Draft Accounting Policies
Agenda Item 8 : Appendix 1

National Park Authority Audit and Risk Committee
Tuesday 22nd June 2021

Paper for noting

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1. **Accounting Policies**

1.1. In accordance with the direction issued by Scottish Ministers under Section 25 of The National Parks (Scotland) Act 2000 and 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.

1.2. 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.

1.3. 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.

2. **Accounting Convention**

2.1. 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.

3. **Accounting Period**

3.1. The accounting period commenced on 1 April 2020 and ended on 31 March 2021.

4. **Non-Current Assets: Property, Plant and Equipment**

4.1. <u>Property, Plant and Equipment</u>

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.

4.2. 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.

4.3. 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.

4.4. 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.

4.5. 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

4.6. 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.

4.7. 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, 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 2023 for the Authority. 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.

5. Investments

5.1. Investments are recognised in line with IFRS 9 Financial Instruments (Note 1.16) and are recognised when the Authority becomes party to the contractual provisions of the investment.

5.2. Investments 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 of ownership are transferred.

5.3. The investment in National Parks Partnerships LLP is measured at fair value through the Statement of Comprehensive Net Expenditure. The capital contributions are non-refundable and the fair value is assessed as nil.

6. Inventories

6.1. Inventories are stated at the lower of cost and net realisable value.

7. Value Added Tax (VAT)

7.1. 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.

8. Leases

8.1. <u>Operating Leases</u>

8.1.1. <u>Operating lease rentals are charged to the Statement of Comprehensive Net Expenditure over the term of the lease.</u>

8.2. <u>Finance Leases</u>

8.2.1. <u>Lease payments</u>

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.

8.2.2. <u>Determining whether an arrangement contains a lease</u>

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

8.2.3. As noted above, IFRS 16 Leases will be effective for the year ended 31 March 2023 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.

9. Scottish Government Departmental Expenditure Limit

9.1. 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.

9.2. 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.

10. Income

10.1. Income from activities is accounted for in the year to which it relates and not to when cash payments are received.

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

10.3. Operating income is income that relates directly to the operating activities of the Authority. It includes fees and charges for services provided to external customers.

10.4. All income from contracts with customers is recognised in accordance with IFRS15, when the performance obligation is satisfied and control of the goods or service has been passed over. Where applicable, income is shown exclusive of VAT.

10.5. Where the purchase or construction of capital assets are financed in whole or in part by grants, the funding element is recognised as income and taken through the Statement of Comprehensive Net Expenditure.

10.6. Deferral of this income occurs when:

- conditions have been imposed by the funder that require return if not complied with,
- these conditions have not been satisfied at the year end, and
- there is reasonable assurance that the Authority is willing and able to comply with the conditions in future

Once the conditions are satisfied, the income will be recognised immediately

11. Expenditure

11.1. Expenditure is accounted for and charged to the Statement of Comprehensive Net Expenditure in the year to which it relates, and not to when cash payments are made or received. Staff costs are accounted for in the year that salaries are earned, together with the employer costs.

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

12. Pension Costs

12.1. 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 International Accounting Standard 19, Employee Benefits.

12.2. The expected cost of providing staff pensions to employees contributing to the pension fund is recognised in the Statement of Comprehensive Net Expenditure on a systematic basis over the expected average remaining lives of members of the funds in accordance with IAS 19 Employee Benefits and recognises retirement benefits as the benefits are earned and not when they are due to be paid. The actuary conducts a formal triennial valuation of the fund and calculates the required rate of employer's contributions (notes 1.21 and 19). The contribution charges are recognised in the financial years in which they arise.

13. Short-term Employee Benefits

13.1. A liability and expense are recognised for accrued but unused annual leave and flexitime as at 31 March 2021.

14. Cash and Cash Equivalents

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

15. Trade Receivables

15.1. In line with the recognition of income, trade and other receivables are recognised in the Statement of Financial Performance where the income relates to the financial year ended 31 March 2021.

16. Trade Payables

16.1. In line with the recognition of expenditure on an accruals basis, trade and other payables are recognised in the Statement of Financial Performance where the expenditure relates to the financial year ended 31 March 2021.

17. Financial Instruments

17.1. 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.

17.2. Financial assets and financial liabilities are recognised when the Authority becomes party to the contractual provisions of the financial instrument.

17.3. 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.

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

17.5. 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.

18. Provisions, Contingent Assets and Contingent Liabilities

18.1. 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.

18.2. 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.

18.3. 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.

19. Assets Held on Behalf of Third Parties

19.1. 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.

19.2. 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.

20. Segmental Reporting

20.1. 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).

21. Interest in Other Entities

21.1. 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 10). 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).

22. Critical Judgements and Estimates

22.1. 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.

22.1.1. 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 with an interim valuation in year three. 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 provide the Authority's 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 (The Red Book).

Assets are valued on the basis of either market value in existing use or Depreciated Replacement Cost.

In 2019/20 the Authority commissioned professional revaluations for land and buildings where construction works were completed at 31 March 2020 and on land and buildings where there was an indication of impairment. In addition, at 31 March 2020 the Authority applied indexation to other buildings held at Depreciated Replacement Cost using the UK Tender Price Index. Indexation was applied to the buildings from their previous valuation at 31 March 2019.

22.1.2. <u>Valuation uncertainty</u>

At 31 March 2020, in applying the Royal Institute of Chartered Surveyors (RICS) Valuation Global Standards ('Red Book'), a material uncertainty was declared in the valuation report. This is due to market uncertainties caused by COVID-19. The Red Book defines material uncertainty as '*where the degree of uncertainty in a valuation falls outside any parameters that might normally be expected and accepted*.'
In making judgements on the measurement of assets at 31 March 2021, the Authority recognised that there may be greater uncertainty in markets on which the valuation for assets formally valued at 31 March 2020 and at 31 March 2019 were based. Given this uncertainty, a full revaluation of the property portfolio was conducted at 31 March 2021.

The valuation report provided at 31 March 20201 highlights that there continued to be unprecedented uncertainty in the property market and in valuation processes at the valuation date, as a result of the impact of the global COVID-19 coronavirus pandemic. Ryden consider that the Authority's portfolio of assets was subject to material valuation uncertainty at the valuation date of 31 March 2021.

The Red Book stipulates that the onus is on the valuer to identify if "material valuation uncertainty" exists of a case-by-case basis, and, if it does to explicitly declare it to the client so that the context of the valuation, and the decisions potentially made on the back of it, are understood.

Following the outbreak of the pandemic, RICS convened a Material Valuation Uncertainty Leaders Forum (MVULF) to consider and assess the events relating to the COVID-19 pandemic and its impact on valuation assignments, including measures for the accurate and consistent reporting of material uncertainty. The MVULF have met regularly to assess whether material valuation uncertainty (MVU) continued to exist in particular property sectors and when they considered it may no longer be appropriate to include the MVU clause in valuations of assets in those particular sectors.

However, the process of the MVULF cannot take into account factors applying to specific assets, regions or markets. The RICS stress that the decision on whether to insert, maintain or remove commentary that a valuation is subject to materially uncertainty is that of the valuer, who must take into account the specific attributes and performance of the individual asset and its market on a case-by-case basis.

Although the valuer has concluded that the portfolio was subject to material valuation uncertainty at 31 March 2021, the presence of this clause is not meant to suggest that the valuation cannot be relied upon, but that in the current circumstances, less certainty can be attached to the valuation than would otherwise be the case. This is because inconsistent or lack of reliable real-time transactional data has compromised their ability to follow the market and make a professional judgement in light of their findings.

The valuation report has been used to inform the measurement of assets in these financial statements. Although the valuer has declared a material valuation uncertainty, the valuer has continued to exercise professional judgement in preparing the valuation. The valuation reflects all evidence available at the time it was carried out. Therefore, this is the best information available to the Authority as at 31 March 2021 and can be relied upon. The valuer has recommended that a review of the valuation is undertaken in the next 12 months.

A variance of 10% in the revaluation of land and buildings carried out as at 31 March 2021 would total £101k.

22.1.3. 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 2020.

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 2021 to 31 March 2024. The balance sheet position as at 31 March 2021 and the projected cost for 2021/22 are based on the roll forward from the valuation at 31 March 2020. In preparing the valuation, no allowance is made for the effect of changes in membership since the last formal valuation date.

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. Investment returns on the Fund is based on actual Fund returns for the year to 31 March 2021.The pension liabilities are valued on an actuarial basis, using the actuary's standard assumptions, appropriate for the Authority's liability profile.

The actuary has allowed for the impact of recent court cases around GMP equalisation and the McCloud judgement (i.e. any active member who was a participant of the Fund as at 1 April 2012 will be given the greater of the final salary pension or CARE pension upon retirement) in the funding valuation position at 31 March 2020. As such these allowances are automatically included within the valuation at 31 March 2021. No allowances have been made for the impact of other recent legal judgements.

23. Changes in Accounting Standards

23.1. Standards, amendments and interpretations effective in 2020/21

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 2020/21 FReM. Following the COVID-19 pandemic, the implementation of this standard has been delayed by another year and it is now applicable for accounting periods beginning on or after 1 January 2022 for public bodies. For the Authority, the standard will be effective for the year ending 31 March 2023 and the impact has not yet been quantified.

23.2. Standards, amendments and interpretation early adopted in 2020/21

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