref	Action	Action By	Status At 19 Aug 13
A	18/13	Minutes of 21 March be loaded to the website	G Davies	Complete
B	18/13	STO Guidance to be combined with existing guidance and issued during the next week	G Davies	Complete
C	19/13	Funding request to be sent to Scottish Government (Stephen Gallagher)	G Davies	Complete
D	19/13	Liaison with ACCA (Craig Vickery) to be established	G Davies	Complete
E	23/13	Explanatory Foreword Review (unaudited accounts 12/13) to be undertaken	G Davies	On-agenda
F	23/13	Example set of accounts to be developed for consideration	G Davies, B West, F Kordiak, T Simpson	Outstanding
G	23/13	Examples of best practice in reducing clutter, duplication and complexity to be identified	G Davies	Outstanding
H	24/13	Requirement to respond to Integrated Reporting consultation to be considered	F Kordiak, R Frith, H Black, I Lorimer	Complete
I	25/13	Directors of Finance to be alerted to the position on decommissioning obligations (not just landfill) potentially suggesting a review be undertaken. Draft communication to be circulated.	G Davies	Complete
J	26/13	LAAP to be requested to incorporate more detail on embedded financial guarantees in any guidance for practitioners	G Davies	Complete
K	27/13	Accounts Commission opinion and intended action on 13/14 charity audits to be notified to LASAAC when determined	R Frith	Complete