



Minutes of Meeting of 10 March 2016

[Approved by LASAAC on 25 May 2016]

CIPFA, 160 Dundee Street, Edinburgh EH11 1DQ

Present: Fiona Kordiak (Chair), Stephen Reid, Hugh Dunn, George Murphy*, Hazel Black, Gillian Woolman, Joe McLachlan*, Carolyn Earl, Gary Devlin, Nick Bennett, Russell Frith (*= by phone)

Apologies: Ian Lorimer (Vice Chair), Derek Yule, Derek Glover

Guests: Graeme Ferguson, Raymond Smith (SCOTS); Tim Bridle (Audit Scotland)

In attendance: Gareth Davies

Minute Ref		Action
01/16	<p>Highways Network Asset (HNA)</p> <p>The Chair welcomed the participation of SCOTS and Audit Scotland expert staff.</p> <p>Overview: Graeme noted that:</p> <ul style="list-style-type: none"> • The carriageway was the biggest single component of the HNA • Carriageway surveys were effectively centrally undertaken through a single contract with a single contractor • The contractor uses the UK Pavement Management System (UKPMS) to derive the Depreciated Replacement Cost • SCOTS have specified, at a whole Scotland level, two variables affecting the calculation of annual depreciation: <ul style="list-style-type: none"> ○ Tini (time to initial [detectable] deterioration) ○ Ttul (Total useful life) <p>Depreciated Replacement Cost (DRC)</p> <ul style="list-style-type: none"> • Treatment rates used to calculate accumulated depreciation have been set centrally based on historic returns from authorities. • Some outliers appear to exist when rates are compared, although rates can depend on local circumstances (eg distance to depot or quarry) • SCOTS noted that transparency could be improved and that Audit Scotland had indicated that benchmarking / comparison of rates would be appropriate • The application of industry indexation to the rates was queried as a possible area requiring assurance 	

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	<p>Condition Survey:</p> <ul style="list-style-type: none"> ○ The survey vehicle / machine is tested and accredited every year ● The same contractor has been used for 10 years ● There is some risk of valuation change / volatility if the appointed contractor changes. This was regarded as comparable to the situation for building valuations. ● The survey machine detects and assesses: <ul style="list-style-type: none"> ○ Longitudinal Profile (3m and 10m) ○ Texture ○ Transverse profile (eg traffic wheel ruts) and cracking of the road surface ● These measurements are combined to provide an overall condition. England use a similar approach but take a different view of gradings. Generally in Scotland amber and red road conditions are combined, whereas in England the focus is on only red condition roads. ● England are now doing more surveys of unclassified roads ● Potholes are not measured. This was queried as a risk area, especially in terms of explaining why they were not relevant for valuation purposes. <p>Carriageway dimension measurement:</p> <ul style="list-style-type: none"> ○ SCOTS are generally confident concerning carriageway length measurements ○ The Scottish Roadworks Register and the duty to keep records, particularly the list of adopted roads, means councils should have records available for verification that all relevant roads are included. ○ Maps are now more advanced and measurements are continually improving ○ Graeme noted that inclusion of cyclepaths would depend upon whether they were in the list of adopted public roads. Generally where the cyclepath was part of or accompanied the road network inclusion in the valuation was likely. ○ Unclassified roads are sampled on a 10% per annum basis. Cul de sacs (<150m urban or <500m rural) are not sampled ○ It was noted that the frequency of condition assessment will therefore depend on the local area's mix of road classes ○ Valuation can be sensitive to changes in measurement of the carriageway width. It is not clear that all councils are using a 'polygonised' approach to more accurately measure carriageway dimensions (particularly width). Some councils have gone into more detail, especially where there is a dedicated 'asset management' team approach. For old rural roads if reliance is placed on old maps (1:10,000 scale) the width is often assumed to be 5m. <p>Land Valuation</p> <ul style="list-style-type: none"> ○ For land value calculation the width measurements are 	
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	<p>normally increased by 2m per side.</p> <ul style="list-style-type: none"> ○ The HNA (TIA) Code may refer to default assumptions, however after some 5 years of WGA returns reliance on defaults is decreasing ○ Land valuation rates to apply to the land area are provided by Transport Scotland, which uses the Valuation Agency (VA). The rates differentiate between rural, urban and principal towns. SCOTS develop a spreadsheet based on this. ○ Audit Scotland may wish to verify that the VA rates provided are suitable for HNA valuation purposes. <p><Nick Bennett arrived></p> <p>Gross Replacement Cost (GRC) Rates</p> <ul style="list-style-type: none"> ○ GRC rates are provided centrally for the UK with regional factors applied. Some rates may be 5 years old with indexation being applied annually. ○ The regional factor adjustment was previously Scotland wide but is now applied at a lower level. ○ Potentially changes in the regional factor could be a source of volatility (eg as occurred when the 'whole Scotland' factor approach ceased) <p>Structures</p> <ul style="list-style-type: none"> ○ The SCOTS model differs from HAMFIG by using a less detailed component analysis ○ Some rates for structures may be set centrally across the UK ○ The age of a structure may make valuation more difficult ○ The impact on the valuation of requiring a like for like or 'similar appearance' replacement (eg heritage style assets) was noted <p>Useful lives</p> <ul style="list-style-type: none"> ○ Are generally set by SCOTS, although councils can vary lives for street furniture <p>Readiness</p> <ul style="list-style-type: none"> ○ Engineers have some 5 years of valuation experience for WGA ○ SCOTS are undertaking a sensitivity analysis review ○ SCOTS operate a 'family group' approach to comparisons ○ Asset Management Planning implementation has included training for staff ○ The level of communication and engagement between engineering and finance staff differs between councils ○ In relation to volatility it was suggested that WGA figures had been largely stable <p>Verification</p> <ul style="list-style-type: none"> ○ Central verification of Scottish level items (inputs and tools) 	
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	<p>was widely regarded as desirable. This will allow specific focus by authority finance staff and auditors on the local material factors (rates, measurements etc) that require verification.</p> <ul style="list-style-type: none"> ○ The change in WGA return requirements to provide an analysis of movements in the year better identified the reasons for changes in valuation. ○ A central list of the source of the different inputs is being developed. ○ Audit Scotland are hosting an auditor meeting on 22 March to discuss HNA <p>Asset Valuation Report (AVR)</p> <ul style="list-style-type: none"> ○ The AVR was regarded as a highly useful report. Some potential changes may help improve its usability for verification. For example <ul style="list-style-type: none"> ○ presenting the information in a similar way to the disclosures anticipated in the annual accounts ○ providing more information on the source of inputs ○ providing information on assumptions <p>Verification risks</p> <ul style="list-style-type: none"> ○ The speed with which changes, such as work done, would be reflected in the valuation was queried ○ How to review the list of public roads. Some roads may not be adopted (eg in cemeteries). ○ The status of unadopted HRA roads was discussed. It was noted that to be adopted roads normally had to be brought up to standard. The application of recent HRA operating guidance in the identification of HRA assets used for the benefit of tenants was discussed. ○ The recognition of impairments (after condition measurement) was discussed. Generally these will relate to significant damage due to extreme weather events. <p>LASAAC Guidance</p> <ul style="list-style-type: none"> ○ The Committee supported the proposal for LASAAC guidance particularly to support consistency and a proportionate and focused approach. ○ Guidance will need to address verification for both s95 officers and audit purposes ○ The size and volatility of the valuation was noted, with comparison being made to the pensions liability figure ○ The guidance could also provide some direction regarding disclosures and explanations (eg management commentary) in the annual accounts <ul style="list-style-type: none"> ○ Explaining the reasons for any significant changes in the valuation may be a challenge ○ Disclosures re judgements and estimation may be needed ○ Reference to CIPFA central verification work would be appropriate. ○ It would be desirable to issue guidance in September. 	
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	<Gary Devlin left the meeting>	
05/16	<p>LASAAC Work Plan 2015/16 and 2016/17</p> <p>The work plan paper was noted and the outline plan for 2016/17 was agreed.</p> <p>Arising in discussion:</p> <p>Integration of Health & Social Care</p> <ul style="list-style-type: none"> • Early indications for 15/16 are that possible areas where queries may arise include reliance on assurances from managers and presentation of a 'true and fair view' • Other questions from local government and audit staff during 15/16 audits may highlight issues to be addressed • The LASAAC guidance issued in 2015 was noted as being open to replacement or updating as necessary based on experience. • Those IJBs which commenced services in 15/16 will be leaders or 'pilots' in financial reporting and can communicate the issues and lessons learned. <p>Action: Lessons from IJB 15/16 accounts and audit process to be shared with LASAAC</p> <p><Gillian Woolman left the meeting></p> <p>LASAAC review of Scottish statutory mitigation</p> <ul style="list-style-type: none"> • A review of the impact of removal of statutory mitigation may preferably consider the scenario arising if statutory mitigation had not been applied following implementation of IFRS. This would be undertaken in liaison with the secretary. • Considering the time pressures likely to arise the review may be deferred until July onwards • Additionally legislation could be reviewed to identify which items have more potential for amendment, since primary legislation is more complicated to amend than secondary legislation. • The annual accounts presentation options if statutory mitigation was amended can also be considered. Short term compensated absences were cited as an example. • The capital accounting and pensions statutory adjustments were expected to be the critical elements <p>Action: Scottish statutory mitigation review to consider impact of statutory adjustment removal from date of IFRS implementation</p> <p>Action: Potential to amend specific statutory mitigation</p>	<p>J McLachlan, Attending IJB CFO</p> <p>J McLachlan, G. Murphy, G. Davies</p> <p>H. Black, N.</p>

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	items to be assessed, along with consideration of annual accounts presentation options in that event	Bennett, G. Davies
06/16	<p>CIPFA-LASAAC Code Board</p> <p>The paper was reviewed with the main topics noted as:</p> <ul style="list-style-type: none"> • CIPFA-LASAAC discussion re going concern assessment during period of financial restriction • How to Tell the Story Update • 17/18 Code Process • IFRS 9: Financial Instruments • IFRS 15 Revenue from Contracts with Customers • IFRS 16 Leases <p>Future LASAAC representation on CIPFA-LASAAC was discussed given that Fiona would be stepping down as LASAAC Chair at the next LASAAC meeting in May. Future LASAAC Chair representation on LASAAC therefore needs to be confirmed.</p> <p>Action: Future LASAAC Chair representation on CIPFA-LASAAC to be discussed</p>	F Kordiak, I Lorimer, G Davies
07/16	<p>LGPS Statutory Mitigation</p> <p>The paper was noted. A verbal report on the working group conclusions was provided.</p> <p>In discussion</p> <ul style="list-style-type: none"> • It was agreed that the Scottish Government would seek to draft statutory accounting guidance using the Pension Reserve (Fund) to provide statutory mitigation for 2015/16 • A longer term solution would be sought for 2016/17, with a distinction drawn between retirement benefits and discretionary benefits (eg added years, teachers additional benefits). <p>Action: Scottish Government, with working group engagement, to draft statutory accounting guidance using the Pension Reserve (Fund) to provide statutory mitigation for 2015/16</p>	H Black, G Davies, Working Group Members
08/16	<p>Audit Scotland Update</p> <p>The following were noted:</p> <ul style="list-style-type: none"> • The Audit Scotland 'Code of Audit Practice' is to be submitted to the Accounts Commission 	

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	<ul style="list-style-type: none"> • A report on 'Models of Health and Social Care' has been issued. • The new audit appointments from 16/17 will be announced shortly • The Scottish Local Government overview is due to be issued on 17 March • A community planning follow up report has been issued • The Scottish Parliament's Local Government and Regeneration Committee has issued a report on ALEOs 													
09/16	<p>Scottish Government Update</p> <ul style="list-style-type: none"> • The revised borrowing legislation has been passed by the Scottish Parliament (SSI 2016/123). Statutory Guidance to accompany the legislation is to be drafted. A review group meeting is planned. <i>[post meeting note: meeting scheduled for 22 March].</i> • The Finance settlement for 2016/17 has been issued in Finance Circular 1/2016. • It was noted that the NDR income figure as stated in the NDR order is not open to amendment and should feature in the POBE and annual accounts as the assigned NDR income. • A BRIS scheme update is possible 													
10/16	<p>CIPFA Update</p> <ul style="list-style-type: none"> • A LAAP 'year end' bulletin is planned with Scotland specific items including integration of health and social care, LGPS statutory adjustment for 2015/16 and the new borrowing legislation. 													
11/16	<p>Future Meeting Dates</p> <p>The meeting schedule for 2016 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>Wednesday 25 May</td> <td>7 June (Edinburgh)</td> </tr> <tr> <td>2pm</td> <td>Thursday 25 August</td> <td>N/A</td> </tr> <tr> <td>2pm</td> <td>Thursday 17 November</td> <td>9 Nov (London)</td> </tr> </tbody> </table> <p>Stephen Reid noted his apologies for the August meeting.</p>	Time	LASAAC 2016	CIPFA/LASAAC 2016	2pm	Wednesday 25 May	7 June (Edinburgh)	2pm	Thursday 25 August	N/A	2pm	Thursday 17 November	9 Nov (London)	
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ACTION POINTS FROM LASAAC MEETING OF 10 March 2016

	Minute Ref	Action	Action By	Status At 16/05/16
A	01/16	Workplan scheduling to plan for Highways Network Asset guidance issue in September	G. Davies	On agenda
B	03/16	Minutes of 12 November to be loaded to the website	G. Davies	Complete
C	03/16	IJB CFO to be invited to May LASAAC meeting	G. Davies	On agenda
D	04/16	Local government finance practitioner involved and experienced in highways network asset valuation to be sought for co-option	G. Davies	Ongoing
E	05/16	Lessons from IJB 15/16 accounts and audit process to be shared with LASAAC	J McLachlan & Attending IJB CFO	On agenda
F	05/16	Scottish statutory mitigation review to consider impact of statutory adjustment removal from date of IFRS implementation	J McLachlan, G. Murphy, G. Davies	On agenda
G	05/16	Potential to amend specific statutory mitigation items to be assessed, along with consideration of annual accounts presentation options in that event	H. Black, N. Bennett, G. Davies	On agenda
H	06/16	Future LASAAC Chair representation on CIPFA-LASAAC to be discussed	F Kordiak, I Lorimer, G Davies	On agenda
I	07/16	Scottish Government, with working group engagement, to draft statutory accounting guidance using the Pension Reserve (Fund) to provide statutory mitigation for 2015/16	H Black, G Davies, Working Group Members	Ongoing

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