National Park Authority
Audit & Risk Committee

Agenda Item 5: Appendix 1

Draft Accounting Policies
for inclusion in 2019/20 Annual Accounts

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1. Accounting Policies

In accordance with the accounts direction issued by Scottish Ministers, these accounts have been prepared in compliance with the principles and disclosure requirements of the HM Treasury Financial Reporting Manual (FReM), which follows generally accepted accounting practice as defined in International Financial Reporting Standards (IFRS) as adopted by the European Union and the Companies Act 2006 to the extent that it is meaningful and appropriate in the public sector context. The particular accounting policies adopted by Loch Lomond & The Trossachs National Park Authority are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

The accounts are prepared using accounting policies, and, where necessary, estimation techniques, which are selected as the most appropriate for the purpose of giving a true and fair view in accordance with the principles, set out in International Accounting Standard (IAS) 8 Accounting Policies, Changes in Accounting Estimates and Errors. Changes in accounting policies, which do not give rise to a prior year adjustment are reported in the relevant note.

The accounts have been prepared on a going concern basis as the Board and Accountable Officer believe that future liabilities will be met from a combination of cash budget allocation from the Scottish Government, future grants from partner agencies, and income from chargeable activities.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment, intangible assets, and, where material, investments and inventories to fair value as determined by the relevant accounting standard.

1.2 Accounting Period

The accounting period commenced on 1 April 2019 and ended on 31 March 2020.

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1.3 Non-Current Assets: Property, Plant and Equipment

Property, Plant and Equipment

Expenditure is capitalised on the acquisition or creation of property, plant and equipment

(i) only where it is probable that the future economic benefits associated with the item will flow to the Authority

(ii) and the cost of the asset can be measured reliably.

On initial recognition, property, plant and equipment are valued at cost, including any costs directly attributable to bringing them into working condition. The capitalisation threshold is £500 for individual or pooled assets.

Operational land and buildings are valued at current value in existing use:

- The value of non-specialised assets is assessed as market value based on quinquennial valuation supplemented by an interim professional valuation in year 3.
- The value of specialised assets is assessed as depreciated replacement cost (DRC) based on quinquennial valuation supplemented by an interim professional valuation in year 3 and annual indexation in years 1, 2 and 4 using published indices.

More details on valuation are provided in Note 1.21.

Depreciated historical cost, less any impairment, is used as a proxy for current value in existing use based on the low carrying value of: Vehicles and Marine Vessels; Equipment, Plant and Machinery; Furniture and Fittings; IT Hardware and Infrastructure.

Subsequent Expenditure

Expenditure on improvements, repairs and renewals of non-current assets is charged as an expense, unless it is considered to have replaced part of an asset. If it has replaced part of an asset, it will be capitalised and the cost and cumulative depreciation or amortisation of the asset it has replaced will be removed.

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Assets under construction

Assets in course of completion are valued at cost. On completion they are transferred to the appropriate asset category and reviewed for impairment, which for any property assets will include valuation in accordance with the policy above. No depreciation or amortisation is charged until the asset is in operational use and any impairment or gain has been recognised.

Intangible assets

Expenditure on intangible assets, which includes copyright, IT systems and software, and our website, has a threshold for capitalisation of £500. The FReM directs users to value intangibles at fair value and recommends DRC as an appropriate method. We do not index our intangible assets as this would not give a reliable estimation of the replacement cost of the asset. Therefore these assets are carried at amortised historical cost less any impairment.

Depreciation and amortisation

Depreciation or amortisation is provided on a straight-line basis on all non-current assets (other than freehold land) at rates calculated to write down the cost or valuation of each asset over its estimated useful life, as detailed in the table below. Depreciation and amortisation is charged to the Statement of Comprehensive Net Expenditure on the carrying value of the non-current assets with a full year being charged in both the year of acquisition and disposal. Any element of depreciation or amortisation arising from any increase in valuation and in excess of the depreciation or amortisation that would be charged on the historic cost value of the asset is taken to the Revaluation Reserve.

Type of Asset	**Asset lives (years)**
Freehold Land	Not depreciated
Freehold Buildings	50 or expected life determined by valuer if shorter
Leasehold Buildings	50 or period of lease if shorter
IT Hardware	3 – 5
IT Infrastructure	5
Vehicles	5
Vessels	5 – 25
Machinery, Equipment, Furniture & Fittings	3 – 5
Copyright	5
Website, IT systems and software	3

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Impairment

We assess at each reporting date, and when any assets in the course of completion transfer into use, whether there is an indication that any assets may be impaired. This assessment is made through discussions with property and other colleagues to identify any events which have occurred that would indicate that impairment may have taken place, and also from the quinquennial, interim and initial valuations undertaken in accordance with the valuation policies above.
Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and written down to its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Net Expenditure, except for assets previously revalued, where the revaluation increase was taken to the asset revaluation reserve. In this case the impairment is recognised in the revaluation reserve up to the amount of any previous revaluation.

Leased Assets

We classify leases where substantially all of the risks and rewards of ownership have been transferred to us as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value or the present value of the minimum lease payments. The asset recognised is matched by a liability for the obligation to pay. Subsequent to initial recognition, the asset is accounted for in line with the valuation policy above.

There are two leased assets being held under a finance lease, with the minimum rent on these assets being £1 and £5 per year. Given the non-material nature of the finance lease creditor (£133), this has not been recognised. Other leases are operating leases and are not recognised in the Statement of Financial Position.

IFRS 16 Leases will be effective for the year ended 31 March 2021 for the Authority. This standard provide a single lessee accounting model, with a right of use asset and a lease liability being recognised on the commencement of a lease. The distinction between operating and finance leases remains for lessors.

1.4 Investments

Investments are recognised in line with IFRS 9 Financial Instruments. Refer to Note 1.16 for more details.

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1.5 Inventories

Inventories are stated at the lower of Cost and Net Realisable Value.

1.6 Value Added Tax (VAT)

Irrecoverable VAT is included with the relevant cost and charged to the Statement of Comprehensive Net Expenditure in the period in which it is incurred

1.7 Leases

<u>Operating Leases</u>

Operating lease rentals are charged to the Statement of Comprehensive Net Expenditure over the term of the lease.

<u>Finance Leases</u>

(i) *Lease payments*
The annual finance expense that would be allocated to the two assets held under a finance lease is £1. The minimum lease payments have not been apportioned between the finance expense and the reduction of the outstanding liability.

(ii) *Determining whether an arrangement contains a lease*
At inception of an arrangement, the Authority determines whether such an arrangement is or contains a finance lease in accordance with IAS 17.

As noted above, IFRS 16 Leases will be effective for the year ended 31 March 2021 and replaces IAS 17. This standard provides a single lessee accounting model, with a right of use asset and a lease liability being recognised on the commencement of a lease. The distinction between operating and finance leases remains for lessors.

1.8 Scottish Government Departmental Expenditure Limit

The Authority receives a budget from the Scottish Government, known as Departmental Expenditure Limit or DEL, to finance the cash costs of capital and operating expenditure, net of other income sources and depreciation.

In accordance with financial reporting guidance, the DEL cash allocation is credited to the General Reserve in the Statement of Changes on Taxpayers' Equity and net expenditure on activities funded by the DEL cash allocation is charged to the General Fund in the Statement of Changes on Taxpayers' Equity

1.9 Income and Expenditure Recognition

Income from activities and expenditure is accounted for in the year to which it related and not to when cash payments are made or received.

Where income or expenditure has been recognised but cash has not been received or paid, a receivable or payable for the corresponding amount is recorded in the Statement of Financial Position. Where cash has been received or paid in advance of the activity or expenditure, no income or expense is recognised and a payable or receivable for the corresponding amount is recorded in the Statement of Financial Position.

1.10 Other Grants and Income

The Authority receives other grants to finance its net expenditure. Other grants used to purchase fixed assets are credited to the General Reserve

Operating income is income that relates directly to the operating activities of Loch Lomond & The Trossachs National Park Authority. It includes fees and charges for services provided to external customers

1.11 Pension Costs

The Authority participates in a Local Government Pension Scheme, Strathclyde Pension Fund, which is administered by Glasgow City Council and is a defined benefit scheme. Employer's contributions to the pension fund and the pension liability are accounted for under the requirements of IAS 19, Employee Benefits. Pension disclosures are contained in Note 20.

1.12 Short-term Employee Benefits

A liability and expense are recognised for accrued but unused annual leave and flexitime as at 31 March 2020.

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1.13 Cash and Cash Equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at commercial banks and in hand.

1.14 Trade Receivables

All material amounts due as at 31 March 2020 have been brought into the Statement of Comprehensive Net Expenditure irrespective of when actual payments were received.

1.15 Trade Payables

All material amounts due as at 31 March 2020 have been brought into the Statement of Comprehensive Net Expenditure irrespective of when actual payments were made.

1.16 Financial Instruments

The Authority does not hold any complex financial instruments. The only financial instruments are financial assets in the form of an investment in other entities, trade and other receivables, and financial liabilities in the form of trade and other payables. Financial assets and financial liabilities are recognised when the Authority becomes party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Trade and other receivables, which do not have a financing component are measured at the transaction price.

All income and expenses relating to financial assets that are recognised in the Statement of Comprehensive Net Expenditure are presented within finance income (interest received), except for impairment of trade receivables which is presented in other operating costs. Trade receivables are assessed for impairment individually to determine likelihood of payment, with write offs taken to the Statement of Comprehensive Net Expenditure. Trade debtors under review are written off to the bad debt provision.

The investment in National Parks Partnerships LLP is measured at fair value through the profit and loss. The capital contributions are non-refundable and the fair value is assessed as nil.

1.17 Provisions, Contingent Assets and Contingent Liabilities

Provisions are recognised when the Authority has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Authority and amounts can be estimated reliably. The timing or amount of the outflow may still be uncertain.

No liability is recognised if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

Contingent assets are disclosed where a possible asset arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority

1.18 Assets Held on Behalf of Third Parties

Where the Authority holds an asset on behalf of a third party and the Authority does not have beneficial rights to the asset and cannot use the asset for its own purposes, the asset is not recognised on the Statement of Financial Position. However, disclosure of the nature and extent of these assets and the underlying activity is included in the Accounts.

Where the Authority holds an asset on behalf of a third party that is controlled by the Authority and there is a present obligation as a result of past events, both the asset and liability are recognised in the Statement of Financial Position

1.19 Segmental Reporting

IFRS 8 Segmental Reporting requires operating segments to be identified on the basis of internal reports about components of the Authority that are regularly used by the chief operating decision makers in order to allocate resources and assess their performance. The Authority reports on three segments of Visitor Experience, Conservation and Rural Development (Note 4).

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1.20 Interest in Other Entities

IFRS12 requires disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Authority is a Designated Member of National Parks Partnerships LLP and holds an equal share in the Partnership, along with the other 14 UK National Parks (Note 11). This investment does not meet the criteria of a subsidiary, joint venture or associate and has been recognised as an investment, in line with the investment policy (Note 1.4).

1.21 Critical Judgements and Estimates

In application of the accounting policies outlined above, there are limited areas where judgement has to be made. The following are the critical judgements and estimates that have the most significant effect on the amounts recognised in the accounts

- Valuation of Land and Buildings

  As detailed in Note 1.3, all land and buildings are valued using professional valuations in accordance with IAS 16 every five years. Valuations are also carried out on initial recognition of new land and buildings. The quinquennial valuation was carried out as at 31 March 2019. Ryden LLP provided the property valuations. Ryden LLP is a RICS Regulated firm and must ensure that all processes and valuations are fully compliant with the RICS Valuation – Global Standards 2017 (The Red Book) with the latest edition having taken effect from 1st July 2017. Assets are valued on the basis of either Fair Value or Depreciated Replacement Cost.

- Actuarial Assumptions used in Pension Valuations

  The pension valuations are provided by the pension scheme's actuaries, Hymans Robertson. The pension liability has been calculated by the actuary in line with IAS 19 requirements. The actuary conducts a formal triennial valuation of the fund, the most recent valuation being conducted as at 31 March 2017. The formal valuation calculates the employer's assets and liabilities on a detailed basis using individual member data and calculates the required rate of employer's contributions to the fund for the period from 1 April 2018 to 31 March 2021. The balance sheet position as at 31 March 2020 and the projected cost for 2020/21 are based on the roll forward from the valuation at 31 March 2017.

The roll forward allows for changes in financial assumptions, additional benefit accrual and estimated cash flows over the period. The assets are valued at bid value as required by IAS 19 and the projected unit credit method of valuation is used. The pension liabilities are valued on an actuarial basis, using the actuary's standard assumptions, appropriate for the Authority's liability profile.

When the LGPS Scotland benefit structure was reformed in 2015, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2015 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme.

In December 2018 the Court of Appeal upheld a ruling ("McCloud/ Sargeant") that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the LGPS (and other public service schemes) as well. The UK Government requested leave to appeal to the Supreme Court but this was denied at the end of June 2019. Therefore, LGPS Scotland benefits accrued from 2015 may need to be enhanced so that all eligible members, regardless of age, will benefit from the underpin. Alternatively, restitution may be achieved in a different way, for example by paying compensation. In either case, the clear expectation is that many more members would see an enhanced benefit rather than just those currently subject to these protections.

Quantifying the impact of the judgement at this stage is very difficult because it will depend on the compensation awarded, members' future salary increases, length of service and retirement age, and whether (and when) members withdraw from active service. Salary increases in particular can vary significantly from year to year and from member to member depending on factors such as budget restraint, job performance and career progression. The Government Actuary's Department (GAD) has estimated that the impact for the LGPS England & Wales as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. A full description of the data, methodology and assumptions is given in GAD's paper, dated 10 June 2019.

The Strathclyde Pension Fund's actuary has adjusted GAD's estimate to better reflect the Fund's local assumptions and circumstances, particularly those for salary increases and withdrawal rates.

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The revised estimate results in around a 1.8% increase in active member liabilities as at 31 March 2019 which resulted in an increase of approximately £345k.

The actuaries do not believe there is any significant new information for 2019/20 and the default approach has been adopted, whereby the roll forward position to 31 March 2020 continues to include the previously estimated McCloud element in the Statement of Financial Position.

1.22 Changes in Accounting Standards

(a) Standards, amendments and interpretations effective in 2019/20.

The following standard will be relevant to the Authority has been issued but is not yet effective for the Authority:

IFRS 16 Leases was published by the International Accounting Standards Board in January 2016. The standard requires lessees to recognise leases on the Statement of Financial Position as an asset which reflects the right to use the underlying asset and a liability which represents the obligation to make lease payments. This has not been adopted for the 2019/20 FREM. It is applicable for accounting periods beginning on or after 1 January 2020 for public bodies. For the Authority, the standard will be effective for the year ending 31 March 2021 and the impact has not yet been quantified.

(b) Standards, amendments and interpretation early adopted in 2019/20.

There are no new standards, amendments or interpretations early adopted this year