



**ADDITIONAL GUIDANCE ON ACCOUNTING**  
**FOR THE**  
**INTEGRATION OF HEALTH**  
**AND SOCIAL CARE**

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**The members of LASAAC are volunteers representing the funding bodies or participating as appointed or co-opted members. LASAAC is primarily concerned with the development and promotion of proper accounting practices for Scottish local authorities. A key task in achieving this is LASAAC's contribution to the development of the 'Code of Practice on Local Authority Accounting in the United Kingdom' ('the Code').**

Further information about LASAAC can be obtained at <http://www.cipfascotland.org.uk/technical/lasaac.cfm>

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## **Integration of Health and Social Care: Background**

1. The integration of health and social care services under the terms of the [Public Bodies \(Joint Working\) \(Scotland\) Act 2014](#) and associated [secondary legislation](#) is a significant undertaking for both Scottish local government and Scottish NHS Boards.
2. The integration of services has mainly been undertaken through the creation of Integration Joint Boards (IJBs). IJBs are specified in legislation as 'section 106' bodies under the terms of the [Local Government \(Scotland\) Act 1973](#)<sup>1</sup>. Consequently IJBs are required to prepare their financial statements in compliance with the [Code of Practice on Accounting for Local Authorities in the United Kingdom](#).

## **Existing Guidance on Financial Reporting for Integration**

3. The [Integrated Resource Advisory Group](#) (IRAG) issued guidance on financial aspects of the integration process in 2015. This includes initial example accounts for an IJB and also jointly developed LASAAC-TAG<sup>2</sup> Guidance regarding the principles and expectations relating to financial reporting requirements. A copy of the LASAAC-TAG Guidance is also available separately from the LASAAC website since it has been omitted from later versions of the IRAG Guidance.
4. This paper should be read in conjunction with, and with reference to, the guidance identified above. The IRAG Guidance, particularly the illustrative annual accounts portion, was prepared prior to, and in preparation for, more detailed guidance. Where this guidance differs from the IRAG guidance it will generally override and supersede the IRAG requirements. In some cases this is specifically stated.
5. This paper is an updated version of LASAAC guidance which was issued for the 2015/16 financial year. It was subsequently revised for 2016/17 to implement additions and clarifications where necessary. There are no significant amendments in this further revision (April 2018), but the opportunity has been taken to refresh the guidance and ensure it stays up-to-date.

## **Objective of the Guidance**

6. A number of stakeholders in Scottish local government financial reporting identified areas where detailed guidance would be of assistance. Consequently this guidance was originally developed in September 2015 to support consistency of treatment, and appropriate financial reporting for integration in both IJB and local authority accounts. LASAAC thanks all those who have contributed to the development of this guidance.
7. This guidance does not address the accounting requirements for the 'lead agency' model of integration.
8. LASAAC anticipates that this guidance will continue to be reviewed and either updated or replaced as integration arrangements develop. A Finance Development Group is currently considering the financial aspects arising from the integration of services and this, along with other stakeholder feedback, is expected to lead to a wider review of this guidance during 2018/19.
9. This guidance is issued as mandatory LASAAC guidance. It does not override the requirement for financial statements to provide a 'true and fair view'. Therefore, where

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<sup>1</sup> Section 106 of the 1973 Act was amended by section 13 of the Public Bodies (Joint Working) (Scotland) Act 2014

<sup>2</sup> TAG is the Technical Accounting Group which has oversight of the development of accounting guidance for Scottish NHS Boards.

necessary, departure from this guidance may occur in order to provide a true and fair view.

### **Areas Addressed by the Guidance**

10. Areas where additional guidance was considered to be beneficial, both for IJB and local authority annual accounts, were identified. This guidance considers:

- IJB Running Costs
- Remuneration Reports in the IJB and Local Authority Partner
- Presentation in the Local Authority Comprehensive Income and Expenditure Statement (CIES)
- IJB Comprehensive Income and Expenditure Statement (CIES)
- Related Party Disclosures
- Application of Statutory Mitigation
- Cash & Cash Equivalents
- Local Authority: Offsetting of Debtor and Creditor Balances with the IJB
- IJB Balance Sheet and Movement in Reserves Statement (MiRS)

### **IJB Running Costs**

11. The IRAG Guidance refers to the 'operational budget', which is interpreted as encompassing the cost of IJB management and governance as well as the actual commissioning expenditure for service delivery. In order to avoid confusion this guidance will draw a distinction between these cost elements by using the following terminology:

- **IJB Running Costs:** the costs of running (or operating) the IJB itself, being distinct from service commissioning expenditure. Typically IJB running costs will include the supply of staff and services by the partners.
  - The [IRAG Guidance](#) (page 53 para 5.2.1) provides examples including: the costs of the IJB Chief Officer and Chief Financial Officer; financial support services (eg ledger, expenses processing); planning services (eg costs of data & analysis), human resources advice (eg re the CO), communication and engagement cost (eg in securing public engagement); and administrative support (eg accommodation, records management etc).
- **IJB Service Commissioning Expenditure:** the funding provided to the partners to deliver services.

12. In relation to IJB running costs the LASAAC-TAG accounting paper included in the IRAG guidance stated "It is anticipated, unless there are grounds for rebuttal, that IJB operating costs will include the cost of services provided by the partners."

13. Costs relating to the overheads required by partners to provide the services commissioned by the IJB are not regarded as IJB running costs. These service delivery overheads may include human resources, payroll, payment of suppliers, financial monitoring, information technology systems and accommodation. Where the partner contributions included allowance for these costs, the IJB service commissioning expenditure for each partner will include an element to cover these overheads. Where these service delivery overheads were not included in the partner contributions the service delivery overheads will be retained by the partners and not routed through the IJB.

### Grossing Up of Expenditure and Income

14. Staff and services to support the IJB, for example IJB ledger and financial services or preparation of the Strategic Plan, may be provided by a local authority partner. Where a reduction in the partner contribution is agreed as compensation or consideration for the provision of the services, the authority's partner contribution in the IJB accounts should be grossed up with the cost of the services recognised as IJB running costs to balance this.
15. A similar approach should be adopted in the local authority's accounts, that is, to gross up the authority's contribution and to separately show the consideration received, if the amount is considered material for the authority.

### Services Provided as a Non-Exchange Transaction (Services in Kind)

16. The only situation where partner provided services supporting the IJB would not be anticipated to feature in the IJB accounts would be where there is clear evidence that the support or services have been provided free of charge by a partner in a non-exchange transaction<sup>3</sup>. In a situation where the support is provided as a 'service in kind' there is no requirement for the IJB to recognise the value of services received as expenditure by the IJB<sup>4</sup>.
17. If an authority provides services to the IJB on this basis it is recommended that evidence to support the treatment as 'free of charge' is retained, for example the minutes of a committee meeting authorising the non-compensated provision of services. Additionally evidence detailing the calculation of the authority's contribution to the IJB should be retained.
18. An assessment of whether a VAT liability will arise for the IJB from a non-exchange transaction will be necessary since irrecoverable VAT borne by the IJB should be treated as expenditure<sup>5</sup>. Practitioners should refer to formal VAT guidance received<sup>6</sup>.
19. Where services are provided as 'services in kind' and the provision is regarded as material to the IJB, it is recommended that the IJB discloses the arrangement in a narrative note to the annual accounts explaining the nature and extent of the support. Equally, if material to the authority, the authority may also disclose the arrangement.

### **Remuneration Reports in the IJB and Local Authority Partner**

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<sup>3</sup> The Code of Practice 2017/18 2.7.1.1 requires compliance with IAS 18 Revenue and IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers). For an explanation of non-exchange transactions see IPSAS 23 paras 8 to 11.

<sup>4</sup> IPSAS 23 paragraph 98 states in relation to services in kind "An entity may, but is not required to, recognize services in-kind as revenue and as an asset." Paragraphs 99-103 provide more details.

<sup>5</sup> See the Accounting Code of Practice 2017/18 2.9.2.7

<sup>6</sup> This includes a letter from HMRC to Ernst and Young LLP dated 28 November 2016. This covered a number of scenarios relating to staff. It also re-stated the view that the IJB Chief Officer is employed under a special legal regime and that this is outside the scope of VAT. A further letter dated 11 May 2017 clarified that, subject to certain criteria, back office support functions could "fall outwith the scope of VAT". One of the criteria is that "supply is one of 'back office' type services, not one of staff and not related to the delivery of health or social care."

20. Both the IJB and local authority partners are required to comply with the [Local Authority Accounts \(Scotland\) Regulations 2014](#) (SSI 2014/200). The Schedule included in the regulations specifies the contents of the Remuneration Report. The Scottish Government has also issued guidance on the Remuneration Report in [Finance Circular 8/2011](#).
21. The following guidance is intended to assist stakeholders in the interpretation of the requirements however this guidance should not be regarded as a definitive interpretation of the legal requirements.
22. The following specific categories of individuals are considered:
- Voting Board Members
  - The IJB Chief Officer
  - Other officers (including the IJB Chief Financial Officer)

#### Voting Board Members

23. [SSI 2014/285](#) relates to the operating arrangements for IJBs.
24. Voting IJB Board members are defined in section 1 (2) and, in summary, constitute councillors nominated as board members by constituent authorities and NHS representatives nominated by the NHS Board.
25. Non-voting IJB Board members include the Chief Officer of the IJB, a chief social work officer (of an authority), the Chief Financial Officer (s95<sup>7</sup>) of the IJB, a registered medical practitioner (primary care), a registered nurse and a registered medical practitioner (non-primary care).

#### Voting Board Members: Definition of Relevant Person

26. It is considered that voting board members do not meet the definition of a 'relevant person' under the legislation (see Appendix A). In relation to the treatment of joint boards however [Finance Circular 8/2011](#) states that best practice is to regard convenors and vice-convenors as equivalent to Senior Councillors<sup>8</sup>.
27. The Chairperson and the Vice-Chairperson of the IJB should therefore be included in the IJB remuneration report.

#### Voting Board Members: Remuneration

28. It is understood that, in most IJBs, voting IJB Board Members are not normally expected to receive remuneration such as allowances from the IJB (see Appendix A). Expenses may however be paid<sup>9</sup>. Where these are not chargeable against income tax they would not be required to be included in the Remuneration Report.
29. In the event that a voting Board member is remunerated by the IJB it should be noted that the contractual liability for employer pension contributions is considered to rest with the partner organisation, since the IJB is not expected to be a member or scheduled body of a pension scheme. An IJB is not required to recognise a pension

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<sup>7</sup> As required by [section 95 of the Local Government \(Scotland\) Act 1973](#)

<sup>8</sup> See para 13 & 14 of [Finance Circular 8/2011](#) which includes "In the interest of transparency and in recognition that these council members act in a senior capacity best practice is to treat any Convenor and any Vice-Convenor as a Senior Councillor for remuneration disclosure purposes."

<sup>9</sup> Per [SSI 2014/285](#) section 16

liability for voting Board members on its balance sheet, unless the IJB has entered into a formal agreement to accept ongoing pension liabilities for the voting Board members, rather than just fund the current employer's contributions.

#### Voting Board Members: Suggested Treatment

30. Based on the above it is suggested that the Remuneration Report should include the following:

- The names and partner organisations of the Chairperson and Vice-Chairperson.
- The report may voluntarily disclose the names and partner organisations of the other voting Board Members.
- A statement, if applicable, that the IJB does not pay allowances or remuneration to voting board members but that voting board members are remunerated by their relevant IJB partner organisation. This could include reference to whether the IJB pays non-taxable expenses. Quantification would not be considered to be necessary.
- In the event that the Chair and Vice-Chairperson do receive remuneration as defined by the Remuneration Report regulations (see Appendix A) which includes taxable expenses, disclosure of the remuneration specific to the IJB in the form required by the [Local Authority Accounts \(Scotland\) Regulations 2014](#) (SSI 2014/200) is required.

31. Disclosures required may potentially include related pension remuneration. Quantitative information should be disclosed in the remuneration report. The Remuneration Report should however include, where applicable, an explanation to the effect that the statutory liability for pension contributions rests with the relevant partner organisation. Where applicable the disclosure should note that on this basis there is no pensions liability reflected on the IJB balance sheet for voting Board members.

#### IJB Chief Officer

32. The appointment of an IJB Chief Officer (CO) is required by section 10 of the [Public Bodies \(Joint Working\) \(Scotland\) Act 2014](#) which includes the statement "An integration joint board is to appoint, as a member of staff, a chief officer"<sup>10</sup>.

33. The IJB however is not empowered to directly employ the Chief Officer. The contract of employment must be with one of the partner organisations<sup>11</sup> Scottish Ministers may, by order<sup>12</sup>, allow direct employment by the IJB but, at the present date, this power does not appear to have been exercised.

34. The indirect nature of the IJB Chief Officer employment requires some judgement regarding the application of the Remuneration Report requirements<sup>13</sup>. It is considered that, given the specific legal requirement to appoint a Chief Officer and the special legal regime that applies to the employment contract arrangements, for the purposes of the Remuneration Report the IJB Chief Officer should be regarded as an employee of the IJB.

#### IJB Chief Officer: Definition of Relevant Person

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<sup>10</sup> Per sub-section 1 of section 10

<sup>11</sup> Per sub-sections 3 & 4 of section 10

<sup>12</sup> Per sub-section 5 of section 10

<sup>13</sup> Per [Local Authority Accounts \(Scotland\) Regulations 2014](#) (SSI 2014/200)

35. On the basis that the Chief Officer is effectively an employee of the IJB, the Chief Officer is a 'relevant person' (see Appendix B). All IJBs followed that approach in 2016/17.

#### IJB Chief Officer: Definition of Remuneration

36. The definition of remuneration given in the regulations<sup>14</sup> is noted in Appendix A. The application of this and the resultant disclosures required by the regulations are not anticipated to give rise to specific difficulties except in relation to pensions.

37. The contractual liability for employer pension contributions is considered to rest with the partner organisation which is the contractual employer, unless the IJB has entered into a formal agreement to accept ongoing pension liabilities for the Chief Officer rather than just fund the current employer's contributions. Where the formal responsibility for the Chief Officer's pension liability rests with the contractual employer it is not anticipated that the IJB will show a pension liability for the Chief Officer on the IJB balance sheet.

38. LASAAC considers that the IJB remuneration report should present the remuneration received by the Chief Officer in their role as Chief Officer for the IJB. On this basis:

- In the possible situation where the IJB CO post is not a full time post, only the remuneration related to the IJB post should be included in the remuneration report.
- The full remuneration the Chief Officer receives for their employment as IJB CO should be reflected in the IJB's remuneration report. This is consistent with the 'special legal regime' application accepted by HMRC for VAT purposes<sup>15</sup>. This treatment is also consistent with the consideration that the primary responsibility of the IJB CO is to the IJB Board. Any responsibility that the IJB CO has towards the funding partner organisations is ancillary to (i.e. is contingent and dependent upon) their appointment by, and responsibility to, the IJB.
- The pension entitlement related to the IJB role should be disclosed in the IJB remuneration report, even where the IJB has not entered into a formal agreement accepting ongoing responsibility above the funding of current employer contributions. This is on the basis that while the IJB may not be responsible for the liability, the benefits have been earned as a consequence of undertaking the role of the IJB CO.
- If the contractual employer of the IJB CO is a local authority and, in the possible event that the IJB CO is a 'relevant person' for the authority, the local authority should present the full remuneration (100%) of the person. A note should be provided identifying the fact that a proportion of the total remuneration is funded by the IJB. LASAAC does not anticipate that it will be common for an IJB CO to be a 'relevant person' for a local authority.

39. The IJB Remuneration Report should include an explanation to the effect that

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<sup>14</sup> Per [Local Authority Accounts \(Scotland\) Regulations 2014](#) (SSI 2014/200) Schedule section 1

<sup>15</sup> A letter from HMRC to Ernst and Young LLP dated 28 November 2016 re-stated the view that the IJB Chief Officer is employed under a special legal regime and that this is outside the scope of VAT.



- the Chief Officer is regarded as an employee of the IJB although their contract of employment is with the local authority / NHS Board
- the post is funded by the IJB
- where applicable, the statutory responsibility for employer pension liabilities rests with the employing partner organisation
- where applicable, the remuneration report presents the pension entitlement attributable to the post of the IJB CO but that the IJB has no formal ongoing pension liability. Instead the IJB will be expected to fund employer pension contributions as they become payable during the Chief Officer's period of service. The disclosure should note that on this basis there is no pensions liability reflected on the IJB balance sheet for the IJB CO.

40. It is not anticipated that a VAT liability will arise for the IJB from the arrangements for the appointment of the Chief Officer. This is based on a letter from HMRC to Ernst and Young on 28 November 2016<sup>16</sup>. This recognises that the arrangement is a 'special legal regime' and is outside the scope of VAT. In the unexpected situation that an irrecoverable VAT liability does arise, the Code requires this should be treated as expenditure<sup>17</sup>.

#### Other Officers and Staff

41. The appointment of non-voting board members is specified in [SSI 2014/285](#) (see paragraph 25 above for examples).
42. The services of an IJB Chief Financial Officer (CFO) have to be secured under the requirements of [section 95 of the Local Government \(Scotland\) Act 1973](#). Other staff employed by the partner organisations may also provide services to the IJB.
43. Other officers and staff are not regarded as employees of the IJB. The regulations<sup>18</sup> however state (bold emphasis added) that a 'relevant person' includes any "senior employee employed by the local authority **or holding office** with that authority". Therefore direct employment status is not the only consideration to take into account.
44. This will require the IJB to assess the status of IJB post holding officers in relation to whether the definition of 'senior employee'<sup>19</sup> is met. See Appendix C for a copy of the criteria which in summary relate to (a) the role of the post; or (b) whether the post is politically restricted; or (c) the level of remuneration.
45. Section 95 officers (IJB CFOs) may meet the criteria. (see Appendix C).
46. On this basis the CFO could meet the definition of a relevant person and be included in the Remuneration Report. 23 IJBs included the CFO as a relevant person in 2016/17. Other officers and staff may also meet the definition.

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<sup>16</sup> This covered a number of scenarios relating to staff. It also re-stated the view that the IJB Chief Officer is employed under a special legal regime and that this is outside the scope of VAT.

<sup>17</sup> See the Accounting Code of Practice 2017/18 2.9.2.7

<sup>18</sup> The Local Authority Accounts (Scotland) Regulations 2014 (SSI 2014/200) Schedule (definitions section – relevant person)

<sup>19</sup> The Local Authority Accounts (Scotland) Regulations 2014 (SSI 2014/200) Schedule (definitions section – senior employee)

47. Remuneration for such officers, including that paid by the employing partner for the performance of IJB related tasks, may also feature in the remuneration report of the employing partner. It may however be noted that this would require the definition to be met, independently, for each organisation.
48. An assessment of whether a VAT liability will arise for the IJB from the activities of staff employed by partners will be necessary since irrecoverable VAT borne by the IJB should be treated as expenditure<sup>20</sup>. Practitioners should refer to formal VAT guidance received<sup>21</sup>.

### **Presentation in the Local Authority Comprehensive Income and Expenditure Statement (CIES)**

49. The LASAAC-TAG Guidance concluded that the IJB was acting as principal in its own right. This conclusion led to the guidance that an authority's contribution to IJB funding should be treated as a distinct and separate transaction from the commissioning income received, and the subsequent service expenditure incurred by the authority.
50. The consequence of this is that the local authority's gross expenditure and gross income has increased, although the net expenditure may remain relatively stable (dependent on the net difference between the contribution made and the commissioning income received).
51. The segmental analysis requirements for the CIES are based on the organisation's management reporting and resource allocation arrangements. Consequently the previous specification that applied in 2015/16, for a separate line for the 'Contribution to the IJB' does not apply.

### **IJB Comprehensive Income and Expenditure Statement (CIES)**

52. IJBs, as local government bodies under the terms of the [Local Government \(Scotland\) Act 1973 section 106](#), are required to comply with proper accounting practices<sup>22</sup>, including the Code of Practice on Local Authority Accounting in the United Kingdom. This includes the provision of a Comprehensive Income and Expenditure Statement (CIES)<sup>23</sup>.
53. The segmental reporting requirements for the CIES are based on the organisation's management reporting and resource allocation arrangements<sup>24</sup>. Consequently the service (segment) lines shown in the CIES need to be determined based on each IJB's arrangements. In 2016/17, the number of segments ranged from 2 to 23.

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<sup>20</sup> See the Accounting Code of Practice 2017/18 2.9.2.7

<sup>21</sup> This includes a letter from HMRC to Ernst and Young LLP dated 28 November 2016. This covered a number of scenarios relating to staff. It also re-stated the view that the IJB Chief Officer is employed under a special legal regime and that this is outside the scope of VAT.

<sup>22</sup> Per [Section 12 of the Local Government in Scotland Act 2003](#)

<sup>23</sup> This overrides the 'Statement of Income and Expenditure' as shown in the IRAG Guidance illustrative accounts.

<sup>24</sup> See the Accounting Code of practice 2017/18 para 3.4.2.38 (a) which includes for the CIES "Authorities shall present the service analysis on the basis of the organisational structure (including, where relevant, corporate support services) under which local authorities operate..", see also the segment reporting requirements (3.4.2.90-3.4.2.95) and the Expenditure and Funding Analysis requirements: (3.4.2.96-3.4.2.100)

54. Unhypothecated funding received by the IJB, which primarily consists of partner funding contributions, should be presented as 'Taxation and Non-specific grant income and expenditure', not as service related income<sup>25</sup>. This also applies to any 'set aside' element for large hospital services on the basis that the utilisation of the underlying resources is within the remit of the IJB's commissioning decision. An analysis of the items included within Taxation and Non-Specific Grant Income should be provided, either on the face of the CIES or in a disclosure note.
55. Where there is an explicit notification that elements of the income are received in return for the provision of a specific service this should be presented as income on the relevant service line. This may apply to elements of partner contributions where the funding is hypothecated or ring-fenced i.e. to be used for a specific service. Examination of the terms and conditions stated in documentation accompanying and related to partner contributions and other income sources<sup>26</sup> will be required.

#### IJB: Annual Performance Report

56. It should be noted that the [Public Bodies \(Joint Working\) \(Content of Performance Reports\) \(Scotland\) Regulations 2014 \(SSI 2014/326\)](#) requires a specific analysis of expenditure incurred by the IJB. IJBs will therefore need to ensure that this analysis can be provided. There is no specific requirement to provide this analysis in the IJB annual accounts, but voluntary disclosure may be considered.

### **Related Party Disclosures**

#### Local Authority Related Party Disclosures

57. The Accounting Code Of Practice states<sup>27</sup> that a related party relationship exists if "one entity is an associate or joint venture of the other entity". On this basis the IJB is a related party of the local authority.
58. The disclosure requirements of the Accounting Code of Practice are amended for some public sector bodies, however this is not regarded as significantly affecting the disclosures required<sup>28</sup>.
59. Related party disclosures for IJBs, unless immaterial, are therefore anticipated to feature in local authority annual accounts. Related party disclosures normally relate to transactions, such as income received, and the balances at the year end, such as any funding still due to the IJB. The disclosure note could include, where applicable and material:

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<sup>25</sup> This supersedes the presentation suggestion shown in the IRAG Guidance illustrative accounts which indicates treatment as service income.

<sup>26</sup> The recognition of grants and other contributions is specified in the Accounting Code of Practice 2017/18 section 2.3

<sup>27</sup> See Accounting Code of Practice 2017/18 3.9.2.7

<sup>28</sup> See Accounting Code of Practice 2017/18 3.9.4.5. which states "The disclosure requirements of paragraph 3.9.4.1 do not apply to related party transactions with central government departments, government agencies, NHS bodies and other local authorities." The Code does however require some disclosures "in sufficient detail to enable users of the reporting entity's financial statements to understand the effect of related party transactions on its financial statements". Therefore even if 3.9.4.5 applies there may be little difference to the actual disclosures.

- the contribution made to the IJB
- the commissioning income received from the IJB
- any creditor balance with the IJB, for example funding still due to the IJB
- any debtor balance with the IJB
- details of support provided for IJB operation, both 'services in kind' and those charged for

### IJB – Related Party Disclosures

60. The Accounting Code of Practice requirements also apply to the IJB. The IJB should disclose:

- the contributions received from each partner
- the commissioning expenditure provided to each partner
- other material transactions (e.g. services in kind or expenditure on operating support received)
- amounts incurred by the IJB for the provision of key management personnel<sup>29</sup>
- any other material disclosures required by the Accounting Code of Practice.

61. In relation to amounts incurred by the IJB for the provision of key management personnel this includes non-voting Board members where the funding partners charge the IJB for the officers' services. This is on the assumption, which may be rebutted, that these officers meet the definition of 'key management personnel'<sup>30</sup>.

62. Where such a disclosure is required it is recommended that, for confidentiality reasons, the amount of charge from each funding partner is shown in aggregate for all officers meeting the definition<sup>31</sup>. The officer posts included within the total charge for each partner should be disclosed. This does not require specific names.

### **Application of Statutory Mitigation**

63. The practical application of statutory mitigation to the IJB is extremely limited. In particular IJBs do not generally

- hold property, plant & equipment which is subject to depreciation or impairment
- hold intangible assets which are subject to amortisation
- show a pension liability on the balance sheet (unless the IJB has entered a formal agreement to accept pension liabilities)
- hold complex financial instruments affected by statutory mitigation

64. Where an IJB anticipates that statutory mitigation will be relevant the underlying legislation should be reviewed prior to reliance being placed on its applicability to the IJB. The Accounting Code of Practice Appendix B includes details of statutory mitigation legislation.

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<sup>29</sup> See Accounting Code of Practice 17/18 para 3.9.4.2, see also 3.9.4.3 which indicates that aggregation is permitted within certain criteria

<sup>30</sup> See Accounting Code of Practice 17/18 para 3.9.2.2 which includes the requirement that the person has "authority and responsibility for the planning, directing and controlling of the activities of the authority, including the oversight of these activities."

<sup>31</sup> As supported by the Accounting Code of Practice 17/18 para 3.9.4.3

65. Potentially the treatment of the Chief Officer as an employee for Remuneration Report purposes may, assuming CO costs are treated as employee costs of the IJB, lead to the need for the calculation of liabilities for short-term paid (compensated) absences, which would be subject to statutory mitigation under [Finance Circular 2/2018](#), which indicates that the mitigation extends to IJBs<sup>32</sup>.
66. It is not anticipated that the value of accumulated absences for the IJB would be material. Finance Circular 2/2018 allows, but does not require, the statutory mitigation to be applied.

### **Cash & Cash Equivalents**

67. IJBs do not normally hold cash or operate bank accounts. Instead each partner utilises its committed funding contribution under the direction of the IJB, for example by making payments to staff and suppliers providing services to or for the IJB.
68. Where the IJB underspends for the financial year, dependent on the Integration Scheme and the risk sharing arrangements in place, a General Fund balance could be anticipated to exist. LASAAC considers that the asset supporting such a reserve balance should be presented as a debtor.
69. The debtor would represent the amount of funding contribution retained by each partner that has not yet been utilised by the IJB. LASAAC considered that presentation of a 'cash and cash equivalent' in such a situation was unlikely to be appropriate since it is not anticipated that the partners will ring-fence and separately manage the cash balance still available to the IJB.
70. The IJB is therefore unlikely to present a cash and cash equivalent figure on its balance sheet. Where there is no Cash and Cash Equivalents figure at any point during the year a Cash Flow Statement is not required.

### **Local Authority: Offsetting of Debtor and Creditor Balances with the IJB**

71. At the end of the financial year the local authority is likely to have accruals relating to services which have been commissioned by the IJB. Debtors relating to service income may exist, as well as creditors for employee costs, payments due to care providers and other items. The authority will reflect these debtors and creditors on its balance sheet.
72. Where the related services were commissioned by the IJB for the financial year, the authority may need to reflect the amount of money due from (or to) the IJB in respect of the accruals made. For example where it has creditors of £1m for commissioned services, the IJB may be obliged as at 31 March to pay for these services.

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<sup>32</sup> Finance Circular 2/2018 indicates that it applies to "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".

Section 14 of the Local Government in Scotland Act 2003 states "This Part of this Act applies also to those bodies to which Part VII (finance) of the 1973 Act applies by virtue of section 106(1) of that Act (application to committees, joint committees and joint boards the members of which are appointed by local authorities and to charities etc. the trustees of which are local authorities or their members)."

Section 13 of the [Public Bodies \(Joint Working\) \(Scotland\) Act 2014](#) amends s106 (1) of the 1973 act to include IJBs.

73. In such a situation consideration may be given as to whether the amount of IJB payment outstanding (eg a debtor on the local authority balance sheet) can be offset against any funding contribution still due to the IJB (a creditor on the local authority balance sheet).
74. The Accounting Code of Practice does not normally permit offsetting of assets and liabilities<sup>33</sup>. It is however permitted in some circumstances<sup>34</sup> summarised here as:
- A legal right to offset
  - The intention to settle on a net basis (or realise the asset & settle the liability simultaneously)
75. Local authorities may therefore wish to investigate whether there is a legal right of offset. This may potentially be identified in partnership arrangement documents, such as the Integration Scheme. Where a legal right of offset is considered to exist and the council wishes to offset the debtor and creditor balances, this will require evidence that the right and the intention for net settlement both exist as at 31 March. In such a case the local authority would show the net funding due to the IJB, after having deducted any accruals related to commissioned services provided on or before 31 March.
76. It would be consistent with this approach for the IJB presentation of balances to reflect the local authority's treatment. This should be agreed as part of the process for agreeing transactions and balances.
77. The Accounting Code of Practice specifies disclosures relating to offsetting arrangements where they are material<sup>35</sup>. Based on the application of materiality a short statement noting the offsetting treatment is expected to suffice. Quantification is not anticipated unless it is considered material to a true and fair view of the financial position, performance and cash flows of the reporting entity (NB the IJB is not expected to have cash flows, unless it operates a Bank Account or cash holding).

### **IJB Balance Sheet and Movement in Reserves Statement (MiRS)**

78. If there are no values in the IJB's balance sheet or MiRS, for both the current year and comparative year, these statements should not be presented. An explanatory note to this effect should be provided.

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<sup>33</sup> Accounting Code of Practice 2017/18 para 3.4.2.28

<sup>34</sup> Accounting code of practice 2017/18 para 7.4.5.1

<sup>35</sup> Accounting Code of Practice 2017/18 para 7.4.2.4

## **APPENDIX A: REMUNERATION REPORT – VOTING BOARD MEMBERS**

### Voting Board Members: Definition of Relevant Person

1. In respect of whether voting Board members meet the definition of a 'relevant person'<sup>36</sup> the regulations refer to:
  - a. Leader of the Council: "means the convener of a local authority elected in terms of section 4(1)(election of convener)(4) of the Local Government etc. (Scotland) Act 1994 or such other councillor as that local authority decides has the title of Leader of the Council for the purposes of payment of remuneration;"<sup>37</sup>. By this definition it is considered that it is unlikely that there will be a Leader of the Council for an IJB.
  - b. Civic Head : "means the depute convener of a local authority elected in terms of section 4(2) of the 1994 Act or such other councillor as that local authority decides has the title of Civic Head for the purposes of payment of remuneration;"<sup>38</sup>. By this definition it is considered that it is unlikely that there will be a Civic Head of the IJB.
  - c. Senior Councillor: "means, for the purpose of payment of remuneration, a councillor who is designated as such by the local authority of which that person is an elected member;"<sup>39</sup>. By this definition it is considered that it is unlikely that there will be a Senior Councillor of the IJB.

### Voting Board Members: Definition of Remuneration

2. The Remuneration Report regulations<sup>40</sup> define remuneration as meaning:

".. salary, fees and bonuses, whether paid to or receivable by a person, by or from a local authority or local authority subsidiary body, and includes sums paid or due by way of expenses allowance (so far as those sums are chargeable to United Kingdom income tax) and the estimated monetary value of any other benefits received by a person otherwise than in cash, and—

  - (a) includes any sum paid as compensation for loss of employment or termination of a contract for provision of services; but
  - (b) excludes any sum that has been paid by the local authority or local authority subsidiary body as a contribution to the person's pension;"

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<sup>36</sup> As defined in SSI 2014/200 Schedule (1)

<sup>37</sup> As defined in section 3 of SSI 2014/200

<sup>38</sup> as defined in [Local Governance \(Scotland\) Act 2004 \(Remuneration\) Regulations 2007](#) (section 2)

<sup>39</sup> as defined in [Local Governance \(Scotland\) Act 2004 \(Remuneration\) Regulations 2007](#) (section 2)

<sup>40</sup> Per [Local Authority Accounts \(Scotland\) Regulations 2014](#) (SSI 2014/200) Schedule section

## **APPENDIX B: REMUNERATION REPORT – CHIEF OFFICER**

### IJB Chief Officer: Definition of Relevant Person

1. In respect of whether the IJB Chief Officer meets the definition of a 'relevant person'<sup>41</sup> the regulations refer to the following :
  - a. A senior employee (a)<sup>42</sup> : "responsibility for management of the local authority to the extent that the person has power to direct or control the major activities of the authority..". This is considered to apply to the Chief Officer.
  - b. A senior employee (b)<sup>43</sup>: "...holds a post that is politically restricted by reason of section 2(1)(a), (b) or (c) of the Local Government and Housing Act 1989". In summary this relates to the head of the paid service, statutory officers and non-statutory chief officers. This is considered to apply to the Chief Officer.
  - c. A senior employee (c)<sup>44</sup>: whose annual remuneration (on a full time equivalent basis) is £150,000 or more. This criteria will depend on local remuneration arrangements.
  - d. An employee of a local authority subsidiary<sup>45</sup> (Chief Executive of subsidiary &/or those with annual remuneration > £150,000 (pro rata). This is not considered to apply for the IJB.

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<sup>41</sup> As defined in SSI 2014/200 Schedule (1)

<sup>42</sup> See SSI 2014/200 Schedule (1) for more details

<sup>43</sup> See SSI 2014/200 Schedule (1) for more details

<sup>44</sup> See SSI 2014/200 Schedule (1) for more details

<sup>45</sup> See SSI 2014/200 Schedule (7) for more details



## **APPENDIX C: REMUNERATION REPORT – IJB CHIEF FINANCIAL OFFICER**

### Chief Financial Officer (CFO) Status

1. In relation to the CFO the 1973 Act s95 states “every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that the proper officer of the authority has responsibility for the administration of those affairs”.
2. This does not require the officer to be an employee of the body their services are secured for. For example s95 officers for the Police and Fire Joint Boards were not normally employees of the Joint Board.
3. Additionally there is no requirement to ‘appoint’ the CFO to a post, rather the requirement is to ‘make arrangements’ and ‘secure’ the services of an appropriate individual. This is regarded as distinct and different to the need to ‘appoint’ an IJB Chief Officer (CO) to a post.
4. The regulations relating to the Remuneration Report<sup>46</sup> state that a ‘relevant person’ includes any “senior employee employed by the local authority or holding office with that authority”. Therefore direct employment status is not the only consideration to take into account.
5. This will require the IJB to assess the status and role of the IJB CFO in relation to whether they are a senior employee.
6. The definition in the states a senior employee is one:
  - a) who has responsibility for management of the local authority to the extent that the person has power to direct or control the major activities of the authority (including activities involving the expenditure of money), during the financial year to which the Report relates, whether solely or collectively with other persons;
  - b) who holds a post that is politically restricted by reason of section 2(1)(a), (b) or (c) of the Local Government and Housing Act 1989; or
  - c) whose annual remuneration, including any annual remuneration from a local authority subsidiary body, is £150,000 or more.
7. In relation to criteria (a) the IJB may need to assess whether fulfilling the role of IJB CFO is a full time office, or whether their involvement is less intensive and more restricted in the power to control IJB activities.
8. In relation to criteria (b) The Local Authority Accounts (Scotland) Regulations 2014 (SSI 2014/200) Schedule (definitions section) and the underlying legislation<sup>47</sup> should be considered.

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<sup>46</sup> The Local Authority Accounts (Scotland) Regulations 2014 (SSI 2014/200) Schedule (definitions section)

<sup>47</sup> Politically restricted posts are specified in the [Local Government and Housing Act 1989 Section 2](#) (see specifically sub-section 6(d) which includes “... or for the purposes of section 95 of the Local Government (Scotland) Act 1973, for the administration of the authority’s financial affairs.”

9. In relation to criteria (c) the definition of 'remuneration' and 'annual remuneration' provided in The Remuneration Report requirements<sup>48</sup> should be considered.

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Section 21 (2) of the 1989 Act relates to the interpretation of Part 1 (i.e. the part cited above) and states: (continued in footnote of next page)

"Any reference in this Part to a local authority is, in relation to Scotland, a reference to a [council constituted under [section 2 of the Local Government etc. \(Scotland\) Act 1994](#)] or a [joint board within the meaning of section 235\(1\) of the Local Government \(Scotland\) Act 1973](#)."

This may therefore not include IJBs which are local government bodies under [section 106 of the Local Government \(Scotland\) 1973 Act](#) (as amended by [section 13 of the Public Bodies \(Joint Working\) \(Scotland\) Act 2014](#))

<sup>48</sup> Per [Local Authority Accounts \(Scotland\) Regulations 2014](#) (SSI 2014/200) Schedule section 1