



Minutes of Meeting of 17 November 2016
[approved by LASAAC on 2 March 2017]
 CIPFA, 160 Dundee Street, Edinburgh EH11 1DQ

Present: Gillian Woolman (Vice Chair), Fiona Kordiak, Hazel Black, Joe McLachlan*, Lesley Bairden, Nick Bennett, Russell Frith, Hugh Dunn, Darren McDowall, Stephen Reid, [* = teleconference]

Apologies: Ian Lorimer (Chair), Derek Yule, Derek Glover, George Murphy, Gary Devlin

In attendance: Gareth Davies

Minute Ref		Action
40/16	Apologies Ian Lorimer (Chair), Derek Yule, Derek Glover, George Murphy, Gary Devlin	
41/16	Minutes <ul style="list-style-type: none"> • The minutes of 25 August were approved subject to replacing "the UK Government may commission work" (page 6) with "the UK Government required to commission work" • The actions in the minutes were noted, with the review of existing LASAAC guidance noted as ongoing Action: <ul style="list-style-type: none"> • Approved minutes of 25 August to be loaded to website 	G. Davies
42/16	Membership <ul style="list-style-type: none"> i) Membership List Gillian, acting as Chair, welcomed Lesley to LASAAC. ii) Attendance The attendance paper was noted. 	

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	<p>Action:</p> <ul style="list-style-type: none"> • Confirmation that Derek Yule is willing to remain on LASAAC to be obtained 	G Davies
43/16	<p>LASAAC Work Plan 2016/17</p> <p>It was suggested that the impact of proposed Scottish Government reforms, such as the Education Governance review, on local government financial reporting should be added to the work plan. Subject to this the paper was approved.</p> <p>Action:</p> <ul style="list-style-type: none"> • A 'watching brief' item to be added to the work plan regarding possible reforms affecting Scottish local government 	G. Davies
44/16	<p>CIPFA-LASAAC Code Board</p> <p>Gillian noted that LASAAC was well represented at the CIPFA-LASAAC meeting of 9 November, which had illustrated the rigour that was applied to the code development process.</p> <p>In relation to the group being established to review IFRS 16 Leases implementation for local government, Nick suggested that LASAAC should ensure Scottish authority involvement.</p> <p>The report was noted.</p> <p>Action:</p> <ul style="list-style-type: none"> • Practitioner or Director of Finance representation on CIPFA-LASAAC IFRS 16 Leases working group, preferably from LASAAC members, to be sought 	G. Davies
45/16	<p>Highways Network Asset (HNA)</p> <p><u>CIPFA-LASAAC</u></p> <p>Gillian informed the committee that CIPFA-LASAAC had concluded that Highways Network Asset (HNA) current value implementation in 2016/17 annual accounts should be deferred.</p> <p>Discussions at CIPFA-LASAAC had included concerns regarding:</p> <ul style="list-style-type: none"> • The lack of Gross Replacement Cost (GRC) rates from the Department for Transport for 2016/17 which made compliance with the HNA Code infeasible • Uncertainty regarding the establishment of a central assurance process to act as verification of UK level aspects of the valuation process in order to lessen the extent of verification work needed at national, regional and authority levels. • Concerns regarding the readiness of authority inventory and road dimension measurements for audit verification 	

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	<p>One CFO on CIPFA-LASAAC had indicated that a 2cm variation in the carriageway width across their road network would result in a valuation difference of £20m.</p> <p>The planned meeting of CIPFA and national audit bodies had been postponed due to the CIPFA-LASAAC decision.</p> <p><u>Working Group</u></p> <p>The working group's report to LASAAC was reviewed.</p> <p><Hazel and Darren joined the meeting during the above>.</p> <p><u>Actions for 2016/17</u></p> <ul style="list-style-type: none"> • A practitioner noted that it was important that momentum was not lost since there was still work to be undertaken by authorities. • In particular if GRC rates and central assurance processes are confirmed the main focus would naturally shift onto the assurance of local inputs, for example carriageway dimension measurement and inventory records. • The Highways Briefing #3 Note placed a significant emphasis on the role of the CFO and their requirement for assurance and verification. • Clarification of the responsibility for obtaining updated GRC rates, and the best means of ensuring that action was taken, was discussed. CIPFA is anticipated to provide feedback on this aspect. It was suggested that the main focus for responsibility and action rests with HM Treasury and the Department for Transport. • Feedback on practitioner reactions and future plans was requested: <ul style="list-style-type: none"> ○ Generally most practitioners had expressed some relief ○ Any action for 16/17 would be a matter for each authority to decide. ○ Some practitioners / authorities would continue to undertake a 'dry run' for the 16/17 year. Some noted that this would be 'light touch' rather than an intensive exercise. ○ One practitioner noted an initial intention to undertake some limited sample test checking of the physical measurements provided by engineers ○ In one authority 'terms of engagement' between the CFO and the chief engineer had been drafted ○ Auditors may also welcome the deferral, especially given the new audit appointments for 16/17 ○ The establishment and rehearsal of processes for 16/17 would support the discipline required if 17/18 implementation proceeds 	
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	<p><u>Dimension Measurement</u></p> <ul style="list-style-type: none"> • A practitioner noted that physically measuring road widths every year was not a feasible or practical approach. • Some physical sampling of widths at regular intervals (eg 10 metres) could be undertaken. • Carriageway width variation of 10cms over the network will generally be much more significant than an absolute error in the road length of (say) 10-15 kms. • The ability of OS maps to be accurate down to cms was questioned • Engineers generally may not regard the cost of physical measurement as commensurate with the benefits, and as unnecessary for asset management planning (AMP) purposes • It was not clear that additional accuracy (physical measurement compared to OS map based approaches) would make any difference. • It would be helpful if one example council could provide a process description of its measurement and condition assessment procedures. The working group will consider this. This may also help in comparison and contrasting with other authorities. • It was generally agreed that the example cited (2cm width difference approximately equal to £20m value difference) was not likely to affect decision making by readers of the accounts. <p><u>Conclusions</u></p> <p>It was concluded that</p> <ul style="list-style-type: none"> • LASAAC should encourage a 'dry run' approach by authorities for 16/17 • Progress on securing GRC rates from the Department for Transport for 17/18 is essential for 17/18 implementation, especially given the apparent lead time that is required for the work to actually be undertaken in time for their use in the 17/18 annual accounts process • The LASAAC working group should continue in order to maintain some momentum and to encourage auditors and practitioners to ensure that measurement and inventory data is satisfactory <p>Action:</p> <ul style="list-style-type: none"> • LASAAC to communicate encouragement and support for authorities to undertake an HNA 'dry run' approach for 16/17 • LASAAC working group on HNA to continue 	<p>G. Davies, all LASAAC members G. Woolman, G. Davies</p>
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	<ul style="list-style-type: none"> • Liaison with SCOTS on HNA to be maintained 	G. Davies
46/16	<p>Statutory Adjustments Review</p> <p>The report was summarised, with the assistance of East Ayrshire Council finance staff being specifically appreciated by LASAAC. Any proposed changes would be subject to quantification of the financial impact and consultation with stakeholders.</p> <p><u>Possible Amendment of Statutory Adjustments</u></p> <p>Hazel commented on the group's findings for the main areas of statutory adjustment:</p> <p>Capital Adjustment Account:</p> <ul style="list-style-type: none"> • No major change to the underlying approach was proposed <p>Investment Property (IP)</p> <ul style="list-style-type: none"> • The removal of the statutory adjustment regarding IP, for example the annual change in fair value for Investment Property was discussed. • Ian had noted this may not assist with simplification. • Hazel explained that on initial IFRS implementation the statutory adjustment in <u>Finance Circular 7/2011</u> was granted due to classification uncertainties which had now largely been resolved. • IP is effectively an investment and holdings such as an investment loan debtor or shareholding should not benefit from a statutory adjustment • Nick commented that changes in IP values affect Charity usable reserves and it was not clear why local government would require an exemption • The growth in property investment by authorities in England was noted. If Scottish councils were to undertake similar schemes it may become more difficult to change statutory intervention later. • LASAAC was generally supportive of the proposal to remove the statutory adjustment <p>Accumulated Absences (STACA – Short-Term Accumulating Compensated Absences)</p> <ul style="list-style-type: none"> • The retention of an adjustment for teachers' STACA was agreed. Removal of adjustment for non-teachers, TOIL and flexi-leave was proposed. • Ian had noted the financial impact was a matter for consideration and queried whether removing non-teacher adjustments would be helpful. • TOIL and flexi-leave were not considered material 	

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	<ul style="list-style-type: none"> • Different leave year ends for authorities could affect the volatility of the accrual for non-teachers. One practitioner had analysed their statutory adjustment: <ul style="list-style-type: none"> ◦ £7.02m balance of which: £4.7m teachers; £2.1m non-teachers, residual TOIL/ flexi (non-teachers total pay budget some £160m) ◦ Non-teachers accrual volatility over last few years had been analysed. The move per year could be £200K. This level of volatility may be challenging in the current financial climate. • Materiality of the change in each year was the crucial element • Even allowing for tapering the removal of the statutory adjustments would see a reduction in General Fund balances • Evidence of the financial impact would be required <p>Financial Instruments:</p> <ul style="list-style-type: none"> • The statutory adjustments cover a number of different elements • Premiums on the early redemption of debt: <ul style="list-style-type: none"> ◦ Feedback indicates that significant historic amounts are still being amortised, but that new premiums are rare. On this basis no change is proposed. • Stepped interest borrowing: <ul style="list-style-type: none"> ◦ Evidence on the amounts involved is to be sought • Soft loans: <ul style="list-style-type: none"> ◦ The statutory adjustment relates only to pre 1/4/07 soft loans. Evidence to be sought on the materiality of the remaining balance of these. <p>Icelandic Banks</p> <ul style="list-style-type: none"> • References are to be dropped from the Code of Practice. • Confirmation to be sought that no balances are held in statutory adjustment accounts <p>Pensions</p> <ul style="list-style-type: none"> • The existing statutory adjustments are based in different sources. Statutory position to be consolidated but no change to underlying approach proposed. • Clarification of some elements (eg voluntary elements / compensation) may be sought to ensure that presentation and explanation in the accounts is appropriate. <p>The Scottish Government proposed that the collation of evidence would be undertaken through a Scottish Government request.</p> <p>Action:</p> <p>Scottish Government to request all authorities to quantify the values concerned in respect of the following statutory adjustments:</p>	H. Black
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- **Financial instruments:**
 - **Stepped interest borrowing**
 - **Soft loans (pre 1/4/2007)**
- **Accumulating absences (STACA / Holiday Pay)**
 - **TOIL, flexi-leave and non-teachers**
- **Pensions**
 - **No changes to actual extent of reversal proposed but clarification of the different elements of pension charges to be requested.**
- **Icelandic Banks**
 - **Confirmation of the assumption that no balances remain in any statutory adjustment account**
- **Scottish Government to further consider Investment Properties and report back to LASAAC on a proposal for change**

Comments on Presentation Practices

In reviewing the statutory adjustments the working group also discussed presentation practices:

Surplus Assets

The rationale for the creation of the 'Surplus Assets' classification within PPE and the use of fair value for Surplus Assets was discussed. Key points raised included:

- IFRS does not include 'Surplus Assets within PP&E' as a classification. The local government Code implemented the usage.
- Recognition of gains on assets held for sale is generally deferred until sale, while losses are recognised immediately. This contrasts with surplus assets where gains are recognised in the Revaluation Reserve.
- The distinction from 'Held for Sale' was that there was no decision yet made to sell and the asset could be brought back into use by any service.
- The existence of 'Surplus Assets' within PPE is helpful in allowing more transparency regarding unused assets, which might otherwise be included within operational assets (eg land & buildings).
- The application of 'surplus assets' and 'held for sale' classification was a challenging issue across the public sector, not just in local government
- The appropriate use, classification and presentation in the annual accounts depends upon how the asset is being managed and how the authority anticipates realising the value in the asset (through use or sale).
- Some surplus assets will exist because there is no market for the asset eg small pockets of land of interest only to neighbouring land owners. Such assets will normally have

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	<p>no or low fair values.</p> <p>It was concluded that the rationale for the initial creation of Surplus Assets within PP&E remained and reflected the practical management of assets by local government.</p> <p>Audit Scotland are considering developing a case study to illustrate classification decisions across the public sector that reflect the management use of, and plans for, such assets.</p> <p><u>Reserves</u></p> <p>The possible separation of unusable reserves was discussed, disaggregating into:</p> <ul style="list-style-type: none"> • Statutory Adjustment Accounts • Accounting revaluation reserves <p>The proposal was generally supported. The Revaluation Reserve balance however commenced at zero on 1 April 2007. This may suggest that increased prominence could require increased explanation and interpretation of the figures presented.</p> <p>It was agreed that the MiRS presentation should reflect that on the balance sheet.</p> <p>Action:</p> <ul style="list-style-type: none"> • CIPFA-LASAAC to be requested to consider inclusion of possible distinction between statutory adjustment accounts and accounting revaluation reserves in the future development of the Code of Practice 	G. Davies
47/16	<p>Integration of Health & Social Care</p> <p>Lesley provided an overview of developments:</p> <ul style="list-style-type: none"> • An Integration Authority (IA) CFO network has been established, meeting monthly. Meetings will be spread geographically across Scotland. • The LASAAC request for feedback on accounting guidance was discussed by the IA CFO network • Differences in treatment between IJB accounts were noted, for example Chief Officer remuneration disclosures • The CFO network has requested that the Scottish Government commissions a set of IJB sample accounts • Final agreement on some VAT treatments has not yet been finalised <p>Gillian queried whether those boards which did not commence shared services until 1/4/16 would all be prepared for the 16/17 annual accounts process, recognising that NHS Boards audits were closed by 30 June and would need to include consolidation of IJB figures. Lesley indicated that the shared experience and</p>	

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	<p>discussions have helped readiness. All bodies should now be familiar with the legislation and external audit expectations.</p> <p>It was noted that the Code 16/17 changes (eg telling the story Expenditure & Funding Analysis) would also apply to IJBs. The Service Expenditure Analysis would no longer apply.</p> <p>The items in the paper were reviewed with the following noted:</p> <ul style="list-style-type: none"> • There is no requirement for an IJB cash flow statement • The basis for the treatment of 'services in kind' (per IPSAS 23 paragraph 98) was discussed, especially in comparison to charities and the VAT implications if a reduction in partner contributions was made as compensation for the provision of support <p>Action</p> <ul style="list-style-type: none"> • Secretary to discuss possible changes to LASAAC and IRAG guidance on integration with Paul Leak (Scottish Government) • LASAAC guidance on integration to be revised and submitted to LASAAC by e-mail for review • Changes to guidance on integration to be subject to consultation with stakeholders 	<p>G. Davies</p> <p>G. Davies</p> <p>G. Davies</p>
48/16	<p>Council Dwelling Valuation – RICS & ACES Guidance</p> <p>The paper was reviewed:</p> <ul style="list-style-type: none"> • Paragraph 6 may be incorrect since a valuation at 1 April 2017 may be taken to provide evidence of conditions and factors affecting the asset value as at 31 March 2017. Where finalisation of the new valuation (as at 1 April 2017) does not occur until October 2017 the annual accounts process will be completed before the new valuation is available. • A key difference to existing practice is that the housing stock is assessed as a whole portfolio rather than on an 'individual houses' basis <p><u>Stakeholder Awareness</u></p> <ul style="list-style-type: none"> • The awareness of councils, especially CFOs, of the new guidance was queried • It was suggested that RICS and ACES were adopting a phased implementation approach based on formal 5-year revaluation dates • Some comparison with Highways Network Asset were made, noting that the impact of valuation expert practices may need to be explained in the accounts • There is no publicly available assessment outlining the possible impact of the change on the balance sheet value for each authority 	

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	<ul style="list-style-type: none"> • The desire to raise the profile of the change was discussed: <ul style="list-style-type: none"> ○ It would be desirable to confirm that all valuers were aware of the guidance and that Directors of Finance would seek assurance that the resulting values provided a true and fair presentation of the housing stock value. This may mean some discussions and possibly agreed 'terms of engagement' for the valuation process ○ Scottish Government could potentially provide accommodation to allow RICS / ACES to hold a single 'all Scotland' event for valuers ○ LASAAC could undertake a role in raising the profile and awareness of the change <p>Action</p> <ul style="list-style-type: none"> • RICS (Mike Brown) to be contacted to discuss awareness raising actions by LASAAC regarding council dwelling valuations • RICS (Mike Brown) to be informed of Scottish Government offer to accommodate an event 	<p>G. Davies</p> <p>G. Davies</p>
49/16	<p>Audit Scotland Update</p> <ul style="list-style-type: none"> • The audit appointment handover arrangements should be in the process of completion • There is a new 'Best Value Audit' approach: <ul style="list-style-type: none"> ○ At least one in depth audit per council in each 5 year appointment ○ In interim years auditors will undertake some local Best Value work ○ BV audit work to be undertaken by integrated teams (i.e. with input from local team) • National audits issued include: <ul style="list-style-type: none"> ○ NHS Scotland Overview ○ Social Work ○ New financial powers • Forthcoming reports: <ul style="list-style-type: none"> ○ Local Government Overview (part 1) ○ New financial powers ○ Equal Pay review (spring 2017) ○ Local Government overview (part 2) (spring 2017) ○ Self-Directed Support (summer 2017) • Audit Fees <ul style="list-style-type: none"> ○ Local government fees are expected to decrease on average 	
50/16	Scottish Government Update	

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	<p><u>Local Financial Returns (LFRs)</u></p> <ul style="list-style-type: none"> • The LFRs have been re-formatted to enable easier reconciliation to the annual accounts. • Some clarification of the identification of statutory adjustments has been required • Some presentation inconsistencies could helpfully be resolved: <ul style="list-style-type: none"> ◦ For example the location in the CIES of contributions to Joint Valuation Boards • The link between the LFRs and the SOLACE / Improvement Service (IS) benchmarking project was queried. A Scottish Government employee is liaising with the benchmarking review currently ongoing. • The continuation of the SEA (Service Expenditure Analysis) was discussed, especially given that it is no longer a mandatory requirement in the annual accounts. • The responsibility for determining the LFR classifications was debated. The Scottish Government has primary responsibility but if IS is clear on their requirements some amendments can be made. The multiple changes may be a source of concern, especially if the complexity and length of the LFRs increase. • LFR3 (Social Work) in particular was noted as likely to change due to Self-Directed Support and Integration and the need to reflect changes in actual service delivery. <p>Action</p> <ul style="list-style-type: none"> • Issues relating to authorities completion of LFR forms that relate to annual accounts preparation to be raised with LASAAC 	H. Black
51/16	<p>CIPFA Update</p> <p>The Guidance Notes for 2016/17 are due for issue soon.</p>	
52/16	<p>Any Other Business</p> <p><u>Pensions Liability Estimation for Multi-Employer Schemes</u></p> <p>It was noted that an auditor's client in England had teachers in employment and had been able to request an estimate of the employer's liability relating to the English teachers' national multi-employer scheme.</p> <p>This may have implications in Scotland since it could imply that a similar approach could be used to estimate local authority teacher pension liabilities. This would however depend on the specifics of the Scottish teachers' scheme. Any estimate however may be approximate, with difficulty reconciling back to an aggregate of</p>	

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	<p>each employee's pension costs.</p> <p>Action</p> <ul style="list-style-type: none"> The technical feasibility of estimating teacher pension liabilities per authority to be considered by Audit Scotland 	R. Frith															
53/16	<p>Future Meeting Dates</p> <p>The meeting schedule for 2017 is shown below. All LASAAC meetings are planned to be at CIPFA 160 Dundee Street Edinburgh EH11 1DQ.</p> <table border="1"> <thead> <tr> <th>Time</th> <th>LASAAC 2016</th> <th>CIPFA/LASAAC 2016</th> </tr> </thead> <tbody> <tr> <td>2pm</td> <td>2 March 2017</td> <td>8 March 2017</td> </tr> <tr> <td>2pm</td> <td>23 May 2017</td> <td>6 June 2017</td> </tr> <tr> <td>2pm</td> <td>23 August 2017</td> <td><N/A></td> </tr> <tr> <td>2pm</td> <td>16 November 2017</td> <td>7 November 2017</td> </tr> </tbody> </table>	Time	LASAAC 2016	CIPFA/LASAAC 2016	2pm	2 March 2017	8 March 2017	2pm	23 May 2017	6 June 2017	2pm	23 August 2017	<N/A>	2pm	16 November 2017	7 November 2017	
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ACTION POINTS FROM LASAAC MEETING OF 17 November 2016

	Minute Ref	Action	Action By	Status At 21/02/17
A	41/16	Approved minutes of 25 August to be loaded to website	G. Davies	Complete
B	42/16	Confirmation that Derek Yule is willing to remain on LASAAC to be obtained	G. Davies	Complete
C	43/16	A 'watching brief' item to be added to the work plan regarding possible reforms affecting Scottish local government	G. Davies	
D	44/16	Practitioner or Director of Finance representation on CIPFA-LASAAC IFRS 16 Leases working group, preferably from LASAAC members, to be sought	G. Davies	Complete
E	45/16	LASAAC to communicate encouragement and support for authorities to undertake an HNA 'dry run' approach for 16/17	G. Davies, all members	Complete
F	45/16	LASAAC working group on HNA to continue	G. Woolman, G. Davies, working group members	On agenda
G	45/16	Liaison with SCOTS on HNA to be maintained	G. Davies	Complete
H	46/16	Scottish Government to request all authorities to quantify the values concerned in respect of the following statutory adjustments: <ul style="list-style-type: none"> • Financial instruments: <ul style="list-style-type: none"> ▪ Stepped interest borrowing ▪ Soft loans (pre 1/4/2007) • Accumulating absences (STACA / Holiday Pay) <ul style="list-style-type: none"> ○ TOIL, flexi-leave and non-teachers • Pensions <ul style="list-style-type: none"> ○ No changes to actual extent of reversal proposed but clarification of the different elements of pension charges to be requested. • Icelandic Banks <ul style="list-style-type: none"> ○ Confirmation of the assumption that no balances remain in any statutory adjustment account • Scottish Government to further consider Investment Properties and report back to LASAAC on a proposal for change 	H. Black	Complete
I	46/16	CIPFA-LASAAC to be requested to consider inclusion of possible distinction between statutory adjustment accounts and accounting revaluation reserves in the future development of the Code of Practice	G. Davies	Complete

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J	47/16	Secretary to discuss possible changes to LASAAC and IRAG guidance on integration with Paul Leak (Scottish Government)	G. Davies	On agenda
K	47/16	LASAAC guidance on integration to be revised and submitted to LASAAC by e-mail for review	G. Davies	On agenda
L	47/16	Changes to guidance on integration to be subject to consultation with stakeholders	G. Davies	On going
M	48/16	RICS (Mike Brown) to be contacted to discuss awareness raising actions by LASAAC regarding council dwelling valuations	G. Davies,	Complete
N	48/16	RICS (Mike Brown) to be informed of Scottish Government offer to accommodate an event	G. Davies	Complete
O	50/16	Issues relating to authorities completion of LFR forms that relate to annual accounts preparation to be raised with LASAAC	H. Black	On agenda
P	52/16	The technical feasibility of estimating teacher pension liabilities per authority to be considered by Audit Scotland	R. Frith	On going

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