



The IFRS-Based Code of Practice on Local Authority Accounting in the United Kingdom

Invitation to comment

24 June 2009

INVITATION TO COMMENT

1 Introduction

- 1.1 Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper practices'. This is defined, for the purposes of local government legislation, as meaning compliance with the terms of the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code), prepared by the CIPFA/LASAAC Local Authority Code Board (CIPFA/LASAAC). The 2010 Code, which will apply to reporting periods commencing 1 April 2010, will be the first Code prepared directly under International Financial Reporting Standards (IFRS). CIPFA/LASAAC is planning to publish the new Code in early December 2009, so that authorities have access to the Code for 2010/11 in final form at least three months before the beginning of the reporting period. The Code will subsequently be updated annually.
- 1.2 The governance arrangements for the preparation and approval of the Code have also changed alongside the move to IFRS. For many years, up to and including 2009, the Codes prepared under UK GAAP have had the status of 'Statements of Recommended Practice' (SORPs), and have been prepared under the UK Accounting Standard Board (ASB) *Code of Practice for the Development of Statements of Recommended Practice*. With the change to an IFRS-basis for the Code, the external quality oversight role previously undertaken by the ASB is now being undertaken by the Financial Reporting Advisory Board (the FRAB). The FRAB is an independent body that has for many years overseen central government and NHS accounting guidance. Each year, the FRAB reviews and comments on HM Treasury's proposed amendments to the high-level Government Financial Reporting Manual (the FReM). Details of the FRAB's operations and membership are available via its website (<http://www.hm-treasury.gov.uk/frab>).
- 1.3 In order to address the particular circumstances of local authorities, IFRS has been interpreted or adapted by the Code for the local authority context, in a number of respects:
- (a) Some accounting options allowed under IFRS are not permitted under the Code. For example, in the case of asset values, the Code interprets IFRS by specifying the basis of valuation for different classes of property, plant and equipment, while IFRS contains a number of options. This is intended to ensure that all local authorities' accounts are prepared on a comparable basis.
 - (b) In some cases, IFRSs do not provide relevant guidance for the public sector context, or need to be adapted for this. In these cases, the International Public Sector Accounting Standards (IPSASs) issued by the International Public Sector Accounting Standards Board (IPSASB), which are increasingly converged with IFRS, have been used as a source of supplementary guidance.
 - (c) Local authorities must follow a number of legislative-based accounting requirements such as requirements to maintain a General Fund, Pensions Reserve and follow (in England and Wales) the Capital Finance Regulations. The Code covers how such legislation based requirements should be included in the statement of accounts. In a similar way to the SORP, the draft Code requires the Comprehensive Income and Expenditure Statement and Balance Sheet to disclose the position

under GAAP, with the legislation based requirements accounted for as movements on reserves.

- 1.4 The format of the accounting statements is specified more prescriptively than IFRS. Again this is intended to ensure that all local authorities prepare their accounts on a comparable basis and helps to make them more relevant and easier to understand for stakeholders who are not accountants.
- 1.5 Since the IFRS-based Code is an entirely new document rather than being an amendment of the 2009 UK GAAP based SORP, no marked-up text is shown on the draft; and comments are invited on the whole draft Code. However, to help potential respondents understand the document and identify the key issues, the ITC highlights:
- (a) The areas where the Code's requirements differ significantly from the 2009 SORP's requirements and the plan for regulation or statutory guidance to address any changes that might impact on authorities' funding positions or local taxation.
 - (b) The interpretations and adaptations of the IFRS requirements that have been included in the Code to meet the particular circumstances of the local authority sector and legislation based requirements.
- 1.6 There are two areas where, CIPFA/LASAAC has been unable to finalise its proposals, as there is an ongoing debate at either national or international level:
- Borrowing costs; and
 - Capital grants.

Options for addressing both issues are set out in Annexes, together with an indication of the Board's views. Respondents are asked for their views on the options, in order to help CIPFA/LASAAC finalise its proposals.

The Consultation Process

- 1.7 Where the CIPFA/LASAAC is interested in specific issues, consultation questions have been included in the ITC. However, CIPFA/LASAAC welcomes comments on any aspect of the draft Code for 2010. In order to assess comments properly CIPFA/LASAAC would prefer respondents to support comments with clear accounting reasons and, where applicable, preferred alternatives.
- 1.8 This Invitation to Comment will be regarded as on the public record unless confidentiality is specifically requested. Copies of all correspondence and an analysis of responses will be provided to the Financial Reporting Advisory Board.
- 1.9 A copy of the Exposure Draft 2010 Code in pdf format can be down-loaded from the CIPFA website <http://www.cipfa.org.uk/pt/cipfalasaac/ifrs.cfm>

1.10 To assist authorities to respond to the consultation, a response form (in Word format) is attached. We would be grateful if authorities could use this form to respond to the consultation as this will speed up the analysis.

1.11 **Responses are required by 11 September 2009** and may be sent to:

The Secretary
CIPFA/LASAAC Local Authority SORP Board
Policy and Technical Directorate
CIPFA
3 Robert Street
London
WC2N 6RL
Fax: 020 7543 5695

E-mail: code.responses@cipfa.org

(For ease of handling, e-mailed responses using the Word document form provided are preferred.)

1.12 In addition to seeking comments on the draft Code, CIPFA/LASAAC is urgently seeking information that will enable Government to quantify the impact of the changes included in the draft Code and to decide whether mitigation is required, and if so how this should be achieved. It would be helpful if this information could be submitted (using the Word document provided, and by email to the address above) ahead of the closing date for consultation, and preferably by the end of July.

Invitation to comment – commentary

This document provides a summary of the content of the IFRS-based Code, concentrating on the changes from the SORP 2009 requirements and any interpretations or adaptations of IFRS.

CIPFA/LASAAC is seeking views on the draft code, and there are four standard questions applied to each chapter or section in the response document. These are:

- 1) Do you agree that the Code has accurately identified the differences in treatment from SORP 2009?
- 2) Do you agree that proposals for mitigation are appropriate? Respondents may wish to indicate additional or alternative forms of mitigation.
- 3) Do you agree with the interpretations and adaptations of IFRS adopted by the Code? Respondents may wish to indicate additional or alternative interpretations and adaptations would be appropriate.
- 4) Do you agree that the transition arrangements adopted by the Code are appropriate? Respondents may wish to indicate additional or alternative transitional arrangements would be appropriate.

In each case, respondents are asked to support their answers with reasons.

A small number of additional questions are also asked throughout the document.

Finally, CIPFA/LASAAC is urgently seeking information that will enable Government to quantify the impact of the changes included in the draft Code and to decide whether mitigation is required, and if so how this should be achieved.

The possible changes to legislation/statutory guidance included in this consultation are under informal consideration. Government will override accounting practice only exceptionally and, to inform their decisions, Ministers need evidence of the number of authorities affected and the scale of the budgetary impact. Since the deadline for legislation is tight, it is important that consultees provide estimates of the implications for their authorities as soon as possible.

Chapter 1 Introduction

Chapter 1 provides the background to the requirements of the draft Code. The chapter contains no substantive changes from the SORP 2009 and no substantive interpretations of IFRS.

Chapter 2 Concepts and Principles

Section 2.1 Concepts

The draft Code covers the concepts that underpin the information in the financial statements. The draft Code introduces criteria for recognition and basis of measurement for some elements of the financial statements which in some instances are different from the SORP 2009. These differences are highlighted in other sections of the ITC.

Principles of Income & Expenditure Recognition:

Section 2.2 Business Improvement District (BID) Schemes (England, Wales and Scotland)

There is no IFRS, IPSAS or UK GAAP covering BID schemes, with the appropriate accounting treatment for the billing authority being determined by whether it acts as principal or agent (see section 2.6 of the draft Code). There are no changes to the requirements in the SORP 2009.

Section 2.3 Government and Non-Government Grants

CIPFA/LASAAC is consulting on two options for the treatment of capital grants and contributions. Details can be found at Annex A of this consultation.

Having considered the options in Annex A, CIPFA/LASAAC is minded to implement option 2 in the IFRS-based Code of Practice on Local Authority Accounting. However, views are requested on all the options.

Additional Question:

Please indicate your preferred option regarding the treatment of capital grants and contributions. Please support your answer with reasons.

Section 2.4 Landfill Allowances Trading and other 'Cap and Trade' Schemes

There is no IFRS, IPSAS or UK FRS covering 'cap and trade' schemes. The draft Code adopts the treatment for 'cap and trade' schemes set out in a proposed UITF Abstract on Emission Rights (Information Sheet No. 61) that was issued by the ASB for consultation in 2003 but not proceeded with. There are no changes to the requirements in the SORP 2009 [subject to decisions on capital grants and contributions]

Section 2.5 Machinery of Government Changes (e.g. Local Government Reorganisation)

The interpretation of IFRS 3 Business Combinations is included in the table under chapter 9 Group Accounts below. There are no changes to the requirements in the SORP 2009 for local government reorganisation.

Section 2.6 Principal and Agent

The draft Code covers the general principle of whether the authority is acting as the principal or agent that is referred to in various Standards. There are no changes to the requirements in the SORP 2009.

Section 2.7 Revenue Recognition

There are no changes to the requirements in the SORP 2009.

Section 2.8 Tax Income (Council Tax / Residual Community Charges, Non Domestic Rates / Rates)

The draft Code applies the accounting principles contained within other sections of the draft Code to the accounting requirements in respect of tax income collected by local authorities. There are no changes to the requirements in the SORP 2009.

Section 2.9 Value Added Tax

The draft Code follows an agreed hierarchy of standards (set out in chapter 1). Because there are no IFRS or IPSAS specifically relating to value added tax (VAT), the draft Code adopts SSAP 5 Accounting for Value Added Tax and the specific rules for the recovery of VAT that apply to local authorities. There are no changes to the requirements in the SORP 2009.

The following table summarises the interpretations of IFRS incorporated in the draft Code

Standard	Interpretation or Adaptation	Notes
IAS 18 Revenue	Interpretation	<p>Section 2.7 of the Code interprets IAS 18 by specifying that non-contractual non-exchange transactions (such as council tax income) are outside the scope of IAS 39 (financial instruments) and are therefore recognised at their full recoverable amount in the balance sheet. This interpretation has also been applied in section 5.3 Trade and other Receivables and section 8.1 Trade and other Payables.</p> <p>Section 2.7 of the Code interprets the requirements of IAS 18 by adopting the requirements of IPSAS 19 for the definition of <i>revenue</i>, and excludes the reference to 'ordinary activities' from the definition.</p>

Chapter 2 is not expected to give rise to any changes in accounting and therefore does not include any transitional arrangements.

Chapter 3 Financial Statements

Section 3.1 Explanatory Forward

Section 3.1 of the draft Code provides the areas to be included in the explanatory foreword. These contain no changes from the SORP 2009.

Section 3.1 is not expected to give rise to any changes in accounting and therefore does not include any transitional arrangements.

Section 3.2 Statement of Responsibilities

Section 3.2 of the draft Code sets out the responsibilities of the authority and the Chief Financial Officer in respect of the statement of accounts. These contain no changes from the SORP 2009.

Section 3.2 is not expected to give rise to any changes in accounting and therefore does not include any transitional arrangements.

Section 3.3 Accounting Policies, Changes in Estimates and Errors

The following table summarises differences in accounting treatment between the draft Code and the 2009 SORP.

SORP 2009 Requirement	IFRS Code Requirement	Potential Impact of Change	Initial Proposals for mitigation being discussed with Government
SORP 2009 requires authorities to correct prior period errors where the errors are fundamental .	Requires the restatement of prior period for material errors.	May lead to restatements being required more frequently.	None required.
Does not require the disclosure of future changes to accounting policies.	The Code requires disclosure of future changes to accounting policies.	May lead to additional disclosures.	None required.

The following table summarises the interpretations of IFRS incorporated in the draft Code

Standard	Interpretation or Adaptation	Notes
IAS 8 Accounting polices, changes in estimates and errors	Interpretation	Section 3.3 of the Code interprets the requirement in IAS 8 that entities disclose the expected impact of new standards that have been issued but not yet adopted. As authorities are required to follow the standards as adopted by the Code, authorities are required to disclose the expected impact of future editions of the Code where that edition of the Code requires the disclosure. Future editions of the Code may therefore prescribe retrospective disclosure

Standard	Interpretation or Adaptation	Notes
		requirements relating to changes to accounting policies.

Section 3.3 is not expected to give rise to any changes in accounting and therefore does not include any transitional arrangements.

Section 3.4 Presentation of Financial Statements

The following table summarises differences in accounting treatment between the draft Code and the 2009 SORP

SORP 2009 Requirement	IFRS Code Requirement	Potential Impact of Change	Initial Proposals for mitigation being discussed with Government
The core financial statements are the Income and Expenditure Account, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash Flow Statement. Notes to the accounts are also reported.	The core financial statements are the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement. The format of the statements has changed. Notes to the accounts are produced, and include more detail than under the SORP.	Authorities will need to present information in a different format to that previously followed, and may need to collect different or additional information.	None required.
Segment reporting is included on the face of the Income and Expenditure Account.	Service information is included on the face of the Comprehensive Income and Expenditure Statement, based on BVACOP. Additional segment reporting, based on internal management arrangements and including a subjective analysis and reconciliations is included in the	Authorities will need to present more information than under the SORP, and may need to collect more information than at present (e.g. subjective analysis).	None required.

	Notes.		
Two Balance Sheets are reported, one at the reporting date and one at the previous reporting date.	As per the SORP, however where there has been a change in accounting policy that requires comparative information to be restated, a third balance sheet (as at the start of the comparative period) is reported. This also applies on transition to IFRS.	Authorities will need to produce an opening IFRS balance sheet, and also produce a balance sheet as at the start of the comparative period where there are material changes to accounting policy. This is likely to result in three balance sheets being produced on occasions.	None required.

The draft Code includes details of other changes from the SORP 2009 requirements. These cover the detailed format of the financial statements, notes to the accounts (excluding the notes included in each of the relevant sections of the draft Code), selection of reportable segments (where more than one format for internal management reporting is used), revised terminology and requirements covering the classification of cash and cash equivalents as a balance sheet item. Examples of the revised formats and requirements can be found at:

(http://www.cipfa.org.uk/pt/cipfalasaac/download/IFRS_Code_ITC_Format_Accounts_Examples.xls).

The following table summarises the interpretations of IFRS incorporated in the draft Code

Standard	Interpretation or Adaptation	Notes
IAS 1 Presentation of financial statements	Interpretation	Section 3.4 of the Code sets out the formats of the financial statements. These are consistent with the requirements of IAS 1, but in prescribing formats, the Code removes options permitted by IAS 1.
IAS 7 Cash flow statements	None	Implemented in full.
IFRS 8 Operating segments	Interpretation	Section 3.4 of the Code interprets the requirements of IFRS 8 by removing the assumption that segment assets are reported internally.

Section 3.4 identifies transitional arrangements regarding the presentation of financial statements. Comparative information presented in the 2010/11 financial statements will need to be restated in line with the requirements of the Code.

Section 3.5 Housing Revenue Account

The draft Code reflects a statutory obligation to maintain a revenue account for local authority housing provision. The format of the HRA statements has changed in line with the changes to the main financial statements and changes elsewhere in the Code may require transactions to be accounted for differently as highlighted in the ITC.

Further changes to the requirements for the Housing Revenue Account are possible following the central government review.

Section 3.5 identifies transitional arrangements regarding the presentation of HRA statements. Comparative information presented in the 2010/11 financial statements will need to be restated in line with the requirements of the Code.

Section 3.6 Collection Fund/ Council Tax/ Non Domestic Rates

The draft Code reflects the statutory obligation on English authorities to produce a separate collection fund and on Scottish authorities to produce a separate council tax income account and non domestic rate account. There are no changes to the requirements in the SORP 2009.

Section 3.6 is not expected to give rise to any changes in accounting and therefore does not include any transitional arrangements.

Section 3.7 Annual Governance Statement / Statement of Internal Control

The draft Code reflects the statutory obligation on English, Welsh and Northern Irish authorities to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review with any Statement of Accounts. The draft Code refers to Scottish local authorities who are not subject to such statutory requirements but may adopt them voluntarily. There are no changes to the requirements in the SORP 2009.

CIPFA/LASAAC will consider in September whether the requirements of this section need to be amended following the publication of "The Role of the Chief Financial Officer in Public Service Organisations" by CIPFA and the development of proposals for its implementation in local government.

Section 3.7 is not expected to give rise to any changes in accounting and therefore does not include any transitional arrangements.

Section 3.8 Events after the Reporting Period

The sets out the treatment of events after the reporting date. There are no changes to the requirements in the SORP 2009.

The following table summarises the interpretations of IFRS incorporated in the draft Code

Standard	Interpretation or Adaptation	Notes
IAS 10 Events after the reporting period	Interpretation	The arrangements for authorising accounts for issue are defined in legislation. The Code also interprets IAS 10 by stating that machinery of government changes (such as local government reorganisation) do not negate the presumption of going concern.

Section 3.8 is not expected to give rise to any changes in accounting and therefore does not include any transitional arrangements.

Section 3.9 Related Party Disclosures

The draft Code has different requirements to the SORP in relation to the disclosure of related party transactions and balances i.e. the disclosure of outstanding balances. The draft Code does not deem certain parties as related parties i.e. providers of finance in the course of their normal business in that regard; and trade unions in the course of their normal dealings with an authority by virtue only of those dealings, and an entity with which the relationship is solely that of an agency.

The following table summarises the interpretations of IFRS incorporated in the draft Code

Standard	Interpretation or Adaptation	Notes
IAS 24 Related party disclosures	Interpretation	<p>The Code interprets IAS 24 by adopting IPSAS 20 which states that providers of finance and trade unions are deemed not to be related parties where they only interact with an authority in the normal course of their business / dealings.</p> <p>In considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged 'in the surrounding circumstances'. Materiality should thus be judged from the viewpoint of both the authority and the related party.</p>

Section 3.9 identifies transitional arrangements regarding related party disclosures. Comparative information presented in the 2010/11 financial statements will need to be restated in line with the Code's revised disclosure requirements.

Chapter 4 Non Current Assets (excluding Financial Instruments)

Section 4.1 Property, Plant and Equipment

The following table summarises differences in accounting treatment between the draft Code and the 2009 SORP.

SORP 2009 Requirement	IFRS Code Requirement	Potential Impact of Change	Initial Proposals for mitigation being discussed with Government
The SORP did not require the derecognition of an old component that was not separately accounted for when the old component is replaced or restored.	Where a component is replaced the carrying amount of the old component is derecognised to avoid double counting and the new component reflected in the carrying amount. This includes the derecognition of parts of an asset not previously recognised as a separate component.	Authorities will need to collect additional information regarding their capital programme to be able to derecognise replaced components. There may be implications for asset management systems.	None required.

The draft Code includes details of other changes from the SORP 2009 requirements. These cover the use of the same recognition criteria for initial and subsequent expenditure rather than having separate criteria, a greater emphasis on component accounting, residual values to be based on current prices at the balance sheet date rather than based on prices prevailing at the date of the acquisition (or revaluation) of the asset which do not take account of expected future price changes, the removal of the option to use renewals accounting and the clear distinction between an impairment loss and revaluation loss. These changes may have implications for asset management systems.

The following table summarises the interpretations of IFRS incorporated in the draft Code

Standard	Interpretation or Adaptation	Notes
IAS 16 Property, plant and equipment	Both	Section 4.1 of the Code adapts the requirements of IAS 16 by adopting a revised definition of <i>fair value</i> for this section of the Code. The definition includes the following text <i>'For this section of the Code, fair value (for land and buildings) is to be interpreted as the amount that would be paid for the asset in its existing use. This requirement is met by providing valuation on the basis of exiting use value (EUV) in accordance with UKPS 1.3 of the RICS Valuation Standards'</i> .

Standard	Interpretation or Adaptation	Notes
		<p>Section 4.1 of the Code interprets the requirements of IAS 16 by adopting the requirements of IPSAS 17 for the definition of <i>value in use</i> for assets that are not held for the purpose of generating cash flows. The interpretation for the public sector context assumes that <i>value in use</i> is equal to the cost of replacing the service potential (this interpretation has also been used for IAS 36 and IFRS 5). IAS 16 is silent on this issue.</p> <p>Section 4.1 of the Code interprets the requirements of IAS 16 by withdrawing the option of measuring Infrastructure, Community Assets and Assets under Construction (excluding investment property) at fair value after initial recognition, and withdrawing the option of measuring all other classes of fixed assets at cost after initial recognition. This is the same as the SORP 2009</p>

Section 4.1 identifies transitional arrangements regarding property, plant and equipment. These could arise in a number of circumstances, for example where renewals accounting has previously been used or where assets are disposed of during 2009/10.

Section 4.2 Leases and Lease Type Arrangements

The following table summarises differences in accounting treatment between the draft Code and the 2009 SORP.

SORP 2009 Requirement	IFRS Code Requirement	Potential Impact of Change	Initial Proposals for mitigation being discussed with Government
Property leases are classified and accounted for as a single lease.	Property leases are classified and accounted for as separate leases of land and buildings. In some cases this may lead to part of an existing lease being reclassified from operating to finance or vice versa.	<p>Authorities will need to review and possibly reclassify leases. The following points apply where leases are reclassified:</p> <p>Lessee accounting:</p> <p>(A) Where an operating lease is reclassified as a finance lease, the charges to the revenue account in respect of the repayment of the liability (e.g. MRP)</p>	<p><i>England:</i></p> <p>(A) It is proposed that additional Statutory Guidance will be issued to neutralise the impact on the General Fund.</p> <p>(B), (C) Information will be sought to assess whether these scenarios will result in significant impacts on the General Fund, and possible mitigation will be considered in</p>

		<p>may be out of step.</p> <p>(B) When a finance lease is reclassified as an operating lease, charges to the revenue account (e.g. MRP) previously made may not match those that would have fallen due under an operating lease.</p> <p>Lessor accounting:</p> <p>(C) Reclassification of leases in lessor accounts will result in income being reclassified from revenue income to capital receipts or vice versa. Potential issue for lease premiums received.</p>	<p>the light of this information.</p> <p><i>Northern Ireland:</i></p> <p>(A), (B), (C) Information will be sought to assess whether these scenarios will result in significant impacts on the General Fund, and possible mitigation will be considered in the light of this information. It is not expected that there will be any significant impact.</p> <p><i>Scotland:</i></p> <p>(A), (B), (C) Information will be sought to assess whether these scenarios will result in significant impacts on the General Fund, and possible mitigation will be considered in the light of this information.</p> <p><i>Wales:</i></p> <p>As England</p>
<p>Arrangements containing a lease are not covered by the SORP</p>	<p>The Code implements the requirements of IFRIC 4 to assess whether an arrangement contains the substance of a lease. Where this is the case, authorities will be required to recognise a lease and account for this in accordance with the lease provisions.</p>	<p>Authorities will need to assess whether arrangements contain a lease. No other impact, unless a lease is recognised and required to be accounted for as a finance lease. In these cases, the effect will be the same as for scenario (A) in the property leases section above.</p>	<p>As above - scenario (A)</p>

The draft Code includes details of other changes from the SORP 2009 requirements. These cover the removal of the 90% test; finance lease interest income calculated on a net investment rather than net cash investment basis; and the requirement (rather than the option) to include initial direct costs in the carrying amount of some assets.

The following table summarises the interpretations of IFRS incorporated in the draft Code

Standard	Interpretation or Adaptation	Notes
IAS 17 Leases SIC 15 Operating Leases – Incentives SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease IFRIC 4 Determining whether an Arrangement contains a Lease	None	Implemented in full. The IASB has recently issued an amendment to IAS 17 regarding the classification of land as either an operating or finance lease. This amends the previous wording in paragraph 15 that “the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term”. The revised wording of IAS 17 means that the fact that land has an indefinite economic life is an important factor in determining whether a lease is an operating or finance lease, but does not require all leases of land (other than those where the title is passed to the lessee) to be an operating lease. This is a clarification of IAS 17, as a proper reading of the previous wording (in particular the reference to ‘normally’) would result in the same accounting treatment. The amendment has yet to be adopted by the EU. As the draft Code implements EU-adopted IFRS, it is intended that the published version of the Code will implement the amended wording if this has been adopted by the EU prior publication. If the amendment has not been implemented prior to publication, the Code will retain the existing wording. However, the Guidance Notes will clarify the proper reading of the Code.

Section 4.2 identifies transitional arrangements regarding leases, specifically regarding separately accounting for land and buildings leases, reclassification of leases and the treatment of arrangements containing a lease.

Section 4.3 PFI and PPP Arrangements

IFRS-based accounting for PFI schemes was introduced in the 2009 SORP. As a result there are no changes to the accounting requirements for PFI schemes. Government is intending to amend the statutory guidance on MRP to ensure the move to IFRS-based accounting in the 2009 SORP is neutral on the General Fund. IFRIC 12 only deals with the accounting requirements of the operator. The Code therefore adapts IFRIC 12 by requiring authorities to account for PFI and PPP schemes using principles that mirror those in IFRIC 12, i.e. if the operator would not recognise an asset for the property, plant and equipment under IFRIC 12, the local authority should recognise that asset. This is in line with the Government’s Financial Reporting Manual.

Section 4.3 is not expected to give rise to any changes in accounting and therefore does not include any transitional arrangements.

Section 4.4 Investment Property

Investment property will be carried at fair value rather than the lower of net current replacement cost or net realisable value, and revaluations will be taken to Surplus or Deficit rather than the Revaluation Reserve. Accounting arrangements (and possibly asset management systems) will need to be amended to reflect this change, but there is no impact on funding as debits or credits to Surplus or Deficit are reversed out of General Fund.

The draft Code includes details of other changes from the SORP 2009 requirements. These cover carrying investment property under construction at fair value rather than cost; and the removal of the requirement to depreciate investment property held under a lease with an unexpired term of 20 years or less.

The following table summarises the interpretations of IFRS incorporated in the draft Code

Standard	Interpretation or Adaptation	Notes
IAS 40 Investment property	Interpretation	Section 4.4 of the Code interprets the definition of investment property as being an asset used solely for generating rental income or capital appreciation (in line with IPSAS 16 and the Government's Financial Reporting Manual). This recognises the fact that in the public sector, cash generating assets can be held for social purposes (e.g. council housing).

Section 4.4 identifies transitional arrangements regarding investment property arising from the requirement to account for investment property at fair value, with adjustments taken to surplus or deficit.

Section 4.5 Intangible Assets

The following table summarises differences in accounting treatment between the draft Code and the 2009 SORP.

SORP 2009 Requirement	IFRS Code Requirement	Potential Impact of Change	Initial Proposals for mitigation being discussed with Government
Internally generated intangible assets are only capitalised where there is an active market for the asset.	Internally generated intangible assets are capitalised where the recognition criteria are met.	Expected to result in the recognition of more internally generated intangible assets; authorities will need to collect additional information to support capitalisation.	None required.

The draft Code includes details of other changes from the SORP 2009 requirements. These cover the removal of a presumption regarding asset lives, and the charging of

impairments against the revaluation reserve where intangible assets have been revalued, which possibly have implications for asset management systems.

The following table summarises the interpretations of IFRS incorporated in the draft Code

Standard	Interpretation or Adaptation	Notes
IAS 38 Intangible assets SIC 32 Intangible Assets – Web Site Costs	None	Implemented in full

Section 4.5 identifies transitional arrangements regarding intangible assets. These relate to the possibility that an authority might recognise an intangible asset under IFRS that was not recognised under the SORP.

Section 4.6 Revenue Expenditure Funded from Capital under Statute

This section reflects statutory rather than IFRS requirements. There are no changes from SORP 2009, and no interpretations of IFRS.

Section 4.6 is not expected to give rise to any changes in accounting and therefore does not include any transitional arrangements.

Section 4.7 Impairment of Assets

The following table summarises differences in accounting treatment between the draft Code and the 2009 SORP.

SORP 2009 Requirement	IFRS Code Requirement	Potential Impact of Change	Initial Proposals for mitigation being discussed with Government
Impairment losses due to the clear consumption of economic benefits on a revalued asset are recognised in the Income and Expenditure Account.	All impairment losses on revalued assets are to be recognised in the Revaluation Reserve up to the amount in the Revaluation Reserve for each respective asset.	No budgetary impact as losses are reversed out of General Fund. Accounting arrangements will change; may be implications for asset management systems.	None required.

The draft Code includes details of other changes from the SORP 2009 requirements. These cover the removal of the specific requirement to undertake an impairment assessment of assets when either no depreciation charge is made on the grounds that it would be immaterial or the estimated remaining useful life of the asset exceeds 50

years. In addition the exemption of non-depreciable land from impairment reviews has been removed, and the events or circumstances that indicate that a previous impairment can be reversed are the same for both tangible and intangible assets as opposed to being different under the SORP.

The following table summarises the interpretations of IFRS incorporated in the draft Code

Standard	Interpretation or Adaptation	Notes
IAS 36 Impairment of assets	Interpretation	Section 4.7 of the Code interprets the requirements of IAS 36 by adopting the requirements of IPSAS 21 for the definition of <i>value in use</i> for assets that are not held for the purpose of generating cash flows (see Property Plant and Equipment above for the interpretation). IAS 36 is silent on this issue.

Section 4.7 identifies transitional arrangements regarding impairment of assets. These are in respect of impairments for clear consumption of economic benefits that the SORP required to be charged to the Income and Expenditure Account but that the Code requires to be charged initially to the Revaluation Reserve.

Section 4.8 Borrowing Costs

CIPFA/LASAAC is consulting on a range of options for the treatment of borrowing costs. Details can be found at Annex B of this consultation.

Having considered the options in Annex B, CIPFA/LASAAC is minded to implement option 2 in the IFRS-based Code of Practice on Local Authority Accounting. However, views are requested on all the options.

Additional Question:

Please indicate your preferred option regarding the treatment of borrowing costs. Please support your answer with reasons.

Section 4.9 Non-current Assets Held for Sale and Discontinued Operations

The following table summarises differences in accounting treatment between the draft Code and the 2009 SORP.

SORP 2009 Requirement	IFRS Code Requirement	Potential Impact of Change	Initial Proposals for mitigation being discussed with Government
Assets classified as surplus are measured at market value less expected costs to sell.	Assets classified as held for sale are measured at the lower of their carrying amount or fair value (i.e. market value) less costs to sell; and there are strict	More gains on disposal may be recognised, but there will be no impact on funding. Accounting arrangements will need to be	None required.

	criteria to be met	amended There may be implications for asset management systems.	
Assets classified as held for sale are exempt from depreciation.	Assets classified as held for sale are subject to depreciation.	No impact on funding, but accounting arrangements will need to be amended There may be implications for asset management systems.	None required.
Following reclassification as a surplus asset, the amount of any subsequent revaluation gains is not restricted.	Following reclassification as held for sale, the amount of any subsequent revaluation gains should not be in excess of previous impairment or revaluation losses.	No impact on funding, but accounting arrangements will need to be amended There may be implications for asset management systems.	None required.

The draft Code includes details of other changes from the SORP 2009 requirements. These cover the classification of assets held for sale as current assets where the definition of current assets is met rather than always being classified as fixed assets, the measurement of costs to sell at their present value where sale is expected to occur beyond one year rather than being measured at their original cost, and the accounting for disposal groups which was not covered by the SORP (all these changes may have implications for asset management systems). In addition the draft Code requires prior periods to be restated for discontinued operations; the restatement of prior periods is not required by the SORP (which may require additional information to be collected).

The following table summarises the interpretations of IFRS incorporated in the draft Code

Standard	Interpretation or Adaptation	Notes
IFRS 5 Non-current assets held for sale and discontinued operations	Interpretation	Section 4.9 of the Code interprets the requirements of IFRS 5 by adopting the requirements of IPSAS 17 and IPSAS 21 for the definition of <i>value in use</i> for assets that are not held for the purpose of generating cash flows (see IAS 16 above for the interpretation). The Code further interprets IFRS 5 by stating that in order to qualify as 'discontinued operations', activities must cease completely. Responsibilities transferred from one part of the public sector to another ('machinery of government' changes) are not

		<p>discontinued operations.</p> <p>Section 4.9 of the Code interprets the requirements of IFRS 5 by adopting a revised definition of <i>fair value</i> for this section of the Code. The definition includes the following text '<i>For this section of the Code, fair value is to be interpreted as the amount that would be paid for the asset in its highest and best use, i.e. market value.</i>'</p>
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Section 4.9 identifies transitional arrangements regarding non-current assets held for sale and discontinued operations. These relate to limits on revaluing assets held for sale, and the criteria that need to be met before an asset is classified as held for sale.

Chapter 5 Current Assets

Section 5.1 Inventories

The draft Code includes different measurement bases for inventories that are acquired or distributed through a non-exchange transaction which were not covered in the SORP. The draft Code includes the measurement basis of inventories purchased on deferred settlement terms and the use of cost formula as a technique to measure the cost of inventories, with the SORP being silent on these measurement bases. These changes which may require additional information to be collected and changes to stock systems.

Section 5.2 Work in Progress (Construction Contracts)

This section only relates to construction work authorities are doing on behalf of others; it does not cover assets under construction for the authority's own purposes. In some instances the draft Code may allow earlier recognition of contract income, as income is recognised once the outcome of a construction contract can be estimated reliably, whereas the SORP specifically only permits revenue to be recognised once the authority has obtained the right to consideration as a result of performing an identifiable element of its contractual obligations.

Section 5.3 Trade and Other Receivables

There are no changes from the SORP 2009.

The following table summarises the interpretations of IFRS incorporated in the draft Code

Standard	Interpretation or Adaptation	Notes
IAS 2 Inventories	Interpretation	Section 5.1 of the Code interprets the requirements of IAS 2 by adopting the requirements of IPSAS 12 for inventories acquired through a non-exchange transaction and inventories held for distribution at no charge or for a nominal charge (on which IAS 2 is silent).
IAS 11 Construction contracts	Interpretation	Section 5.2 of the Code interprets the requirements of IAS 11 by adopting the requirements of IPSAS 11 for the inclusion of 'cost-based' and 'non-commercial contracts' within the scope of construction contracts, the inclusion of 'binding arrangements' within the definition of construction contract, and the requirement to recognise an expected deficit on a contract immediately it becomes probable that contract costs will exceed total contract revenues applies only to contracts in which it is intended at inception of the contract that contract costs are to be fully recovered from the parties to that contract (on which IAS 11 is silent).
IAS 18 Revenue SIC 31 Revenue – Barter Transactions Involving	Interpretation	Section 5.3 of the Code interprets IAS 18 by specifying that non-contractual non-exchange transactions (such as council tax income) are outside the scope of IAS 39 (financial instruments) and are therefore recognised at their full recoverable amount in the balance sheet.

Standard	Interpretation or Adaptation	Notes
Advertising Services IFRIC 13 Customer Loyalty Programmes IFRIC 15 Agreements for the Construction of Real Estate		

Section 5.1 identifies transitional arrangements regarding inventories where the carrying amount differs, although these are not expected to apply frequently. Sections 5.2 and 5.3 are not expected to give rise to any changes in accounting and therefore do not include any transitional arrangements.

Chapter 6 Employee Benefits

Section 6.1 Employee Benefits - Introduction

This section introduces the principles and terminology for accounting for employee benefits. There are no changes from the SORP 2009.

Section 6.2 Benefits Payable During Employment

The following table summarises differences in accounting treatment between the draft Code and the 2009 SORP.

SORP 2009 Requirement	IFRS Code Requirement	Potential Impact of Change	Initial Proposals for mitigation being discussed with Government
<p>The SORP only deals with long-term disability benefits.</p>	<p>The Code covers all benefits payable during employment, and requires the cost to be accounted for in the period in which the benefit is earned by the employee.</p> <p>The main impact is likely to be in relation to holiday pay.</p>	<p>Authorities will need to accrue for benefits such as holiday pay where these are material.</p> <p>Authorities will face a particular issue in relation to teachers' pay, as the terms and conditions are such that holiday pay will need to be accrued.</p>	<p><i>England:</i></p> <p>Regulation or statutory guidance to neutralise the impact of providing for untaken annual leave (and similar issues) is being considered.</p> <p><i>Northern Ireland:</i></p> <p>As England, but may require amounts reversed out of General Fund to be funded over time. Information is requested regarding the estimated value of accruals.</p> <p><i>Scotland:</i></p> <p>As England, but may require amounts reversed out of General Fund to be funded over time</p> <p><i>Wales:</i></p> <p>As England</p>
<p>In the SORP long-term disability benefits (called 'incapacity benefits' in the SORP) are treated as a type of</p>	<p>In the Code, in accordance with IAS 19, long-term disability benefits are classified as 'other long-term</p>	<p>The IPSAS 25 interpretation of IAS 19 included in the Code should ameliorate the effect of the</p>	<p>None required</p>

<p>defined benefit pension benefit. The difference between the expected cost allowed for in actuarial assumption and amount actually incurred is treated as an actuarial gain or loss and taken to the STRGL.</p>	<p>employee benefits' and the expense is immediately charged to surplus or deficit on services.</p> <p>However, in accordance with IPSAS 25 Employee Benefits the Code includes classification as 'other long-term benefits' as a 'rebuttable' assumption, which where rebutted allows an authority account in the same way as defined benefit post employment benefits.</p>	<p>changed basis of accounting on the surplus or deficit on services, since where the difference is material the Code allows authorities to account on a similar basis to the 2009 SORP.</p> <p>IPSAS 25 adopted the interpretation because long-term disability benefits related to certain areas of service provision, such as the military, may be financially highly significant and related gains and losses highly volatile</p>	
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Section 6.3 - Termination Benefits

The following table summarises differences in accounting treatment between the draft Code and the 2009 SORP.

SORP 2009 Requirement	IFRS Code Requirement	Potential Impact of Change	Initial Proposals for mitigation being discussed with Government
<p>The 2009 SORP only covers termination benefits awarded as an enhancement of pension benefits usually in the form of added years of service. The SORP treats these as a retirement benefit and classified them as one type of 'past service' cost.</p>	<p>The Code covers all forms of termination benefits and does not treat them as a 'post employment benefits' but as a separate category of employment benefit. The Code requires termination benefits to be charged to the surplus or deficit on services immediately.</p>	<p>A vesting period is unlikely to apply to a termination benefit and in the absence of a vesting period the amount charged to surplus or deficit on services would be the same under the Code as it would have been under the SORP.</p>	<p>None required</p>

Section 6.4 - Postemployment Benefits

The following table summarises differences in accounting treatment between the draft Code and the 2009 SORP.

SORP 2009 Requirement	IFRS Code Requirement	Potential Impact of Change	Initial Proposals for mitigation being discussed with Government
The SORP requires authorities in Northern Ireland to account for their participation in the Northern Ireland Local Government Officers Superannuation Scheme (NILGOSS) on a defined contribution basis.	The Code requires authorities in Northern Ireland to account for their participation in NILGOSS on a defined benefit basis.	The change from a defined contribution to a defined benefit basis for accounting for Northern Ireland authorities' participation in NILGOSS could impact on resources and taxation since the defined benefit IAS 19 cost chargeable to surplus or deficit on services would be more volatile and often higher than under defined contribution accounting.	<i>Northern Ireland:</i> The Northern Ireland Department of the Environment is developing proposals similar to those already operating in England, Scotland and Wales to require the amount charged to the District Fund to be the employer's pension contribution due for the year, with the difference between this and the movement in the pension liability for the year taken to the 'Pension Reserve'.

The following table summarises the interpretations of IFRS incorporated in the draft Code

Standard	Interpretation or Adaptation	Notes
IAS 19 Employee benefits IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Interpretation	IAS 19 permits optional treatments of some transactions, for example the use of the corridor method in accounting for pensions liability. The Code interprets the requirements of IAS 19 by specifying the accounting treatment that authorities are to follow, thus removing some options.

Sections 6.1 – 6.4 identify transitional arrangements regarding employee benefits. These mainly relate to accruals for holiday pay and similar benefits, and accounting for NILGOSS as a defined benefit scheme.

Section 6.5 Pension Fund Accounts

The following table summarises differences in accounting treatment between the draft Code and the 2009 SORP.

SORP 2009 Requirement	IFRS Code Requirement	Potential Impact of Change	Initial Proposals for mitigation being discussed with Government
The SORP requirements for administering authorities' LGPS Pension Fund Accounts are based on the Pension SORP.	The Code's requirements for the LGPS Pension Fund Accounts are based on IAS 26 Retirement Benefit Plan's. The Code requirements are compatible with the 2009 SORP requirements except that the Code in accordance with IAS 26 requires the pension liabilities of the pension fund as a whole to be disclosed.	LGPS administering authorities will need to obtain from the actuary information on the pension fund liability for the Pension Fund as a whole. The actuary will probably not be supplying this information at present.	None Required

The following table summarises the interpretations of IFRS incorporated in the draft Code

Standard	Interpretation or Adaptation	Notes
IAS 26 Accounting and Reporting by Retirement Benefit Plans	Interpretation	The Code specifies the format of the financial statements to be reported by pension funds. In this regard, the Code interprets the requirements of IAS 26 by removing options that are permitted by the standard.

Section 6.5 identifies transitional arrangements regarding pension fund accounts. These relate to the presentation of comparative information in line with the requirements of the Code, including the disclosure of pension liabilities.

Additional Area for Comment:

Pension Funds in central government report pension liabilities for the fund on the balance sheet. The draft Code does not include this requirement, as CIPFA/LASAAC considered that the cost of obtaining IAS 19 (FRS 17) valuations for all admitted bodies as at 31 March each year would outweigh the benefit of providing the information. It was agreed to review this decision as part of the consultation, and administering authorities are asked to provide estimates of the annual cost of obtaining IAS 19 information for each admitted body as at 31 March each year.

Additional Question:

How much would it cost to obtain IAS 19 information for each admitted body as at 31 March each year for your authority?

Chapter 7 Financial Instruments

The SORP does not cover soft loans received by an authority. This was covered by the 2008 SORP Guidance Notes in a manner consistent with the proposed Code requirements and therefore authorities with soft loans receivable are likely to have adopted an accounting policy consistent with the proposed Code requirements.

The following table summarises the interpretations of IFRS incorporated in the draft Code; these interpretations are the same as in the SORP.

Standard	Interpretation or Adaptation	Notes
IAS 32 Financial instruments: Presentation IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments	None	Implemented in full.
IAS 39 Financial instruments: Recognition and measurement IFRIC 9 Reassessment of Embedded Derivatives IFRIC 16 Hedges of a Net Investment in a Foreign Operation	Interpretation	<p>(a) 'Regular way' trades of financial assets</p> <p><i>IAS 39</i> permits either 'trade date' or 'settlement date' accounting to be used for 'regular way' trades of financial assets. This discretion is not permitted by the Code, which required the trade date to be used. The 2009 SORP includes the same requirement. Its aim is to ensure local authorities follow a consistent approach.</p> <p>(b) Designation of the category of a financial instrument</p> <p>Under <i>IAS 39</i>, subject to restrictions, it is in certain circumstances permitted to 'designate' a financial instrument to a different category to the one to which it would inherently belong under <i>IAS 39</i>. The Code does not permit such designation. The 2009 SORP includes the same restriction. Its aim is to ensure local authorities follow a consistent approach.</p> <p>(c) Soft loans advanced by an authority – 'prevailing interest rate'</p> <p>The Code provides an interpretation of how the 'prevailing interest rate' at which a borrower to whom it has advanced a 'soft loan' could have borrowed in an arm' length transaction. The 2009 SORP includes the same interpretation. Local voluntary bodies, to which such loans are</p>

Standard	Interpretation or Adaptation	Notes
		<p>often advanced, may not have an easily ascertainable 'credit rating' and its aim is to suggest a practical approach to deal with this.</p> <p>(d) Soft loans received by an authority – 'prevailing interest rate'</p> <p>For the purposes of calculating the fair value on initial recognition of a soft received by a local authority, the Code provides an interpretation of how the 'prevailing interest rate' at which it could have borrowed in an arm' length transaction shall be determined. The PWLB interest rate would usually be the appropriate arm's length rate and authorities are required to use it unless they have reliable evidence that they could borrow more cheaply from another lender. This matter is not covered by the 2009 SORP.</p> <p>(e) Lender Option Borrower Option Loans (LOBOs)</p> <p>The Code requires options embedded in a LOBO shall not be separately accounted; and that the contractual life and contractual cash flows shall be used as the expected life of a LOBO when calculating the effective interest rate on initial recognition. The SORP included the same interpretation but the Code has been caveated as follows <i>"unless after considering the contractual terms of the instrument the authority concludes that IAS 39 would require the embedded options to be accounted for separately"</i> and <i>"unless on considering the contractual terms of the instrument the authority concludes it is able to estimate reliably the expected cash flows or expected life"</i>. The interpretation was first included in the 2007 SORP, when it became clear that use of such instruments was widespread and that guidance on how the various IAS 39 requirements applied to LOBOs was needed.</p> <p>(f) Accounting for immaterial transaction costs on initial recognition</p> <p>The Code gives an option to write off immediately to surplus or deficit on services transaction costs that the Code would usually require to be applied to adjust a financial instrument's initial carrying amount, where they are immaterial. The SORP included the same option.</p> <p>(g) Exchanges of debt instruments</p> <p>The Code (and <i>IAS 39</i>) requires under defined</p>

Standard	Interpretation or Adaptation	Notes
		<p>circumstances, the gain or loss on an exchange of debt instruments between an existing borrower and lender to be used to adjust the carrying amount, rather than be recognised immediately in surplus or deficit on services. The Code has interpreted this as requiring the exchange of loan instruments and associated settlement of any fees or costs incurred (i.e. premiums and discounts) to take place on the same day and as not requiring 'net settlement' as long as any payments between the lender and borrower are made on the same day. The PWLB, which is overwhelmingly the main lender to local authorities, is not permitted to settle debts which are redeemed net of the funds advanced in 'replacement loans' even where the transactions occur on the same day. The Code has interpreted 'exchange' in a way that would not automatically rule out debt restructuring involving PWLB loans being accounted for as a loan exchange.</p>
IFRS 7 Financial instruments: Disclosures	None	Implemented in full, with the exception of disclosures relating to collateral.

Chapter 7 is not expected to give rise to any changes in accounting and therefore does not include any transitional arrangements.

Chapter 8 Liabilities

Section 8.1 Trade and Other Payables

There are no changes from the SORP 2009.

Section 8.2 Provisions, Contingent Liabilities and Contingent Assets

There are no changes from the SORP 2009.

The following table summarises the interpretations of IFRS incorporated in the draft Code

Standard	Interpretation or Adaptation	Notes
IAS 18 Revenue SIC 31 Revenue – Barter Transactions Involving Advertising Services IFRIC 13 Customer Loyalty Programmes IFRIC 15 Agreements for the Construction of Real Estate	Interpretation	Section 8.1 of the Code interprets IAS 18 by specifying that non-contractual non-exchange transactions (such as council tax income) are outside the scope of IAS 39 (financial instruments) and are therefore recognised at their full recoverable amount in the balance sheet.
IAS 37 Provisions, contingent liabilities and contingent assets IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental	None	Implemented in full.

Standard	Interpretation or Adaptation	Notes
Rehabilitation Funds IFRIC 6 Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment		

Chapter 8 is not expected to give rise to any changes in accounting and therefore does not include any transitional arrangements.

Chapter 9 Group Accounts

The following table summarises differences in accounting treatment between the draft Code and the 2009 SORP.

SORP 2009 Requirement	IFRS Code Requirement	Potential Impact of Change	Initial Proposals for mitigation being discussed with Government
The SORP defines associates and joint ventures based on UK GAAP.	The Code defines associates and joint ventures based on IFRS; the definitions are different and may cover a wider range of other bodies. Consolidation of jointly controlled entities may be on a different basis.	Authorities will need to reassess their group boundary, and where necessary consolidate additional bodies into their group accounts and may need to collect different or additional information.	None required.

The draft Code includes details of other changes from the SORP 2009 requirements. These cover the relaxation of the rules regarding consolidation where there are differences in the reporting date; exclusion of goodwill written off to reserves in the calculation of gains or losses on the disposal of a subsidiary (as opposed to its inclusion) and where acquisition accounting is applicable; differences in the timing of when fair value of assets, liabilities and goodwill are measured and recognised, the accounting for goodwill, and differences in the accounting treatment of the 'excess of acquirer's interest in the net fair value of acquiree's' (referred to as 'negative goodwill' in the SORP). These changes may require additional information to be collected.

The following table summarises the interpretations of IFRS incorporated in the draft Code

Standard	Interpretation or Adaptation	Notes
IAS 27 Consolidated and separate financial statements SIC 12 Consolidation - Special Purpose Entities	Adaptation	The Code adapts the requirements of IAS 27 by requiring authorities to produce group accounts where they have interests in associates and / or joint ventures but not subsidiaries. This adaptation is required to prevent profits and losses made by associates and joint ventures impacting directly on Council Tax.
IAS 28	None	Implemented in full.

Standard	Interpretation or Adaptation	Notes
Investments in associates		
IAS 31 Interests in joint ventures SIC 13 Jointly Controlled Entities - non-monetary contributions by venturers	None	Implemented in full.
IFRS 3 Business combinations	Interpretation	The Code interprets the requirement of IFRS 3 by stating (in line with the Government's Financial Reporting Manual) that 'machinery of government' changes (e.g. local government reorganisation) are deemed to be a combination of businesses under common control and as such are outside the scope of IFRS 3.

Chapter 9 identifies transitional arrangements regarding group accounts. These relate to changes in the group boundary, and (in group accounts only) business combinations.

Chapter 10 First Time Adoption / Transition

The transitional arrangements for local authorities have been included at the end of each section of the Code for the purposes of the ITC, but will be included in the published Code in chapter 10. Authorities should note that three balance sheets will be required for the first year of IFRS (see differences in accounting treatment between the draft Code and the 2009 SORP for section 3.4).

Responses to transitional arrangements are sought after each section. Disclosure requirements for the first time adoption of IFRS are shown in Chapter 10.

The following table summarises the interpretations of IFRS incorporated in the draft Code

Standard	Interpretation or Adaptation	Notes
IFRS 1 First time adoption of IFRS	Interpretation	IFRS 1 includes optional treatments of some transitional issues. The Code specifies the treatments to be adopted by local authorities, and in doing so interprets IFRS 1 by removing options.

Appendix A IFRSs with Limited Application to Local Authorities

The draft appendix covers a number of IFRSs that are expected to have limited application to local authorities; income taxes, the effects of changes in foreign exchange rates, financial reporting in hyperinflationary economies, agriculture, share-based payment and insurance contracts. There are differences in the accounting treatment between the draft Code and the 2009 SORP in relation to income tax where the draft Code covers the removal of the discounting of deferred tax, the recognition of deferred tax based on temporary differences (as opposed to permanent differences) and deferred tax is recognised on revaluation gains (as opposed to only being recognised on revaluation gains under certain conditions). These differences will only affect group accounts. There are no changes to differences in accounting treatment between the draft Code and the 2009 SORP in respect of the effect of changes in foreign exchange rates; financial reporting in hyperinflationary economies; and share-based payment. The SORP 2009 did not include any specific accounting requirements in respect of agriculture or insurance contracts.

The following table summarises the interpretations of IFRS incorporated in the draft Code

Standard	Interpretation or Adaptation	Notes
IAS 12 Income Taxes SIC 21 Income Taxes – Recovery of Non-depreciable Assets SIC 25 Income Taxes – Changes in the Tax Status of an Entity or its Shareholders	None	Implemented in full.
IAS 21 The effect of changes in foreign exchange rates SIC 7 Introduction of the Euro	Interpretation	The Code requires that both the functional and presentational currencies for local authority accounts are pounds sterling.
IAS 29 Financial reporting in hyperinflationary economies IFRIC 7 Applying the Restatement Approach under IAS 29 Financial	Interpretation	The Code interprets IAS 29 by stating (in line with the FReM) that HM Treasury will notify classification of the economy as hyperinflationary if appropriate.

Standard	Interpretation or Adaptation	Notes
Reporting in hyperinflationary economies		
IAS 33 Earnings per Share	None	Not relevant to local authorities
IAS 34 Interim Financial Reporting	None	Not relevant to local authorities
IAS 41 Agriculture	None	Implemented in full
IFRS 2 Share-based payment IFRIC 8 Scope of IFRS 2 IFRIC 11 IFRS 2 - Group and Treasury Share Transactions	None	Implemented in full
IFRS 4 Insurance contracts	None	Implemented in full.

No transitional arrangements have been identified for Appendix A.

Other Matters

Heritage assets

The ASB has recently issued FRS 30 Heritage Assets. As there is currently no IFRS or IPSAS on this matter, it is proposed to incorporate the FRS into the published Code, following the hierarchy of standards set out in Chapter 1 of the draft Code.

FRS 30 continues existing accounting arrangements (which in the draft Code would be based on IAS 16), but would require additional disclosures. These disclosures are intended to provide users of the accounts with information about the heritage assets held by the authority and its accounting policies in relation to those assets.

The new FRS can be obtained from

<http://www.frc.org.uk/images/uploaded/documents/FRS30%20Web%20Optimised1.pdf>.

Additional Question:

Do you agree that the Code should incorporate the requirements of the new FRS? Please support your answer with reasons.

Exceptions to disclosure notes

The draft Code adopts the disclosure requirements of the various IFRSs, with some exceptions. These exceptions, along with the reasons for not incorporating these disclosures, are set out at Annex C.

Additional Questions:

Do you agree that the Code should not require the disclosures set out in the document? Are there other disclosures that should be omitted from the Code? Please support your answers with reasons.

General Comments

Additional Question:

Please provide any further comments on any aspects of the draft Code.

Whole of Government Accounts

The Whole of Government Accounts will be based on IFRS from 2009/10. As a result, local authorities may need to provide additional information as part of their 2009/10 data submissions. Additional information will only be sought where the differences between IFRS and the 2009 SORP are likely to be material for the WGA process. Material areas are expected to be:

PFI: As the 2009 SORP adopts IFRS based accounting for PFI schemes ahead of the IFRS-based Code, authorities will be accounting on the same basis as WGA. However, some additional information regarding the restated 31 March 2009 balance sheet may be required.

Infrastructure Assets: Local authorities include infrastructure assets in the balance sheet at depreciated historical cost; WGA includes infrastructure assets in the balance sheet at current cost. High level adjustments are expected to be made in WGA, based on information local authorities are already providing.

Holiday Pay Authorities will need to provide information regarding the level of accrual for holiday pay (and other employee benefits) required under IFRS but not the 2009 SORP as at 1 April 2009 and 31 March 2010.

Leases Authorities will need to provide information regarding changes to the balance sheet (assets and liabilities) that will result from the implementation of IFRS. This information will be required as at 1 April 2009 and 31 March 2010. Changes are likely to arise in two circumstances; 1) separate classification of land and building leases; and 2) implementing the requirements of *IFRIC 4 Determining whether an Arrangement contains a Lease*. Implementation of IFRIC 4 could, for example, require authorities to recognise a lease of assets held by contractors but used only for local authority contracts. Possible assets include outsourced IT and waste disposal vehicles.

LAAP Bulletin 80 provided advice on the recommended timetable for implementing IFRS. The following table shows how that timetable and the requirement to provide information for WGA.

	Step	Dependency	Dates	Areas for Discussion with External Audit	Links with WGA
12	Restate 1 April 2009 balance sheet (including reconciliations between UK GAAP and IFRS)	Obtained in steps 7 & 8	July 2009 – December 2009*	Auditors will wish to consider the implications for reviewing balance sheet and / or processes and arrangements	Information will be collected in the 2009/10 return

	Step	Dependency	Dates	Areas for Discussion with External Audit	Links with WGA
15	Restate 2009/10 accounts in parallel with main 2009/10 accounts process (including reconciliations between UK GAAP and IFRS)	See steps 6, 7, 8, 12	April 2010 – December 2010*	Auditors will wish to consider the implications for their work	Differences between UK GAAP and IFRS may need to be provided for material areas (e.g. leases and holiday pay) but timing has yet to be agreed.
16	Produce 2010/11 accounts on IFRS basis		April 2011 – June 2011	Normal audit procedures – accounts signed by 30 September 2011 (31 October 2011 in Northern Ireland)	The 2010/11 return will be made on an IFRS basis.

Additional requests for information:

As indicated earlier in the ITC, CIPFA/LASAAC is seeking additional information in some areas to inform government decisions on mitigating the impact of the move to an IFRS-based Code. The following information is requested:

England:

Leases:

Lessee accounting: when a finance lease is reclassified as an operating lease, charges to the revenue account (i.e. interest and MRP) previously made may not match those that would have fallen due under an operating lease. Please provide the following information where you will have leases that fall into this category:

Estimated number of leases affected: Estimated Balance Sheet value of leases at 31 March 2010: Estimated cumulative charges under UK GAAP (interest plus MRP) to 31 March 2010: Estimated cumulative charges under IFRS (lease rentals) to 31 March 2010: Charge to Revenue Account on a UK GAAP (interest plus MRP) basis for 2010/11: Charge to Revenue Account under IFRS (lease rentals) for 2010/11:
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Lessor accounting: Reclassification of leases in lessor accounts will result in income being reclassified from revenue income to capital receipts or vice versa. Potential issue for lease premiums received. Please provide the following information where you will have leases that fall into this category:

Estimated number of existing operating leases affected: Estimated number of existing finance leases affected: Estimated cumulative revenue income reclassified as capital receipts to 31 March 2010: Estimated cumulative capital receipts reclassified as revenue income to 31 March 2010: Estimated 2010/11 revenue income reclassified as capital receipts: Estimated 2010/11 capital receipts reclassified as revenue income:
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Northern Ireland:

Leases:

Lessee accounting: where an operating lease is reclassified as a finance lease, the charges to the revenue account in respect of the repayment of the liability may be out of step with charges previously made. Please provide the following information where you will have leases that fall into this category:

Estimated number of leases affected: Estimated cumulative charges under UK GAAP (lease rentals) to 31 March 2010: Estimated cumulative charges under IFRS (interest plus liability charged) to 31 March 2010: Charge to Revenue Account on a UK GAAP (lease rentals) basis for 2010/11: Charge to Revenue Account under IFRS (interest plus liability charged) for 2010/11:

Lessee accounting: when a finance lease is reclassified as an operating lease, charges to the revenue account (e.g. repayment of the liability) previously made may not match those that would have fallen due under an operating lease. Please provide the following information where you will have leases that fall into this category:

Estimated number of leases affected:
 Estimated Balance Sheet value of leases at 31 March 2010:
 Estimated cumulative charges under UK GAAP (interest plus liability charged) to 31 March 2010:
 Estimated cumulative charges under IFRS (lease rentals) to 31 March 2010:
 Charge to Revenue Account on a UK GAAP (interest plus liability charged) basis for 2010/11:
 Charge to Revenue Account under IFRS (lease rentals) for 2010/11:

Lessor accounting: Reclassification of leases in lessor accounts will result in income being reclassified from revenue income to capital receipts or vice versa. Potential issue for lease premiums received. Please provide the following information where you will have leases that fall into this category:

Estimated number of existing operating leases affected:
 Estimated number of existing finance leases affected:
 Estimated cumulative revenue income reclassified as capital receipts to 31 March 2010:
 Estimated cumulative capital receipts reclassified as revenue income to 31 March 2010:
 Estimated 2010/11 revenue income reclassified as capital receipts:
 Estimated 2010/11 capital receipts reclassified as revenue income:

Employee Benefits:

Authorities will need to accrue for benefits such as holiday pay where these are material. Regulation or statutory guidance to neutralise the impact of providing for untaken annual leave is being considered. Information will be sought to assess whether the impact of accruing for other similar items would warrant regulation/statutory guidance being considered. Please provide the following information where the accrual for other material benefits would be material:

Type of Benefit: (Repeat for each material employee benefit)	Accrual as at 31 March 2009:
Net revenue budget:	
District Fund balance plus earmarked reserves:	

Wales:

Leases:

Lessee accounting: when a finance lease is reclassified as an operating lease, charges to the revenue account (i.e. interest and MRP) previously made may not match those that would have fallen due under an operating lease. Please provide the following information where you will have leases that fall into this category:

Estimated number of leases affected:
 Estimated Balance Sheet value of leases at 31 March 2010:
 Estimated cumulative charges under UK GAAP (interest plus MRP) to 31 March 2010:
 Estimated cumulative charges under IFRS (lease rentals) to 31 March 2010:
 Charge to Revenue Account on a UK GAAP (interest plus MRP) basis for 2010/11:
 Charge to Revenue Account under IFRS (lease rentals) for 2010/11:

Lessor accounting: Reclassification of leases in lessor accounts will result in income being reclassified from revenue income to capital receipts or vice versa. Potential issue for lease premiums received. Please provide the following information where you will have leases that fall into this category:

Estimated number of existing operating leases affected:
Estimated number of existing finance leases affected:
Estimated cumulative revenue income reclassified as capital receipts to 31 March 2010:
Estimated cumulative capital receipts reclassified as revenue income to 31 March 2010:
Estimated 2010/11 revenue income reclassified as capital receipts:
Estimated 2010/11 capital receipts reclassified as revenue income:

Scotland:

Established practice is that the Scottish Government will request information from local authorities after consultation with LASAAC. Where information is required, local authorities will be contacted directly by the Scottish Government or LASAAC as appropriate.

Capital Grants/Contributions – Accounting Options

CIPFA/LASAAC is seeking views on two options for accounting for government and non-government capital grants/contributions. The options discussed relate to the question of whether capital grants/contributions should be deferred and recognised over the useful life of the relevant asset to match depreciation, or recognised immediately as income once any grant conditions have been met. Revenue grants/contributions will continue to be recognised immediately as income once any grant/contribution conditions have been met.

Under UK GAAP, *SSAP 4 Accounting for Government Grants* entities defer government capital grants/contributions and recognise the deferred income over the useful life of the relevant asset to match depreciation. Under the SORP this accounting treatment is extended to include non-government grants and contributions.

Under IFRS, *IAS 20 Accounting for Government Grants and Disclosure of Government Assistance* the scope is much narrower and only applies to government grants, with the term 'government' being defined as '*government, government agencies and similar bodies whether local, national or international*'. The accounting treatment of government capital grants/contributions under IAS 20 is the same as under the SORP, with government capital grants/contributions being deferred and recognised over the life of the relevant assets to match depreciation (it is anticipated that there will be an interpretation of IAS 20 whereby the option of deducting the grant from the carrying amount of the asset will not be permitted).

In its project summary '*Amendments to IAS 20 Accounting for Government Grants and Disclosure of Government Assistance*' the IASB acknowledges IAS 20's approach to income deferral as one of the theoretical deficiencies of the Standard, as it does the option to net the grant from the fair value of the funded asset. IASB highlight the option to defer income as being inconsistent with its *Framework for the Preparation and Presentation of Financial Statement* (the Framework), as this deferred income does not represent a liability to the entity. The Project Summary also notes that this treatment is inconsistent with that required by *IPSAS 23 Revenue from non-exchange transactions*, which it states is compatible with its Framework. However, to date the IASB has not amended IAS 20.

The IASB has not issued a Standard specifically relating to non-government grants/contributions and *IAS 18 Revenue* does not appear to apply to most grants/contributions, given the definition of 'revenue' within the Standard and within the *IASB Framework for the Preparation and Presentation of Financial Statements*.

Within the hierarchy of Standards applicable to the IFRS-Based Code of Practice on Local Authority Accounting, *IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)* provides guidance on non-exchange transactions which are defined as '*transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange*'. In this context non-exchange transactions therefore encompass both government and non-government grants/contributions.

Under IPSAS 23, revenue (including capital grants/contributions) is recognised immediately as income in the same period as the specific expense except to the extent that the grant/contribution has a condition¹ (as opposed to a restriction²).

In central government, the IFRS-based Financial Reporting Manual (i-FReM) currently follows IAS 20 for the accounting of government and non-government grants/contributions. However, HM Treasury acknowledge the issues associated with the current treatment of capital grants/contributions and are keen to see a consistent accounting treatment between central and local government. [insert here refer to FRAB decision from 11 June meeting].

It would be possible to follow either of the following two approaches in the IFRS-based Code of Practice on Local Authority Accounting.

Option 1 - IAS 20 for the accounting of government and non-government grants/contributions.

This option would in principle have no impact on the present accounting treatment of capital grants/contributions under the SORP but would be inconsistent with the IASB *Framework for the Preparation and Presentation of Financial Statements*, in particular the recognition of a deferred credit when the authority has no liability.

Option 2 - IAS 20 for the accounting of government and non-government grants/contributions, as adapted by IPSAS 23 for capital grants/contributions in relation to income recognition.

Under this option government and non-government capital grants/contributions would be recognised immediately as income in the Expenditure and Income Statement in the same period as the specific expense except to the extent that the grant/contribution has a condition (as opposed to a restriction).

None of the two options above would have an impact on funding/Council Tax; under regulations and statutory guidance government and non-government capital grants/contributions that have been charged to the Comprehensive Income and Expenditure statement are not proper income charges to the General Fund or Housing Revenue Account. Such amounts would be transferred to the Capital Adjustment Account and reported in the Movement in Reserves statement.

¹ Stipulations that specify that the future economic benefits embodied in the grant/contribution is required to be consumed by the local authority as specified or the grant/contributions must be returned to the transferor.

² Stipulations that limit or direct the purpose for which a grant/contribution may be used, but does not specify that the grant/contribution is required to be returned to the transferor.

Accounting for Borrowing Costs – Accounting Options

CIPFA/LASAAC is seeking views on three options for accounting for borrowing costs. The options relate to the question of whether borrowing costs should be capitalised, and if so in what circumstances.

Under UK GAAP, FRS 15 permits (but does not require) entities to capitalise borrowing costs incurred as part of the cost of preparing an asset for use where this necessarily occurs over a substantial period of time. Borrowing costs are not capitalised where an asset is purchased and made available for use immediately. This approach is currently adopted by the SORP.

The SORP position is continued under International Public Sector Accounting Standards. IPSAS 5 permits an option of capitalising borrowing costs, although this is currently under review. It would currently be possible to rely on IPSAS 5 as the basis for continuing the existing accounting treatment. However, this may be a short-term option as IPSASB has indicated that under its conceptual framework it is likely to move to a position of requiring borrowing costs to be expensed. This would result in greater alignment with National Accounts, and would also be consistent with the trend away from permitting optional treatments in accounting standards.

Until recently, the UK GAAP treatment was also the treatment followed under IFRS. However, the latest version of IAS 23 (which became effective on 1 January 2009) now requires borrowing costs to be capitalised for qualifying assets (i.e. those that take some time to prepare). This approach is consistent with a view that borrowing costs form part of the costs of an asset, and that borrowing costs would be included in the price paid where an entity acquires an asset from a developer that has taken the developer time to prepare. Requiring authorities to capitalise their own borrowing costs where an asset requires a substantial period of time to bring it into use would help to ensure greater consistency between the costs of those assets purchased from a developer and those assets prepared by the authority itself.

In central government departments, the IFRS-based Financial Reporting Manual (i-FReM) does not permit borrowing costs to be capitalised, but requires them to be immediately expensed. Two factors drive this approach, the centralised nature of borrowing in central government whereby individual departments do not incur borrowing costs (other than cost of capital charges), and alignment with National Accounts. National Accounts are prepared on a statistical basis, and require interest costs to be recognised as an expense in the year in which they are incurred.

It would be possible to follow any of these approaches in the IFRS-based Code of Practice on Local Authority Accounting.

Option 1

Continue to permit the option of capitalising borrowing costs where the asset is produced over a period of time, and the authority has an accounting policy of capitalising borrowing costs. Borrowing costs would be apportioned to the asset. It should be noted that an accounting policy of capitalising borrowing costs would apply to all qualifying assets of an authority; it would not be permissible to capitalise borrowing costs on selected assets only.

Option 2

Expensing borrowing costs as they are incurred would be in line with the i-FReM, National Accounts and the emerging IPSASB conceptual framework, and would improve the consistency of the Whole of Government Accounts. Under this option, the current option under the SORP that permits borrowing costs to be capitalised would be withdrawn, and authorities would be required to expense all borrowing costs.

Option 3

Capitalising borrowing cost directly attributable to qualifying assets would be consistent with IAS 23. The cost of purchasing an asset that is available for use immediately is likely to reflect any borrowing costs incurred by the supplier; capitalising borrowing costs incurred where an authority produces the asset itself would lead to costs being reported on a more consistent basis.

Under this option, all authorities would be required to identify qualifying assets (i.e. those that take a substantial period of time to prepare) and to apportion borrowing costs to the asset.

Disclosure Notes not included in the draft Code

Disclosure Note	Reason for not including Note in draft Code
<i>Property, Plant & Equipment (IAS 16):</i>	
<p>73 (e). A reconciliation of the carrying amount at the beginning and end of the period showing:</p> <p>(iii) acquisitions through business combinations.</p> <p>(viii) the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity.</p>	<p>Will only be relevant to local authority group accounts but not expected to be common because:</p> <p>(iii) acquisitions through business combinations are unlikely to take place;</p> <p>(viii) authorities are unlikely to hold assets outside the UK.</p> <p>In the event that these transactions occur they can be included under 'other changes' within the disclosure note.</p>
<p>74. The financial statements shall also disclose:</p> <p>(a) the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities.</p> <p>(d) if it is not disclosed separately in the Statement of Comprehensive Income, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit and loss.</p>	<p>Not expected to be relevant to local authorities because:</p> <p>(a) legislation does not allow authorities to pledge assets as security;</p> <p>(d) not considered to affect decisions made by readers of the accounts.</p>
<p>77. If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:</p> <p>(d) the extent to which the items' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;</p> <p>(e) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model;</p> <p>(f) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.</p>	<p>(e) is consistent with the FReM interpretation of IAS 16 which does not require the disclosure of historical cost carrying amounts; this disclosure is not considered to affect decisions made by readers of the accounts</p> <p>Not expected to be relevant to local authorities:</p> <p>(d) will be covered in valuation statement;</p> <p>(f) change in period will be reported as part of Movement in Reserves Statement or notes; restrictions on the distribution of the balance to shareholders do not apply to local authority single entity financial statements. It may be applicable to local authority group accounts, but not expected to be common.</p>

<p>79. Users of financial statements may also find the following information relevant to their needs:</p> <p>(a) the carrying amount of temporarily idle property, plant and equipment;</p> <p>(b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;</p> <p>(c) the carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with chapter 4 section 9; and</p> <p>(d) when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.</p>	<p>Disclosure recommended but not required by IFRS. Omitted in line with Back to Basics report objective of minimising size of financial statements.</p>
<p><i>Leases (IAS 17):</i></p>	
<p>Lessees – Finance Leases:</p> <p>31 (e). A general description of the lessee's material leasing arrangements including, but not limited to, the following:</p> <p>(i) the basis on which contingent rent payable is determined;</p> <p>(ii) the existence and terms of renewal or purchase options and escalation clauses; and</p> <p>(iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.</p>	<p>Expected to be covered by the accounting policies where material</p>
<p>Lessees – Operating Leases:</p> <p>35 (d). A general description of the lessee's material leasing arrangements including, but not limited to, the following:</p> <p>(i) the basis on which contingent rent payable is determined;</p> <p>(ii) the existence and terms of renewal or purchase options and escalation clauses; and</p> <p>(iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.</p>	<p>See above</p>
<p><i>Investment Property (IAS 40):</i></p>	
<p>75. An entity shall disclose:</p> <p>(a) Whether the authority applies the fair value model or the cost model.</p> <p>(c) When classification is difficult the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business.</p> <p>(d) The methods and significant assumptions applied in determining the fair value of investment property, including a statement</p>	<p>(a) fair value model mandatory which is consistent with the FReM, and will be covered by accounting policies;</p> <p>(f)(iv) not relevant as cost mode is not permitted and is consistent with the FReM.</p> <p>Not expected to be relevant to local authorities:</p> <p>(c) interpretation of definition of "investment property" as solely to generate</p>

<p>whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the authority shall disclose)</p> <p>(e) The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.</p> <p>(f) (iv) The amounts recognised in profit and loss for: the cumulative change in fair value recognised in profit or loss on a sale of investment property from a pool of assets in which the cost model is used into a pool in which the fair value model is used.</p>	<p>rental income or capital appreciation is expected to avoid difficulties in classification arising;</p> <p>(d) & (e) expected to be covered by the valuation statement;</p>
<p>76. A reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:</p> <p>(b) additions resulting from acquisitions through business combinations.</p> <p>(e) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity.</p>	<p>Will only be relevant to local authority group accounts, but not expected to be common because:</p> <p>(b) acquisitions through business combinations are unlikely to take place;</p> <p>(e) authorities are unlikely to hold investment property outside the UK.</p> <p>In the event that these transactions occur they can be included under 'other changes' within the disclosure note.</p>
<p>77. When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example to avoid double-counting of assets or liabilities that are recognised as separate assets and liabilities as described in paragraph 50, the entity shall disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognised lease obligations that have been added back, and any other significant adjustments.</p>	<p>Not expected to apply to local authorities because authorities will not have separated investment properties into their significant components.</p>
<p>78. In the exceptional cases referred to paragraph 53, when an entity measures investment property using the cost model in IAS 16, the reconciliation required by paragraph 76 shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:</p>	<p>Not expected to apply to local authorities as it is expected that investment property held by authorities will be capable of being measured at fair value.</p>

<p>(a) a description of the investment property; (b) an explanation of why fair value cannot be determined reliably; (c) if possible, the range of estimates within which fair value is highly likely to lie; and (d) on disposal of investment property not carried at fair value: (i) the fact that the authority has disposed of investment property not carried at fair value; (ii) the carrying amount of that investment property at the time of sale; and (iii) the amount of gain or loss recognised.</p>	
<i>Intangible Assets (IAS 38):</i>	
<p>118 (e). a reconciliation of the carrying amount at the beginning and end of the period showing: (vii) net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the authority.</p>	<p>Not expected to be relevant to local authorities as they are unlikely to hold intangible assets outside the UK.</p>
<p>122 (d). The existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities.</p>	<p>Not expected to be relevant to local authorities as legislation does not permit assets to be pledged for security.</p>
<p>126. An authority shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period.</p>	<p>Not expected to apply to local authorities because research and development as envisioned by the standard is not incurred by local authorities.</p>
<p>128. An entity is encouraged, but not required, to disclose the following information: (a) a description of any fully amortised intangible asset that is still in use; and (b) a brief description of significant intangible assets controlled by the authority but not recognised as assets because they did not meet the recognition criteria (see chapter 4 section 5) or because they were acquired or generated before the version of IAS 38 Intangible Assets issued in 1998 was effective.</p>	<p>Disclosure recommended but not required by IFRS. Omitted in line with Back to Basics report objective of minimising size of financial statements.</p>
<i>Impairment of Assets (IAS 36):</i>	
<p>129. An entity that reports segmental information in accordance with IFRS 8 shall disclose the following for each reportable segment: (a) the amount of impairment losses recognised in profit and loss and in other comprehensive income during the period. (b) the amount of reversals of impairment</p>	<p>Not considered appropriate for local authorities as assets are normally held on a corporate basis. Significant impairment will be separately disclosed; requiring separate disclosure by segment is not expected to affect decisions made by readers of the accounts and would increase the length of</p>

losses recognised in profit and loss, and in other comprehensive income during the period.	disclosures.
130 (d) for a cash-generating unit: (i) a description of the cash-generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, or a reportable segment as defined in IFRS 8); (ii) the amount of the impairment loss recognised or reversed by class of assets and, if the entity reports segment information in accordance with IFRS 8, by reportable segment; and (iii) if the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount (if any), a description of the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified.	Local authorities are not expected to have cash-generating units in the manner anticipated by the standard.
131. An entity shall disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no information is disclosed in accordance with paragraph 130: (a) the main classes of assets affected by impairment losses and the main classes of assets affected by reversals of impairment losses. (b) the main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.	Where material, this information is expected to be provided by other disclosures.
133. If, in accordance with paragraph 84, any portion of the goodwill acquired in a business combination during the period has not been allocated to a cash-generating unit (group of units) at the reporting date, the amount of the unallocated goodwill shall be disclosed together with the reasons why that amount remains unallocated.	Goodwill will only be relevant to local authority group accounts and is not common.
<i>Assets Held for Sale and Discontinued Operations (IFRS 5):</i>	
41. An entity shall disclose the following information in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold: (a) a description of the non-current asset (or disposal group); (b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner	Omitted in line with Back to Basics report objective of minimising size of financial statements; useful to investors in the private sector as provides indications of future profit, but not considered relevant to local authority users. Major disposals will be considered by members, and information will be available through the democratic process.

and timing of that disposal; (d) if applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance with IFRS 8.	
42. If either paragraph 26 or paragraph 29 applies, an entity shall disclose, in the period of the decision to change the plan to sell the non-current asset (or disposal group), a description of the facts and circumstances leading to the decision and the effect of the decision on the results of operations for the period and any prior periods presented.	As above
<i>Inventories (IAS 2):</i>	
36. The financial statements shall disclose: (a) the accounting policies adopted in measuring inventories, including the cost formula used. (h) the carrying amount of inventories pledged as security for liabilities.	(a) Expected to be covered by the accounting policies where material. (h) Legislation does not allow authorities to pledge assets as security;
<i>Work in Progress (Construction Contracts) (IAS 11):</i>	
42. An entity shall present: (a) the gross amount due from customers for contract work as an asset; and (b) the gross amount due to customers for contract work as a liability.	Where material, this information is expected to be provided by other disclosures.
<i>Financial Instruments (IFRS 7):</i>	
14. An entity shall disclose: (a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities; and (b) the terms and conditions relating to its pledge.	Under statute local authorities cannot pledge assets as collateral.
<i>Cash Flow Statement (IAS 7):</i>	
50. Additional information may be relevant to users in understanding the financial position and liquidity of the entity. Disclosure of this information, together with a commentary by management, is encouraged and may include: (a) The amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities; (b) The aggregate amounts of the cash flows from each of operating, investing and financing activities related to interests in	Disclosure recommended but not required by IFRS. Omitted in line with Back to Basics report objective of minimising size of financial statements.

<p>joint ventures reported using proportionate consolidation;</p> <p>(c) The aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity;</p> <p>(d) The amount of the cash flows arising from the operating, investing and financing activities of each reportable segment.</p>	
<p><i>Group Accounts (IAS 27, IAS 28, IAS 31):</i></p>	
<p>Subsidiaries (IAS 27):</p> <p>42. When separate financial statements are prepared for a parent that, in accordance with paragraph 10, elects not to prepare consolidated financial statements, those separate financial statements shall disclose:</p> <p>(a) the fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name and country of incorporation or residence of the entity whose consolidated financial statements that comply with International Financial Reporting Standards have been produced for public use; and the address where those consolidated financial statements are obtainable;</p> <p>(b) a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and</p> <p>(c) a description of the method used to account for the investments listed under (b).</p>	<p>Paragraph 10 of IAS 27 covers situations that are not relevant to local authorities.</p>
<p>43. When a parent (other than a parent covered by paragraph 42), venturer with an interest in a jointly controlled entity or an investor in an associate prepares separate financial statements, those separate financial statements shall disclose:</p> <p>(a) the fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law;</p> <p>(b) a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and</p> <p>(c) a description of the method used to account for the investments listed under (b);</p> <p>and shall identify the financial statements</p>	<p>The draft Code includes an interpretation of IAS 27; 'where an authority has investments in associates and/or interests in joint ventures (jointly controlled entities) but no interests in subsidiaries, group accounts that include these interests in associates and joint ventures (jointly controlled entities) shall still be prepared', and therefore in the context of the draft Code, an authority's single entity financial statements are deemed to be separate financial statements and as such the disclosure note is not relevant.</p>

<p>prepared in accordance with paragraph 9 of this Standard or IAS 28 and IAS 31 to which they relate</p>	
<p>Associates (IAS 28): 37. The following disclosures shall be made: (h) the fact that an associate is not accounted for using the equity method in accordance with paragraph 13 (b) and (c).</p>	<p>Paragraph 13 (b) and (c) of IAS 31 cover situations that are not relevant to local authorities.</p>