

Dear Colleague,

## **Draft IFRS-Based Code of Practice on Local Authority Accounting in the United Kingdom – your opportunity to comment**

CIPFA/LASAAC has launched the consultation on the draft of the first Code of Practice on Local Authority Accounting in the United Kingdom to be based on International Financial Reporting Standards (IFRS). As you will be aware, this new Code will apply to local authority budgets and accounts from 1 April 2010.

There have been concerns that the move to IFRS could potentially impact on Council Tax and housing rents. CIPFA has therefore had discussions with the Department for Communities and Local Government and the devolved administrations in Scotland, Wales and Northern Ireland to ensure any impacts can be minimised, if not avoided. Initial proposals for the necessary measures are set out in the consultation document, and based on discussions to date, we anticipate that these will be in place in time for authorities to set their 2010/11 budgets.

The introduction of IFRS will result in the format of the financial statements changing. Following the 'Back to Basics' consultation that CIPFA held in 2008, a working group of practitioners was set up to help develop the new formats. The key aims were to simplify the statements where possible, and to ensure chief financial officers can better explain the accounts to members and other readers. The results of the practitioner group's discussions are reflected in the proposed formats in the draft Code.

Whilst we have made every effort to minimise the changes involved in completing the transition to IFRS, there are still some areas where changes to systems or procedures may well be required. The areas which we would therefore recommend that you consider the changes required in your own authority as soon as possible are listed below, with a summary of the changes potentially involved provided in the attached appendix:

- Property, Plant and Equipment
- Leases
- Investment Property
- Intangible Assets
- Impairment
- Non-Current Assets Held for Sale and Discontinued Operations
- Employee Benefits
- Group Accounts.

There are also two areas where there may be changes in the relevant reporting standards, and CIPFA/LASAAC therefore has yet to form a view on the future accounting treatment. Your views would therefore be welcome if the proposed way forward may have a significant impact on your own authority:

- Government and Non-Government Grants
- Borrowing costs.

One of the important lessons to be learnt, both from the private sector's experience of implementing IFRS, and the experience of other parts of the public sector that are implementing IFRS in 2009/10, is that early planning and preparation are essential to ensure a smooth transition. I would therefore like to bring your attention to Local Authority Accounting Panel (LAAP) Bulletin (number 80) which can be downloaded from

[http://www.cipfa.org.uk/pt/pt\\_details\\_1.cfm?news\\_id=59848](http://www.cipfa.org.uk/pt/pt_details_1.cfm?news_id=59848)). This provides an outline project plan that authorities can use as the starting point for their own, more detailed, IFRS implementation plans. The bulletin sets out the key steps involved in the IFRS transition, together with indicative timings, which authorities can use to assess whether they are on target with implementation. The suggested dates in the bulletin have been agreed with the audit agencies to ensure that there is a consistent approach being taken by all key stakeholders.

The transition to IFRS is one of the most important changes to local government financial reporting for a number of years. The consultation (available at <http://www.cipfa.org.uk/pt/cipfalasaac/ifrs.cfm>) closes on 11 September. We would welcome comments on any aspect of the draft Code for 2010/11, so please take the time to contribute your views, and help us make this critical change a success.

Yours sincerely

Lynn Hine  
Chair CIPFA/LASAAC Local Authority Code Board

## APPENDIX

### PROPOSALS WHERE CHANGES TO SYSTEMS OR PROCEDURES MAY BE REQUIRED

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#### **Section 4.1 Property, plant and equipment**

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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 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, which may have implications for asset management systems.

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#### **Section 4.2 Leases and Lease Type Arrangements**

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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. Authorities will need to review and possibly reclassify leases.

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. Authorities will need to assess whether arrangements contain a lease.

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#### **Section 4.4 Investment Property**

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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 on provision of services rather than the Revaluation Reserve. Accounting arrangements (and possibly asset management systems) will need to be amended to reflect this change.

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#### **Section 4.5 Intangible Assets**

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Internally generated intangible assets are capitalised where the recognition criteria are met, which may result in the recognition of more internally generated intangible assets. Authorities will need to collect additional information to support capitalisation.

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#### **Section 4.7 Impairment of Assets**

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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. There may be implications for asset management systems.

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

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Assets classified as held for sale are measured at the lower of their carrying amount or fair value and are not subject to depreciation. Following reclassification as held for sale, the amount of any subsequent revaluation gains should not be in excess of previous impairment losses. There may be implications for asset management systems.

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**Section 6.2 Benefits Payable During Employment**

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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. The main impact is likely to be in relation to holiday pay. Authorities will need to accrue for benefits such as holiday pay where these are material. There may be implications for pay systems.

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**Chapter 9 Group Accounts**

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The definitions of associates and joint ventures are different and may cover a wider range of 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.

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