



LASAAC MINUTES

[FINAL – Approved by Committee on 19 November 2014]

Meeting of 13 August 2014,

CIPFA Scotland, Beaverbank Business Park, 22 Logie Mill
Edinburgh EH7 4HG

Present: Fiona Kordiak, Derek Yule, Hugh Dunn, Russell Frith, Hazel Black,
Ian Robbie; Tom Simpson; Ian Lorimer; Derek Glover

Apologies: Bruce West, David Watt, Nick Bennett

Guests: Laura Anderson (OSCR);
Mike Brown, Archie Rintoul (on behalf of RICS Scotland)

In attendance: Gareth Davies

| Minute Ref | | Action |
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| 28/14 | <p>OSCR Review of Local Authority Charity ALEOs</p> <p>Laura Anderson provided an overview of OSCR’s review of Charity ALEOs (Arm’s Length External Organisations).</p> <p>Review prompted by:</p> <ul style="list-style-type: none"> • Intention to provide OSCR with a better understanding of ALEO activities and governance • Public interest consideration • Enquiries received by OSCR <p>Stage 1: 63 ALEOs identified</p> <p>Stage 2: Accounts and constitutions examined which indicated eight key risk areas:</p> <ol style="list-style-type: none"> 1. Local authority has sole membership of board 2. The ‘conflict of interest’ policy of the ALEO has exemptions relating to the local authority 3. Local authority has the power to appointment and remove trustees 4. Financial control is exercised by the local authority 5. Annual accounts (eg local authority statements) indicate the local authority has ultimate control 6. Lack of adequate trustee board 7. Potential non-charitable activities being undertaken 8. Trustees receiving remuneration | |

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| | <p>Stage 3: For 11 ALEOs where two or more of the above risks were considered to exist more work was undertaken. The information is still being reviewed and meetings with ALEOs will commence shortly.</p> <p>Expected outcomes:</p> <ul style="list-style-type: none"> • A report may be produced dependent on findings. • OSCR expect to develop guidance for ALEOs. LASAAC review of an initial draft agreed as appropriate. • Development of working relationships with stakeholders, also including SOLACE and Improvement Service <p>In discussion the following aspects were raised:</p> <ul style="list-style-type: none"> • Remuneration of trustees: trustee councillors should not (per recent legislation) be remunerated. Remuneration of trustees may refer to periods prior to this or to non-councillors. • Charitable status retention: charitable test relates to (a) exclusive charitable purposes and (b) public benefit. Risks in relation to non-charitable purposes / activities may be managed by delegating these activities to a separate body or by relinquishing the activities • Changes in ALEO since original charitable status: only half of ALEOs have specifically been given charitable status by OSCR test application, remainder via older VAT status recognition criteria. At present all charities should ensure they meet the OSCR test criteria. • Financial control by local authority: noted that this was a key risk area, especially where 'deficit funding' applies. From an OSCR perspective the issue is how this affects board decisions. • Variation between authorities: ALEOs may look very similar in structure and 'on paper' but very different in actual practices. Guidance and examples will assist. • Time scales: evidence collation expected to be completed October. Draft guidance anticipated early in 2015. • Audit Scotland prior work: some crossover noted however OSCR focus on governance practice. • Good governance requirements: Noted that Audit Scotland perception of good governance by a local authority in the management of public funds may not correlate with OSCR perception of good practice in governance of charitable | |
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| | <p>monies. Forward guidance should assist future structural decisions in this respect. Dialogue with OSCR during new set ups or changes to be encouraged.</p> <ul style="list-style-type: none"> • Subsidiary / associate status: OSCR focus is on governance practice and the substance of the arrangement • Local authority charity reorganisations: <ul style="list-style-type: none"> ○ no major backlog of applications from OSCR perspective ○ authorities which have undertaken reorganisation indicate less difficulties than originally thought ○ Reorganisation has allowed more active use of funds ○ Some authorities are not so advanced in reorganising ○ If trust deeds etc missing OSCR can assist. Lack of deeds should not be a barrier. ○ School funds: some are regarded as being under the local authority 'umbrella' some are independent • New Charities SORPs <ul style="list-style-type: none"> ○ Pensions disclosures: expected to increase following general accounting 'direction of travel' and more ability to identify separate entity liabilities. Additional guidance may be needed on implementation to ensure appropriate cost / benefit of the cost of information and that risk of insolvency is not overstated. ○ Two SORPs from 1 Jan 2015 dependent on scale of charity – FRS 102 based (larger); and FRSSE (smaller). FRSSE SORP life will be limited as the underlying FRSSE is due for replacement. Guidance on which SORP to apply expected. | |
| 29/14 | <p>RICS Scotland: Council Dwelling Valuations Proposals</p> <p>Mike Brown provided an overview of the Beacon Approach- Adjusted Vacant Possession (BA-AVP) methodology with reference to an example paper provided. Archie Rintoul provided additional commentary.</p> <ul style="list-style-type: none"> • A large element of resources required is in undertaking actual property valuations for each 'beacon' category. For Edinburgh some 2,500 valuations are required (total stock of some 20,000 units). These valuations are regarded as robust and reliable. • The determination of the adjustment factor, when based on existing guidance for English authorities, however is of | |

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| | <p>concern</p> <ul style="list-style-type: none"> • The guidance indicates that public sector rental income is riskier than private sector rents. This is open to rebuttal since it is secure income, largely underwritten by government. There is a low rate of voids in the public sector and low tenant turnover. An independent valuation organisation has supported this view. • Therefore the capitalisation rate differential in the guidance (+3% for public stock to reflect a higher rate of return required to reflect the supposed higher risk) creates a significant distorting effect. This generally results in a significant 'discount factor' (eg 69%) being applied to public sector stock. • Additionally the capitalisation rates (private & public) should reflect current market conditions and should not be 'fixed' based on conditions at the time of guidance publication (2010). There is therefore no current supporting evidence to justify the capitalisation rates in the guidance. • A further complication is the identification of 'net rents' (rent net of management costs, voids & insurance). Net rent levels are generally not publicly available for most rented property portfolios. 'Gross rent' is open market information that is openly available. • The valuation is intended to apply to the whole housing portfolio based on a stock exchange with willing buyer & seller. <p>In open discussion:</p> <ul style="list-style-type: none"> • Noted that local authorities cannot secure borrowing on housing stock assets. Therefore primary purpose of valuation is for the annual accounts. • Discounted Cash Flow (DCF) is often used by Housing Associations / RSLs, and can be used as information supporting borrowing agreements. • LASAAC Guidance has required a move to BA-AVP with discontinuance of a DCF approach. • This was based on significant divergence between valuations provided by each method. BA-AVP was at the time the most common with relatively few authorities significantly affected by the LASAAC requirement. English authorities may still adopt DCF if they wish. It was suggested that ACES (Scotland) were thought to generally prefer the beacon approach. | |
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| | <ul style="list-style-type: none"> • A prime LASAAC consideration was that of consistency of underlying valuation and the reliability and credibility of valuation figures in the financial statements. • The existence of a historic differential between values provided by the two methods was noted by Archie Rintoul. Ideally both methods [BA-AVP and DCF] would provide the same valuation figure. Where this is not the case further investigation would be warranted. • The evidence base for large scale stock sale prices was queried. It was noted that evidence on private stock sales was generally available. RSLs sales in Scotland were uncommon but reference to transactions in England could be made. The area (rural or urban) was not a significant distorting factor since the security of the income was the dominant factor. • The risks arising from a difficulty of HRAs to evict tenants was raised. This was regarded as low risk. Welfare reforms were suggested as creating additional risks but the overall impact was regarded as relatively marginal. • The existing consistency of discount factor calculation in Scotland was raised. Some inconsistency was noted, with some authorities utilising a straight private: public sector rent comparison. Edinburgh is applying the proposed approach (similar capitalisation rate to private sector) and rolling this out via RICS Scotland guidance would support consistency. • The need for transactional evidence was noted with an information sharing approach potentially minimising cost. <p>Forward action:</p> <ul style="list-style-type: none"> • LASAAC concurred that RICS Scotland guidance and professional advice to promote consistency across Scotland would be beneficial. • It was noted that a 5 year 'lead in time' allowance may be required to avoid early (additional cost) revaluations outwith the existing valuation cycle for an authority. • RICS Scotland anticipate development of draft guidance for the end of 2014 with March 2015 as a potential implementation start date. • LASAAC to review the draft RICS Scotland guidance when available and to consider the implementation issues arising | |
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| | for the annual accounts | |
| 30/14 | <p>Minutes of 12 June 2014</p> <p>The minutes were approved.</p> <p>[Minor typographical error on page 6 (duplication of text) to be amended]</p> <p>Action:</p> <ul style="list-style-type: none"> • Approved minutes to be loaded to website | G Davies |
| 31/14 | <p>Membership and attendance</p> <p>Report noted.</p> | |
| 32/14 | <p>LASAAC Membership Arrangements, Operation & Work Plan</p> <p>The Chair summarised the future approach as:</p> <ul style="list-style-type: none"> • To maintain funding at current 2014/15 levels • To manage the reduced overall funding through revised working arrangements, more focused use of resources and wider involvement of stakeholders • To review membership, including wider and more flexible use of co-options, including increased practitioner involvement • To increase participation from a variety of stakeholders, including active support for projects <p>In discussion:</p> <ul style="list-style-type: none"> • The incentive for existing funders to continue support in future years if non-funding participation was supported was raised. It was recognised that maintaining previous funding body representation on LASAAC, after funding withdrawal, may not be sustainable. This would be discussed with those affected. • It was noted that the remaining funders had a clear locus for continued engagement, for example ICAS has a clear influence and interest in the Scottish public sector. • Audit Scotland intend nominating an additional representative | |

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| | <ul style="list-style-type: none"> • It was requested that a brief 'terms of reference' be developed incorporating the issues discussed at the June meeting <p>Action:</p> <ul style="list-style-type: none"> • Involvement of previous funding body representatives to be discussed • Directors of Finance Section to be informed of co-option plans • Terms of reference to be provided • ICAS Funding liaison to be contacted | <p>G Davies / F Kordiak</p> <p>I Lorimer / G Davies</p> <p>G Davies</p> <p>G Davies</p> |
| 33/14 | <p>CIPFA-LASAAC Code Board & Code Development</p> <p><u>CIPFA-LASAAC Terms of Reference</u> The use of the term 'financial statements' in the CIPFA-LASAAC terms of reference (para 1.3) was agreed.</p> <p>Action:</p> <ul style="list-style-type: none"> • Approval of CIPFA-LASAAC Terms of Reference to be notified to CIPFA-LASAAC secretary <p><u>Self-Directed Support</u></p> <p>Russell and Hazel stated the arrangement should not be regarded as agency. It was noted that 'grossing up' net arrangements could be complex and lead to inconsistency.</p> <p>The committee concurred with the view that the arrangements, including option 2 (management of personalised budget), should be treated as a principal transaction by the authority. This would apply in 2014/15.</p> <p>A short bulletin notice would suffice. Formal guidance not required.</p> <p>Action:</p> <ul style="list-style-type: none"> • Bulletin to be issued noting that self-directed support (including option 2) should be a 'principal' transaction • Contacts list and other online communication channels for annual accounts items should be established. <p><u>Service Expenditure Analysis (SEA): Community Safety</u></p> | <p>G Davies</p> <p>G Davies</p> <p>G Davies</p> |

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| | <p><u>Expenditure</u></p> <p>In discussion:</p> <ul style="list-style-type: none"> • England has a SEA classification for this type of spend • Removal of police & fire services has highlighted potential need for a 'community spend' category • Multi-disciplinary teams and service arrangements are likely to continue to evolve and cause difficulties regarding classification. The SOLACE benchmarking project would presumably still require clear classifications. • Policy trend for focus on local community based services suggests that non-service specific community based spend should be recorded • Amounts (for some councils) anticipated to be significant • Need for liaison with Scottish Government re LFR classifications and guidance <p>Action:</p> <ul style="list-style-type: none"> • Proposed Community Safety category placement within the Service Expenditure Analysis with accompanying definition guidance to be drafted | G Davies |
| 34/14 | <p>Asset Decommissioning Obligations</p> <p>Hazel noted that statutory mitigation arrangements were with the Cabinet Secretary and pending approval. Russell commented that given 13/14 audited accounts would include restatements applying the accounting requirements, confirmation by 30 September at the latest would probably be necessary.</p> <p>Ian queried the statutory arrangements. Hazel elaborated on the proposals noting that prospective imputed interest (unwinding of the discount) would be revenue expenditure.</p> <p>It was requested that the simplified 'cash flow management' example in the LASAAC Guidance be amended to include illustration of the treatment of imputed interest.</p> <p>ACTION</p> <ul style="list-style-type: none"> • Guidance example to be amended to include imputed interest treatment • Guidance publication to be simultaneous with Scottish Government issue of statutory mitigation, potentially as a combined document. • Material examples of 13/14 re-statement of asset decommissioning obligations to be provided to Hazel | <p>G Davies</p> <p>G Davies</p> <p>All members</p> |

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| | <p>to support need for statutory mitigation by 30 September</p> <ul style="list-style-type: none"> • | |
| 35/14 | <p>Transport Infrastructure</p> <p>In response to a query about the potential lack of historic cost records Russell commented that auditors would take a pragmatic approach in looking at how the opening amount of the revaluation reserve was calculated.</p> | |
| 36/14 | <p>Audit Scotland Update</p> <ul style="list-style-type: none"> • 14/15: Auditors will assess authority preparations for infrastructure asset valuation during the 14/15 audit process • 13/14: Quality of charity account submissions varied. It was noted some uncertainty over the requirements had arisen. • 13/14: Potential impact of court ruling (Lock vs British Gas) noted. Exact calculation of annual leave pay entitlement regarded as uncertain. Some authorities have amended current pay approach (& going back 3 months) to limit any future issue (possible 3 month limit for some claims). One council estimated the overall (operating cost) impact on the overall pay bill as 0.2%. • 13/14: Noted that approach to equal pay differed even when based on the same court rulings e.g. one council created a provision while another did not on the basis of an appeal outstanding • Integration: Auditors for IJBs will (except where some conflict of interest arises) be the appointed auditor for the local authority. This will apply to 15/16 only as all appoints subject to re-appointment after 15/16. | |
| 37/14 | <p>Scottish Government Update</p> <ul style="list-style-type: none"> • Noted that guidance on management commentary should ideally be developed in conjunction with the CIPFA-LASAAC 'Simplification of the Accounts' project • WGA (Non-Domestic Rates): <ul style="list-style-type: none"> ○ unaudited returns showed some differences between central government order for NDR and local authority presentation of NDR assigned by Scottish Govt. | |

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| | <ul style="list-style-type: none"> ○ Optional NDR discounts provided by authorities for charities should be charged against service line(s) in the CIES not shown as a reduction in NDR income ○ Authorities should be following the LASAAC Guidance, not trying to match the Scottish Govt assigned NDR with the contribution to/from the NDR pool. | |
| 38/14 | CIPFA Update <ul style="list-style-type: none"> • Consultation on Role of the CFO, particularly with reference to responsibilities for partnership & related party (ALEO) operations. Responses welcomed • Consultation on Aligned Public Services framework (public service delivery & finances based on localities) | |
| 39/14 | Next Meeting <ul style="list-style-type: none"> • 2pm Wednesday 19 November 2014 | |

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ACTION POINTS FROM LASAAC MEETING OF 13 August 2014

| | Minute Ref | Action | Action By | Status At 06/11/14 |
|---|-------------------|--|----------------------|---------------------------|
| A | 30/14 | Approved minutes to be loaded to website | G Davies | Complete |
| B | 32/14 | Involvement of previous funding body representatives to be discussed | G Davies / F Kordiak | Complete |
| C | 32/14 | Directors of Finance Section to be informed of co-option plans | I Lorimer / G Davies | Complete |
| D | 32/14 | Terms of reference to be provided | G Davies | On Agenda |
| E | 32/14 | ICAS Funding liaison to be contacted | G Davies | Complete |
| F | 33/14 | Approval of CIPFA-LASAAC Terms of Reference to be notified to CIPFA-LASAAC secretary | G Davies | Complete |
| G | 33/14 | Bulletin to be issued noting that self-directed support (including option 2) should be a 'principal' transaction | G Davies | Complete |
| H | 33/14 | Contacts list and other online communication channels for annual accounts items should be established. | G Davies | Complete |
| I | 33/14 | Proposed Community Safety category placement within the Service Expenditure Analysis with accompanying definition guidance to be drafted | G Davies | On Agenda |
| J | 34/14 | Asset Decommissioning: Guidance example to be amended to include imputed interest treatment | G Davies | Complete |
| K | 34/14 | Asset Decommissioning: Guidance publication to be simultaneous with Scottish Government issue of statutory mitigation, potentially as a combined document. | G Davies | Complete |
| L | 34/14 | Asset Decommissioning: Material examples of 13/14 re-statement of asset decommissioning obligations to be provided to Hazel to support need for statutory mitigation by 30 September | All Members | Complete |

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