

## LASAAC MINUTES

**[DRAFT – subject to approval by LASAAC at meeting 4 June 2013 (pm)]**

Meeting of 21 March 2013.

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

Present: Derek Yule, Fiona Kordiak, Hazel Black, Russell Frith, Hugh Dunn  
(left during /13), Valerie Davidson, Tom Simpson (telephone)

Apologies: Ian Robbie, Bruce West, David Watt, Ian Lorimer, Nick Bennett,  
Marjory Stewart,

In attendance: Gareth Davies

Minute Ref		Action
01/13	<p><b>Apologies</b> Derek apologised for the postponement of the meeting from the planned date of 21 February.</p> <p>Apologies from: Ian Robbie, Bruce West, David Watt, Ian Lorimer, Nick Bennett, Marjory Stewart,</p>	G Davies
02/13	<p><b>Minutes of the meeting held 17 October 2012</b></p> <p>The minutes were approved by those members attending in October.</p> <p><b>Action: Minutes of 17 October to be loaded to the website</b></p> <p>Actions arising:</p> <ul style="list-style-type: none"><li>• Website &amp; communications improvements (item D) – noted as on-going</li><li>• Common Good depreciation (item J) – Fiona noted that this was being resolved with amendments to practice by the authority concerned anticipated for 2012/13 statements</li></ul>	G Davies
03/13	<p><b>Membership and Attendance</b></p> <p><b>Membership</b></p> <p>Derek welcomed Hugh to the committee. Nikki's apologies for stepping down from LASAAC were noted.</p> <p><b>Attendance:</b></p> <p>Derek noted that the October meeting had emphasised the importance of practitioner representation and queried whether attendance issues had arisen. It was noted that re-scheduling the current meeting had limited member ability to attend. It was agreed that the '3 non-attendances' criteria should exclude the current meeting due to the fact that it had been rearranged at short notice.</p>	

	<p><b>ACTION: Attendance record to note exemption for March 2013 meeting.</b></p>	G Davies
04/13	<p><b>Work Plan 2012/13</b></p> <p>Gareth reviewed the paper noting that the resources to service CIPFA-LASAAC and the Code development were higher than in the initial plan. This partially offset slippage, and therefore underspends, on other projects resulting in a slight underspend. Derek noted the importance of ensuring that funding bodies were content with the direction and use of resources. It was noted that some project slippage was not within LASAAC's immediate control.</p> <p>Hazel noted that she would be on 3 month's leave over summer which could impact on some projects as follows:</p> <p><u>1985 Regulations</u> This was likely to be progressed before summer with the consultation document to be issued prior to Hazel's absence.</p> <p><u>Capital Finance Working Group / Loans Fund Review etc</u> Work on Capital Finance Working items such as the Loans Fund Review, accounting for insurance receipts and accounting for asset transfers (between General Fund and HRA) would be likely to progress after summer.</p> <p><u>Welfare Reform</u> Russell requested confirmation that Scottish legislation on Welfare Reform was complete. Hazel confirmed that legislation was now thought to be complete noting that, particularly in relation to the Council Tax Reduction Scheme, it was anticipated to be relevant for one year. Derek questioned the plans and timing of replacement legislation.</p> <p>The work plan report was noted.</p>	
05/13	<p><b>Funding and Work Plan 2013/14</b></p> <p>Gareth noted that approval or amendment of the funding request and work plan was sought prior to submission to the funding bodies.</p> <p>Russell queried the need for a Welfare Reform project, suggesting that there were minimal accounting issues arising. One area for clarification may be the impact of Scottish Government funding to mitigate the effect of the 'bedroom' tax.</p> <p>Hazel suggested that Welfare Reform could be removed from the plan, with any work arising to be dealt with as a contingency item.</p> <p>Derek proposed that Adult Health &amp; Social Care integration should be added as a project. Some accounting issues have already been identified and the status of any partnership body would need to be considered. Russell noted that the 'lead agency' model was more established in accounting terms, whereas the 'body corporate' was</p>	

	<p>more uncertain and potentially more complex.</p> <p>Hazel noted that Ian Davidson would be changing posts after 1 April, with a new appointee taking responsibility for the Scottish Government's funding interests.</p> <p>Subject to the changes requested the proposed funding and work plan for 2013/14 were approved.</p> <p><b>ACTION: Work plan to be amended to remove welfare reform and to add Adult Health &amp; Social Care Integration.</b></p> <p><b>ACTION: Funding request for 13/14 to be submitted to the funding bodies with relevant accompanying papers</b></p>	<p>G Davies</p> <p>G Davies</p>
<p><b>06/13</b></p>	<p><b>CIPFA-LASAAC Code Board</b></p> <p>Derek noted that members would already be aware of the development of the Code for 13/14.</p> <p><u>Treatment of Schools</u>  A recent CIPFA-LASAAC paper on the treatment of English schools was noted. The 'cross-sector' (pan public) review was discussed. Russell noted that the treatment of academies was generally agreed. They are not regarded as being part of a local authority but are treated as being under the control of the Department for Education. Differences of opinion on the extent of control over other types of schools had arisen.</p> <p>The relevance for Scotland was queried. Russell noted that the principles and tests applied to the English schools could affect the assessment of authority related bodies in Scotland (e.g. arm's length external organisations (ALEOs); leisure trusts etc).</p> <p>The impact of the new IFRS 'group' accounting standards, with a focus on control over returns to the investor, was noted as being considered by the review group.</p> <p><u>IFRS 13 – Fair Value</u>  Russell commented that implementation was effectively postponed until 2014/15. The initial differences in approach between the CIPFA-LASAAC Code and the central government FReM was to be examined. FRAB have queried why all buildings were exempt, especially those not used for front line service delivery.</p> <p>FRAB expect to receive reports from both CIPFA-LASAAC and Treasury outlining the reasons supporting divergence from IFRS 13.</p> <p><u>Other Items</u>  Derek suggested that given the transfer of Police and Fire there may be some authorities which would not prepare group accounts for 13/14. Russell concurred that this may be the case.</p> <p>The FReM approach acquisition based approach to mergers was noted.</p> <p>The potential change in 2014/15 to the measurement of a Service</p>	

	<p>Concession Arrangement (PFI) liability was explained. At present the liability is based on a 'finance lease' approach but IPSAS 32 adopts a 'financial liability' (e.g. amortised cost / effective interest rate method). The matter is likely to be considered during 2013/14.</p> <p><u>Transportation Infrastructure</u>  Russell noted that the pace of change was relatively slow, with some parties expressing concern over the benefits of adopting a current cost (valuation) approach. Hazel noted that the Scottish Government would not specifically fund implementation in Scotland. The CIPFA-LASAAC secretariat is to prepare a paper examining the benefits and costs of implementation.</p> <p>Valerie questioned whether the scope had been widened to assets other than roads and footpaths. Russell indicated that this was not yet the case, but logically other infrastructure assets may be included later.</p> <p>Derek noted that authorities were particularly concerned by the potential valuation costs. Valerie suggested that rather than accounting driving Asset Management Planning (AMP), the accounting should reflect the AMP practices in place. Hazel commented that the view was expressed at CIPFA-LASAAC that financial accounting was not the same as management accounting, and that they served different purposes.</p> <p>The report was noted.</p>	
07/13	<p><b>Simplification of the Accounts / Summary Accounts</b></p> <p>The report was discussed. Valerie requested that the distribution list remove the word 'potentially' when referring to other groups. The Committee agreed.</p> <p>Valerie noted that a key question was who the accounts were aimed at. Hazel suggested that out-turn reports could be reconciled to the financial statements. Hugh commented that this was common practice but that explaining the differences was challenging. The role of summary accounts in this respect was discussed. Derek noted that explaining the nature of 'asset backed reserves' was often required.</p> <p>The focus of the questionnaire on elements of the statements was discussed. It was suggested that the questionnaire would be more relevant to expert users. Hugh queried whether 'expert users' existed, particularly following the transition to IFRS.</p> <p>Valerie suggested that often financial statements were published on the internet with very few printed copies required.</p> <p>The duplication of the 'Annual Governance Statement' in the questionnaire (4.0 (c) &amp; (p)) was noted.</p> <p>Hazel indicated that the remuneration report was of public interest. Hazel and Russell stated that the report was a 'statement' in its own right, not a note to the accounts. Commenting on the relative lack of media attention Russell noted that ALEO (arm's length external organisation) arrangements had attracted more interest.</p>	

	<p>Tom queried whether the two projects should be disaggregated if the simplification project was a longer-term plan. Derek suggested that the two could continue to run in parallel as they are related.</p> <p>Hazel noted that a 'top down' approach to simplicity may not always be appropriate but that quality and transparency could be regarded as key objectives. Fiona stated that transparency did not always mean shorter accounts.</p> <p>The length of accounts was discussed. The 'blanket' use of template accounts, particularly the provision of accounting policies and other notes that were not relevant, was highlighted. Hugh suggested that authorities could liaise with auditors to identify these. Gareth noted that Inverclyde were working with the active encouragement of their auditors to reduce length.</p> <p>Derek emphasised that there was a need to highlight the purpose of the accounts rather than just seeing them as a 'compliance' issue.</p> <p>Hazel noted that it could be expected that the Prudential Indicators (e.g. the Capital Financing Requirement) could be calculated from the statements, but this currently was not the case. A focus on providing and explaining the borrowing and reserves position would be helpful.</p> <p>Fiona commented that Audit Scotland were considering a review of 'good practice' in local authority financial statements.</p> <p>Derek noted that a once a year review by each authority would be helpful. Hazel noted this could happen during the 'planning' phase.</p> <p>The potential for co-ordinating ICAS, LASAAC and Audit Scotland work on simplification was raised. Russell noted that auditors were already being requested to identify easy gains to help remove clutter.</p> <p>Gareth noted that a key element of the project would be to ensure that both practitioners and auditor practices were in alignment.</p> <p>Subject to the removal of the duplication of the 'Annual Governance Statement' and removal of the word 'potential' from the distribution list it was agreed to proceed.</p> <p><b>ACTION: Simplification project to proceed subject to removal of duplication of Annual Governance Statement from questionnaire and the word 'potential' from the distribution list.</b></p>	G Davies
08/13	<p><b>Landfill Restoration and Other Decommissioning Costs</b></p> <p>Gareth provided an overview of the report.</p> <p>Russell and Nick noted that lease dilapidations were not normally recognised until later in the life of a lease when it was more</p>	

	<p>evident that work, of a material cost, would be required.</p> <p>Hazel queried the treatment of some provisions as capital. Russell explained the approach with reference to an oil rig installation example.</p> <p>Derek commented that the funding of the asset fell into two 'parts' in terms of cash flow timing, raising the possibility of borrowing to support cash payments which were many years into the future.</p> <p>It was questioned whether current practice was acceptable or not in respect of the accounting requirements. Russell noted that where the requirements for a provision were not met the definition of a 'contingent liability' may also not be fulfilled.</p> <p>Valerie noted that the requirements could apply to a wide variety of assets (e.g. tunnels).</p> <p>Hugh suggested that the key requirement was to evidence that an assessment of the need for a provision had been undertaken. Potentially this may be less common for owned assets than for leased assets.</p> <p>Derek commented that the need for provisions could be linked to Asset Management Planning.</p> <p>Tom queried whether a 'matching principle' applied to link income generation to expenditure. Russell indicated that in principle the annual cost of using the landfill site should reflect a relevant proportion of the decommissioning costs.</p> <p>Russell noted that clarity was required on the recognition of capital expenditure where cash payments were not immediately due. Hazel commented that assessment of the impact on prudential code indicators was required.</p> <p>It was requested that example accounting entries should be drawn up prior to assessing the impact on funding. Valerie offered to provide the secretary with details of an asset which may be used for the example.</p> <p><b>ACTION: Example accounting entries for decommissioning costs to be developed for consideration</b></p>	G Davies
09/13	<p><b>Accounting Issues for 2012/13</b></p> <p><u>Police &amp; Fire Reform</u></p> <p>Hazel provided an update:</p> <ul style="list-style-type: none"> <li>• Uncommitted revenue reserves: Guidance had been issued indicating that authorities would be expected to show reduced acquisitions / service expenditure in 2012/13, based on funding being returned in 2012/13</li> <li>• Usable Capital reserves and funding: For Police excess amounts of General Capital Grant provided to the boards were expected to be returned to the funding bodies. Fire was more complex and the situation was being considered.</li> </ul>	

	<ul style="list-style-type: none"> <li>• It was noted that funding councils could be anticipated to ' earmark' part of the increased General Fund balance at 31/3/2013 as funding for future council service provision, on the basis that funding from the Scottish Government would be decreased in 2013/14</li> </ul> <p>Derek noted some concern from chief financial officers on the state of readiness, voluntary severance funding arrangements and 'new body' expenditure prior to the year-end impacting on reserves. Russell noted that items such as uniforms for the new body could be considered to be stock.</p> <p>[Hugh left the meeting]</p> <p><u>Adult Health &amp; Social Care</u></p> <p>In relation to the Highland partnership Russell noted that auditors had been advised to ensure consistency of treatment between the NHS Board and the local authority.</p> <p><u>Welfare Reform</u></p> <p>Reference to welfare reform in explanatory forewords was generally supported. Russell suggested that debt pursuance policies may be reviewed as a result of the reforms. A letter from a UK government minister suggesting a 'softer line' on debt recovery had apparently been issued. The practical realism of this was discussed. Russell noted that bad debt provisions would need to be reviewed in 2013/14.</p> <p>Derek highlighted the financial risks if Scottish Government funding was insufficient to meet the future costs of welfare reform.</p> <p><u>Teachers Accruals</u></p> <p>Gareth outlined the situation, noting a potential discrepancy between the principles in IAS 19 of establishing a 'cost per day worked' accrual and practice where a 'rate per day paid' (based on working days plus annual leave days) may be used. The funding implications were noted given that the accumulated absences accrual attracted statutory mitigation, but the underlying 'pay' accruals did not.</p> <p>Russell commented that Audit Scotland would not be specifically requesting auditors to re-examine the accruals but that auditors may potentially, on an individual basis, request more details from authorities.</p> <p>The paper was noted.</p>	
<p><b>10/13</b></p>	<p><b>Significant Trading Operations</b></p> <p>Hazel noted that the Scottish Ministers had not formally defined a 'Statutory Trading Operation' (STO), but that the CIPFA Directors of Finance Section and LASAAC had developed guidance to assist with determining if an STO existed.</p>	

	<p>The following amendments to the draft guidance were requested:</p> <ul style="list-style-type: none"> <li>• Paragraph 1: the lack of legislative definition of an STO should be referred to</li> <li>• Paragraph 8: It was agreed that paragraph 8, while correct, was unnecessary and should be deleted.</li> <li>• Paragraph 9 (i) – replace ‘may reasonably’ with ‘should’. Add sentence: “Externally provided services should be separated out and any cross-subsidisation identified.”</li> </ul> <p>It was agreed that the draft guidance, which would vary the previous guidance, should be submitted to the Directors of Finance.</p> <p>Fiona queried the impact of the guidance on the audit process. Valerie questioned whether there was a clear distinction between ‘trading’ and shared service arrangements. Hazel and Russell considered that clarity in practice was likely to exist.</p> <p><b>ACTION: STO Guidance to be amended as agreed, and circulated to the CIPFA DoF Section.</b></p>	G Davies
11/13	<p><b>Embedded Financial Guarantees</b></p> <p>Hazel noted some potential issues as to the legislative basis for treating such instruments as investments, noting that any deposit should be ‘cash backed’ rather than increasing the borrowing requirement of the authority for its investment in capital projects.</p> <p>For clarity it was requested that the guidance should refer to the specific scheme.</p> <p>Derek noted that Highland and Glasgow would potentially participate in the scheme during 2013/14. Derek queried whether more clarity was required on the consequences of committing cash which would not be available to the authority.</p> <p>The materiality of the financial guarantee was discussed. Russell commented that, based on central government experience, valuing the impact of council policy on the rate of return accepted could be difficult. In particular where the guarantor provided funding to the party being guaranteed the situation could be problematic.</p> <p>A worked example of the calculations and entries arising, to accompany the guidance, was requested.</p> <p><b>ACTION: Worked example calculations and entries for the separation of the financial guarantee element to be developed.</b></p>	G Davies
12/13	<p><b>Non-Domestic Rates</b></p> <p>Hazel noted that BRIS targets had been amended to allow for the impact of outstanding NDR appeals being settled. Hazel clarified</p>	

	<p>that additional income was retained by the authority, not returned to the Scottish Government NDR Pool.</p> <p>Gareth asked whether the BRIS targets were on a cash basis. Hazel confirmed that this would be the case. In response to a query from Valerie, Russell and Hazel confirmed that TIF income retained by the council was net of any 'displacement' allowance and that the authority accepted the risk for collection of the retained income.</p> <p>It was queried whether, now that NDR allocation was based on collection, the 'distribution from the national pool' should equate to the 'contribution to the pool'. Hazel stated this was unlikely to be the case due to timing differences, since the allocation from the pool was 'pre-set' by the relevant order. It was suggested that text could be added to explain this timing effect.</p> <p>Hazel noted that some local authority financial statements figures for the NDR pool allocation did not agree with the figure given in the order.</p> <p><b>ACTION: NDR guidance to refer to timing differences, with final version to be reviewed by Hazel Black.</b></p>	G Davies, H Black
<b>13/13</b>	<p><b>Audit Scotland Update</b></p> <p>Russell noted:</p> <ul style="list-style-type: none"> <li>• Overview report to be published Thursday 28 March</li> <li>• Local Government charities- resolution being sought to minimise the risk of authority statements being signed off before audit certificates for any charities are available</li> <li>• Police &amp; Fire – Fife and Dumfries &amp; Galloway will require specific work to verify identification of assets and liabilities</li> <li>• Local authority capital investment report has been issued. Hazel commented that this had given rise to several parliamentary queries.</li> </ul>	
<b>14/13</b>	<p><b>Scottish Government Update</b></p> <p>Hazel noted:</p> <ul style="list-style-type: none"> <li>• Capital Finance Working Group to meet in early June. Outstanding work items included insurance receipts and asset transfers between HRA and General Fund.</li> </ul>	
<b>15/13</b>	<p><b>CIPFA / LAAP Update</b></p> <p>It was noted</p> <ul style="list-style-type: none"> <li>• LAAP Bulletin on 2012/13 year end now issued</li> <li>• Prudential Code Guidance being updated</li> </ul>	
<b>16/13</b>	<p><b>Next Meeting</b></p> <p><b>Meeting confirmed as: Tuesday 4 June 2013 [pm]</b>  <i>Note: The agenda originally indicated the same date but in the morning. This was an error</i></p>	

### ACTION POINTS FROM LASAAC MEETING OF 21 March 2013

	<b>Minute Ref</b>	<b>Action</b>	<b>Action By</b>	<b>Status At</b>
A	02/13	Minutes of 17 October to be loaded to the website	G Davies	
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C	05/13	Work plan to be amended to remove welfare reform and to add Adult Health & Social Care Integration	G Davies	
D	05/13	Funding request for 13/14 to be submitted to the funding bodies with relevant accompanying papers	G Davies	
E	07/13	Simplification project to proceed subject to removal of duplication of Annual Governance Statement from questionnaire and the word 'potential' from the distribution list	G Davies	
F	08/13	Example accounting entries for decommissioning costs to be developed for consideration	G Davies	
G	10/13	STO Guidance to be amended as agreed, and circulated to the CIPFA DoF Section	G Davies	
H	11/13	Embedded financial guarantees: Worked example calculations and entries for the separation of the financial guarantee element to be developed	G Davies	
I	12/13	NDR guidance to refer to timing differences, with final version to be reviewed by Hazel Black	G Davies, H Black	