

## LASAAC MINUTES

Meeting of 6th September 2005, Holiday Inn Hotel, Edinburgh

Present: Grant Macrae, Nick Bennett, Russell Frith, Gavin Stevenson, Jim Stevenson, Sandy Brown, David Nibloe, Derek Yule, Karen Mitchell, Fiona Kordiak, Ian Robbie, Hazel Black,

Apologies Derek Glover, Lynn Brown,

In attendance: Don Peebles, Angela Scott.

Minute Ref		Action
<b>28/05</b>	<p>Grant welcomed Karen Mitchell and Hazel Black to their first meeting. In chairing his first meeting Grant set out some opening remarks prior to commencement of formal business.</p> <p>Grant acknowledged the privilege and responsibility to serve as LASAAC Chair especially against the background of the magnitude of funds that local authorities are now responsible for. Grant acknowledged the achievements of LASAAC in recent years but also considered that it was appropriate to consider the direction of the Committee and invited committee members to contribute to a session at the next meeting at which all committee members views can be aired and discussed and to address what the Committee wants to achieve in the near future.</p> <p>Gant also considered it appropriate to engage with stakeholders such as the Accounts Commission, the Scottish Executive and CoSLA to ensure that the role and work of the Committee is consistent with the expectations of stakeholders.</p>	
<b>29/05</b>	<p><b>Apologies</b></p> <p>Apologies were received from Lynn Brown and Derek Glover.</p>	
<b>30/05</b>	<p><b>Minutes of the Meeting held on 1st June 2005</b></p> <p>Grant advised that the actions points had been addressed or were on the agenda but drew attention to the fact that an ACCA replacement representative for Steven Keightley had not yet been identified. Nick advised that he would be meeting Andy Wynne from ACCA shortly and would discuss the matter.</p> <p>Nick referred to LOBO's and to the briefing paper previously circulated and to guidance from the Audit Commission which drew</p>	N.Bennett

	<p>attention to the accounting treatment on these treasury products. Don advised that his understanding was that the issue of ‘smoothing of interest’ over the period was at the centre of debate. Russell advised that in addition the issue of use of LOBO’s for debt restructuring was a key factor.</p> <p>After some debate it was concluded that a paper should be brought to the next meeting which discussed LOBO’s generally and which enabled the Committee to consider what action if any was required. Karen and Derek advised that they could procure information from treasury advisors which would add the market view to the debate and to ensure that the Committee had as complete a picture as possible.</p> <p>It was also agreed that the Directors of Finance would be contacted to assess the scale of use of LOBO’s and if they were used in debt restructuring. Russell agreed to assist with the consideration of LOBO’s.</p> <p>As a first action it was agreed that the briefing paper on LOBO’s would be recirculated to the Committee.</p> <p>Ian drew the Committee’s attention to minute reference 25/05 which could be wrongly interpreted that the Committee had concluded on LOBO’s. It was agreed that amendment would be made.</p> <p>Subject to that amendment the minutes were approved as an accurate record.</p>	<p>D.Peebles K.Mitchell/D. Yule D.Peebles /R.Frith D.Peebles D.Peebles</p>
<p><b>31/05</b></p>	<p><b>Membership</b></p> <p>The following members were approved by Committee:</p> <ul style="list-style-type: none"> <li>• Karen Mitchell - CIPFA</li> <li>• Lynn Brown - CIPFA</li> <li>• Hazel Black – Scottish Executive</li> </ul> <p>It was further advised that Stephen Crichton (a coopted member) and Aileen Wright, Scottish Executive had advised of their resignations. Stephen was a member of the Local Authority Accounting Panel and this left a vacancy a replacement for which would require to be sought from the existing membership or, if a new coopted member was appointed, that member could be offered LAAP membership.</p> <p>CIPFA/LASAAC membership was discussed and it was agreed that Lynn Brown would represent the Committee.</p> <p>The appointment and position of Vice Chair was deferred.</p>	<p>D.Peebles</p>

32/05	<p><b>CIPFA/LASAAC Meeting 8 June 2005</b></p> <p>Nick provided a brief verbal update from this meeting and advised that the 2005 SORP had been approved and issued.</p> <p>Don advised that complimentary copies of the 2005 SORP will be posted to each member as soon as possible.</p> <p>Ian noted his disappointment that the (draft) minutes were not yet available for consideration. Nick agreed that he would as far as possible ensure that draft minutes were made available in future to LASAAC members.</p>	<p>D.Peebles</p> <p>N.Bennett</p>
33/05	<p><b>Draft 2006 SORP Changes</b></p> <p>Grant advised that the draft Invitation to Comment (ITC) was not yet available but that an edited copy had been issued with the agenda papers to provide a flavour of the changes proposed.</p> <p>Nick as Chair of CIPFA/LASAAC described in detail to the Committee the proposed changes within the draft ITC</p> <p>Nick advised that the current draft of the document was 45 pages in length and that editing and revision was ongoing. Seven changes are being proposed for the 2006 SORP:</p> <p>1. Removal of notional interest</p> <p>Nick advised that there was no doubt this would be eliminated. There is a proposal for a note which describes net cost of services inclusive of notional interest. There were two reasons for the note, a reminder to practitioners in England &amp; Wales that notional interest is included in gross cost and to provide HM Treasury with comparative information while the overall issue of notional interest is addressed in central government.</p> <p>Hazel considered that the note would not in itself address these issues. Both Karen and Grant expressed the view that the need for a note was not convincing. Gavin commented that as local authority accounts were 50-60 pages long a further note would not appear to add value.</p> <p>Nick expressed the view that it may yet be excluded and that in any event the results from consultation may require exclusion. Ian questioned why credibility should be given to the proposal by including it in the ITC. Russell expected to talk against this proposal at CIPFA/LASAAC.</p> <p>2. Proposals to make more progress towards compliance with UK GAAP</p> <p>Nick advised that the proposals were for an income and expenditure</p>	

<p>account (I&amp;E a/c) to replace the present consolidated revenue account, a new statement which would reconcile from UK GAAP to the tax raising base and for a new simplified statement of total recognised gains and losses (STRGL).</p> <p>The effect of the I&amp;E a/c will bring the present consolidated revenue account more into line with UK GAAP. Nick also explained that the present statement of total movement in reserves, introduced as a result of FRS 3, attempts to fulfil the purpose of an STRGL but is long and complex. The proposed STRGL would be 3-4 lines.</p> <p>The changes were discussed in detail and the possibility of working the proposals through on a set of Scottish accounts was also discussed. In response to a question from Hazel, Nick confirmed that the I&amp;E a/c would continue to be analysed by service and that there was no proposal for a subjective analysis (which was a WGA rather than a UK GAAP requirement). Russell agreed that the required WGA subjective analysis is beyond what is required to comply with UK GAAP. Sandy questioned the present disclosure of expenditure before income. Grant asked for views and discussion focused upon how income may be presented. Karen considered that any readers of accounts would find it useful to be able to identify for example, the level of income attributable to Social Work. Grant referred to the present council tax leaflet and to the gap between how proposed expenditure is reported and the actual information within the statement of accounts. After some discussion Nick indicated that the likely preference would be to retain the present income presentation format.</p> <p>It was agreed that without examples in front of the Committee of the new proposals that it was difficult to comment. Nick agreed that a copy of the ITC would be made available to LASAAC.</p> <p>3.Changes to Group Accounts Statement to ensure that they are more similar to the single entity statements.</p> <p>4. Proposed Revaluation Reserve.</p> <p>Nick advised of this major proposal and that the view to be taken was that local authorities should attempt to their best estimate of a starting position for a revaluation reserve. Nick acknowledged that there was no perfect way to achieve this but that the principle was to create a UK GAAP compliant revaluation reserve. Derek advised that he was supportive in principle but would want to consider the proposals in detail. In response to questions, Nick advised that the capital finance account would remain.</p> <p>Grant asked for further comments. Ian commented upon the fact that clarity could be gained but that consistency of approach would be an issue. Russell considered that if local authorities at the outset assessed their high value assets then that could lead to as close as possible to a 'right' answer/figure for an opening reserve and that the proposal to</p>	<p>N.Bennett</p>
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	<p>introduce such a reserve would represent improvement.</p> <p>Grant considered that this major proposal represented a good example for those responding to consultation to consider two things – do I follow it? And do I have any concerns?</p> <p>Karen sought clarity on the potential scale of the task and Nick emphasised that pragmatism was a key message.</p> <p>5.FRS25/26 Presentational effect of FRS 25 will be introduced but the full effect of the standards would not arise until 2007/8. The issue of premiums on debt restructuring would be a high profile area to be addressed.</p> <p>6. Other Consequential Changes from FRS's FRS 22, FRS 23, FRS 24, FRS 27.</p> <p>7.Legislative developments Nick highlighted two changes which were applicable to England &amp; Wales but sought confirmation of the status in Scotland:</p> <ul style="list-style-type: none"> <li>• Landfill trading; and</li> <li>• Police &amp; Fire Pension Scheme</li> </ul> <p>Hazel agreed to clarify the Scottish position.</p> <p>The Police &amp; Fire pension proposals in England &amp; Wales would have the effect of revising the present defined benefit schemes to a defined contribution scheme. The accounting impact will be to remove the present liabilities from balance sheets of Boards and onto that of central government.</p> <p>Russell alerted the Committee to forthcoming legislation on emissions trading, the timescale for which was unclear and was EU driven.</p> <p>Russell commented upon further legislation that he was aware of relating to the proposed no-smoking regulations. At this point Don tabled an extract from the draft Prohibition of Smoking in Certain Premises (Scotland) Regulations 2006 (the regulations) which was to have been raised under AOB. The extract from the regulations require accounts of income and expenditure to be kept and for a statement of account to be submitted. Nick suggested that amendments to the SORP for minor issues should be avoided. Hazel agreed to investigate this matter at the Executive.</p> <p>Nick commented generally that the SORP reacts predominantly to legislation from England and then as a Scottish Chair of CIPFA/LASAAC he considers if there is equivalent Scottish legislation or regulations. Grant agreed that there was scope for a joined up approach. Hazel commented that part of her role at the Executive was to reach all departments and identify issues of a finance nature. Angela advised that a useful starting point would be contact</p>	<p>H.Black</p> <p>H.Black</p>
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	<p>with the departmental finance teams.</p> <p>Grant summed up and commented that a range of issues had been discussed and ensured that the CIPFA/LASAAC representatives were clear on the views of the Committee and that these issues will be picked up further at CIPFA/LASAAC.</p>	
<p><b>34/05</b></p>	<p><b>FRS 17 – Significant Trading Operations</b></p> <p>In response to a request from Gavin, Grant agreed to take this item early (which was to have been discussed under AOB) to enable Gavin to keep a later appointment.</p> <p>Don reminded the Committee on the discussions previously on FRS 17 and the impact on the revenue accounts and in particular the impact on significant trading operations (STO's). A submission was received from Stephen Crichton at Glasgow City Council drawing attention to Audit Scotland's Urgent Issue Note 2005/3. The submission expressed concern that comment may be made by auditors on retrospective credits to trading accounts to mitigate the effect of FRS 17, arising from the change from the GAD rate to the AA Corporate Bond Rate in 2004/5.</p> <p>Russell commented that the issue of retrospective credits is a matter of principle and that Audit Scotland have drawn attention to this issue for the 2004/5 audits to ensure that there is clarity prior to 2005/6 (the third year in the three year cycle). Where adjustments made by local authorities were retrospective and were deemed to be acceptable, Russell openly questioned the worth of trading accounts in such circumstances. If this became the accepted norm, the issue would continue to arise.</p> <p>Karen agreed with the principle but drew attention to the degree of fluctuation in managing trading operations and to the difference between STO's, where there is a bottom line impact, of FRS 17, and with other services of the Council where there is no bottom line impact.</p> <p>Nick commented that the trading accounts were prepared on a UK GAAP basis which would enable comparison with external contractors. Hazel considered that this was reasonable approach.</p> <p>Nick further commented that there were a range of corrective options open to a private sector contractor which may include pension scheme closure, an option not open to the public sector.</p> <p>Karen again emphasised the difficulty in forward planning when trading success may be dependant upon a fluctuating interest rate. Russell referred to the position in central government whereby the rate can be 'locked' for a period of time.</p>	

	<p>Grant referred to the three year period for STO's and Gavin commented that the issue was current in that local authority audits were being signed off for 2004/5.</p> <p>There was considerable debate on the issue of forward indexation applied to costs to enable costs to be recovered. Grant agreed with Nick in that there were management options open to STO's to recover costs in the case of unforeseen issues.</p> <p>[Gavin Stevenson and Fiona Kordiak left the meeting at this point]</p> <p>Russell again commented that it was appropriate for this to become an issue in 2004/5, the second of the three years, and therefore discount inappropriate transactions before it became a 'real' issue in 2005/6. Russell commented further however that in his opinion there may be a policy vacuum arising from the initiation of trading accounts as to how trading accounts were intended to operate.</p> <p>Grant agreed with this and in summary commented that LASAAC could not eliminate the problem but that the problem was now at the surface. It was therefore appropriate to attempt to ascertain what action ministers will take where STO's fail to make their prescribed financial objective because of the FRS 17 impact. Grant asked Hazel to take this forward and Hazel agreed that she will require to assess STO's in relation best value before attempting to assess what any formal action may be.</p> <p>Because of time, Items 7, 11 and 12 were deferred until the next meeting to enable items 8 Accounting for Insurance and Item 9 Reserves to be discussed.</p>	H.Black
35/05	<p><b>Accounting for Insurance</b></p> <p>Don introduced the draft guidance which modernised and modified the previous LASAAC Best Practice Guidance and LAAP Bulletin 13. The proposal was that the guidance, subject to comments and modification by Committee, would be issued for a short period of consultation in Scotland.</p> <p>Ian commented upon the wording of the legislation and contrasted the content of the draft paper with that of the Reserves paper. Ian's concern was that while both papers properly disallowed direct reserve accounting, the wording of the insurance legislation as quoted could be interpreted as enabling premiums to be paid directly from a reserve. Ian expressed concern that LASAAC was in some way placing interpretation upon the intentions of a legislative draughtsperson.</p> <p>Sandy agreed with Ian's view and there was considerable debate on what alternative treatment could be suggested. Russell considered that</p>	

	<p>rather that propose something which did breach the SORP that there was scope for LASAAC to set out what the treatment should be in the opinion of the Committee. The possibility of payments from the fund being matched by an equivalent payment from a service was also discussed as an option.</p> <p>There was discussion on the journal entries and it was agreed that a minor modification would be made to the wording on example 2, journal 3.</p> <p>After discussion it was agreed that wording should be inserted which acknowledged the interpretation which could be placed on the legislative wording while acknowledging the requirements of proper accounting practice. After modification, the paper will be circulated again to members for comment prior to issue for short consultation.</p>	<p>D.Peebles</p> <p>D.Peebles</p>
<p><b>36/05</b></p>	<p><b>Reserves</b></p> <p>Don briefly introduced this paper which was modified after the previous meeting and on which there had been consultation. Submissions had been received from Renfrewshire Council, East Dunbartonshire Council, the Scottish Executive, Aberdeenshire Council and the CIPFA Directors of Finance Section. Comment had focused upon the proposals for disclosure of HRA balances. The proposals had been amended as a result of this.</p> <p>Karen drew attention to the disclosure table which continued to include HRA as an earmarked part of the general funds and it was acknowledged that this should be corrected.</p> <p>There was debate on whether the HRA balance should be on the face of the balance sheet or within a note and it was agreed that the options of disclosure on a balance sheet or, within a note to the consolidated balance sheet should be available to the discretion of a local authority.</p> <p>It was agreed that amendment would be made and the paper will be recirculated to members for comment prior to issue.</p>	<p>D.Peebles</p>
	<p>With no AOB to be discussed Grant closed the meeting</p>	

## ACTION POINTS FROM LASAAC MEETING OF 6<sup>th</sup> September 2005

<b>Minute Ref</b>	<b>Action</b>	<b>Responsibility</b>
30/05	Discuss replacement ACCA representative with Andy Wynne.	N.Bennett
30/05	Paper on LOBO's to be brought to the next meeting.	D.Peebles/R.Frith
30/05	Treasury advisors to East Dunbartonshire and Aberdeenshire be contacted to obtain further advice on LOBO's	K.Mitchell/D.Yule
30/05	LOBO's briefing paper to be circulated to members	D.Peebles
30/05	Survey Directors of Finance to assess scale and use of LOBO's	D.Peebles/R.Frith
32/05	Copies of 2005 SORP to be posted to members	D.Peebles
32/05	CIPFA/LASAAC draft minutes to be made available to members	D.Peebles
33/05	Copy of Draft ITC to be made available to LASAAC	N.Bennett/ D.Peebles
33/05	Scottish position on Police & Fire pensions and landfill trading to be clarified	H.Black
33/05	Prohibition of Smoking in Certain Premises (Scotland) Regulations 2006 accounts expectations by Scottish Executive	H.Black
33/05	Ascertain view to be taken by Scottish Executive in the event of failure by STO's as a consequence of FRS 17.	H.Black
35/05	Modification to wording on accounting for Insurance journal entries and text and issue to members for comment prior to issue for consultation	D.Peebles
36/05	Amendment to Reserves paper and issue to members for comment	D.Peebles