



# **LOCAL AUTHORITY SCOTLAND ACCOUNTS ADVISORY COMMITTEE**

**ANNUAL REPORT 2009/2010**



# Introduction



**Lynn Brown**  
**CIPFA**  
**Chair of LASAAC**

In my final year as Chair of LASAAC it is my pleasure to introduce the 2009/10 LASAAC annual report. Throughout the year the Committee has continued working towards its objectives on behalf of Scottish local government. This includes not just the 32 local authorities but also police, fire and valuation joint boards; Regional Transport Partnerships; and other bodies as defined by legislation.

A vital feature of the Committee's undertaking is its continuing engagement with key stakeholders which is evident in all strands of LASAAC's work. This includes the Committee's fundamental role in representing Scottish local government in the development of UK-wide local authority accounting practice, achieved through representation on the CIPFA/LASAAC board which publishes the requirements.

For the 2009/10 financial year this publication took the form of the Local Authority Statement of Recommend Practice. A major change from the previous year was the treatment of Private Finance Initiatives and similar arrangements. In addressing this change LASAAC consulted with Scottish local government, assisting the implementation of statutory intervention by the Scottish Government to minimise the potential impact on the funding available for the provision of public services.

For the 2010/11 financial year however the accounting requirements are based on International Financial Reporting Standards (IFRS), resulting in further changes in the accounting treatment of some transactions. The resultant IFRS-based 'Code of Practice' was issued for consultation during the year with the final approved Code being published

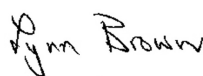
in 2009. This early publication date has allowed stakeholders more time to consider the potential impact of the changes.

While IFRS has been a core and significant feature of the Committee's work during 2009/10, LASAAC has not neglected other stakeholder interests. Projects undertaken include the consideration of financial reporting by Scottish Local Government Pension Schemes, the operation of the Loans Fund in Scottish authorities and a variety of other current issues. In progressing all of these issues LASAAC has demonstrated its commitment to the consultation of, and communication with, stakeholders.

As ever it is the dedication, commitment and professionalism of the Committee's voluntary members which drives this work. It is an honour to thank my fellow committee members and to register my appreciation for their contributions and support throughout the year. This of course includes Muir Wilson, Derek Glover, Susan Cooper and Sandra Black who are standing down from the Committee, and I express my gratitude for their participation in LASAAC.

In looking ahead I am pleased to announce that Lynn Bradley, the Vice Chair, will now assume the responsibilities of Chair. As I remain on the Committee I look forward to working with Lynn and my existing colleagues, as well as the new Committee members nominated by the funding bodies.

Naturally of course I offer my sincere thanks to the funding bodies for their essential financial support which permits LASAAC to maintain its promotion of proper accounting practices in Scottish local government.



Lynn Brown

# Code of Practice on Local Authority Accounting in the United Kingdom

## Statement of Recommended Practice 2009/10

The 2009/10 financial year was a key milestone in the continuing development of local government accounting, being the last year for which a 'Statement Of Recommended Practice' (SORP), based on standards published by the UK Accounting Standards Board (ASB), set the requirements for preparing local government financial statements.

LASAAC contributed to the development of the final SORP through participation in CIPFA/LASAAC, the joint board responsible for publication of the UK-wide SORP. In doing so LASAAC scrutinised and assessed the changes in the 2009/10 SORP which affected Scottish local government organisations, including:

- the recognition that in collecting National Non-Domestic Rate Income authorities are acting as an agent of the Scottish Government
- the adoption of International Financial Reporting Standards requirements in respect of Private Finance Initiative (PFI) and similar schemes, resulting in affected assets and corresponding liabilities being brought onto Scottish local government balance sheets. This change was implemented to achieve alignment with the UK Government's requirements for Whole of Government Accounts.

The latter point resulted in the Accounting Standard Board noting that, with the exception of the treatment of PFI and similar schemes, the SORP was fundamentally consistent with the ASB's accounting standards.



**Nick Bennett**  
ICAS  
Past Chair of CIPFA/LASAAC



**LASAAC Members on CIPFA/LASAAC**

### **Code of Practice 2010/11 - International Financial Reporting Standards**

The 2010/11 local government accounting requirements have now been published in the International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounting ('the Code'). CIPFA/LASAAC remains as the recognised issuing body, and LASAAC's participation and representation on CIPFA/LASAAC is not affected by the change.

Significantly however the Code is now subject to oversight by the Financial Reporting Advisory Board (FRAB), which governs the accounting practices that the rest of the public sector adheres to. This places UK local government within an overall public sector accounting framework for the first time.

The full implementation of IFRS requirements in the Code for 2010/11 has introduced significant change in some areas of accounting practice. The publication of the Code in advance of the 2010/11 financial year represented a significant step forward in providing local government organisations early notice of the accounting requirements.



# International Financial Reporting Standards (IFRS)

In implementing the UK Government's decision to adopt International Financial Reporting Standards (IFRS) across the public sector LASAAC's role has been to assist and support affected Scottish local government organisations in planning and preparation. This has been, and remains, important in identifying areas where funding stability is affected, as well as highlighting areas where technical accounting and practical implementation challenges arise.

The identification of the expected impact on funding of accounting changes is a vital part of LASAAC's role since the level of fund balances, particularly the General Fund, has a direct bearing on the resources available to support the provision of public services. Where a change in available resources is envisaged the Scottish Government may, for policy reasons, provide statutory intervention amending the manner in which the General Fund balance is determined.

## Private Finance Initiative and Similar Contracts

The implementation of IFRS requirements in 2009/10 for Private Finance Initiatives (PFI) and similar contracts is a particular example. These changes will see significant assets and the corresponding liabilities brought onto local government balance sheets. Early work by LASAAC identified a potential impact on available funding resources for local government, both on transition and in future years, due to possible changes in the timing profile of charges against fund balances. From this basis LASAAC worked closely with the Scottish Government and affected authorities in refining and developing statutory intervention to ensure where possible that funding stability for service provision is maintained.



**Hazel Black**  
Scottish Government



**Lynn Bradley**  
Audit Scotland  
Vice Chair

## International Financial Reporting Standards 2010/11

The remaining elements of IFRS requirements will be fully implemented in 2010/11 and LASAAC has already identified that the required treatment of employee benefits and leases are key areas where funding balances may be affected. The Scottish Government has agreed in principle that statutory intervention is desirable in respect of employee's short-term compensated absences, such as annual leave. In relation to leases and other aspects of IFRS implementation LASAAC will continue to work closely with Scottish local government by collating evidence of the impact on fund balances, in order to support any request to the Scottish Government for further statutory intervention.

## Other Implications of IFRS Implementation

The transition to IFRS also highlighted some incidental areas for LASAAC to consider. One such aspect was the valuation of council dwellings, in relation to which LASAAC issued guidance stating that valuing council dwelling on the basis of a tenant's 'right to buy' was inconsistent with the requirements of the Code for 2010/11. In addition LASAAC considered the treatment of local authority charities, determining that these should follow the financial reporting requirements of the Office of the Scottish Charity Regulator. Non-charitable common good and trust funds will however be subject to the requirements of the Code and may not be included in any statutory intervention implemented.



**Russell Frith**  
Audit Scotland



**Sandra Black**  
CIPFA

# Work on Current Accounting Issues

While the implementation of International Financial Reporting Standards continued to be a primary focus of LASAAC's work during 2009/10, other issues have also been addressed by the committee.

## Financial Reporting by Local Government Pension Schemes (LGPS)

As a result of practitioner support for the removal of LGPS financial statements from local authority annual accounts LASAAC undertook a consultation exercise on this issue as it related to Scotland. A wide variety of responses, with some contrasting views, were received. LASAAC concluded that there was scope for improving the financial reporting of Scottish LGPS funds and that clarification of the legal status of the Scottish LGPS was desirable. Furthermore it was considered that the publication of separate LGPS financial statements and the performance of a specific LGPS annual audit would help to clarify an administering authority's role in managing the LGPS, as well as supporting appropriate governance and scrutiny of the fund, on behalf of scheme members.

LASAAC informed the Scottish Public Pensions Agency (SPPA), which is the Scottish Government body responsible for oversight of the Scottish LGPS, of its views. The SPPA subsequently issued a formal consultation on the potential publication of an 'LGPS Annual Report'.

## Loans Fund Accounting

Scottish local authorities are required by legislation to establish a Loans Fund for the management of borrowing. In doing so the Loans Fund operates as an 'internal bank' and it is the internal repayment of advances from the Loans Fund, rather than the redemption of external debt, which is charged against the General



**Bruce West**  
ACCA



**Ian Robbie**  
ICAS



Fund balance. Following questions on how the Loans Fund should be administered LASAAC requested Scottish authorities to provide details of their Loans Fund operations. The responses received indicated that in many respects there were a variety of practices adopted.

LASAAC concluded that aspects such as the treatment of capital receipts, asset transfers between funds and the period over which advances from the Loans Fund should be repaid were issues of policy that should be considered by the Scottish Government's 'capital finance working group'. The committee however agreed that other areas could be regarded as more technical in nature and should be examined by LASAAC with a view to developing additional accounting guidance.

### Other LASAAC Work

In addition to the above during 2009/10 LASAAC has been involved in discussions on the status of local authority registered charities, the implementation of the Carbon Reduction Commitment scheme by local authorities, the valuation of transportation infrastructure and plans to alter the existing categories used to analyse expenditure on Police services.

# Future Challenges and Developments

## Continuing Work on International Financial Reporting Standards

As Scottish local government moves towards the publication of IFRS based financial statements at the end of the 2010/11 financial year LASAAC will continue to support this process. In particular LASAAC is committed to collating evidence on behalf of Scottish local government regarding the impact of IFRS implementation on fund balances. It is anticipated that this will form the basis for any further requests to the Scottish Government for statutory intervention, which would need to be enacted during the 2010/11 financial year.

## Guidance on Using Local Government Financial Statements

LASAAC has agreed that in conjunction with the implementation of IFRS it will publish a helpful guide for the users of local government IFRS based statements. It is envisaged that this will be of particular use and benefit to those responsible for local government governance, including councillors and joint board members. The intention of the guide is not just to explain IFRS statements for the non-accountant, but also to support the use and role of the financial statements as a key element in organisation governance.

## Future Accounting Developments

With local government accounting requirements now based on IFRS, future editions of the Code of Practice on Local Authority Accounting can be affected by changes in the underlying accounting standards. These standards are set by the International Accounting Standards Board (IASB) and the International Public Sector Accounting Standards Board (IPSASB). Both standard setting bodies have



**Marjory Stewart**  
ACCA



**Grant Macrae**  
ICAS  
Past Chair of LASAAC

future work plans, including reviews of the underlying principles and objectives of financial reporting. In addition the IASB is currently reviewing some of its existing standards as a consequence of the current global economic situation. Where changes to existing standards are made LASAAC will, through its participation in the CIPFA/LASAAC Local Authority Code Board, seek to ensure that the implications for Scottish local government are fully considered.

### Other Anticipated Work

It is anticipated that other areas of LASAAC work in 2010/11 will include the development of guidance on Loans Fund accounting, guidance on the implementation of carbon accounting requirements, further guidance on council dwellings valuation and continuing consideration of transportation infrastructure valuation.

# Membership

The duties of LASAAC in 2009/10 were undertaken by the following representatives of each of the funding bodies:

## CIPFA



**Lynn Brown**  
Glasgow City Council  
Chair



**Susan Cooper**  
Aberdeen City Council



**Sandra Black**  
Renfrewshire Council

## ICAS



**Grant Macrae**  
KPMG  
Past Chair



**Ian Robbie**  
Henderson Loggie



**Nick Bennett**  
Scott-Moncrieff  
Past Chair of  
CIPFA/LASAAC

## Audit Scotland



**Russell Frith**  
Audit Scotland



**Lynn Bradley**  
Audit Scotland  
Vice Chair

## ACCA



**Bruce West**  
Argyll and Bute  
Council



**Muir Wilson**  
Clackmannanshire  
Council



**Marjory Stewart**  
Dundee City Council

## The Scottish Government



**Derek Glover**  
Scottish Government



**Hazel Black**  
Scottish Government

## Coopted Member



**Valerie Davidson**  
Strathclyde  
Partnership for  
Transport

## Secretariat Support



**Don Peebles**  
CIPFA



**Gareth Davies**  
CIPFA



# LASAAC Objectives

The Local Authority Accounts (Scotland) Regulations 1985, indicates that Scottish local government should follow recommendations made by LASAAC regarding the form of accounts and accounting practice.

## The Objectives Are:

To develop and promote proper accounting practice for local government in Scotland in line with the legislative framework for Scottish local government. This relates to Scottish bodies required to prepare financial statements complying with the Local Authority Code of Practice, including local authorities, joint boards, regional transport partnerships and other bodies as specified by relevant legislation.

To contribute to the development of a United Kingdom IFRS based Code of Practice for Local Authorities ('the Code') and other accounting requirements by working with the CIPFA/LASAAC Local Authority Code Board; to contribute to the formal approval process for the Code and other accounting requirements.

To develop responses, where appropriate, to exposure drafts, discussion papers and consultation documents issued by the Scottish Parliament, The Scottish Government, other professional bodies and other bodies concerned with issues affecting local government accounting

To continuously strive to improve the quality and relevance of local government financial statements as a source of valuable information to all local government stakeholders

To act as the interface between Scottish local government and the Scottish Government on local government accounting matters

To participate in working groups established by other bodies where LASAAC has a locus.

LASAAC's membership comprises nominations from the following funding bodies:

- Institute of Chartered Accountants of Scotland (ICAS)
- Association of Chartered Certified Accountants (ACCA)
- Chartered Institute of Public Finance and Accountancy (CIPFA)
- Scottish Government
- Audit Scotland

Each body contributes annually to the cost of LASAAC, including professional secretariat services which are provided to the Committee by Don Peebles and Gareth Davies. In 2009/10, each funding body contributed approximately £11,800.

**A copy of the constitution can be obtained from the LASAAC website [www.cipfa.org/scotland/lasaac/index.cfm](http://www.cipfa.org/scotland/lasaac/index.cfm)**





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Accounts Advisory Committee**

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