



Approved by LASAAC on 23/10/18

Minutes

| | | |
|--------------------------|--|--|
| Committee | Local Authority (Scotland) Accounts Advisory Committee | |
| Date | 23 August 2018 | |
| Time | 14:00 pm | |
| Venue | CIPFA, 160 Dundee Street, Edinburgh | |
| Members In Attendance | Gillian Woolman Hugh Dunn Kirsty Flanagan* Paul O'Brien Hazel Black Fiona Kordiak Elise Black Stephen Reid Lesley Bairden^ Joseph MacLachlan* Tina Duncan Nick Bennett Gary Devlin | Audit Scotland (Chair) City of Edinburgh Council (Vice Chair) Argyll and Bute Council Audit Scotland Scottish Government Audit Scotland Scottish Government EY East Renfrewshire Integration Joint Board East Ayrshire Council Glasgow City Council Scott-Moncrieff Scott-Moncrieff |
| | *joined via conference call, ^ to and including Item 8 | |
| Apologies | Ian Lorimer | Angus Council |
| Guest Attending | Gail Couper* | East Ayrshire Council |
| Secretary | Gareth Davies | CIPFA |

The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) is funded by the Chartered Institute of Public Finance & Accountancy (CIPFA), Audit Scotland and the Scottish Government.

The members of LASAAC are volunteers representing the funding bodies or participating as appointed or co-opted members. LASAAC is primarily concerned with the development and promotion of proper accounting practices for Scottish local authorities. A key task in achieving this is LASAAC's contribution to the development of the 'Code of Practice on Local Authority Accounting in the United Kingdom' ('the Code').

LASAAC meetings are to be conducted in accordance with LASAAC's Terms of Reference as approved by LASAAC and ratified by the funding bodies.

LASAAC is funded by:



The Scottish Government

LASAAC is funded by:



The Scottish Government

| | Item | Action |
|----------|--|---------------|
| 1 | Item 1. Apologies | |
| 1.1 | Ian Lorimer | |
| 2 | Item 2. Minutes and Actions | |
| 2.1 | The minutes were approved for upload to the website | 1 |
| 2.2 | Action 9 regarding Pensions Statutory Adjustment will be carried forward to the next meeting (see also Item 14 below). | 2 |
| 3 | Item 3. Membership and Attendance | |
| 3.1 | George Murphy has stepped down. The Chair and LASAAC thanked George for his support and offered their best wishes as he takes on wider responsibilities. Hugh Dunn will, through the DoF Section, seek an accounts practitioner representative for the vacancy now arising. | 3 |
| 3.2 | Following the terms of the constitution the Chair's consideration of LASAAC membership was discussed. No change in the membership arrangements is proposed. An audit manager in an appointed firm has indicated a willingness to participate in LASAAC activities and working groups. | |
| 4 | Item 4. Work Plan 2018/19 | |
| 4.1 | It was noted that a 'watching brief' item regarding agency and principal considerations arising from the proposed Planning (Scotland) Bill has been added. | |
| 4.2 | Redundant LASAAC website pages are to be removed. | 4 |
| 4.3 | Item B8: financial reporting of sustainability: Following developments in Northamptonshire England, a paper on the financial reporting aspects is to be developed for the next meeting. Northamptonshire actions in relation to an ALEO were also noted. | 5 |
| 4.4 | Item B2: IFRS 16 Leases. The treatment of concessionary / peppercorn leases was briefly discussed. | |
| 4.5 | It was requested that IFRS 9 Financial Instruments (2018/19) should be added to the workplan. | 6 |
| 5 | Item 5. CIPFA/LASAAC Code Board | |
| 5.1 | Some drafting errors in the paper presented were identified. Amendments will be made prior to website provision. | |

LASAAC is funded by:



The Scottish Government

| | Item | Action |
|----------|---|---------------|
| 5.2 | A volunteer reserve participant for CIPFA-LASAAC is to be appointed. Volunteers are to contact the LASAAC secretary. | 7 |
| 5.3 | Paul, Gary, Joseph and Hazel plan to attend the CIPFA-LASAAC strategy day on 28 September. Gillian is unfortunately unavailable. | |
| 5.4 | <p>It was noted that there are two potential implications for 2018/19 accounts arising from the IASB issue of "Prepayment Features with Negative Compensation: IFRS 9 Amendments" which is effective from 1/1/19. IFRS permits voluntary earlier adoption.</p> <p>The two potential areas are:</p> <ol style="list-style-type: none"> 1. Loan assets with 'negative compensation' features (clauses whereby the borrower can repay early without fully compensating the lender for the loss of future interest income / future cash flows). 2. Modification of loan liabilities eg changes to a liability's future cash flow payments. This is not a public sector specific issue <p>CIPFA/LASAAC may discuss possible actions.</p> | |
| 5.5 | It was noted by a FRAB attendee that some unanticipated consequences of IFRS 15 (Revenue from Contracts with Customers) were reported to have emerged in some organisations relating to recognition of inventories. Discussion included an awareness of the importance of understanding the impact of new standards implementation such as IFRS 16 Leases. | |
| 5.6 | Three authorities in Scotland were identified as having non-standard (eg LIBOR linked) LOBOs. No audit issues were arising from the accounting treatment. Taking cognisance of all the related contract papers it was considered that a cap on the interest rate could be established to exist. This means that there is no expected requirement to separate out a derivative element and account for it at Fair Value through Profit or Loss (FVPL). | |
| 6 | Item 6 IFRS 9 Financial Instruments – Statutory Arrangements | |
| 6.1 | <p>Hazel introduced the paper noting that the private sector assessed whether gains or losses were available for distribution on the basis of whether they were realised or unrealised.</p> <p>Realised gains are those realised in cash or where the ultimate cash realisation can be assessed with reasonable certainty.</p> <p>It was noted that the Financial Instruments Revaluation Reserve (FIRR) was established by CIPFA-LASAAC, not by the IFRS 9 standard.</p> | |
| 6.2 | Two options to the statutory approach for financial instruments treated as FVPL were identified: | |

LASAAC is funded by:



| | Item | Action |
|-----|--|---------------|
| | <p>A. Use of a statutory adjustment account (the Financial Instrument Adjustment Account) to contain the cumulative unrealised gains on relevant financial instruments. A disclosure note analysing the balance in the FIRR would also be required i.e. the analysis of realised and unrealised gains and losses would also apply to gains/losses reported Other Comprehensive Income and Expenditure.</p> <p>B. Allowing unrealised gains/losses to remain within the General Fund but requiring disclosures which clarify and explain the extent to which the balances for these have been realised and what balance of reserves (including the FIRR) should be considered as being available to support expenditure (ie taken into account in setting the council tax).</p> <p style="text-align: center;">Specific disclosures would be required to support transparency.</p> | |
| 6.3 | <p>In discussion the following points were noted:</p> <ol style="list-style-type: none"> 1. The flowchart included in the papers indicates the complexity of implementation. 2. Option B would align in principle with English proposals (see para 20) which would still allow, after a transition period with statutory mitigation, for FVPL gains and losses to flow to the General Fund (without statutory mitigation after the transition period). 3. Option B will however change the nature and interpretation of the General Fund (GF) balance. In particular the whole GF balance will no longer be relevant for council tax setting. Instead a memorandum sub-balance within the GF will need to be maintained in order to clearly identify the resources relevant to Council Tax setting. 4. A key concern is not just the timing of cost (expenditure) recognition, but also significantly the timing of income gains recognition. 5. For Option B Section 95 officers (DoFs) would appreciate clear guidance, references and requirements to assist in explaining the position to members. Maintaining a clear and consistent definition and position on what element of the GF balance is relevant in setting the council tax would be crucial. 6. It was considered that LASAAC guidance could implement | |

LASAAC is funded by:



| | Item | Action |
|----------|--|---------------|
| | <p>Option B without recourse to the requirement for statutory guidance.</p> <ol style="list-style-type: none"> 7. The need to split FVPL movements (realised & unrealised) between the HRA and council tax reserve balances was queried. It was considered that current practices would continue, which normally apply an apportionment basis. 8. Care would be needed regarding terminology, which could become confusing with different analysis for usable / unusable reserves and realised gains/losses not directly reconciling. 9. The implications for, and importance of, group accounts were noted. 10. The potential for an Option B approach, possibly over a longer time frame, to replace other existing statutory mitigation arrangements was noted. 11. The proposals should also be considered in the light of LASAAC and CIPFA-LASAAC 'streamlining of the accounts' considerations. | |
| 6.4 | <p>LASAAC agreed that Option B was the preferred option. The following actions were agreed:</p> <ol style="list-style-type: none"> 1. The proposed approach (Option B – disclosure of relevant gains/losses) and change in the interpretation of the General Fund should be discussed at the CIPFA-LASAAC strategy day on 28 September, potentially with a supporting paper. 2. LASAAC guidance, based on the proposals drafted by Hazel, are to be developed. It was proposed that Hazel, Paul and a practitioner from an authority which will be significantly affected by IFRS 9 would lead on this item. 3. Following further consideration and finalisation any LASAAC guidance will be subject to a public consultation period. | 8,9 |
| 7 | Item 16. Leases | |
| 7.1 | <p>Discussion of the implementation of IFRS 16 Leases for 2019/20, including practical workload and financial impact for authorities was informed by some initial feedback from some stakeholders. Items included:</p> | |

LASAAC is funded by:



The Scottish Government

| | Item | Action |
|----------|---|---------------|
| | <ul style="list-style-type: none"> • Restoration obligations (dilapidations etc) • PFI lease liability re-measurement: the impact of the requirements on the amount of liability was discussed <ul style="list-style-type: none"> ◦ Application of existing statutory mitigation requirements • Application of IFRIC 4 (embedded leases) and IFRS 16 equivalent requirements <ul style="list-style-type: none"> ◦ Differentiation between right of use assets and shared service arrangements raised • CIPFA 'leasing briefings' | |
| 8 | Item 8 Integration Development of LASAAC Guidance | |
| 8.1 | <p>It was noted that a previous paper had been issued. The content of the correct paper was discussed verbally.</p> <p>In discussion the following were indicated as particular areas for review:</p> <ol style="list-style-type: none"> 1. Hosted services 2. Set aside 3. Treatment of over/underspends and specifically those where any form of 'brokerage' (commitment to future funding reductions as a form of repayment) 4. Reserves balances and policies. There is an apparent East / West split in terms of approach. 5. Integration Schemes will be required to be re-submitted for parliamentary approval from 2019 onwards. | 7 |
| 8.2 | <p>It was agreed that a working group should be established to develop guidance which will be subject, after LASAAC consideration, to public consultation. The group is to comprise as a minimum:</p> <ul style="list-style-type: none"> • LASAAC IJB CFO representation (Lesley Bairden) • Local authority accounts representative • NHS TAG representation • Audit Scotland • Scottish Government | 10 |
| 9 | Item 9 Statutory Adjustments Presentation | |
| 9.1 | Hazel and Joe provided an overview of the paper. Joe introduced Gail Couper who had been significantly responsible for the restatement of East Ayrshire's accounts as presented in Annex A. | |
| 9.2 | Part A: general presentation of statutory adjustments, including split of unusable reserves between accounting-based reserves and statutory adjustment accounts. In discussion: | |

LASAAC is funded by:



The Scottish Government

| | Item | Action |
|-----------|--|--------|
| | <ol style="list-style-type: none"> 1. East Ayrshire's existing presentation was very clear which had made further development relatively straightforward. 2. It was not clear that all councils' existing practices would lead to such a smooth implementation of guidance requirements. 3. It would assist practitioners to understand the rationale for further specification eg in terms of supporting LFR completion, reduction in duplication of disclosures and supporting consistency. 4. It was agreed that the minimum requirement for the MiRS was the '3 category' analysis (pensions, capital, other). Full expansion of the MiRS lines would be optional. | |
| 9.3 | <p>Part B: specific presentation of</p> <ul style="list-style-type: none"> • pensions re-measurement adjustment and • the revaluation element of depreciation charges <p>In discussion:</p> <ol style="list-style-type: none"> 1. The pensions adjustment is anticipated to continue to be presented as a statutory adjustment at present. The proposals present the adjustment of the revaluation element of depreciation as an accounting adjustment. 2. The proposals should be developed for 19/20 implementation to allow preparation time and also to avoid conflicting with the 18/19 Code requirements. 3. A key element of the proposals is to reduce duplication of statutory adjustments presentation. Absolute standardisation is not a requirement, but high-level consistency is desired. 4. Guidance could specify the minimum mandatory requirements (eg 3 category split) and also include advisory elements with examples. <p>The LASAAC workplan will reflect the intention for 19/20 guidance.</p> | 11 |
| 10 | Item 10. Insurance accounting | |
| 10.1 | <p>The proposed principles noted in the paper were agreed. The focus will be on the financial reporting (annual accounts) considerations.</p> <p>Insurance Accounting Guidance to be progressed based on the agreed</p> | 12 |

LASAAC is funded by:



The Scottish Government

| | Item | Action |
|-----------|---|---------------|
| | principles. | |
| 11 | Item 11. Elimination of Internal Transactions | |
| 11.1 | The primary options for elimination (straight elimination or same segment basis) were noted. LASAAC members will be requested to provide views by e-mail. | 13 |
| 12 | Item 12. Valuation of Property | |
| 12.1 | Carried forward to the next meeting. | 14 |
| 13 | Item 13. Audit Scotland Update | |
| 13.1 | IAS 19 attributable pensions asset changes were noted as affecting the majority of councils (see discussion under AOCB). | |
| 14 | Item 14. Scottish Government Update | |
| 14.1 | Hazel noted that the pensions statutory adjustments currently needed to be consolidated into a single mitigation. Information was requested regarding the status of compensation payments in terms of whether they were included in actuarial calculations as part of the pensions benefits. It was agreed that Hazel would contact Tim Bridle (Audit Scotland). Hugh Dunn also offered to assist. | |
| 15 | Item 15. CIPFA Update | |
| 15.1 | CIPFA is consulting on a Financial resilience Index for English authorities. A financial management code is also being developed for consultation which would be anticipated to apply across the UK. Fiona is on the oversight group. | |
| 16 | Item 16. AOCB | |
| 16.1 | It was noted that audit changes were being required to adjust reported pensions liabilities in order to align attributable pension asset disclosures in actuary reports for employers with the overall pension asset figure in LGPS accounts. The difference arises due to IAS 19 employer reports being based on earlier estimates, whereas LGPS pension assets are determined after 31/3. The issue is UK wide and may be partly attributable to FRC concerns expressed regarding (private sector) audit reviews of employer pension arrangements. In discussion: <ul style="list-style-type: none"> • authorities are understood to generally be adjusting the figures <ul style="list-style-type: none"> ◦ additional reports are required, for a fee • consideration was given to avoiding the same situation for 18/19 year end, potentially by reducing the time between actuary estimates and 31/3 | 15 |

LASAAC is funded by:



The Scottish Government

| | Item | Action |
|-----------|---|---------------|
| | <ul style="list-style-type: none"> ○ the impact of Brexit next year (29/3) could be a complicating factor • authority concerns included additional work and potential delay to the closure of the accounts • the public sector risks are different to those for the private sector <p>Pension asset determination as at 31/3 to be added to watching brief on work plan.</p> | |
| 17 | Dates of next meetings | |
| 17.1 | All at CIPFA, Edinburgh, 160 Dundee Street Tuesday 23 October 2018 14:00 | |

LASAAC is funded by:



The Scottish Government