



Minutes of Meeting of 2 March 2017

[Approved by LASAAC on 23 May 2017]

CIPFA, 160 Dundee Street, Edinburgh EH11 1DQ

Present: Ian Lorimer (Chair), Gillian Woolman (Vice Chair), Hazel Black, Joe McLachlan, Derek Yule*, George Murphy, Nick Bennett, Russell Frith, Hugh Dunn, Darren McDowall, Stephen Reid*, Gary Devlin [* = teleconference]

Apologies: Derek Glover, Fiona Kordiak, Lesley Bairden

In attendance: Gareth Davies

Minute Ref		Action
01/17	Apologies Derek Glover, Fiona Kordiak, Lesley Bairden	
02/17	<p>Minutes</p> <ul style="list-style-type: none"> The minutes of 17 November were approved <p>Action:</p> <ul style="list-style-type: none"> Minutes to be updated on website <p>Matters arising: Action P – Separate Identification of Teachers Pension Liabilities</p> <p>It was noted that:</p> <ul style="list-style-type: none"> The Code 16/17 (para 6.4.1.7 and 6.4.1.8) effectively required the treatment of the Teachers' Pension scheme to be as if it was a defined contribution scheme. Any alternative treatment would require a change to the Code Some actuaries are now suggesting that separate (employer specific) liability estimation could be undertaken. It was not clear that all actuaries were in agreement. In England staff transfers to academies could reduce an authority's teachers' pension liability One Scottish authority is now listed on the stock exchange. Transparency regarding teachers' pensions would be anticipated to be important, since it affects the assessment of the authority's financial position. The teachers' scheme does not operate an admitted bodies approach in the manner of the LGPS. It is generally based on teacher accreditation. The Teachers' scheme is generally similar to other central 	G. Davies

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	<p>government 'unfunded' schemes.</p> <ul style="list-style-type: none"> • A key factor regarding determination of employer specific liabilities is that the Government Actuary Department apparently now determines employer contributions based on: <ul style="list-style-type: none"> ○ Current contributions ○ Deficit recovery funding • It was agreed that discussion at CIPFA-LASAAC would be helpful to assess whether there were any Code implications arising <p>Action:</p> <ul style="list-style-type: none"> • LASAAC representatives to raise specific employer liability estimation for the teachers' pension schemes at CIPFA-LASAAC in the context of the 2018/19 Code development 	<p>I.Lorimer, G.Woolman, R.Frith, N. Bennett, J. McLachlan</p>
<p>03/17</p>	<p>Membership</p> <p>i) Membership List</p> <p>Noted</p> <p>ii) Attendance</p> <p>The attendance paper was noted. A minor correction to the CIPFA-LASAAC substitute list has been made.</p>	
<p>04/17</p>	<p>LASAAC Work Plan 2016/17</p> <p>The paper was reviewed with some specific items commented on:</p> <ul style="list-style-type: none"> ○ A review of existing LASAAC guidance items was noted as requiring action ○ Queries received generally related to integration / IJBs ○ Management Commentary practices for 15/16 had not been specifically reviewed, although it was considered that practices were probably well established by now. <i>[Note not raised at meeting: for 16/17 accounts external auditors will be expected to comment on compliance with the statutory requirements. For 15/16 the requirement was primarily for auditors to assess consistency with the annual accounts].</i> ○ Valuation of council dwellings: It is not clear whether recent changes affecting the RICS members involved will affect implementation of the RICS Scotland proposals. ○ Interest charges to HRA: Following the withdrawal of LASAAC Guidance Note 2 feedback on the 16/17 accounts process may indicate whether replacement guidance is required. 	

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	<p>Action:</p> <ul style="list-style-type: none"> • The LASAAC secretary is to contact RICS Scotland regarding future plans for council dwelling guidance changes. • 2017/18 workplan to be developed for May 2017 meeting 	<p>G. Davies</p> <p>G. Davies</p>
05/17	<p>CIPFA-LASAAC Code Board</p> <p><Derek Yule joined by teleconference></p> <p>The paper was reviewed.</p> <p>A key point of discussion was the position regarding implementation of current valuation of Highways Network Asset in 2017/18. A decision is to be made at CIPFA-LASAAC on 8 March.</p> <p>It was noted that some Treasury Management practitioners had indicated a degree of uncertainty regarding the potential impact of IFRS 9 Financial Instruments in 2018/19.</p> <p>Action:</p> <ul style="list-style-type: none"> • LASAAC representatives on CIPFA-LASAAC to communicate LASAAC's conclusions regarding the extent of confidence relating to successful HNA implementation in 2017/18 that would be anticipated to be required. • LASAAC to promote awareness and quantification of IFRS 9 Financial Instrument impact during the consultation process. 	<p>I.Lorimer, G.Woolman, R.Frith, N. Bennett, J. McLachlan</p> <p>G. Davies, All members</p>
06/17	<p>Statutory Adjustments Review: Analysis of Unusable Reserves</p> <p>Hazel Black reported on the paper noting that more responses had now been received. A note of updated totals and analysis of these for the Employee Statutory Adjustment Account and the Financial Instruments Adjustment Account was provided. No outstanding balances for Icelandic Bank statutory adjustments have been noted.</p> <p>The following points were discussed:</p> <p>Employee Statutory Adjustments Account:</p> <ul style="list-style-type: none"> ○ the new figures did not radically change the proportions of the total analysed ○ the non-teachers adjustment is considered to be material ○ the flexi-time and TOIL adjustments were not regarded as material. On this basis removal of the statutory adjustment could be supported. The benefit and practical difference 	

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	<p>arising from removal may be marginal given the relatively low level of accruals.</p> <p>Financial Instruments Adjustments Account:</p> <ul style="list-style-type: none"> ○ the pattern of analysis was broadly similar to that in the report. The figure for 'soft loans' is unchanged. ○ some adjustments for premiums on early repayment are particularly long-term ○ stepped interest borrowing (eg LOBOs) are material for councils ○ The bulk of the adjustment value for 'soft loans' relates to one council, with the soft loan due to expire from 2021. <p>Icelandic Banks</p> <ul style="list-style-type: none"> ○ No balance identified by authorities, so removal of the statutory adjustment was requested and agreed. <p>Removal Proposals</p> <ul style="list-style-type: none"> ○ To remove statutory mitigation for: <ul style="list-style-type: none"> ○ Flexi-leave and TOIL accruals ○ Soft loans ○ Icelandic Bank deposit losses (no impact anticipated) ○ The accounting requirements (eg to accrue for TOIL, flexi-leave) will remain ○ To allow authorities to plan and prepare advance notification of the removal of the flexi-leave, TOIL and soft loans statutory adjustments is proposed. Withdrawal would be planned for 1 April 2020 (i.e. the 20/21 financial year). Authorities will be able to: <ul style="list-style-type: none"> ▪ Gradually reduce the use of the affected statutory adjustments over time with a planned 'taper' or ▪ Defer the full impact of removal until this is mandatory in the 20/21 financial year <p>Action:</p> <ul style="list-style-type: none"> • Scottish Government to develop statutory guidance to implement the removal of statutory adjustments as listed: <ul style="list-style-type: none"> ○ from 1 April 2020 (20/21 FY) for <ul style="list-style-type: none"> ▪ Flexi-leave ▪ Time Off In Lieu (TOIL) ▪ Soft loans ○ Immediate withdrawal <ul style="list-style-type: none"> ▪ Icelandic bank deposit losses 	H. Black
07/17	Statutory Adjustments Review:	

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	<p>Presentation review</p> <p>Hazel Black commented on the paper, noting that there was arguably duplication in the annual accounts in the presentation of statutory adjustments. Similar information is required in both the 'statutory adjustments' analysis that accompanies the MiRS and the details shown for unusable reserves.</p> <p>Potential changes would affect:</p> <ul style="list-style-type: none"> ○ Balance sheet: Reserves <ul style="list-style-type: none"> ○ New sub-total to aggregate Usable Reserves and Statutory Adjustment Accounts ○ Separate line presentation of accounting unusable reserves (eg revaluation reserve) ○ MiRS: New line items and arrangement to show: <ul style="list-style-type: none"> ○ Changes in reserves due to accounting practices (eg charging the revaluation element of depreciation to the Revaluation Reserve) ○ Changes in reserves due to statutory adjustments ○ Classification of the reversal of the 'Re-measurement of the net defined benefit liability/(asset)' in Other CI&E as a statutory adjustment ○ Summary analysis of statutory adjustments: <ul style="list-style-type: none"> ○ Table showing the line items in the CIES affected by the statutory adjustments with aggregate impact on the relevant usable reserves and statutory accounts shown ○ Statutory adjustments not affecting the CIES to be shown separately ○ This can be accompanied by a similar table to the Expenditure & Funding Analysis which analyses the aggregate statutory adjustments across service (segment) lines to arrive at the funding used for each service ○ Statutory Adjustment Accounts disclosure note <ul style="list-style-type: none"> ○ For each statutory account a table showing the opening balance, the adjustments made during the year identifying the nature of each adjustment and where applicable where it affects the CIES; and the closing balance <p>In discussion some benefits of the presentation were considered to be:</p>	
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	<ul style="list-style-type: none"> ○ Improved clarity in terms of identifying statutory adjustments ○ Reduction of some potential duplication in presenting statutory adjustments ○ Improved transparency on statutory adjustments will assist with Local Financial Return (LFR) completion and reconciliation ○ The LFR review had identified some areas of inconsistency and apparent non-compliance with the Code accounting requirements <p>Possible actions to progress change were discussed with key points being:</p> <ul style="list-style-type: none"> ○ The appropriate means of change is through the recognised Code development process ○ The extent of change, especially following the 16/17 implementation of the Expenditure and Funding Analysis, is likely to be a key concern for stakeholders ○ Practitioner engagement and support should be a key aspect to address. ○ Practitioner feedback would be helpful on whether the benefits, for example to the readers of the accounts, justify further change to the Code. In Scotland this could be requested along with feedback on the proposals to remove statutory adjustments. ○ Other UK territories may have significant concerns in respect of proposals for further change to presentation at the current time. ○ Consequently planning for consultation and piloting or further development in Scotland may be appropriate, subject to discussion at CIPFA-LASAAC and the plans for Code development <p>Action:</p> <p>LASAAC representatives on CIPFA-LASAAC to discuss the scope for introducing further presentation amendments into the Code development process.</p>	<p>I.Lorimer, G.Woolman, R.Frith, N. Bennett, J. McLachlan</p>
<p>08/17</p>	<p>Highways Network Asset</p> <p>This item was discussed under 05/17 the CIPFA-LASAAC Code Board (see above).</p>	
<p>09/17</p>	<p>Integration – Guidance Update</p> <p><u>Guidance Amendments</u></p> <p>The paper was reviewed. Lesley Bairden had kindly provided comments and suggestions for consideration.</p>	

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	<p>In relation to IJB Chief Officer (CO) remuneration, LASAAC considered that 100% of the CO's remuneration would be appropriately reflected in the Remuneration Report.</p> <p>Variation in presentation of local authority partner funding due to the IJB was noted, with some apparently representing funding due as an 'ear-marked balance' of the General Fund. The presentation of funding due to the IJB from a local authority as a creditor was discussed. It was confirmed that the IJB was regarded as controlling the use of the monies not yet drawn down. It should therefore show reserves (i.e. a General Fund balance) and a debtor balance due from the funding partner(s). The guidance wording is to be reviewed to clarify this.</p> <p><u>Integration Scheme Funding Commitments</u></p> <p>It was noted that some Integration Schemes specified the funding formulas, arrangements or responsibilities that each partner was expected to abide by. The recent funding settlements for both local government and the NHS however contained Scottish Government specifications regarding funding (eg local government partners could agree a maximum reduction up to their share of £80m across Scotland, NHS Boards were required to maintain a 'flat cash' contribution to IJBs). It was suggested that the same net position may be argued to exist if savings assumptions are applied which would 'net down' the Integration Scheme funding responsibilities.</p> <p>This raises a query as to whether partners may potentially comply with the funding settlement terms but could be in contravention of Integration Scheme agreements. The implications for the Annual Governance Statement disclosures for the annual accounts were queried.</p> <p>Action</p> <ul style="list-style-type: none"> • The draft guidance on integration is to be amended (per LASAAC comments) and circulated to stakeholders for comment. Final approval to be sought from LASAAC via e-mail. 	G. Davies
10/17	<p>Expenditure and Funding Analysis</p> <p>The paper was commented on, including:</p> <ul style="list-style-type: none"> ○ Variation in applying the Expenditure and Funding Analysis requirements was noted as potentially arising. Generally this should be expected and may be acceptable as it is specific to each authority. ○ As a primary statement, clearly based on accounting standards, the CIES presentation and particularly the treatment of internal transactions (eg internal recharges) 	

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	<p>may be more of a focus area in terms of seeking consistency.</p> <ul style="list-style-type: none"> ○ The impact on the completion and reconciliation of Local Financial Returns was noted. ○ The elimination of internal recharges through a specific line in the CIES was a potential option. ○ The materiality of internal recharges (i.e. controllable budget internal transactions) was questioned. Since this will generally exclude support service and year end allocations the materiality of internal transactions may not be significant. ○ In principle charges from the General Fund to the HRA (& vice versa) will normally be controllable expenditure and income for the respective segments. <p>LASAAC concluded that no specific action or further guidance was required at this stage.</p>	
11/17	<p>Capital Grants and Contributions</p> <p>Hazel noted that a review of the Local Financial Returns (LFRs) indicated some aspects of apparent Code non-compliance in a small number of authorities.</p> <p>It was noted that capital grant used, legitimately, for revenue purposes should be recognised in service lines in the CIES. It was suggested that this may not require an entry in the Capital Adjustment Account to reflect funding applied for capital purposes.</p> <p>It was suggested that the Code might be more explicit in paragraph 2.3.2.9 to specify that recognition in the CIES should be in the 'Taxation and Non-Specific Grant' line. This would simply repeat the requirement expressed later in paragraph 3.4.2.38 (e).</p> <p>Additionally statutory guidance could clarify and reinforce the accounting treatment.</p> <p>The treatment of grant held by the Scottish Government and spent by the Scottish Government as part of a co-ordinated national project was discussed.</p> <p>Action</p> <ul style="list-style-type: none"> • The treatment of capital grants and contributions by Scottish authorities to be referred to in the LAAP Bulletin 	G. Davies
12/17	Audit Scotland Update	

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	<p>Local government Overview Reports:</p> <ul style="list-style-type: none"> • Part 1 issued in November 2016 • Part 2 due by the end of March <p>Rent arrears are increasing in a number of councils</p> <ul style="list-style-type: none"> • Notably East Lothian, which has been one of the first 'full service' universal credit areas, has seen increases • Scottish Government proposals will allow, at tenant choice, rent payments to be made direct to landlords. This may help alleviate the issue to some extent. • The matter has been raised by COSLA in discussion with the Scottish Government • East Lothian has also apparently witnessed deterioration in performance indicators for benefit services due to the need to divert resources to support and train UC clients in process and software usage <p>Comments were invited regarding new audit appointments</p> <ul style="list-style-type: none"> • All authorities represented had held initial discussions with their external auditors • One audit firm had requested an initial upfront fee uplift with reductions to compensate in later years. The authority concerned had declined the request. <p>Integration:</p> <ul style="list-style-type: none"> • Auditors are now co-ordinating arrangements to avoid duplication of work and to provide letters of assurance • Officers in the relevant bodies may also wish to consider exchanging letters of assurance in making arrangements for the closure of the accounts 	
<p>13/17</p>	<p>Scottish Government Update</p> <p>No matters were raised.</p>	
<p>14/17</p>	<p>CIPFA/LAAP Update</p> <p>Members were encouraged and requested to respond to the current consultations on the Prudential Code and Treasury Management Code (both close 21 April).</p> <p>In particular members may wish to consider:</p> <ul style="list-style-type: none"> • Group entity considerations • Supporting long term financial planning <p>The extent of compliance with the requirements for the existing indicators, particularly the Capital Financing Requirement, was discussed. Some authorities appear to experience difficulty in supporting this from balance sheet data.</p>	

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	<p>The impact of City Deal arrangements on borrowing was noted, especially where the grant income was deferred by many years and conditional upon criteria being met. It was considered that while this situation may apply to some of the authorities involved in the Glasgow and Clyde Valley City Deal the position was not generally replicated or widespread.</p>													
15/17	<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>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	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 2 March 2017

	Minute Ref	Action	Action By	Status At 12/05/17
A	02/17	Minutes to be updated on website	G. Davies	Complete
B	02/17	LASAAC representatives to raise specific employer liability estimation for the teachers' pension schemes at CIPFA-LASAAC in the context of the 2018/19 Code development	I.Lorimer, G.Woolman, R.Frith, N. Bennett, J. McLachlan	Complete
C	04/17	The LASAAC secretary is to contact RICS Scotland regarding future plans for council dwelling guidance changes.	G. Davies	Complete
D	04/17	2017/18 workplan to be developed for May 2017 meeting	G. Davies	On agenda
E	05/17	LASAAC representatives on CIPFA-LASAAC to communicate LASAAC's conclusions regarding the extent of confidence relating to successful HNA implementation in 2017/18 that would be anticipated to be required.	I.Lorimer, G.Woolman, R.Frith, N. Bennett, J. McLachlan	Complete
F	05/17	LASAAC to promote awareness and quantification of IFRS 9 Financial Instrument impact during the consultation process.	G. Davies, All members	Ongoing
G	06/17	Scottish Government to develop statutory guidance to implement the removal of statutory adjustments as listed: <ul style="list-style-type: none"> • from 1 April 2020 (20/21 FY) for <ul style="list-style-type: none"> ○ Flexi-leave ○ Time Off In Lieu (TOIL) ○ Soft loans • Immediate withdrawal <ul style="list-style-type: none"> ○ Icelandic bank deposit losses 	H. Black	In progress.
H	07/17	LASAAC representatives on CIPFA-LASAAC to discuss the scope for introducing further presentation amendments into the Code development process.	I.Lorimer, G.Woolman, R.Frith, N. Bennett, J. McLachlan	On agenda
I	09/17	The draft guidance on integration is to be amended (per LASAAC comments) and circulated to stakeholders for comment. Final approval to be sought from LASAAC via e-mail.	G. Davies	Complete
J	11/17	The treatment of capital grants and contributions by Scottish authorities to be referred to in the LAAP Bulletin	G. Davies	Complete

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