ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED (Cont)

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1) issued in January 2020. The amendments:
  - specify that an entity's right to defer settlement must exist at the end of the reporting period
  - clarify that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement
  - clarify how lending conditions affect classification, and
  - clarify requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.
- Non-current Liabilities with Covenants (Amendments to IAS 1) issued in October 2022.

  The amendments improved the information an entity provides when its right to defer settlement of a liability for at least 12 months is subject to compliance with covenants.
- International Tax Reform: Pillar Two Model Rules (Amendments to IAS 12) issued in May 2023. Pillar Two applies to multinational groups with a minimum level of turnover. The amendments introduced:
  - a temporary exception to the requirements to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes, and
  - targeted disclosure requirements for affected entities

The date of application of the standards is 1 April 2024. There is no impact of these changes on the accounts covering the 2023/24 financial year and the amendments are not expected to have a significant impact on the amounts reported in the financial statements for 2024/25.

IFRS 16 Leases

The application of IFRS 16 Leases will be mandatorily implemented in the Code of Practice on Local Authority Accounting in the United Kingdom for 2024/25. The council will implement IFRS 16 Leases from 1 April 2024.

This standard will replace IAS 17 Leases, and will result in the majority of leases where the council acts as lessee coming onto the balance sheet with lessor accounting effectively unchanged.

The main impact of the new requirements is that, for arrangements previously accounted for as operating leases (i.e. without recognising the leased property as an asset and future rents as liability), a right-of-use asset and a lease liability are to be brought into the balance sheet at 1 April 2024. Leases for items of low value (under £10,000) and leases that expire on or before 31 March 2024 are exempt from the new arrangements.

IFRS 16 will be applied retrospectively, but with the cumulative effect recognised at 1 April 2024. This means that right-of-use assets and lease liabilities are calculated as if IFRS 16 had always applied but will be recognised in 2024/2025 without the requirement to adjust the prior year.

The council has decided to apply recognition exemptions to short-term leases and has elected not to recognise right-of-use assets and lease liabilities for short term leases that have a term of 12 months or less and leases of low value assets. The council recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

It is anticipated that the application of the Code's adaptation of IFRS16 will result in the following additions to the balance sheet:

- £9.2 million Property, plant and equipment – land and buildings (right-of-use assets)
- £5.0 million Non-current creditors (lease liabilities)
- £3.6 million Current creditors (lease liabilities)

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in note 1, the council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the annual accounts are:

PPP / DBFM - The council is deemed to control the services provided under the PPP and DBFM agreements for the provision of educational establishments in accordance with IFRC12. Details of the partnership agreements to which this judgement applies are included in Note 35. The council controls the services provided under the scheme and ownership of the schools will pass to the council at the end of the contract. The council therefore applies the accounting policies for public private partnerships and these schools are recognised on the council's balance sheet at a net book value of £185.9 million (note 14.2), with a corresponding liability in relation to future payments to be made under the scheme of £275.8 million (note 35).

Uncertainty over future funding - There is a high degree of uncertainty around future levels of funding for local government, which may significantly impact the council's ability to maintain its property, plant and equipment assets. This uncertainty is not yet sufficient to provide an indication that the assets might be impaired as a result of a reduction in funding and subsequently require changes to investment and capital strategies. The council has agreed a ten year capital investment strategy to 2032/33 which will continue to consider this on an annual basis. In addition to the impact on income streams and the impact of increased operating costs, there remains uncertainty over the medium term.

In particular in relation to the funding from Scottish Government to meet the additional inflationary cost increases in areas such as energy, fuel and in a wide range of other services and materials. Although inflation rates are on a downward trend, they remain above the government's target inflation rate of 2%, resulting in further increases to costs.

The council's approved revenue budget assumes a 3% pay award for all staff, from August 2024 for teaching staff and April 2024 for all other staff groups in line the current pay agreements. Negotiations continue between COSLA and Trade unions to agree the pay award for 2024/25. Any increase in the pay award above this would result in an unfunded cost pressure for local government.