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Appendix 1

1. Accounting Policies

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 (GAAP) as defined in International Financial Reporting Standards (IFRS) applicable in the UK 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. The Board and Accountable Officer's assessment of the going concern basis has been based on confirmation of Grant in Aid and prudent financial forecasts.

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 to fair value as determined by the relevant accounting standard.

1.2 Accounting Period

The accounting period commenced on 1 April 2021 and ended on 31 March 2022.

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, which is interpreted as market value in existing use defined in the RICS Red Book as Existing Use Value (EUV). For specialised assets, current value in existing use is interpreted as the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential. Depreciated Replacement Cost (DRC) is considered the most appropriate measure of current value in existing use for operational specialised assets.

Assets not held for their service potential and held for sale are valued in accordance with IFRS 5 (Non-current Assets held for sale). Where an asset is not being used to deliver services and there is no plan to bring it back into use, with no restrictions on sale, and is not held for sale or investment, the asset is considered as surplus and is valued at fair value using IFRS 13 Fair Value Measurement.

A quinquennial valuation is carried out on land and buildings by a professional valuer. The value of non-specialised assets is assessed as market value based on the 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 the quinquennial valuation supplemented by an interim professional valuation in year 3 and annual indexation in years 1, 2 and 4 using published indices.

A full revaluation is undertaken where there is a risk around material movement in the property valuation. 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.

<u>Subsequent Expenditure</u>

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.

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.

Following the initial recognition of an intangible asset, where an active (homogeneous) market exists, intangible assets other than those that are held for sale should be carried at current value in existing use at the reporting period date. Where an active market exists current value is based on the market value in existing use. Where no active market exists, intangible assets are revalued, to the lower of depreciated replacement cost and value in use where the asset is income generating. Where there is no value in use, the asset should be valued using depreciated replacement cost.

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

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, 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.

Non-Current Assets Classified as Held For Sale

The Authority classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met when the asset is actively being marketed, it is available for immediate sale in its present condition, the sale is considered to be highly probable and is expected to qualify for recognition as a completed sale within one year from the date of classification. Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. Depreciation or amortisation for such assets is not charged from the date they are classified as an asset held for sale

1.4 Investments

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.

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.

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.

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. In the limited circumstances where VAT is recoverable, VAT is excluded.

The net amount of VAT recoverable from, or payable to, HMRC is included as part of receivables or payables in the statement of financial position.

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 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.

1.8 Scottish Government Departmental Expenditure Limit

The Authority receives Grant in Aid from the Scottish Government, known as Departmental Expenditure Limit (DEL), to finance net expenditure.

The DEL cash allocation is credited to the General Reserve in the Statement of Changes on Taxpayers' Equity. The net expenditure on activities funded by the DEL cash allocation is charged to this fund.

1.9 Income

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

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.

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.

All income from contracts with customers is recognised in accordance with IFRS15, which depicts the transfer of goods and services to customers in an amount that reflects the consideration to which the Authority expects to be entitled to in exchange for those goods or services. Revenue is recognised in accordance with that core principle by applying the following steps:

- Identification of contract with a customer
- Identification of the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when the performance obligation is satisfied and control of the goods or service has been passed over.

Grant income is recognised in line with IAS 20 when it is receivable. If entitlement of grant income is subject to performance conditions, the income is recognised as the performance conditions are met.

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. Deferral of grant 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.

1.10 Expenditure

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.

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.

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 International Accounting Standard 19, Employee Benefits.

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.

1.12 Short-term Employee Benefits

A liability and expense are recognised for accrued but unused annual leave and flexi leave balances at the 31 March, in accordance with the underlying policy.

1.13 Cash and Cash Equivalents

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

Cash received from the Scottish Government DEL cash budget (Grant in Aid), income from other sources and contributions is held as short term, liquid cash at commercial banks. The Authority has no powers to borrow money or to invest surplus funds. The cash held funds the Authority's obligations as these fall due.

1.14 Trade Receivables

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 2022.

1.15 Trade Payables

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 2022.

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.

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).

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 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).

1.21 Critical Judgements and Estimates

The preparation of the financial statements requires the Board and the Accountable Officer to make judgements, estimates and assumptions that affect the application of the accounting policies outlined above and the reported amounts of assets, liabilities, income and expenses.

Critical accounting judgements relate to the selection and application of accounting policy, whereas estimates relate to material estimation and associated assumptions, based on historical experience and other factors that are considered to be relevant.

There are limited areas where judgement and estimates have to be made, however these relate to material valuations and disclosure.

<u>Judgements</u>

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(a) Valuation of Land and Buildings

As detailed in Note 1.3, assets are subject to formal revaluation with sufficient frequency to ensure that the carrying value is not materially different than if a full revaluation were to be undertaken. All land and buildings are valued using professional valuations in accordance with IAS 16 every five years supplemented by an interim valuation in year three. Valuations are also carried out on initial recognition of new land and buildings and where there is a risk around material movement in property valuations. Ryden LLP provide the Authority's property valuations and are a Royal Institute of Chartered Surveyors (RICS) Regulated firm.

Ryden LLP must ensure that all processes and valuations are fully compliant with the RICS Valuation – Global Standards 2021 (The Red Book), with the latest edition having taken effect from 31 January 2021. Assets are valued on the basis of either market value in existing use or Depreciated Replacement Cost, except for when assets are considered as surplus or held for sale (Note 1.3).

The last full property portfolio re-valuation was carried out as at 31 March 2021, following the material uncertainty on property valuation at 31 March 2020 due to market uncertainties caused by COVID-19. As at 31 March 2022, the normal cycle of valuation has re-commenced, since there is considered to be no material uncertainty in the property market at the balance sheet date. The value of specialised assets on a depreciated replacement cost (DRC) basis from the valuation at 31 March 2021 is supplemented by annual indexation at 31 March 2022 using published indices.

The valuation basis of two properties has changed as at 31 March 2022.

- One property, which was valued on a Depreciated Replacement Cost basis at 31 March 2021 is considered a surplus property at 31 March 2022. The building is leased by the Authority and is vacant, awaiting the termination of the sub-lease. There is no clear plan to bring the asset back into future use as an operational asset. The asset is therefore assessed as being surplus and valued under IFRS 13 Fair Value Measurement. Given the head lease in place, the fair value of the property has been assessed as nil and the asset has been fully impaired.
- The second property was previously valued on a Depreciated Replacement Cost basis as a specialised asset. At 31 March 2022, the decision had been taken to sell the property and the asset has been valued on a fair value basis in line with IFRS 5 Non-current Assets Held for Sale.

The Board and Accountable Officer do not consider there to be any other critical accounting judgements requiring disclosure at 31 March 2022.

<u>Estimates</u>

The following are the critical estimates that have the most significant effect on the amounts recognised in the accounts.

(a) Valuation of Land and Buildings

At 31 March 2022 the Authority applied indexation to buildings held at Depreciated Replacement Cost using the UK Tender Price Index.

A variance of 10% in the indexation of land and buildings carried out as at 31 March 2022 would total £Xk.

(b) 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 and includes a number of assumptions. Details of assumptions including discount rate, life expectancies and increases in inflation and salary rates rate are included in Note 19.

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 2022 and the projected cost for 2022/23 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 2022.The pension liabilities are valued on an actuarial basis, using the actuary's standard assumptions, appropriate for the Authority's liability profile.

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Change in assumptions as at 31 March 2022	**Approximate % increase to Employer Liability**	**Approximate monetary amount £000**
0.5% decrease in Real Discount Rate	TBC	TBC
0.5% increase in the Salary Increase Rate	TBC	TBC
0.5% increase in the Pension Increase Rate	TBC	TBC

1.22 Changes in Accounting Standards

(a) Standards, amendments and interpretations effective in 2021/22

IFRS 16 Leases – the implementation date for the public sector was deferred from accounting periods beginning on or after 1 April 2021 to those beginning 1 April 2022. Adoption of this standard in 2022/23 will necessitate recognising a right of use asset category within property, plant and equipment representing the Authority's right to use the underlying leased asset and a lease liability representing the Authority's obligation to make lease payments for the asset at 1 April 2022. This will result in changes to the accounting treatment and disclosures relating to lease agreements.

The impact of the application of this standard has not yet been quantified in full.

(b) Standards, amendments and interpretation early adopted in 2021/22.

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