



To: LASAAC Funding Bodies

From: Gareth Davies, LASAAC Secretary

Date: 12 June 2014

Subject: Annual Report on LASAAC Activities 2013/14

1. Background

1. The LASAAC constitution in paragraph 6.3 requires that a summary of projects undertaken during the past year is provided to the funding bodies.
2. Paragraph 9.3 of the constitution requires a historical summary of activities to be included in an annual report. This paper provides a copy of the summary report provided to LASAAC funding bodies for formal approval or amendment.
3. It includes hyperlinks to some relevant items.

2. Objectives of LASAAC Activities

4. The activities throughout the year have been undertaken with the intention of meeting the Committee's objectives as stated in section 3 of the constitution. These are summarised as:
 - Development and promotion of proper accounting practice for Scottish local government
 - Contribution to the UK IFRS based 'Code of Practice' for local government
 - Responding to discussion papers, consultation papers and exposure drafts issued by a variety of bodies
 - Improving the quality and relevance of local government financial information for stakeholders
 - Interface between the Scottish Government and Scottish local government on accounting matters
 - Participation in relevant working groups

A. "Example Presentation Of Non-Domestic Rates In 2012/13 Financial Statements"

5. Non-Domestic Rate (NDR) incentivisation schemes such as BRIS (Business Rates Incentivisation Scheme) and TIF (Tax Incremental Financing) have altered the perception that the full amount of NDR is LASAAC Funders

collected by authorities acting as an agent for the Scottish Government. The right to retain some NDR income was regarded by LASAAC as creating a need to differentiate between NDR collected on behalf of the Scottish Government and NDR collected for the authority itself (i.e. as principal).

6. LASAAC worked during 2013, in conjunction with key stakeholders, to develop guidance and spreadsheet accounting models for local authorities. These have sought to address both the practical issues arising and the need for transparency and clarity in the financial statements. Formal guidance and spreadsheet examples were issued in May 2013 to assist authorities and auditors.
7. [The guidance](#) addressed:
 - Presentation of NDR income which is retained by an authority
 - Clarification and separate presentation and disclosure of the amount of NDR income distributed from the national non-domestic rate pool

B. [Significant Trading Operations – Consolidated Guidance](#)

8. The criteria for identification of Significant Trading Operations (STO) were noted as differing between local authorities. LASAAC issued [guidance](#) for the 2012/13 financial year to support consistency. This consolidated existing guidance with enhanced advice based on the conclusions of the Trading Operations Review Group.
9. The guidance emphasised that the statutory STO requirements were regarded as being applicable to external trading only. Internally provided services should be provided in compliance with the legal duty to secure best value.

C. Asset Decommissioning Obligations

10. Following developments in other UK territories and issues arising from the liquidation of private open cast mining operations LASAAC considered the accounting requirements regarding asset decommissioning obligations. The results of a previous survey, carried out earlier in 2013, indicated that a variety of different practices existed in local authorities.
11. LASAAC identified areas of asset decommissioning obligation accounting treatment where guidance was appropriate. For the 2012/13 financial statements the Chair of LASAAC issued an [e-mail on asset decommissioning obligations](#) to Scottish local authority Directors of Finance to ensure that awareness of the issue was raised.
12. LASAAC issued [initial draft guidance on asset decommissioning obligations](#) for consultation to inform development of guidance for the 2013/14 financial year. The responses were considered by the Committee. A [revised exposure draft](#) was issued. Worked spreadsheet

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examples are to be provided to assist authorities in evaluating the financial and funding impact of the guidance.

D. Transport Infrastructure Assets – Current Valuation

13. CIPFA/LASAAC has stated that UK local authorities will be expected to use a current value approach for relevant transport infrastructure assets in their 2016/17 financial statements. This will align the accounting policy with central government practices.
14. This change is anticipated to be a significant transition for local authorities. It will affect both financial and engineering professionals. Early preparation is desirable to minimise additional cost burdens and support a smooth transition.
15. In order to evaluate the potential impact LASAAC has discussed implementation with representatives from SCOTS (Society of Chief Officers of Transportation in Scotland). Key areas arising from discussion included:
 - Asset Management Planning information should be the key driver and foundation for the reporting of financial information.
 - The anticipated scale of transport infrastructure assets is significant
 - The estimation of current value information suggests that a degree of tolerance and acceptance will be needed in presenting a 'true and fair' presentation
 - Carriageways are the most significant asset sub-group, with generally reliable data on volume and condition apparently held

E. Local Authority Mortgage Scheme (Embedded Financial Guarantees)

16. Financial advisors offered Scottish authorities an opportunity to provide security to support home-buyer mortgages. LASAAC examined the nature of the scheme, identifying the accounting treatment, and its practical implementation, that would be necessary. It was concluded that, where material, the embedded financial guarantee element of the scheme should be separately identified and evaluated.

F. Local Authority Accounts (Scotland) Regulations

17. In January 2009 LASAAC wrote to the Scottish Government requesting a review of Finance Circular 5/1985 and SSI 1985 / 267 [The Local Authority Accounts (Scotland) Regulations 1985].
18. The Scottish Government issued a consultation on replacement of the regulations during 2013/14. LASAAC contrasted the proposals with the initial issues identified and also considered other issues arising. Based on this LASAAC [submitted a response](#). Subsequently the Scottish Government has engaged with all stakeholders through a variety of

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channels, including open discussion at LASAAC, with the objective of determining amendments that would be appropriate.

19. LASAAC is continuing its involvement with the Scottish Government's development of the regulations.

G. Integrated Reporting Framework

20. LASAAC provided a submission to the International Integrated Reporting Council (IIRC) regarding the proposed development of a 'six capitals' model for reporting an entity's position and performance.

21. The framework suggested that value creation or usage in respect of six capitals should be identified or described for stakeholders. The six capitals are: financial; manufactured; intellectual; human; social & relationships; and natural capital.

22. The LASAAC submission commented that:

- The six capitals model was useful and that voluntary adoption should be fostered as a first step
- The costs and benefits for the public sector should be articulated
- Concise reporting should be a goal
- Legislative support or integration into existing frameworks would be required
- More consideration of the assurance and evidence process would be required
- For the public sector accountability and intergenerational financing effects would be key aspects to address

E. Simplification of the Accounts - Reader Survey

23. In order to support progress on simplification of Scottish local government financial statements LASAAC undertook a survey to assess reader preferences. A wide variety of readers were requested to respond, including public taxpayer organisations, councillors, lenders and other parties.

24. Although the number of responses were limited key findings from the survey were:

- There is a diverse readership. User preferences varied considerably from those seeking an easy to understand overview to those with specific interest in detailed analysis of figures.
- Effectively presenting the role of statutory mitigation in affecting the funding of local government and its relationship to an accounting based record of income and expenditure is a challenge

25. LASAAC intends to use the findings in relation to influencing CIPFA-LASAAC plans to improve the relevance and use of local government financial statements.

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G. Other areas

26. Other areas of LASAAC work during 2013/14 included:

- a. Code of practice 2014/15 development including assessment and interpretation of the following for UK local authorities:
 - Implementation of revised IASB standards for group accounting
 - Transport Infrastructure – movement to a current value
 - Local government reorganisations and combinations
 - The assessment of control, and presentation in the financial statements, of service provision entities (e.g. maintained schools in England)
- b. The Integration of Adult Health and Social Care has been monitored by the committee in order to assess the financial reporting implications.
- c. IFRS lease accounting proposals have been scrutinised to assess the potential effect on Scottish local government, particularly noting that HM Treasury's approach to capital and revenue expenditure and funding would be important
- d. The impact of the transfer of Police and Fire & Rescue Services to central government on group accounts for 2013/14
- e. LASAAC website maintenance
- f. Changes to the Scottish Service Analysis to ensure consistency with the Code of Practice requirements
- g. Communication with and reports to the Scottish local authority Directors of Finance.
- h. Responding to queries concerning LASAAC work and guidance issued.
- i. Undertaking presentation duties to promote proper accounting practice
- j. Representation and communication of LASAAC decisions and actions at various groups, such as the Local Authority Accounting Panel (LAAP). This also ensures that LASAAC is informed of issues arising.

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COMMITTEE ACTION

3. The committee is requested to :

- **Approve or amend the annual report for 2013/14**

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