

LASAAC MINUTES

Meeting of 21st November 2006, Holiday Inn Hotel, Edinburgh

Present: Grant Macrae, Karen Kelly, Muir Wilson, Gavin Stevenson, Hazel Black, Derek Yule, Ian Robbie, Derek Glover, Russell Frith, Nick Bennett, Lynn Brown,

Apologies None

In attendance: Don Peebles, Angela Scott, Ian Carruthers

Minute Ref		Action
	<p>Grant welcomed both Ian Carruthers, CIPFA's Policy & Technical Director to his first meeting of LASAAC as funding body representative.</p> <p>Grant also welcomed Muir Wilson attending his first LASAAC meeting.</p>	
38/06	<p>Apologies</p> <p>No apologies were received, all members were in attendance.</p>	
39/06	<p>Minutes of the Meeting held on 4th September 2006</p> <p>Grant reviewed each page of the minutes which were subsequently approved as an accurate record.</p> <p>The action list was also reviewed and Grant commented as follows:</p> <p>36/06 Paper on Roles and Responsibilities. Committee members will be given a further opportunity to review this paper tabled at the September meeting. Don considered that the paper which was a snapshot from the constitution now required to be made into a practical document for members and should address issues such as attendance and member's individual responsibilities in reporting to funding bodies. This will be developed and circulated to members for comment.</p> <p>20/06 Lynn referred to a previous action in respect of pensions exposure draft. Don advised that resources had been diverted into addressing the financial instruments regulatory requirements in summer 2006. Ian Carruthers advised that an amendment to FRS 17 is to be released which brings the standard further into line with IAS 19. It was agreed that this would be circulated to members. Ian also advised on wider pensions developments by both the ASB and by CIPFA. The ASB is continuing with a longer term review of retirement benefits. CIPFA is to embark on a project, as part of a development strategy bid, to consider narrative reporting in relation to retirement benefits.</p>	<p style="text-align: center;">D.Peebles</p> <p style="text-align: center;">D.Peebles</p>

	<p>Grant welcomed the CIPFA project and commented that he was aware of greater challenge from stakeholders to actuaries. Further transparency was therefore to be welcomed.</p> <p>In response to a question from Angela on whether any future amendments to accounting for retirement benefits would coincide with the reform of the local government pension scheme expected in 2008, Ian advised that the ASB project was long-term which would probably result in a discussion paper followed by an exposure draft.</p> <p>29/06 Charities. Russell updated the Committee on accounts and audit regulations in the charity sector in Scotland and confirmed that representatives from Audit Scotland were continuing dialogue to have with representatives from the Scottish Executive. It was still hoped that the position for financial year 2006/7 would be clarified. The number of charitable bodies in Scotland, considered to be in excess of 30,000 was commented upon although it was known that some 20,000 were registered. It was agreed that a further update would be brought to the next meeting.</p> <p>29/06 CIPFA/LASAAC Minutes. Ian advised that CIPFA had now introduced revised resourcing procedures to address this matter and to ensure the timely issue of minutes. Grant welcomed this development.</p> <p>27/06 Council Tax Leaflet. Don advised that this project had not been progressed and that it would be delayed until a replacement pilot council could be identified. There was debate on the content of the council tax leaflet which was governed by Circular 23/1998 which it was agreed would be submitted to Hazel to enable identification of the governing primary legislation.</p> <p>There was further debate on the current focus by Directors of Finance on increasing collection rates and that, consequently assistance with reporting would necessarily be a lower priority. It was agreed that this project would be postponed to enable the present focus on collection to continue.</p> <p>27/06 Revaluation Reserve. Ian Robbie advised that he was awaiting the draft LAAP Bulletin to discuss the matter with Ross Brennan.</p>	<p>R.Frith</p> <p>D.Peebles</p>
<p>40/06</p>	<p>Membership & Attendance</p> <p>Don advised that Stuart Riddell, Head of ACCA Scotland, had confirmed that both Bruce West, Head of Strategic Finance at Argyll & Bute Council and Muir Wilson Head of Finance at Clackmannanshire Council would be the ACCA nominations for LASAAC. These appointments were approved by Committee.</p> <p>Don further advised that Jim Stevenson, after consultation with Stuart Riddell had agreed to step down as an ACCA representative. A replacement for Mr Stevenson had been identified and it was agreed that the individual, currently an ACCA qualified senior local authority practitioner, should now be approached to formalise</p>	<p>D.Peebles</p>

	<p>membership.</p> <p>Gavin Stevenson advised of his forward intention to resign given his new role as Director of Health and Central government. His successor on LASAAC was likely to be Lynn Bradley, who will assume the role of Director of Local Government. In Lynn's absence it was anticipated that Fiona Kordiak would attend the Committee.</p> <p>Hazel advised that the membership list should reflect David Henderson as funding body contact for the Scottish Executive and that Hazel should be the recipient of the funding invoice.</p>	D.Peebles
41/06	<p>Constitution/Roles & Responsibilities</p> <p>The paper recommending modification to the Constitution was approved.</p> <p>Nick then advised of proposed changes to the CIPFA/LASAAC constitution which may result in the addition of a representative from Wales, the consequence of which would be a potential reduction, by one member, in LASAAC's representation. Nick advised at present the LASAAC complement is Chair, Vice chair, Audit Scotland representative and 3 further representatives. The Scottish Executive may however be given formal observer status in line with other administrations</p> <p>Grant invited views on this proposal. In response to a suggestion from Derek Yule to increase the CIPFA/LASAAC membership as a solution, Nick advised that this was a possible solution but that it is presently a large committee with 16 members. Increasing membership further would not be a desired solution.</p> <p>Ian Robbie considered one Welsh representative may be considered by some to be a token gesture and that representation should in fact be at least two members to include a practitioner and a member of the Wales Audit Office.</p> <p>Grant commented that if the representation was reduced then both assurance of attendance at CIPFA/LASAAC by Scottish members as well as succession planning would be critical.</p> <p>Otherwise the committee had no objections at this point to the proposal.</p>	D.Peebles
42/06	<p>CIPFA/LASAAC Meeting 4th October 2006</p> <p>Grant invited questions on the CIPFA/LASAAC minutes. Hazel sought clarification on minute 7.1 accounting for specific grants. Nick advised that the issue had arisen when considering how to disclose schools grant and this had led to wider discussion on specific grant, disclosure within net cost of services and the relationship to RSG. Nick confirmed to Hazel that mere redesignation from specific grant to RSG was not the issue. There were 2-3 options which may be considered for the 2008 SORP ITC.</p>	

<p>43/06</p>	<p>SORP 2007: Invitation to Comment</p> <p>Nick drew the Committee's attention, in particular, to the following key issues in the ITC:</p> <ul style="list-style-type: none"> • Soft Loans; and • Revaluation Reserve <p><u>Soft Loans</u></p> <p>Nick advised that the treatment in the standard (FRS 26) was to write soft loans down to fair value. CIPFA/LASAAC had discussed but rejected this approach which would have resulted in an immediate adverse impact upon the income & expenditure account and preferred face value. It was considered that the loans are issued for service objective reasons rather than as financial instruments</p> <p>CAPE had discussed the CIPFA/LASSAC proposal at length during which it was recognised that there may be similar consequences for charitable bodies to consider in future when implementing these standards. CAPE had referred the matter to the ASB which had resulted in the letter from Andrew Lennard, Chairman of CAPE which advised of the ASB view that soft loans should in fact be written down to fair value on initial recognition. Nick advised that the consequence of this was that the CIPFA/LASAAC proposal was in effect no longer tenable and, if adopted, may result in qualification to the SORP.</p> <p>The ASB had however asked that the ITC should ask consultees on circumstances where such soft loans would give rise to asset recognition. Nick described the potential treatment of a soft loan treated as grant-in-aid at say nil interest. The fair value is less than the face value but designated as grant-in-aid and may give rise to an asset if the service delivered can be demonstrated as being of benefit to the local authority. This approach would not result in an adverse impact on the income & expenditure account and would not require regulation.</p> <p>There was debate on the practical consequences of soft loans, during which Hazel advised that in England & Wales where regulation was being introduced, these grants would be categorised as capital.</p> <p>The extent to which soft loans were issued by Scottish local authorities was discussed and it was agreed that the scale was not known. Hazel advised that an indication of scale would be required before regulation could be considered and that ideally the information should be received within one month. Lynn considered that the scale should be identified as a matter of urgency and it was agreed that this information would be sought from local authorities. In doing so the definition of what constitutes a soft loan would be clarified and the text requesting the information cleared with the Scottish Executive prior to issue.</p> <p>Nick considered that regulation offered the opportunity to address the matter although Derek Yule expressed concern about the credibility of the SORP if there was over-reliance on regulation.</p>	<p>D.Peebles</p>
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	<p>Ian Carruthers reminded the Committee that the ASB had invited respondents to identify circumstances where soft loans gave rise to an asset and that this opportunity should be taken.</p> <p>There was further debate about the type of soft loans and both Lynn and Karen agreed that there were limited circumstances where industrial development loans were provided.</p> <p>LOBO's were briefly discussed and it was confirmed that information on LOBO's is presently being gathered from local authorities.</p> <p>Nick commented that impairment of financial assets would also be addressed by the England & Wales regs. The Committee agreed that this had not been previously discussed or had identified this as a matter on which information should be collected.</p> <p>In response to a question from Nick, Hazel confirmed that the proposed regulations would address existing premiums and discounts but at present did not address soft loans, LOBO's or impairment. Hazel agreed to consider soft loans, LOBO's and impairment.</p> <p><u>Revaluation Reserve</u></p> <p>Nick advised that, although auditors present disagreed the majority of local authority practitioners on CIPFA/LASAAC had favoured commencement of the reserve with a nil balance and that CAPE had effectively approved the proposal. Ian Robbie expressed concern at the content of the ITC on pages 23 and page 24 and questioned why local authorities could not obtain the information necessary from the previous 10 years. Ian strongly considered that the perception of difficulty had driven this proposal and that the Fixed Asset Restatement Account in effect held much of the information for revaluation.</p> <p>Grant agreed that there had been much discussion at CIPFA/LASSAC on that very point although Nick considered that one issue would be that it could not be known if any derived figure would be materially correct or otherwise.</p> <p>Derek Yule described the position in Scotland when capital accounting was introduced in the mid-1990's and when asset valuation effectively 'increased' (not having been valued previously) from representing the amount of outstanding loans. There was debate on whether there would have been a requirement to examine records beyond the point at which capital accounting was introduced and it was agreed that this had not been clarified.</p> <p>Grant reminded the Committee that the ITC had now been issued and could not be influenced and that responses to the ITC must now be awaited.</p> <p>Ian Carruthers reminded the Committee that a clear answer to question 30 was required by any consultee who did not favour the CIPFA/LASAAC proposal.</p>	
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	<p>The position of the accuracy of a revaluation reserve for WGA was discussed. Russell advised that there were already variations between sectors in that there had been a revaluation for health bodies.</p> <p>Grant summarised on the extent of proposed changes within the ITC and that the next meeting would be important to assess all responses.</p> <p>Ian Carruthers then took the opportunity to describe the proposed CIPFA-led project on infrastructure assets. This was not a new issue and the wider matter of how funding should be allocated and the extent to which asset management and accounting interact was being considered. The more recent letter from HM Treasury to CIPFA requesting progress on infrastructure assets in local government was also part of this wider backdrop. There was however no GAAP compliant issue. More realistically it was an assessment of what the current position is and how it can be developed, in particular how it builds on what is currently being done as part of asset management.</p> <p>DfT and HM Treasury have confirmed that project should go ahead and that CIPFA was in the process of appointing a project steering group. Russell had been approached to become a member of the group.</p> <p>Derek Yule asked that the project should recognise that significant scarce resources would be required if the conclusion was to move to different valuation basis.</p> <p>Grant thanked Ian for summarising the early stages of this project and that the Committee looked forward to regular updates as it progresses.</p>	
44/06	<p>New Financial Instruments Regulation Update/Draft Regulations</p> <p>Hazel advised that a paper had been submitted to the Minister on existing premiums and discounts and that approval had been given to draft regulations to address this. Hazel advised that she was not in a position to advise on any proposals for premiums going forward (i.e. after April 2007).</p> <p>Grant asked on the likely timescale for issue and Hazel confirmed her hope that they would be issued pre-Christmas.</p> <p>There was further debate on stepped LOBO's and the fact that this was not presently featuring within the regulations. It was discussed again that information is currently being gathered which would identify the scale of any potential issue and that this information should be available in the week commencing 27th November.</p> <p>Hazel advised that for any possible regulation there would require to be an indication of the needed write-off period. A write-off period of 5 years was discussed and generally considered to be</p>	H.Black

	<p>adequate subject to information to the contrary.</p> <p>Lynn advised that Glasgow City Council's budget would be set on 8th February and expressed concern that regulations may not be issued in time.</p> <p>Grant asked if the Committee could assist further in any way to expedite the process. It was agreed that the sub-group formed in summer of 2006 to assist with information gathering, would be resurrected to assist and that Lynn would chair. The sub-group would address LOBO's, soft loans and where necessary, impairment. For information, Nick advised that an example of a soft loan would be a subsidised car loan.</p>	L.Brown
45/06	<p>BVACOP 2006 - Consultation</p> <p>The document was noted by the Committee and Grant advised that no change to the Service Expenditure Analysis (SEA) was proposed.</p> <p>Angela advised that the latest CIPFA Directors of Finance Section Masterclass had addressed shared services in detail. One outcome from the meeting was the recognition of the need for comparative information. While non-compliance was not being suggested, BVACOP which by design provides comparable information, had not gained the recognition or profile it had achieved in other territories. Given the shared services agenda however, the SEA could be used positively. Updating the SEA would however be essential. Update was included on the workplan.</p> <p>There was debate on other work being undertaken to ostensibly achieve a similar purpose, in particular, the national audit agencies work on benchmarking of certain central services. Gavin advised that this would result in a set of indicators being produced and further commented on the extent of projects currently being undertaken and that it would be appropriate to await strategic developments before embarking on extensive costing</p> <p>It was generally acknowledged however that the various projects underway did not address the reporting of front line services. The modernisation of the SEA could therefore usefully be undertaken at the next opportunity.</p>	
46/06	<p>Accounting for the Common Good</p> <p>Don introduced a project brief on Accounting for the Common Good based on the Committee's agreement in September to undertake a review of the accounting arrangements.</p> <p>The common good has recently achieved a high profile in that three petitions on the common good had been submitted to the Public Petitions Committee of the Scottish Parliament. They had</p>	

	<p>now been referred to the subject committee, in this case the Local Government and Transport Committee. That Committee had recently taken evidence from Mr A.Wightman, an author of 'Common Good Land in Scotland – A Review and Critique'. Mr Wightman had drawn attention to deficiencies in accounting and asset record keeping. Initial contact had been made with Mr Wightman to advise him of the proposed review and a reply was awaited.</p> <p>It was understood that the legal background to the common good ranged from legislation in 1491, to the Local Government (Scotland) Act 1973. The practicalities of the project proposal to set out the legislative background was emphasised in that full clarification may not be possible.</p> <p>The SORP makes only limited reference to the common good (exclusion from the balance sheet and consideration for inclusion in group accounts). There is otherwise no set guidance for accounting for and reporting of the common good. Local authorities in Scotland, as a matter of custom and practice report the common good in their accounts, although examination of only two local authorities had identified differences in reporting.</p> <p>There was general debate on the common good and Nick reminded the Committee that common good accounts apply FRS 15.</p> <p>The brief was approved and it was also agreed that a working group would be composed of Ian Robbie and nominations would be sought from Aberdeen City Council, Perth & Kinross Council and East Lothian Council. (NB Karen had separately advised that an intended nominee from City of Edinburgh Council was no longer available).</p>	<p>D.Peebles, I.Robbie, Nominated reps</p>
<p>47/06</p>	<p>LASAAC Workplan</p> <p>The workplan was noted.</p>	
<p>48/06</p>	<p>2005/6 Local Authority Accounts – Report on Compliance</p> <p>Russell provided a verbal report on local authorities compliance with the SORP in 2005/6.</p> <p>Two local authorities had been qualified in 2005/6, Shetland Council on group accounts and Western Isles on capitalisation of grants. A further eighteen local authorities had received explanatory paragraphs of which seventeen related to STO's. Notably, only a few of the STO explanatory paragraphs were in respect of FRS 17.</p> <p>Amendments to the accounts submitted for audit included upward adjustment to expenditure in the consolidated revenue account. Equal pay was the subject of many amendments. One local authority had made no provision for equal pay and one local authority had reported it as an 'extraordinary item'.</p>	

	<p>Russell advised that Audit Scotland is currently examining the circumstances under which accounts should be re-dated and instanced one local authority where a £400M adjustment had made no difference to the date on which the accounts were signed.</p> <p>Russell then focused upon group accounts advising that three councils in Scotland did not produce group accounts. Of those that did, eleven councils declared subsidiaries and the majority included police and fire boards as associates. Scottish Borders had not however done so. There was however varying practice on whether common good accounts were included within the group. One minor issue was failure to produce a group cash flow statement on the basis that it was deemed that there was no material difference from the single entity. Russell emphasised however that this was not considered a major issue.</p> <p>There were also areas of non-compliance in respect of capital accounting.</p> <p>Grant asked if there were any plans to link this to a wider UK report on compliance. Ian Carruthers commented that this would be helpful given that there is need for annual clarification on compliance by SORP preparing bodies. It was agreed that this should be annually reported to CIPFA/LASAAC.</p> <p>Russell advised one issue for the SORP going forward would be clarification of significant influence in local authority groups.</p> <p>Lynn advised that an issue for her council going forward was the impact of single status on STO's. Hazel advised that she was going to raise STO's under AOB but given it had arisen she advised that the Scottish Executive had no plans to regulate to amend the impact of FRS 17 on STO's. It was explained that any alleviation or subsidy would in effect be 'state aid' and that the private sector would react adversely.</p> <p>Lynn commented that this was both a political as well as a Scotland-wide issue.</p> <p>There was some debate on STO's generally including discussion of on the position where local authorities rebranded (or suspended) activities as no longer being STO's to avoid deficit and subsequent adverse audit comment. It was agreed that the audit view in such circumstances could only be adverse.</p>	R.Frith
49/06	In view of time, Grant advised that Item 12 LASAAC annual report would be carried forward to the next meeting and noted that item 13, LAAP Bulletin 67 was for information.	D.Peebles
50/06	<p>AOB</p> <p>Nick raised the matter of WGA and suggested that LASAAC could lead a group to consider what improvements could be made to the WGA returns. It was agreed that Hazel could lead the group and that Nick would provide a representative from Scott Moncrieff and</p>	H.Black, N.Bennett, G.Stevenson A.Douglas.

	<p>that Gavin would nominate a representative from Audit Scotland. Derek Glover suggested that Alison Douglas from the Scottish Executive should also be invited to contribute.</p> <p>Meeting dates for 2007 were agreed as:</p> <p>12 March, 4 June, 3 September, 12 November.</p>	
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ACTION POINTS FROM LASAAC MEETING OF 21st November 2006

Minute Ref	Action	Responsibility
39/06	Paper on Roles and Responsibilities to be developed into a more practical document to address attendance and members individual responsibilities in reporting to funding bodies etc. Paper to then be circulated to members for comment	D.Peebles
39/06	Circulate FRS 17 amendment to members when published.	D.Peebles
39/06	Charities Accounts and Audit Regs. Update to be brought to next meeting	R.Frith
39/06	Circular 23/1998 to be submitted to Hazel Black to enable identification of the governing primary legislation.	D.Peebles
40/06	ACCA replacement local authority practitioner to be approached for LASAAC membership.	D.Peebles
40/06	Membership list to be modified to reflect David Henderson as funding body contact for the Scottish Executive	D.Peebles
41/06	Constitution to be modified as per Agenda Item4 paper.	D.Peebles
43/06	Info request to local authorities on soft loans at 31 March 2006, to be clarified with SE prior to issue.	D.Peebles
44/06	Sub-group to be resurrected to assist with further financial instrument information gathering. Lynn to chair.	L.Brown
48/06	Submission of annual compliance report to CIPFA/LASAAC	R.Frith
49/06	Item 12 LASAAC annual report to be carried forward to the next meeting	D.Peebles
50/06	LASAAC group to consider what improvements could be made to the WGA returns.	H.Black, N.Bennett, G.Stevenson A.Douglas