



Minutes of Meeting of 26 August 2015
[Approved by LASAAC on 12 November 2015]

CIPFA Scotland, 160 Dundee Street, Edinburgh, EH11 1DQ

Present: Fiona Kordiak (Chair), Russell Frith, Derek Scott, Gary Devlin, George Murphy, Hazel Black, Carolyn Earl, Ian Lorimer (vice Chair, by phone)

Apologies: Derek Yule, Nick Bennett, Stephen Reid, Hugh Dunn, Gillian Woolman, Joe McLachlan

In attendance: Gareth Davies

| Minute Ref | | Action |
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| 24/15 | Apologies Apologies (per above) were noted. | |
| 25/15 | Minutes <ul style="list-style-type: none"> • The minutes of 26 May were approved Matters arising were reviewed: <ul style="list-style-type: none"> • The example IFRS based accounts (action F) and the discussion of LASAAC views on streamlining of the accounts at CIPFA-LASAAC were noted as arising later on the agenda Action: <ul style="list-style-type: none"> • Minutes to be loaded to the website | G Davies |
| 26/15 | Membership The Chair noted that the LASAAC Terms of Reference would require a review of the co-optee membership at the next meeting. Action: <ul style="list-style-type: none"> • Co-optee membership to be on November agenda | G. Davies |
| 27/15 | Work Plan 2015/16 The work plan was reviewed with the following noted: <ul style="list-style-type: none"> • Management Commentary: Most queries from practitioners | |

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| | <p>arose prior to the Scottish Government's publication of statutory guidance</p> <ul style="list-style-type: none"> • Transport Infrastructure: <ul style="list-style-type: none"> ○ The secretary had attended the practitioner 'West of Scotland' group to outline the Code proposals and request feedback on areas of uncertainty where practitioners felt that LASAAC guidance would be relevant. ○ It was noted by an auditor that practitioners were starting to raise questions with their auditors, prior to any hand over to incoming auditors for 2016/17. <p>Carolyn joined the meeting. The Chair welcomed her to her first meeting.</p> | |
| 28/15 | <p>CIPFA-LASAAC Code Board</p> <p>Streamlining of the Accounts</p> <p>The Chair provided a summary of the discussion held at CIPFA-LASAAC:</p> <ul style="list-style-type: none"> • LASAAC comments had been raised for discussion at CIPFA-LASAAC • The role of the CIPFA-LASAAC working group and amount of consensus achieved in the working group was discussed. • It was noted that LASAAC had not, as a whole committee, had prior sight of the proposals <p>George noted that following the meeting the consensus appeared to be that LASAAC development of a mock set of IFRS accounts should be postponed.</p> <p>A subsequent CIPFA-LASAAC telephone conference was convened in order to discuss a revised consultation document:</p> <ul style="list-style-type: none"> • Changes had been made to the consultation • The full range of options considered by the working group were explained in the consultation • The following question was added to the consultation "Q19 What do you consider to be the practical effects of the proposals for local authority accounts preparers?" • The funding analysis was moved to within the Management Commentary <p>The audit of the funding analysis in the Management Commentary was raised. It was not clear that it would be subject to audit. Auditors would probably not wish a 'partial' or selective audit approach to specific statements (i.e. a formal requirement to audit a specific part of a statement otherwise not included in the audit).</p> | |

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| | <p>The difficulties of auditing budget figures were also noted. Views differed as to whether the original budget or the final approved budget should be used for comparison against out-turn:</p> <ul style="list-style-type: none"> • any final in-year budget amendment was normally determined by authorities in January • it was noted the new Audit Code of Practice placed more emphasis on auditing the budget setting process • additional funding may be received in year with a consequent need to amend the budget • it was suggested that a material change in the budget should be explained in the Management Commentary <p>The results of the consultation will be reviewed by CIPFA-LASAAC on 4 November. It was noted that it would be helpful to have an insight into Scottish responses.</p> <p>It was noted that Derek Yule has volunteered to co-ordinate a Directors of Finance Section response. Ian offered to liaise with Derek to encourage wider DoF engagement.</p> <p>Actions:</p> <ul style="list-style-type: none"> • Ian Lorimer to liaise with Derek Yule to encourage DoF engagement on the streamlining presentation consultation • LASAAC members to be kept informed of the Scottish responses received to the streamlining presentation consultation <p>Code 2016/17 Consultation</p> <p>The summary in the report was noted.</p> <p>The wording of ED2 para 4.11.2.4 relating to the treatment of subsequent expenditure on the Highways Network Asset:</p> <p>“Subsequent expenditure on the Highways Network Asset will be capitalised where it adds to or replaces the economic benefits or the service potential in the asset. Spending that does not replace or add to the economic benefit or service potential of the asset shall be charged as expenditure in the year that it is incurred.”</p> <p>It was suggested the intention was to include only ‘capital maintenance’ (eg component replacement), rather than ‘revenue maintenance’ (eg pothole filling).</p> <p>It was however suggested that the use of the word ‘replaces’ may give rise to some interpretation issues.</p> <p>It was also noted that Transport Scotland includes lines for trunking and de-trunking in its reconciliation of changes in asset value.</p> | <p>I. Lorimer, D. Yule</p> <p>G. Davies</p> |
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| | <ul style="list-style-type: none"> • CIPFA-LASAAC secretary to be informed of possible interpretation issues re 'replaces' in ED2 4.11.2.4, and the potential for trunking & de-trunking to be reflected in the asset reconciliation disclosure | G. Davies |
| 29/15 | <p>Integration of Health & Social Care</p> <p>LASAAC reviewed the draft guidance in depth. The Chair thanked the volunteer members of the group for their contribution and dedication. Key elements raised by LASAAC were:</p> <ul style="list-style-type: none"> • Plain English should be used (eg replacement of the word 'abrogate' in para 6) • A clear statement should be provided that: <ul style="list-style-type: none"> ○ The guidance does not cover the 'lead agency' model ○ LASAAC anticipates that the guidance will be reviewed and updated in future as integration arrangements develop • LASAAC agreed that shadow boards cease on the date that an IJB is established by Ministerial order. <ul style="list-style-type: none"> ○ the treatment of shadow board costs to date was queried, with a parallel to private sector formation cost being made ○ it was anticipated that shadow board costs (to the IJB establishment date) would remain with the partners (LA &/or NHS HB) ○ shadow board costs were unlikely to be material for either the LA or the HB ○ it was not anticipated that there would be any significant liabilities transferring from the shadow boards to IJBs. ○ IJB Chief Officer appointments are not expected to be challenged or rejected by the IJB. ○ The desire for simplicity in financial reporting for the IJB was noted • Grossing up of services in kind where compensation / consideration was provided to the partner (paras 20-25) <ul style="list-style-type: none"> ○ LASAAC agreed with the requirements for the IJB ○ LASAAC considered that there was no requirement to require a 'mirror' approach in the local authority accounts, on the basis that the item may not be material for the local authority ○ The VAT consequences were not within LASAAC's remit. The financial reporting requirement that irrecoverable VAT would be expenditure of the IJB was agreed. | |

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| | <ul style="list-style-type: none"> • Distinction between operating costs and commissioning expenditure (para 19). <ul style="list-style-type: none"> ○ The need for the distinction was noted. ○ The current wording requires improvement in phrasing and terminology since members interpreted it differently. ○ Potentially reference could be made to 'direct' and 'indirect' costs. • Remuneration Report: LASAAC discussed the principles and application of the Remuneration Report requirements. Gillian Woolman's comments on the draft guidance were noted. <p><u>Voting Board Members</u></p> <ul style="list-style-type: none"> ○ It was agreed that the Chair and Vice Chair should be treated as senior councillors for the IJB remuneration report ○ The cap on senior councillors was not considered to apply in respect of the IJB as the interpretation was only for the IJB remuneration report ○ It was not considered likely that the Chair or Vice Chair would receive remuneration, unless some expenses claimed were subject to income tax ○ This was regarded as different to other situations where a board might be recharged for the allowances paid to an appointed councillor (i.e. the board would show the amount as expenditure). ○ The exclusion of non-taxed expenses was challenged. It was noted that the remuneration report sought to identify benefits received by the individuals, not the cost of employment. For example employer NI contributions are not included. This was stated as general practice in the public sector. <p><u>IJB Chief Officer</u></p> <ul style="list-style-type: none"> ○ It was agreed that the IJB Chief Officer (CO) would be expected to appear in the IJB remuneration report ○ The situation where an IJB CO was not full time for an IJB was discussed. ○ The remuneration report treatment of existing inter-council sharing of senior officers was raised. In one such arrangement the full remuneration is presented in both authorities accounts with a note of how the costs are shared. ○ LASAAC generally considered that, where the definition of a 'relevant person' is met, the contractual employing organisation should show 100% of the person's remuneration, even if some of | |
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| | <p>this is shared with another organisation. It was considered that it would be rare for the IJB CO to meet the definition of a 'relevant person' in respect of their contractual employer (the LA or HB).</p> <ul style="list-style-type: none"> ○ Views differed on whether the IJB should present 100% of the CO remuneration even if the IJB CO post was not 100% of their time. <p><u>IJB Pensions Liability for Chief Officer</u></p> <ul style="list-style-type: none"> ○ LASAAC considered that whether the IJB was required to present a Pensions Liability (per IAS 19 with actuarial valuations required) would depend on the formal cost sharing agreement between the IJB and the employer. If the agreement specifies that the IJB is liable for future pensions liabilities then the IJB may require to recognise a pensions liability. If the agreement specifies the IJB is only liable for current employer contributions, then the contractual employer (LA or HB) will present any pensions liability. <ul style="list-style-type: none"> • Presentation of LA CIES <ul style="list-style-type: none"> • The presentation proposed (showing the contribution to the IJB on a separate line) was agreed • Related Party Disclosures <ul style="list-style-type: none"> ○ The simplified (current practices) approach was preferred ○ A similar approach is to be adopted in the guidance for IJB related party disclosures • 2015/16 Part Year Services <ul style="list-style-type: none"> ○ LASAAC considered there was no financial reporting requirement to specifically require disclosure of part year costs • Application of statutory mitigation <ul style="list-style-type: none"> ○ The expectation that any annual leave accrual would be immaterial is to be noted in the guidance • Cash Flow Statement / Cash & Cash Equivalents <ul style="list-style-type: none"> ○ On the basis that partners are not anticipated to hold 'ring-fenced' cash for the IJB it is anticipated that IJB reserves (if existing) will be supported by a debtor (balances due from the partners) on the balance sheet rather than a 'cash & cash equivalent' figure • Draft integration guidance to be amended as per LASAAC comments and submitted via e-mail for final review by LASAAC members | <p>G. Davies</p> |
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| 30/15 | <p>Management Commentary</p> <p>The Chair noted that Tim Bridle of Audit Scotland had recently reviewed the draft Management Commentaries of all 32 councils. The initial analysis was outlined, noting that any views expressed were personal and reflected some subjective judgement.</p> <p>The Chair noted that</p> <ul style="list-style-type: none"> • Auditors had commented that generally the commentaries had improved how councils 'told the story', although there were apparent inconsistencies in the extent to which councils had changed previous practices. • Lengths varied considerably (from 3 pages to 23 pages) • Almost all councils have included something on council strategy and many have beefed up the outlook section. • A few have included the description of financial statement despite the guidance recommending that it be dropped. • Most councils mention the group or group accounts but the group could perhaps feature more for those authorities with many ALEOs for example. • In terms of a fair review of the authority's business most councils have stuck to a financial review with just over a third of councils including the DoF indicators. • The quality of the financial review / how well the strategic financial story is told varies (as was previously the case). • A few councils have attempted a wider review of the authority's business encompassing non-financial performance and non-financial performance indicators. • Many councils included details of performance management arrangements and information along with links but without any analysis in the Management Commentary. • Some councils made extensive use of infographics <p>It was suggested that good practice would be to provide a balance between graphics and text as different readers would have different needs.</p> <p>It was noted that there appeared to be minimal articulation of the key risks faced by each council. Additionally the political environment for each council may need to be recognised.</p> | |
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| | <p>LASAAC discussed the possible provision of good practice examples:</p> <ul style="list-style-type: none"> • Examples rather than guidance is the intention • A template or 'boiler plate' approach is to be avoided • Good practice examples would help maintain momentum and tackle areas such as the group accounts / business model in using ALEOs • Ensuring an appropriate balance between technical and informative is challenging • LASAAC would wait for audited accounts to be finalised before issuing any good practice examples <p>Action:</p> <ul style="list-style-type: none"> • Tim Bridle's presentation on a review of management commentaries to be circulated to LASAAC members • All members to provide feedback on management commentary good practice examples • Good practice examples of management commentary approach to be developed for issue, working with Tim Bridle | <p>G Davies</p> <p>All LASAAC members I.Lorimer, H. Black</p> |
| <p>31/15</p> | <p>Council Dwellings Valuation</p> <p>A recent update from Mike Brown on behalf of RICS Scotland was noted:</p> <ul style="list-style-type: none"> • The guidance note is an additional addendum which provides advice on the application of the Beacon Method, relating solely to the calculation of the adjustment factor • A key element is that the discount should reflect the discount a purchaser would receive in buying all the individual units in one transaction. • RICS and ACES have approved the approach • The Director of RICS Scotland will consider finalisation of the draft and an appropriate publication / circulation method <p>It was noted that existing LASAAC guidance would need to be updated, potentially removing reference to DCLG guidance.</p> <p>ACTION:</p> <ul style="list-style-type: none"> • RICS Scotland to be invited to LASAAC's November meeting | <p>G Davies</p> |
| <p>32/15</p> | <p>Audit Scotland Update</p> <ul style="list-style-type: none"> • A Best Value report on Falkirk Council is due for issue. The Council will be meeting the Accounts Commission on the | |

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| | <p>day of release.</p> <ul style="list-style-type: none"> • 2014/15 audits : no major issues arising to date • Following the Public Pound (joint document with COSLA) has been reviewed and the principles are considered to still apply. | |
| 33/15 | <p>Scottish Government Update</p> <ul style="list-style-type: none"> • The review of borrowing legislation was noted. <ul style="list-style-type: none"> ◦ The potential requirement to withdraw LASAAC Guidance Note No. 2 was discussed. ◦ The state aid implications of borrowing to on-lend to subsidiaries were noted. It was suggested that this would depend on the nature and work of the ALEO. ◦ The Scottish Government also plans to consider the application of capital receipts. | |
| 34/15 | <p>CIPFA / LAAP Update</p> <p>The report was noted. SCOTS (Society of Chief Officers of Transportation in Scotland) questions in relation to Transport Infrastructure (Highways Network Asset) were discussed:</p> <ul style="list-style-type: none"> • Section 95 officer responsibilities were noted • The impact of small changes in assumptions etc causing volatility in road valuations was noted. Transport Scotland was cited as an example, with a 5 year smoothing approach apparently adopted. • It was suggested that verification of rates for local authority accounts would be required. Reliance on central rates would be subject to challenge if inappropriate for Scottish councils. • Verification of the spreadsheet tools used was also raised. • Auditors would be focused on: <ul style="list-style-type: none"> ◦ The system / process used ◦ The quality of the data input • Audit Scotland have requested an initial focus on verification of physical quantities <p>ACTION:</p> <ul style="list-style-type: none"> • Source and verification of Transport Infrastructure rates to be raised with CIPFA (Mandy Bretherton) and the CIPFA-LASAAC secretary | G Davies |
| 35/15 | <p>Date of Next Meeting</p> <p>Next meeting 2pm 12 November, Edinburgh</p> | |

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ACTION POINTS FROM LASAAC MEETING OF 26 August 2015

| | Minute Ref | Action | Action By | Status At 03/11/15 |
|---|-------------------|--|----------------------|---------------------------|
| A | 25/15 | Approved minutes of 26 May to be loaded to the website | G. Davies | Complete |
| B | 26/15 | Co-optee membership to be on November agenda | G. Davies | Complete |
| C | 28/15 | Ian Lorimer to liaise with Derek Yule to encourage DoF engagement on the streamlining presentation consultation | I. Lorimer, D. Yule | Complete |
| D | 28/15 | LASAAC members to be kept informed of the Scottish responses received to the streamlining presentation consultation | G. Davies | On agenda |
| E | 28/15 | CIPFA-LASAAC secretary to be informed of possible interpretation issues re 'replaces' in ED2 4.11.2.4, and the potential for trunking & de-trunking to be reflected in the asset reconciliation disclosure | G. Davies | Complete |
| F | 29/15 | Draft integration guidance to be amended as per LASAAC comments and submitted via e-mail for final review by LASAAC members | G. Davies | Complete |
| G | 30/15 | Tim Bridle's presentation on a review of management commentaries to be circulated to LASAAC members | G. Davies | Complete |
| H | 30/15 | All members to provide feedback on management commentary good practice examples | All members | On agenda |
| I | 30/15 | Good practice examples of management commentary approach to be developed for issue, working with Tim Bridle | I. Lorimer, H. Black | On agenda |
| J | 31/15 | RICS Scotland to be invited to LASAAC's November meeting | G. Davies | Complete |
| K | 34/15 | Source and verification of Transport Infrastructure rates to be raised with CIPFA (Mandy Bretherton) and the CIPFA-LASAAC secretary | G. Davies | Complete |

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