



To: LASAAC Funding Bodies
From: LASAAC Secretary
Date: 28 July 2019
Subject: LASAAC Activities 2018/19: Annual Report

Purpose of Report

1. The LASAAC Terms of Reference require that an annual report of LASAAC activities is provided to the funding bodies.
2. Additionally LASAAC considers that the annual report should also clearly support self-assessment of the achievement of LASAAC objectives.
3. This report therefore provides a summary of LASAAC activities during 2018/19, with reference to the achievement of LASAAC objectives.
4. This report will be submitted to LASAAC on 20 August 2019.

Outcomes and Objectives of LASAAC Activities

5. The outcome expected of LASAAC activities is:

“The determination and application of proper accounting practices to support appropriate financial reporting by Scottish local government.”

6. The objectives in the Terms of Reference are summarised as:

A	Develop and promote proper accounting practice, in line with legislation, for Scottish local government
B	Contribute to development of the Code of Practice on Local Authority Accounting in the UK ('the Code')
C	Strive for improvement in the quality and relevance of Scottish local government financial reporting
D	To advise and assist in quantification of the financial impact of changes in financial reporting requirements
E	To act as a discussion forum on local government accounting matters

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LASAAC Representation on CIPFA-LASAAC

7. The development of the Code of Practice on Local Authority Accounting in the United Kingdom ('the Code'), on an annual basis, is a key means by which LASAAC achieves its stated outcome.
8. LASAAC's considerations of the accounting and financial reporting requirements of Scottish local government feed into the development of the Code of Practice through representation on CIPFA-LASAAC. This supports the development of a UK-wide Code of Practice which supports the specific needs of Scottish local government.
9. This process enables LASAAC considerations and conclusions on various matters to be reflected in UK wide requirements. Such matters include:
 - the application of legislation;
 - Scotland-specific policy and structural changes;
 - the needs of Scottish stakeholders in local government financial reporting;
 - the early assessment of the financial impact of accounting requirements; and
 - the practical application of accounting requirements.

LASAAC Activities

10. Provided as Appendix A is a tabular summary, with hyperlinks, of key LASAAC activities undertaken in support of the objectives and outcomes.
11. As noted above participation in, and support for, CIPFA-LASAAC is integral to the achievement of LASAAC objectives.

Requested Action

12. The Funding Bodies are requested to:

- **Note the contents of this report**

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LASAAC Activities in Support of Objectives 2018/19

	Topic	Activity	Primary Objectives Supported
1	Code of Practice 2019/20 Development	<p>LASAAC contributed to the development and publication of the 2019/20 Code of Practice through active representation on CIPFA-LASAAC, discussion at LASAAC and the Code 19/20 public consultation (archive copy) process.</p> <p>The key aspects of change affecting Scottish local government were</p> <ul style="list-style-type: none"> a. Amendments to augment the descriptions of adaptations and interpretations, explain the role of statutory adjustments, the nature and role of reserves used for statutory adjustment purposes, and confirm that authorities should apply application guidance which is integral to a standard. b. Updates to reflect the issue of the IASB’s IFRS Conceptual Framework (2018) c. Removal of requirements for the Carbon Reduction Scheme, and also the landfill allowances scheme given the suspension of that scheme in Scotland d. A new section on the apprenticeship levy scheme e. Updates to Section 3.4 (Presentation of Financial Statements) of the Code to include amendments to the movement in reserves statement and expenditure and funding analysis to reflect voluntary transfers between the revaluation reserve and the general fund for Scottish local authorities, and the Scottish authority legal capacity to undertake transfers between different statutory usable reserves f. amendments to Section 4.1 (Property, Plant and Equipment) to permit Scottish local authorities to make a voluntary transfer under accounting standards of an element of the revaluation gain to general fund balances; subject to where this option is applied, it will only be the remaining historical cost element of depreciation in the general fund which is subject to transfer to the capital adjustment account 	A, B, E

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	Topic	Activity	Primary Objectives Supported
		<p>g. amendments to Section 6.5 (Accounting and Reporting by Pension Funds) to reflect new legislative references for Scottish pension funds</p> <p>h. updates to Section 7.1 (Financial Instruments, Introduction etc) to reflect the amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation</p> <p>i. amendments to Section 7.1 (Financial Instruments, Introduction etc) to clarify one of the interpretations for contracts with lender option borrower option clauses</p> <p>j. amendments to Chapter 9 (Group Accounts) to include the scope clarifications for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations introduced by the Annual Improvements to IFRSs 2014 to 2016 Cycle.</p> <p>In approving the 2019/20 Code of Practice LASAAC, through CIPFA-LASAAC participation, particularly and specifically ensured Scottish local government stakeholder views and interests were represented, particularly in relation to items e) and f), as well as general legislative reference updates. These items specifically reflected the work of key LASAAC volunteers in reviewing the appropriate presentation of statutory adjustments by Scottish authorities.</p> <p>CIPFA-LASAAC has issued a feedback paper outlining the considerations and decisions made affecting the 19/20 Code.</p>	
2	Code of Practice: IFRS 16 Leases	<p>LASAAC contributed to and supported Scottish considerations in discussions concerning IFRS 16 Leases implementation. CIPFA/LASAAC issued a specific IFRS 16 Leases consultation paper (archive copy), which anticipated implementation in 19/20 (from 1 April 2019).</p> <p>LASAAC encouraged Scottish responses to the consultation, and that there was Scottish representation on an IFRS 16 <i>Leases</i> working group which was involved in reviewing the draft proposals before issue. Furthermore a LASAAC practitioner representative actively participated in a</p>	A, B, D, E

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	Topic	Activity	Primary Objectives Supported
		<p>CIPFA impact assessment exercise, based on the consultation issued, to assess the practical and financial reporting issues arising. LASAAC specifically discussed implementation aspects including restoration obligations, the application of IFRS 16 to service concession arrangements (PFI/PPP) and reliance on existing lease identification arrangements.</p> <p>All this ensured that LASAAC representatives were positioned to appropriately inform consideration of the consultation responses. Following consideration, and an indication from FRAB that central government budgeting arrangements would result in FReM implementation being deferred until 20/21, CIPFA/LASAAC announced that postponement to 20/21 would take place.</p> <p>CIPFA/LASAAC liaised with FRAB on a number of items, most significantly the criteria for when of a right-of-use asset was indicated to exist, and also a proposal from one 'special nature' local government body to early adopt in 19/20. This request is under consideration.</p> <p>The factors affecting CIPFA/LASAAC implementation decisions regarding accounting treatment were included in the feedback paper on the 19/20 Code process.</p> <p>The planned text for IFRS 16 Leases implementation in 20/21 has been issued as an appendix to the 20/21 ITC.</p> <p>LASAAC maintains a work plan item to address and support IFRS 16 <i>Leases</i> implementation in Scotland.</p>	
3	Code of Practice: 20/21 Code development	LASAAC representatives have also been involved at an early stage in the development of the 2020/21 Code of Practice consultation (ITC) . The main areas of proposed change relate to:	A, B, E

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	Topic	Activity	Primary Objectives Supported
		<ul style="list-style-type: none"> • Clarity and streamlining principles, including amendments to the definition of materiality and checklist questions relating to the provision of disclosures. • A review of disclosures to support clarity and streamlining, including specific areas such as capital, pensions and financial instruments. • Accounting standards, including proposals to support the application of materiality in implementing Amendments to IAS 19: Plan Amendment, Curtailment or Settlement. • Legislative changes, affecting the different government areas in the UK. • Other areas, including service concession arrangements (PPP/PFI) relating to third party revenues and measurement of the liability; Housing Revenue Account debtor impairments, financial instruments presentation in the comprehensive income and expenditure statement; minor updates and insurance contracts for future years. <p>Scottish concerns and interests, particularly legislative amendments affecting annual accounts disclosures required, were specifically identified by LASAAC for inclusion.</p>	

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4	Clarity and Streamlining	<p>LASAAC members have actively influenced and participated in a significant CIPFA/LASAAC initiative regarding the future strategy for and direction of the Code, including participation in a 'strategy day' event. Following this CIPFA/LASAAC has issued a Vision Statement including:</p> <p><i>"UK local authority annual accounts should be widely recognised as an exemplar for clear reporting of the financial performance and position of complex public sector bodies. Users of accounts should be able to access the information they want to help them to understand the finances of an authority and to take practical and informed decisions."</i></p> <p>To achieve this a Strategic Implementation Plan has been established, a stakeholder survey has been issued, the Code 20/21 Invitation to Comment includes initial proposals for change, a discussion paper on differential reporting is to be issued, and a paper on Code strategy will also be published for comment.</p> <p>LASAAC members have actively participated in all of these.</p>	A, B, C, E
5	Statutory Adjustments Review	As noted above the significant work undertaken by LASAAC volunteers has already lead to some Code changes, and importantly places LASAAC in a good position to appropriately inform and influence debate regarding the Code's strategic direction to ensure it is appropriate for Scottish local government.	A, B, C, D, E
6	IFRS 9 Financial Instruments Application: Earmarking of Fair Value Gains	IFRS 9 Financial Instruments was implemented in the Code for 2019/20. The treatment of gains and losses arising from changes in the fair value of instruments treated as 'Fair Value through Profit or Loss' was not adapted by the Code. This acknowledged agreement at CIPFA/LASAAC that the statutory arrangements for such instruments was properly the remit of each individual government administration.	A, C, D, E

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	Topic	Activity	Primary Objectives Supported
		<p>The Scottish Government lead the project work and, through LASAAC, supported stakeholder engagement to gain views on an appropriate approach in Scotland. Stakeholders generally agreed that statutory intervention was unnecessary since appropriate LASAAC guidance could address treatment in the annual accounts and the consequences arising for budget setting processes.</p> <p>Following public consultation LASAAC Guidance on IFRS 9 Financial Instruments - Earmarking of gains not available to fund services was issued including the following:</p> <ul style="list-style-type: none"> • specification that the guidance is mandatory and is 'proper accounting practice' • requirement to earmark an element of the general fund balance as being 'not available to fund services' • specification that a net cumulative overall unrealised loss will affect the general fund balance that is available to fund services • specification of how to calculate the 'not available to fund services' earmarked balance, including reference to: <ul style="list-style-type: none"> ○ financial asset gains being 'readily convertible to cash' ○ the criteria specified for this purpose ○ reference to commercial sector determination of 'readily convertible to cash' ○ inclusion of 'volatile' financial asset fair value gains in the earmarked balance (even where such assets are 'readily convertible to cash') based on an assessment of the prudence of relying on such gains to fund services ○ illustrative example of determination of the amount to be earmarked • disclosure requirements in the annual accounts • general fund balance to be a single figure on the balance sheet and similarly presented in the movement in reserves statement (MIRS) <ul style="list-style-type: none"> ○ disclosure of the specified amount as an 'earmarked balance' following the Code requirements 	

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		<ul style="list-style-type: none"> ○ disclosures relating to fair value gains and losses held in the financial instruments revaluation reserve (eg financial instruments held at fair value through other comprehensive income and expenditure), particularly where there is a debit balance ○ application of materiality ○ illustrative disclosure <ul style="list-style-type: none"> ● application of the above to Housing Revenue Account balances. 	
7	Internal Transactions and Operating Segments Reporting / Insurance Accounting	<p>To support implementation of the Code's requirements regarding the elimination of internal transactions from the Comprehensive Income and Expenditure Statement, LASAAC initiated two work items: guidance on presentation requirements; and a review of the existing LASAAC insurance accounting guidance.</p> <p>These work streams resulted in the development of a single advisory notice to support Code compliance for 2018/19. This was developed with LASAAC member input and a formal public consultation process. The LASAAC Advisory Notice on Accounting for Internal Transactions and Insurance Arrangements addresses the following areas:</p> <ul style="list-style-type: none"> ● The advisory notice is not mandatory and does not change or amend the Code of Practice requirements. ● Internal transactions are not permitted in the CIES by the Code of Practice. ● Previous LASAAC guidance on Accounting for Insurance in Local Authorities in Scotland (LASAAC, 2005) is withdrawn. ● Transfers to or from an insurance fund should be presented in the movement in reserves statements (MiRS). ● The Code requirements do not affect or dictate a local authority's own internal arrangements for management control and recording purposes. 	A, C, E

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		<ul style="list-style-type: none"> • Adjustments between management reporting and required CIES presentation should be made in the expenditure and funding analysis. • The re-allocation or apportionment of underlying expenditure is acceptable, for example for presentation of costs incurred by the Housing Revenue Account or other segments under a 'controllable budget' arrangement. • Illustrative examples showing management reporting presentation compared to CIES presentation are included. • The accounting policy should be determined and disclosed in accordance with the Code requirements. • Where material, restatement of 2017/18 comparatives is required. <p>LASAAC is grateful for the participation of, and contributions from, all stakeholders involved in the development of the guidance.</p>	
8	Integration of Adult Health & Social Care	<p>For the 2018/19 financial year LASAAC undertook a further review to ensure that the existing LASAAC guidance remained relevant and to address issues identified from the 17/18 annual accounts process. A working group with stakeholder representatives was formed which developed guidance. The guidance was subject to public consultation. The guidance on accounting for the integration of health and social care was consequently updated to address:</p> <ul style="list-style-type: none"> • Treatment of over and under spends • Presentation of a 'net liability' (negative reserves) position • Hosted services • Set Aside Arrangements • Earmarked elements of General Fund balances • Critical Judgements (• Arrangements for agreeing balances and transactions 	A, C, E

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		LASAAC is grateful for the participation of, and contributions from, the working group involved in the development of the guidance.	
9	Other LASAAC Activities	<p>Other LASAAC activities during 2018/19 included:</p> <ul style="list-style-type: none"> • a LASAAC representative on CIPFA-LASAAC participates on the Financial Reporting Advisory Board • Financial instruments information data requests were issued to inform consideration of the materiality and extent of <ul style="list-style-type: none"> ○ Historic modifications in cash flows arising from the repayment of debt which may have had, at 1 April 2018, to be charged or credited to General Fund balances ○ LOBO loans which had been converted to standard loans but where a balance existed in the Financial Instruments Adjustment Account • The date of property valuation certificates, and the arrangements to ensure the valuations were relevant as at the balance sheet date • IFRS 15 Revenue from Contracts with Customers implementation • Discussion of pension asset value changes affecting IAS 19 pension liabilities • Liaison with the Scottish local authority Directors of Finance Section and the Integration Joint Boards CFO Section. • Responding to queries concerning LASAAC work and guidance issued. 	A, B, C,D, E

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