

## 4.2 LEASES AND LEASE-TYPE ARRANGEMENTS

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### 4.2.3 Statutory Accounting Requirements

4.2.3.1 There are no statutory accounting requirements in respect of operating leases other than those in relation to those leases reclassified on transition to IFRS (see below).

#### **Leases reclassified on transition to IFRS (authority is lessor)**

4.2.3.10 In England and Wales, income received under a lease that was reclassified on transition to IFRS continues to be treated as either a capital receipt or as revenue income according to its status prior to reclassification (see part 2 of Appendix B for the legislative basis).

4.2.3.11 Where a lease has been reclassified as a finance lease on transition to IFRS, income received under the lease shall continue to be treated as revenue income. An authority shall transfer the capital receipt to the General Fund and report the transaction in the Movement in Reserves Statement.

4.2.3.12 Where a lease has been reclassified as an operating lease on transition to IFRS, any income that would, prior to the reclassification, have been treated as a capital receipt shall be transferred from the General Fund to the Capital Receipts Reserve, and report the transaction in the Movement in Reserves Statement.

4.2.3.13 In Scotland and Northern Ireland, no equivalent provisions were in place at the time the Code was prepared. If provisions are introduced, authorities shall comply with those provisions. If provisions are not introduced, authorities shall account for all income received from leases in line with classification of the leases under the Code.

### 4.2.6 Changes since **the 2010/11 Code**

4.2.6.2 Regulations were introduced in England and Wales after the publication of the 2010/11 Code that mitigated the impact of lease reclassification on income received when an authority was acting as a lessor. The 2011/12 Code incorporates these regulations for the first time, however the regulations apply from 1 April 2010.

**Deleted:** SORP 2009

**Deleted:** One of the factors that indicates a lease is a finance lease is if 'the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset'. Under the SORP, 'substantially all' was quantified as 'normally 90% or more'. This quantitative test does not apply under the Code, and authorities will need to use professional judgement when assessing 'substantially all'.

## PART 2 – LEGISLATIVE BASIS FOR STATUTORY ACCOUNTING SECTIONS OF THE CODE

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**Chapter/sect ion** **England and Wales**

**Scotland**

**Northern Ireland**

**4.2 Leases**

**LESSEE**

**Depreciation, impairment and revaluation gains and losses:**

As a consequence of the requirement to charge the General Fund with Minimum Revenue Provision (see SI 2008/414 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 or SI 2008/588 (W.59) The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 and related statutory guidance).

Item 8 Credit and Item 8 Debit (General) Determinations.

**Minimum Revenue Provision:**

SI 2008/414 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 or SI 2008/588 (W.59) The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 and related statutory guidance.

**LESSOR**

**Capital Receipts:**

SI 2003/3146 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

SI 2004/1010 (W.107) The Local Authorities (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2004.

**LESSEE**

**Depreciation, impairment and revaluation gains and losses:**

[Guidance issued on 31 March 2010 under section 12\(2\)\(b\) of the Local Government in Scotland Act 2003 \(Scottish Government Finance Circular No 4/2010\).](#)  
**Repayment of Liability:**  
[Guidance issued on 31 March 2010 under section 12\(2\)\(b\) of the Local Government in Scotland Act 2003 \(Scottish Government Finance Circular No 4/2010\).](#)

**LESSOR**

**Capital Receipts:**

Capital receipts fall to be defined in accordance with proper accounting practice.

**LESSEE**

**Depreciation, impairment and revaluation gains and losses and Repayment of Liability:**

As a consequence of the requirement to charge the District Fund with Loans principal repayments (see section 65 of the Local Government Act (NI) 1972.

**LESSOR**

**Capital Receipts:**

Section 59 of the Local Government Act (Northern Ireland) 1972.

**Deleted:** Proposed statutory guidance in 2009/10 is expected to require for finance leases the replacement of depreciation with the principal element of the lease payment.¶ Part II of Schedule 15 of The Housing (Scotland) Act 1987.

**Deleted:** Proposed statutory guidance in 2009/10 is expected to require for finance leases the replacement of depreciation with the principal element of the lease payment.

Chapter/section	England and Wales	Scotland	Northern Ireland
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**Lease Reclassification:**  
[SI 2010/454 The Local Authorities \(Capital Finance and Accounting\) \(Amendment\) \(England\) Regulations 2010.](#)  
[SI 2010/685 \(W.67\) The Local Authorities \(Capital Finance and Accounting\) \(Wales\) \(Amendment\) Regulations 2010.](#)

## 4.3 PFI AND PPP ARRANGEMENTS

### 4.3.3 Statutory Accounting Requirements

4.3.3.1 Regulations in England and Wales permit capital receipts to be used to repay borrowing (see part 2 of Appendix B for the legislative basis). Capital receipts may therefore be applied to make capital contributions that reduce the liability. In Scotland, [no decision has yet been made to permit capital receipts to be used to reduce the liability.](#)

**Deleted:** guidance has yet to be finalised

## PART 2 – LEGISLATIVE BASIS FOR STATUTORY ACCOUNTING SECTIONS OF THE CODE

Chapter/section	England and Wales	Scotland	Northern Ireland
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4.3 PPP and PFI Schemes	<p><b>Use of Capital Receipts to meet liability:</b></p> <p>SI 2003/3146 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.</p> <p>SI 2003/3239 (W.319) The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003.</p> <p><b>Depreciation, impairment and revaluation gains and losses:</b></p>	<p><b>Use of Capital Receipts to meet liability:</b></p> <p><a href="#">Under consideration; refer to guidance issued on 31 March 2010 under section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular No 4/2010).</a></p> <p><b>Depreciation, impairment and revaluation gains and losses:</b></p> <p><a href="#">Guidance issued on 31</a></p>	Not applicable.
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**Deleted:** In Scotland, guidance has yet to be finalised.

Chapter/section	England and Wales	Scotland	Northern Ireland
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As a consequence of the requirement to charge the General Fund with Minimum Revenue Provision (see SI 2008/414 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 or SI 2008/588 (W.59) The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 and related statutory guidance).

Item 8 Credit and Item 8 Debit (General) Determinations.

**Minimum Revenue Provision:**

SI 2008/414 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 or SI 2008/588 (W.59) The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 and related statutory guidance.

March 2010 under section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular No 4/2010)

**Repayment of Liability:**

Guidance issued on 31 March 2010 under section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular No 4/2010)

**Deleted:** The proposed statutory guidance in relation to PFI in 2009/10 is expected to require replacement of depreciation with the repayment of the long-term liability.

**Deleted:** The proposed statutory guidance in relation to PFI in 2009/10 is expected to require replacement of depreciation with the repayment of the long-term liability.

## 6.2 BENEFITS PAYABLE DURING EMPLOYMENT

### 6.2.5 Statutory accounting and disclosure requirements

6.2.5.1 Regulations in England and Wales and Statutory Guidance in Scotland [add NI when issued] require that the General Fund is not charged with amounts in respect of short-term accumulating compensated absences until the liability in respect of that absence ceases or is discharged (see part 2 of Appendix B for the legislative basis). Where the Surplus or Deficit on the Provision of Services includes a charge in respect of short-term accumulating compensated absences for which a liability exists on the Balance Sheet, authorities shall credit the General Fund and debit the Statutory Adjustment Account with an equivalent amount; this transfer shall be reported in the Movement in Reserves Statement. Once the liability is

**Deleted:** At the time of publication, there were no statutory accounting requirements or disclosure requirements specifically relating to benefits payable during employment. If any such requirements are introduced subsequently, authorities *shall comply with those requirements*.

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removed from the Balance Sheet, the transfer shall be reversed and reported in the Movement in Reserves Statement.

6.2.5.2 Regulations in England and Wales require that the General Fund is only charged with amounts in respect of other long-term employee benefits when payments are made. In Scotland, statutory guidance requires that the amount chargeable to the General Fund is restricted to actual payments made in respect of injury benefits in respect of police and fire authorities (see part 2 of Appendix B for the legislative basis). This treatment matches that for post-employment (pension) benefits, and authorities shall apply the statutory accounting requirements in respect of pension benefits (see paragraphs 6.4.3.28 – 6.4.3.31) to other long-term employee benefits, with the exception that in Scotland, amounts are to be transferred to the Statutory Adjustment Account rather than the Pension Reserve.

## 6.2.6 Changes since the 2010/11 Code

6.2.6.1 Regulations and statutory guidance were issued after the publication of the 2010/11 Code. The regulations and guidance mitigated the impact of the Code's provisions in respect of short-term accumulating compensated absences and other long-term employee benefits on the General Fund. The 2011/12 Code incorporates these regulations and statutory guidance for the first time, however the provisions in respect of short-term accumulating compensated absences apply from 1 April 2010, and those in respect of other long-term employee benefits (injury benefits in Scotland) apply from 1 April 2009.

**Deleted:** SORP 2009

**Deleted:** Short-term employee benefits were not covered by the SORP. There is no UK accounting standard that deals with short-term employee benefits. As a result, differing accounting treatments of items such as annual leave may have developed. An approach based on IAS 19 will necessitate a change in accounting policies for many authorities. ¶

6.2.6.2 Long-term employee benefits were not covered by the SORP, except for long-term disability benefits (called incapacity benefit in the SORP). Long-term disability benefits are treated as a type of defined benefit pension benefit in the SORP. In the Code they are not classed as post-retirement benefits but rather as other long-term employee benefits. The difference is that under the Code the net total expense is charged to Surplus or Deficit on the Provision of Services; whereas under the SORP, the difference between the expected cost and amount actually incurred was treated as an actuarial gain or loss and charged to the STRGL. However, the Code has adopted an IPSAS 25 interpretation that allows long-term disability benefits to be accounted as defined benefit retirement benefits in certain circumstances (see paragraph 6.2.3.5).

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Chapter/section	England and Wales	Scotland	Northern Ireland
<b>6.2 Benefits payable during employment</b>	SI 2010/454 The Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010.  SI 2010/685 (W.67) The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2010.	<b>Short-term accumulating compensated absences:</b> Guidance issued on 8 July 2010 under section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular No 3/2010)  <b>Injury benefits (accounted for as post-employment benefits):</b> Guidance issued on 31 March 2010 under section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular No 8/2010).	[Accumulating absences to be added when issued]

Chapter/section	England and Wales	Scotland	Northern Ireland
6.4 Post-employment Benefits	<p>SI 2003/3146 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.</p> <p><a href="#">SI 2010/454 The Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010.</a></p> <p>SI 2003/3239 (W.319) The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003.</p> <p><a href="#">SI 2010/685 (W.67) The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2010.</a></p>	<p><b><u>Pensions:</u></b></p> <p>SSI 2003/580 The Local Government Pension Reserve Fund (Scotland) Regulations 2003.</p> <p><a href="#">SSI 2010/34 The Local Government Pension Reserve Fund (Scotland) Amendment Regulations 2010</a></p> <p><b><u>Injury benefits (accounted for as post-employment benefits):</u></b></p> <p><a href="#">Guidance issued on 31 March 2010 under section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular No 8/2010).</a></p>	<p>Intervention being considered by NI Department of the Environment.</p>

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## 8.2 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

### 8.2.3 Statutory Accounting Requirements

8.2.3.1 In England and Wales, regulations (see part 2 of Appendix B for the legislative basis) permit an authority to defer the impact of any provision made for back pay arising out of unequal pay claims on a revenue account.

8.2.3.2 Where an authority elects to apply the regulation, the difference between the amount of expenditure included in Surplus or Deficit on the Provision of Services in each year and the amount charged under the regulations shall be debited to the Statutory Adjustment Account, with a corresponding credit to the appropriate revenue account.

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8.2.3.3 To the extent that a provision is derecognised (for example where payments are made to a group of employees), an authority shall credit the Statutory Adjustment Account, with a corresponding debit to the appropriate revenue account.

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8.2.3.4 There are no equivalent provisions in Scotland and Northern Ireland; authorities in those countries shall account for any provisions in relation to back pay arising out of unequal pay claims in accordance with the Code

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## 8.2.6 Changes since the 2010/11 Code

8.2.6.1 The 2010/11 required statutory adjustments in respect of back pay arising out of unequal pay claims to be debited or credited to the Unequal Pay Back Pay Account. The 2011/12 Code has merged this account with other similar accounts into the Statutory Adjustment Account.

**Deleted:** SORP 2009

**Deleted:** Provisions under the SORP were classified as long-term liabilities. Under the Code, provisions are presented on the face of the Balance Sheet as either current or non-current liabilities. ¶  
 8.2.6.2 Provisions are measured at the present value of the expenditure required to settle the obligation, where the time value of money is significant. This was not explicit in the SORP.

Chapter/section	England and Wales	Scotland	Northern Ireland
8.2 Provisions (in respect of unequal pay back pay)	SI 2007/573 The Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007. <a href="#">SI 2010/454 The Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010.</a>  SI 2007/1051 (W.108) The Local Authorities (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2007. <a href="#">SI 2010/685 (W.67) The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2010.</a>	<u>Not applicable.</u>	Not applicable.

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