



INTERNAL TRANSACTIONS
AND
OPERATING SEGMENTS REPORTING
2017/18

ADVISORY NOTICE

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The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) is funded by the Chartered Institute of Public Finance & Accountancy (CIPFA), Audit Scotland and the Scottish Government.

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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Status of this Advisory Notice

1. This advisory notice is intended to assist practitioners and other stakeholders. It is not mandatory guidance.
2. Reference may also usefully be made to the CIPFA 'Frequently Asked Questions' response on ['How to report corporate expenditure in the Comprehensive Income and Expenditure Statement'](#) (opens to pdf).

Internal Transactions

3. For the purposes of this paper internal transactions are transactions within the Council, as a single entity, which do not involve a third party (i.e. a party that is external to the Council as a single entity).
4. Internal transactions can therefore include:

A	Internal Recharges which are part of a service manager's 'controllable budget'.
B	Internal Recharges which are not part of a service manager's 'controllable budget'.
C	Cost apportionments or allocations which are not part of a service manager's 'controllable budget'.

5. Appendix A describes each of these in more detail.
6. Since the treatment of types B and C are generally well established (see Appendix A), the following advisory guidance will generally be relevant for type A: Internal Recharges (Controllable Budget).

Internal Recharges (Controllable Budgets)

7. The requirement in the 2016/17 [Code of Practice on Accounting for Local Authorities in the United Kingdom](#) (the Code) for the Comprehensive Income and Expenditure Statement (CIES) to meet segmental reporting requirements under IFRS 8 Operating Segments involved service lines in the CIES including certain internal transactions i.e. Internal Recharges (Controllable Budget) transactions between different council departments or services carried out that were included in internal management reporting.
8. This change did not affect the reporting of 'net expenditure' at the Cost of Services level. It did however mean that the 'gross expenditure' and 'gross income' figures were higher compared to previous practice.
9. The requirements for 2017/18 are effectively unchanged from 2016/17.
10. The 2018/19 Code will however state that:

"As the service segments in the Comprehensive Income and Expenditure Statement are not intended to cover the reporting requirements for IFRS 8 then transactions between segments are not permitted in the service analysis section of the Statement."

i.e. internal recharges (controllable budgets) will not be permitted for inclusion in segment lines in the 2018/19 CIES.
11. This implies that 2017/18 service figures may need to be restated in 2018/19 accounts, where the change is material. Authorities which undertake an analysis of internal

transactions for 2017/18 will be more readily able to identify any restatement adjustments required.

12. LASAAC is currently reviewing the accounting requirements for Insurance Fund premiums, including the application of the 2018/19 Code requirements.

Presentation Options for 2017/18

13. LASAAC is aware that a number of different presentation options were adopted by local authorities in 2016/17. This advisory note is intended to (i) support a consistent approach in 2017/18 and (ii) promote preparation for the new requirements in 2018/19.

14. Authorities are advised to note that the following are the main presentation options for the treatment of Internal Transactions in the 2017/18 Comprehensive Income and Expenditure Statement:

1. The Comprehensive Income and Expenditure Statement (CIES) includes relevant internal recharges (controllable budgets) in the CIES service (segment) lines i.e. they are not eliminated at any stage. This is on the basis that the CIES is meeting the requirements of IFRS 8 Operating Segments.
2. The CIES includes relevant internal recharges (controllable budgets) in the service (segment) lines but also has a line for 'elimination of internal transactions'. i.e. the transactions are eliminated on the face of the CIES.
 - This treatment is considered to require a subtotal to be provided showing total segmental income and expenditure before the elimination line, in order to meet the requirements of IFRS 8 Operating Segments¹ as expressed in the Code.
3. The CIES excludes internal recharges (controllable budgets), with the elimination being undertaken in the Expenditure and Funding Analysis. This approach is explicitly allowed in the 2018/19 Code of Practice.
 - This treatment for 2017/18 specifically requires a note to disclose the service line figures inclusive of internal recharges (controllable budgets) to meet the IFRS 8 Operating Segments disclosure requirements of the 2017/18 Code (see per 2017/18 Code paragraph 3.4.2.91).

LASAAC Encouragement

15. LASAAC encourages and supports the application of Options 2 and 3 as outlined above. LASAAC also emphasises that the adoption of Option 3 will assist authorities in preparing for the 2018/19 requirements.
16. To assist in this LASAAC is also providing two workbooks, providing examples of the different treatments. Key extracts are provided in Appendices B and C for ease of reference. Restatement of 2016/17 comparatives may also be required.
17. Additionally the 2017/18 Code paragraph 3.4.2.99 (b) requires disclosure, where material, of "revenues from transactions with other operating segments of the authority" on a segmental basis.
18. Authorities should consider the 2017/18 Code requirements concerning materiality, most notably 1.7.1 "This Code only requires local authority financial statements to

¹ Particularly paragraphs 25 and 28

disclose information which is material." Paragraphs 2.1.2.11, 3.4.2.27 and 3.4.2.27 may also be relevant.

Appendix A – Description of Internal Transactions

A	Internal Recharges which are part of a service manager's 'controllable budget'.	<p>In this situation the service recipient is held accountable during the year for the use of these services (eg financial monitoring reports show the charge as expenditure within the control of the manager i.e. as part of a manager's 'controllable budget').</p> <p>Where these arise they are, in 2017/18, expected to be included in the Comprehensive Income and Expenditure Statement as they are part of the segment management reporting arrangements that have taken place during the year.</p> <p>Examples may include the Education service charging the Social Work service for the use of accommodation and facilities in the provision of Social Work services. In such a situation typically the income for the Education service is regarded as 'controllable budget' income; and the spend for Social Work is regarded as part of their 'controllable budget' expenditure.</p>
B	Internal Recharges which are not part of a service manager's 'controllable budget'.	<p>In this situation the service recipient is not held accountable during the year for the use of these services (eg financial monitoring reports do not regard these as part of a manager's 'controllable budget'; budget matching or re-alignment may be undertaken at the year-end without consultation with the service manager).</p> <p>Where these arise they will generally not be included in the Comprehensive Income and Expenditure Statement as they do not form part of the segment management reporting arrangements that have taken place during the year.</p> <p>Typically some central support costs may be treated in this manner (eg where the charges are calculated on a pre-set 'price per item' basis rather than a year end allocation or apportionment)</p>
C	Cost apportionments or allocations which are not part of a service manager's 'controllable budget'.	<p>In this situation the service recipient is not held accountable during the year for the use of these services (eg financial monitoring reports do not regard these as part of a manager's 'controllable budget'; budget matching or re-alignment may be undertaken at the year-end without consultation with the service manager).</p> <p>Where these arise they will generally not be included in the Comprehensive Income and Expenditure Statement as they do not form part of the segment management reporting arrangements that have taken place during the year.</p> <p>Typically some central support costs may be treated in this manner eg those apportioned at the year end.</p>

Appendix B – Illustrative Presentation: Elimination line in the CIES

Comprehensive Income and Expenditure Statement			
	20yy/zz		
	Expenditure	Income	Net
	£	£	£
Corporate and Support Services	40,000.00	(12,526.00)	27,474.00
Economic Development Services	150,000.00	(23,440.00)	126,560.00
Education	475,000.00	(21,840.00)	453,160.00
Environmental & Ecological Services	150,000.00	(34,440.00)	115,560.00
Culture and Leisure	200,000.00	(33,940.00)	166,060.00
Social Work Services	545,000.00	(81,140.00)	463,860.00
Consumer Protection	250,000.00	(173,940.00)	76,060.00
Service Totals	1,810,000.00	(381,266.00)	1,428,734.00
Elimination of Internal Transactions	(10,000.00)	10,000.00	0.00
Cost of Services	1,800,000.00	(371,266.00)	1,428,734.00

Appendix C – Illustrative Presentation: Separate Disclosure Note

A) CIES

Comprehensive Income and Expenditure Statement			
to CODM	20yy/zz		
	Expenditure	Income	Net
	£	£	£
Corporate and Support Services	40,000.00	(12,526.00)	27,474.00
Economic Development Services	150,000.00	(23,440.00)	126,560.00
Education	475,000.00	(11,840.00)	463,160.00
Environmental & Ecological Services	150,000.00	(34,440.00)	115,560.00
Culture and Leisure	200,000.00	(33,940.00)	166,060.00
Social Work Services	535,000.00	(81,140.00)	453,860.00
Consumer Protection	250,000.00	(173,940.00)	76,060.00
Cost of Services (Note 3.5)	1,800,000.00	(371,266.00)	1,428,734.00

B) Separate Disclosure Note

Note to Comprehensive Income and Expenditure Statement			
<u>Service Income and Expenditure including Internal Recharges</u>			
The service lines in the Comprehensive Income and Expenditure Statement exclude internal recharges. These were eliminated in the Expenditure and Funding Analysis.			
The income and expenditure for each service, inclusive of internal recharges, are shown below.			
	Expenditure	Income	Net
	£	£	£
Corporate and Support Services	40,000.00	(12,526.00)	27,474.00
Economic Development Services	150,000.00	(23,440.00)	126,560.00
Education	475,000.00	(21,840.00)	453,160.00
Environmental & Ecological Services	150,000.00	(34,440.00)	115,560.00
Culture and Leisure	200,000.00	(33,940.00)	166,060.00
Social Work Services	545,000.00	(81,140.00)	463,860.00
Consumer Protection	250,000.00	(173,940.00)	76,060.00
Cost of Services (Note 3.5)	1,810,000.00	(381,266.00)	1,428,734.00