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Local Government Finance Circular No 2/2018
(Replaces Local Government Finance Circular No 3/2010)

By email

To: Directors of Finance of Scottish local authorities
Audit Scotland

Our ref: A17398311
15 February 2018

Dear Director of Finance,

ACCOUNTING FOR SHORT TERM ACCUMULATING PAID ABSENCES

Local Government Finance Circular 3/2010 was issued in July 2010 to allow local authorities to exclude the accounting charge for short term accumulated compensated absences when determining the movement on the General Fund.

Following a review of the statutory adjustment a change to the coverage of the adjustment is being made, limiting the statutory adjustment to a certain type of short term accumulating paid absence, namely paid annual leave.

The statutory adjustment for all short term accumulating absences will continue to be available until 31 March 2021. This is to allow local authorities to plan for any financial impact of this change.

This circular is also available through the Local Government section of the Scottish Government website at:

<http://www.scotland.gov.uk/Topics/Government/local-government/17999/LAacc/LAaccquid>

If you have any questions, please do not hesitate to contact me.

Yours faithfully,

A handwritten signature in blue ink that reads "Hazel Black".

Hazel Black
Head of Local Authority Accounting
Local Government and Analytical Services Division

ACCOUNTING FOR SHORT TERM ACCUMULATING PAID ABSENCES

Scottish Government

Contents

Part 1 – Background

Part 2 – Guidance on proper accounting practices – short term accumulating paid absences

Part 1 of this document gives informal advice only and is not part of the guidance itself, which is contained in Part 2.

PART 1 – BACKGROUND AND COMMENTARY

Background

1. The Code of Practice on Local Authority Accounting in the UK (the Code) requires authorities to account for benefits payable during employment in accordance with IAS 19 *Employee Benefits*, except where interpretations or adaptations to fit the public sector are detailed in the Code.

2. The Code requires recognition of short-term accumulating paid absences. Accumulating absences are those that are carried forward and can be used in future periods if the current period entitlement is not used in full. In local authorities, annual leave, flexi-time and time in lieu would usually be accumulating.

3. Local Government Finance Circular 3/2010 was issued in recognition of the financial impact accounting for short-term accumulating paid absences would have on the General Fund when the Code adopted IAS 19 from 1 April 2010.

4. At that time the main impact was considered to be from the teacher annual leave accrual due to their holidays being fixed throughout the year and the way holiday entitlement is accrued under their contract of employment. Further, the value of the teacher accrual is influenced by the date on which Easter falls, which can be either before or after the financial year end. It was also identified that police authorities may also have significant accrued costs arising from rest days and time off in lieu (TOIL).

Review of the statutory adjustment

5. LASAAC, as part of its simplification of accounts project, undertook a review of statutory adjustments. The initial proposal was for the statutory adjustment to be withdrawn for all short-term accumulating paid absences with the exception of teacher's annual leave, based on the assumption that only the teacher adjustment was likely to be material. This proposal was subject to verification of the assumptions made as to materiality.

6. The verification process confirmed that the teacher statutory adjustment was, as expected, material, but also identified that the non-teacher leave accrual was also material. This reflected that leave years did not align to financial years for other, non-

teaching, staff. The adjustments for flexi-leave and TOIL were confirmed as not being material.

7. Reflecting on the evidence LASAAC recommended limiting the statutory adjustment to a certain type of short term accumulating paid absence, namely paid annual leave, and withdrawing the adjustment for flexi-leave and TOIL.

8. To allow local authorities to plan for the withdrawal for flexi-leave and TOIL, advance notification was proposed, with a date for the change to be 1 April 2021. Further, LASAAC considered local authorities should be provided with the option to be able to gradually reduce the affected statutory adjustments over time, i.e. a planned 'taper', or to defer the full impact of removal until the adjustment is withdrawn.

9. The statutory guidance has been drafted to allow a local authority to transfer a "sum up to, but not exceeding, any accounting charge". This allows a local authority to apply a taper of their choice by reducing the statutory adjustment over the transition period. This approach also allows a local authority to make no statutory adjustments for these items from 2017-18. A local authority may still transfer the full amount each year during the transition period. Irrespective of the approach taken by a local authority the value of the statutory adjustment for flexi-leave and TOIL in the Employee Adjustment Account as at 31 March 2021 will be zero.

Statutory guidance

10. The Statutory Guidance only applies to short term accumulating paid absences. The statutory guidance does not apply to any long-term employment benefits or other short term employment benefits covered by the Code such as wages, salaries and social security contributions, bonuses and similar payments, or non-monetary benefits.

11. Accounting charges made in respect of short term accumulating paid absences will be charged to the Comprehensive Income and Expenditure Statement of a local authority in accordance with proper accounting practice.

12. The statutory adjustment will be held in the Employee Statutory Adjustment Account.

Scottish Government
Local Government and Analytical Services Division
15 February 2018

[PART 2]

ACCOUNTING FOR SHORT TERM ACCUMULATING PAID ABSENCES

Issued by Scottish Ministers under section 12(2)(b) of the Local Government in Scotland Act 2003

DEFINITIONS

1. **Local Authority** means a council constituted under section 2 of the Local Government etc. (Scotland) Act 1994 (c.39). It includes a regional transport partnership and other bodies as set out in section 106 of the Local Government (Scotland) Act 1973.
2. **General Fund** means the fund detailed in section 93(1) of the Local Government (Scotland) Act 1973. It includes the Housing Revenue Account.
3. **Financial year** is a year which commences 1 April and ends 31 March.
4. **Proper accounting practices** are as defined in section 12 of the Local Government in Scotland Act 2003.
5. **Short term accumulating paid absences** is defined in accordance with proper accounting practices.
6. **Annual leave** is the paid holiday workers are entitled to, either legally or through their contract of employment.
7. **Employee Statutory Adjustment Account** is the account to be charged or credited with the statutory adjustment and its reversal.

APPLICATION

8. This statutory guidance applies from the financial year commencing 1 April 2017. It applies to all local authorities.
9. Paragraphs 14 to 17 apply from 1 April 2017 to 31 March 2021

SHORT TERM ACCUMULATING PAID ABSENCES

10. Accounting charges made for short term accumulating paid absences are to be included in the statutory Annual Accounts of the local authority in accordance with proper accounting practices.
11. A local authority shall maintain an Employee Statutory Adjustment Account.

Short Term Accumulating Paid Absences - Annual Leave

12. A sum up to, but not exceeding, any accounting charge made for the annual leave element of short term accumulating paid absences and charged to the General Fund in any financial year may be transferred to the Employee Statutory Adjustment Account.

13. In the following financial year any sum transferred in the previous financial year to the Employee Statutory Adjustment Account for annual leave shall be transferred back to the General Fund.

Short Term Accumulating Paid Absences - Other Paid Absences

14. Paragraphs 14 to 17 apply to short term accumulating paid absences which are not annual leave. This part is time limited and a statutory adjustment for these types of absence only applies until 31 March 2021.

15. A sum up to, but not exceeding, any accounting charge made for any short term accumulating paid absences, and charged to the General Fund in any financial year may be transferred to the Employee Statutory Adjustment Account.

16. In the following financial year any sum transferred in the previous financial year to the Employee Statutory Adjustment Account shall be transferred back to the General Fund.

17. Any balance on the Employee Statutory Adjustment Account at 31 March 2021 which does not relate to annual leave must be transferred to the General Fund.

Annual Accounts - Statutory Reporting Requirements

18. Transfers to or from the Employee Statutory Adjustment Account are statutory adjustments. All statutory adjustments are to be reported in the Adjustments between Accounting Basis and Funding Basis section of the Movement in Reserves Statement. The CIPFA-LASAAC Code of Practice on Local Authority Accounting in the United Kingdom Accounting Code requires an analysis of statutory adjustments either in the Movement in Reserves Statement itself or in a note.

19. The analysis of the statutory adjustments should clearly identify each statutory adjustment made. A local authority may choose the descriptor for each statutory adjustment but it should reflect the reason for the adjustment.

20. The analysis of statutory adjustments should not include a statutory adjustment where the amount of any adjustment is zero in the two financial years covered by the Movement in Reserves Statement.