

2009 SORP EXPOSURE DRAFT

THE SUBSTANTIVE ADDITIONS AND AMENDMENTS THAT CIPFA/LASAAC PROPOSES TO MAKE TO THE 2008 SORP

Important Note: wholly new paragraphs are shown in plain text and amended paragraphs are shown in mark-up. Text which is not proposed to be changed has not been included.

EXPOSURE DRAFT TEXT RELATING TO SECTION 2 OF THE ITC

Appendix E: Accounting for PFI Transactions and Similar Contracts

- 1 The purpose of this Appendix is to set out the requirements for accounting for PFI schemes and similar contracts. Previous editions of the SORP required these to be accounted for in accordance with FRS 5 *Substance of Transactions*. SORP 2009 requires these contracts to be accounted for in a manner that is consistent with the adaptation of IFRIC 12 *Service Concession Arrangements* contained in the government's Financial Reporting Manual (FReM) as this will assist in the transition to IFRS for 2010/11. IFRIC 12 is the interpretation of IFRS that applies to operators of PFI contracts, and is expected to form part of UK GAAP in due course. The 2009 SORP is consistent with the accounting treatment required of other public sector bodies in the UK set out in the FReM and approved by the Financial Reporting Advisory Board.

TERMINOLOGY

- 2 The following terminology is used throughout this Appendix:

Property is the term used to refer to the assets used by the operator to deliver the PFI services (which may or may not be recognised on an authority's balance sheet); examples include roads, street lighting, schools, telecommunications networks and fixed assets used for administrative purposes in delivering services to the public.

Construction payments / element refers to the finance lease elements of the payment made; only applies where the service element and the construction element (liability and interest) can be separated rather than estimated.

Asset is reserved for assets recognised on the local authority balance sheet.

OVERVIEW OF BASIC PRINCIPLES

Identifying Arrangements To Which This Appendix Applies

- 3** PFI arrangements typically involve a private sector entity (the operator) constructing or upgrading property used in the provision of a public service, and operating and maintaining that property for a specified period of time. The operator is paid for its services over the period of the arrangement. The accounting treatment set out in this Appendix shall apply where:
- (a) the local authority controls or regulates what services the operator must provide with the property, to whom it must provide them, and at what price; and where
 - (b) the local authority controls - through ownership, beneficial entitlement or otherwise - any significant residual interest in the property at the end of the term of the arrangement.

Where the property is used for its entire life, and there is little or no residual interest, the arrangement would fall within the scope of this Appendix where the authority controls or regulates the services as described in the first condition.

- 4** Where these control tests are met, this Appendix applies to all property acquired, constructed or enhanced by the operator for the purpose of the PFI arrangement, including property to which the local authority gives the operator access. This Appendix also applies to property provided by the operator that previously appeared on the operator's balance sheet. Where the control tests are not met, the arrangement shall be accounted for in accordance with the general provisions of the SORP.

Recognising Assets And Liabilities

- 5** Property used in a PFI arrangement shall be recognised as an asset or assets of the local authority. A related liability shall also be recognised at the same time. The asset shall be recognised in accordance with FRS 15; this will be when the asset is made available for use unless the local authority bears an element of the construction risk. In accordance with FRS 15, separate assets shall be recognised in respect of land and buildings where appropriate. The related liability shall be calculated following the principles of a finance lease under SSAP 21.
- 6** Where the operator enhances property already recognised on the balance sheet of the local authority, the local authority shall recognise the fair value of the enhancement in the carrying value of the property. FRS 15 requires the different components of an asset to be accounted for separately if they have a different useful life, and this approach shall be adopted where appropriate. A new liability shall be recognised or the existing liability increased to reflect the authority's requirement to pay for the enhancement.

- 7 Where a PFI arrangement can be separated into a service element and a construction element, the service element shall be expensed as incurred, and the construction element accounted for as if it were a finance lease. In accordance with paragraph 5 of this Appendix, separate assets shall be recognised for land and buildings.
- 8 Where a PPP or PFI arrangement cannot be separated into a service element and a construction element, the property and related liability shall be measured at the fair value of the property in accordance with paragraph 3.113 of the SORP. Payments under the arrangement shall be allocated between (a) repayment of the liability, (b) an imputed finance charge (based on the interest rate implicit in the contract), and (c) operating costs to reflect the service element of the arrangement. Where it is not possible to determine the rate implicit in the contract, the authority's incremental borrowing rate shall be used.

SPECIFIC ISSUES

Existing Local Authority Assets Used in the PFI Arrangement

- 9 A PFI arrangement may make use of the existing assets of a local authority. A local authority shall recognise enhancements to those assets and any additional property provided by the operator.

Existing Local Authority Assets Not Used in the PFI Arrangement

- 10 A local authority may provide the operator with access to existing assets of the authority that are not to be used in the PFI arrangement in exchange for reduced or eliminated payments. This may involve a permanent transfer of the assets to the operator, or may allow the operator access for a specified period (which may or may not be the same as the period of the PFI arrangement). Where the arrangement involves a permanent transfer of an asset to the operator, the local authority shall account for the disposal of the asset. The authority shall also recognise on the balance sheet the consideration received for the asset transferred to the operator. Depending on the circumstances of the arrangement, this may be the reduction or elimination of an existing liability; a prepayment; or property provided by the operator. Any difference between the carrying value of the asset given up and the consideration received from the operator shall be recognised in the Income and Expenditure Account.
- 11 Where the arrangement does not involve a permanent transfer of the assets to the operator, a local authority shall account for the arrangement as a lease.
- 12 Where the asset provided by the authority is provided in the form of an operating lease, there is not a disposal of the asset, which remains on the authority's balance sheet. The authority's consideration for granting the operating lease is in the form of property provided by the operator. Such property shall be recognised on the authority's balance sheet along with a matching liability, representing the obligation of the authority to pay for the property. Over the period of the operating lease, the authority shall recognise

income from the operating lease in the Income and Expenditure Account along with a corresponding reduction in the liability to pay for the property.

- 13** Where the asset provided by the authority is provided in the form of a finance lease, the local authority shall account for the disposal of the asset. The authority shall also recognise on the balance sheet the consideration received from the operator. Depending on the circumstances of the arrangement, this may be the reduction or elimination of an existing liability; a prepayment; or property provided by the operator. Any difference between the carrying value of the asset given up and the consideration received from the operator shall be recognised in the Income and Expenditure Account.

Prepayments

- 14** PPP and PFI contracts may be structured to require payments to be made (either as part of a unitary payment or a lump sum contribution) before the related property is recognised as an asset on the balance sheet. Such payments shall be recognised as prepayments.

Depreciation, Impairment and Revaluation

- 15** Once recognised on the balance sheet, property under a PFI contract is depreciated, impaired and revalued in the same way as for any other fixed asset.

Income Earned

- 16** Any income earned by the local authority as part of a PFI arrangement and not reflected in the unitary charge (for example, where the authority is entitled to a share of any third party income earned by the operator) shall be accounted for in accordance with the provisions of the SORP for income recognition.

MRP (England and Wales)

- 17** Assets acquired under a PFI arrangement are subject to MRP in the same way as assets acquired using other forms of borrowing. Under regulations and statutory guidance, these charges can match the repayment of the liability.

18 Loans fund charges (Scotland)

Editorial Note:

A separate public consultation is being undertaken by LASAAC on whether Loans Fund accounting applies or not to the liability to pay for the PFI asset recognised on the balance sheet. A key issue is whether such PFI contract related liabilities are or are not borrowing within the meaning of paragraphs 2 (1) and 12 (1) of Schedule 3 of the Local Government (Scotland) Act 1975. The consultation closing date was 17 October 2008 and LASAAC will consider a report on the matter at its 10 November 2008 meeting. The outcome of the consultation and any conclusions reached by LASAAC will be considered by CIPFA/LASAAC in reaching its conclusions on the matter.

Guarantees

- 19 Any guarantees given as part of a PFI arrangement shall be accounted for in accordance with the requirements of the SORP.

Disclosure

- 20 The following information shall be disclosed in relation to PFI arrangements, in addition to the disclosures relating to assets and liabilities required elsewhere in the SORP:
- The value of assets held under PFI arrangements at each balance sheet date, and an analysis of the movement in those values.
 - The value of liabilities resulting from PFI arrangements at each balance sheet date, and an analysis of the movement in those values.
 - Details of the payments due to be made under PFI arrangements (separated into repayments of liability, interest and service charges):
 - within one year
 - within 2 - 5 years
 - within 6 - 10 years; and
 - in each additional 5 year period.

Capital Financing Requirement (England and Wales)

- 21 Where PFI schemes and similar arrangements come 'on-balance sheet' as a result of the FReM based approach, the liability that would be recognised would form part of the Capital Financing Requirement, and authorities will therefore need to ensure their authorised limits and operational boundaries are set accordingly.

PRIOR YEAR ADJUSTMENT

- 22 The new FReM based approach to accounting for PFI and similar arrangements introduced by the 2009 SORP shall usually require prior period adjustment and restatement of the 2008/09 corresponding amounts in accordance with the provisions of the SORP. The steps required to implement this are shown below.

Step 1 - Restate Opening Balance Sheet as at 1 April 2008

Recognition of Assets and Liabilities

- 23 Where a PFI scheme that was previously off balance sheet for the local authority meets the control tests in this Appendix, a local authority shall recognise an asset (or assets) and a related liability. The authority will need to establish the fair value (see SORP paragraph 3.113) of the asset at the point the asset was made available for use. The fair value of the asset shall be used in the initial measurement of both the asset and liability. The value of the asset shall then be revalued in accordance with the authority's

accounting policy and paragraphs 3.124 – 3.132 of the SORP. Depreciation on the assets acquired under the PFI arrangement will need to be charged from the commencement of the arrangement until 31 March 2008. This should be in accordance with an authority's depreciation policies. In England and Wales the General Fund shall be charged with MRP from the inception of the PFI arrangement until 31 March 2008. [*Editorial note:* the position in Scotland with regard to Loans Fund charges has not yet been determined see paragraph 18]. The value of the liability shall be adjusted for payments made up to 31 March 2008 (see paragraph 23 of this Appendix).

Payments

- 24** Payments made from the inception of the PFI arrangement until the 31 March 2008 will need to be allocated to three elements - repayment of the liability, interest and the service charge. The previous accounting treatment will need to be reversed.

Contributed Assets

- 25** As part of the PFI arrangement, the local authority may have transferred assets to the operator for use in the PFI arrangement, and accounted for these as a disposal. Where these assets meet the control tests in this Appendix, the previous disposal will need to be reversed. As with assets acquired under a PFI arrangement, depreciation in accordance with the authority's accounting policies will need to be charged. The previous disposal of the asset would not have changed the amount of MRP to be paid in England and Wales, so no adjustments to MRP will be required in respect of contributed assets. Authorities may also have recognised reversionary interest to reflect the fact that these assets would be returned at the end of the arrangement. Accounting for the reversionary interest will need to be reversed. The SORP permits authorities not to reinstate balances of Government Grant Deferred where these were previously written off to the Income and Expenditure Account on the previous disposal of the assets.

Dowry Payments

- 26** Authorities may have made lump sum contributions to the PFI arrangement, either at its inception or at a later date. These payments will have been recognised as a prepayment. These payments should now be recognised as reducing the liability, and the previous accounting treatment should be reversed. Where a dowry payment exceptionally related to a prepayment of services, no change to the previous accounting treatment would be required.

Step 2 - Restate Comparative Figures for 2008/09 (PFI schemes commencing prior to 1 April 2008)

- 27** Where assets used in PFI arrangements have been recognised as part of step 1, the comparative figures for 2008/09 will also need to be restated to reflect the accounting arrangements for these assets.

Recognition of Assets and Liabilities

- 28** Where assets and liabilities were recognised in Step 1, depreciation and MRP charges in England and Wales will need to be recognised in the restated 2008/09 accounts.

Payments

- 29** Payments made during 2008/09 will need to be allocated to three elements - repayment of the liability, interest and the service charge. The previous accounting treatment will need to be reversed.

Contributed Assets

- 30** Where contributed assets were reinstated in Step 1, depreciation will need to be recognised in respect of those assets. The previous accounting treatment will need to be reversed.

Dowry Payments

- 31** Where a dowry payment previously recognised as a prepayment is now recognised as reducing the long term liability, the previous accounting entries will need to be reversed. Where a dowry payment exceptionally related to a prepayment of services, no change to the previous accounting treatment would be required.

Step 3 - Restate Comparative Figures for 2008/09 (PFI schemes taken out during 2008/09)

- 32** Where PFI schemes that were taken out during 2008/09 are required to be restated, a similar approach to Steps 1 and 2 will be required. The opening Balance Sheet (1 April 2008) will not require amendment, but the 2008/09 performance statements and the balance sheet as at 31 March 2009 shall be restated. Separate entries will be required for the service revenue accounts and corporate accounts (e.g. interest payable) when adjusting the 2008/09 performance statements.

Recognition of Assets and Liabilities

- 33** Entries will be required to recognise the asset and liability, and to recognise any depreciation and in England and Wales MRP charges for the year. Whether depreciation and MRP charges are required will depend on when the assets were acquired and the accounting policies of the authority.

Payments

- 34** Payments made during 2008/09 will need to be allocated to three elements - repayment of the liability, interest and the service charge. The previous accounting treatment will need to be reversed.

Contributed Assets

- 35** Where assets were contributed in 2008/09, the contribution will need to be reversed, along with any entries relating to the recognition of the expense and the unwinding of the reversionary interest.

Dowry Payments

- 36** Where a dowry payment previously recognised as a prepayment is now recognised as reducing the long term liability, the previous accounting entries will need to be reversed. Where a dowry payment exceptionally related to a prepayment of services, no changes to the previous accounting treatment would be required.

EXPOSURE DRAFT TEXT RELATING TO SECTION 3 OF THE ITC

ACCOUNTING FOR NNDR AND COUNCIL TAX IN THE CORE FINANCIAL STATEMENTS IN ENGLAND, SCOTLAND AND WALES

COUNCIL TAX INCOME (ENGLAND)

The Collection Fund

- 3.24a** Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect council tax and national non-domestic rates (NNDR). The funds key features relevant to accounting for council tax in the core financial statements are:
- (a) In its capacity as a billing authority an authority acts as an agent: it collects and distributes council tax income on behalf of the major preceptors and itself.
 - (b) While the council tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the General Fund of the billing authority or paid out of the Collection Fund to major preceptors (and in turn credited to their General Funds). The amount credited to the General Fund under statute is an authority's precept or demand for the year plus the authority's share of the surplus on the Collection Fund for the previous year or less its share of the deficit on the Collection Fund for the previous year; and this amount may be more or less than the accrued income for the year in accordance with GAAP, although in practice the difference would usually be small.

Accounting for Council Tax in the Core Financial Statements

- 3.24b** Up to 2008/09 the SORP required the council tax income included in the Income and Expenditure Account to be the amount that under regulation was required to be transferred from the Collection Fund to the General Fund of the billing authority, or, in the case of major preceptors, the amount that under regulation was paid from the Collection Fund to the major preceptor. From the year commencing 1 April 2009, for both billing authorities and major preceptors, the council tax income included in the Income and Expenditure Account for the year shall be the accrued income for the year calculated in accordance with the provisions of paragraph 3.24e, which reflects the general provisions of the SORP (and GAAP) for accruing income.

3.24c For both the billing authority and major preceptors, the difference between the income included in the Income and Expenditure Account and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund Balance.

3.24d The Collection Fund regulations effectively specify the 'share' of the accrued council tax income for the year attributable to the billing authority and major preceptors (albeit that it is included in the General Fund partly in the following year). The shares of the accrued income under regulation are very slightly different from the completely accurate amounts that would result from keeping separate 'sales ledgers' for the billing authority and each major preceptor. The very slight difference arises because the Collection Fund surplus or deficit (which is normally only a small fraction of the accrued council tax income for the year) is required by regulation to be shared in proportion to the following year's precepts and demands rather than being based on the precise historically accurate share of council tax billings. The effect of the regulations is that the billing authority's and each major preceptors' percentage share of the accrued council tax income for the year can be calculated by formula.

3.24e The billing authority's and each major preceptor's share of the accrued council tax income for the year (as recorded in the Collection Fund) shall be calculated in accordance with the following formula:

$$((A+B+C) / (D+E+F)) * G$$

Where:

A = authority's share of the Collection Fund surplus or deficit for the previous year net of the community charge adjustment (enter a surplus as a positive amount and a deficit as a negative amount)

B = authority's precept or demand for the year (enter as a positive amount)

C = authority's share of the Collection Fund surplus or deficit for the year net of the community charge adjustment (enter a surplus as a positive amount and a deficit as a negative amount)

D = Collection Fund surplus or deficit for the previous year net of the community charge adjustment (enter a surplus as a positive amount and a deficit as a negative amount)

E = the total of all major preceptors precepts for the year plus the billing authority's demand for the year (enter as a positive amount)

F = the Collection Fund surplus or deficit for the year net of the community charge adjustment (enter a surplus as a positive amount and a deficit as a negative amount).

G = Council tax income for the year as recorded in the Collection Fund.

3.24f Where at the time it is ready to finalise its statement of accounts a major preceptor has been unable to obtain finalised Collection Fund information from the billing authority, it shall use the billing authority's latest estimate of the Collection Fund outturn and its

share of the surplus or deficit on the Collection Fund.

3.24g Since the billing authority is acting as an agent, the council taxpayer debtor and creditor balances and associated provision for bad debts are not solely balance sheet items of the billing authority: rather they shall be proportionately attributed to the billing authority and the major preceptors. The billing authority's and each major preceptor's percentage share of the movement in the council tax balance sheet items (ie council taxpayers' debtor and creditor balances and the impairment allowance for doubtful debts) shall be calculated in accordance with the formula:

$(A+B+C) / (D+E+F)$.

3.24h Since the collection of council tax is in substance an agency arrangement, the cash collected by the billing authority from council tax debtors belongs proportionately to the billing authority and the major preceptors. There will therefore be a debtor/creditor position between the billing authority and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of cash collected from council taxpayers: rather it will be the amount the Collection Fund regulations require to be paid to major preceptors (ie precept for the year plus share of the Collection Fund surplus for the previous year, or less share of the Collection Fund deficit for the previous year).

3.24i The percentage share of the net cash collected from debtors in the year attributable to the billing authority and each major preceptor shall be calculated by using the formula in paragraph 3.24g. The movement in the debtor/creditor position between a major preceptor and the billing authority can then be calculated by comparing its attributable share of net cash with the net cash actually paid to it in the year in the form of its precept and prior year Collection Fund surplus or deficit. If the net cash paid to a major preceptor in the year is more than its proportionate share of net cash collected from council tax debtors/creditors in the year the billing authority shall recognise a debit adjustment for the amount overpaid to the major preceptor in the year and the major preceptor shall recognise a credit adjustment for the same amount to the debtor/creditor position brought forward from the previous year. If the cash paid to a major preceptor is less than its proportionate share of net cash collected in the year from council tax debtors/creditors the billing authority shall recognise a credit adjustment for the amount underpaid to the major preceptor and the major preceptor shall recognise a debit adjustment for the same amount to the debtor/creditor position brought forward from the previous year.

3.24j The Cash Flow Statement of the billing authority shall include in 'Revenue activities' cash flows only its own share of council tax net cash collected from council tax debtors in the year; and the amount included for precepts paid shall exclude amounts paid to major preceptors. The difference between the major preceptors' share of the net cash collected from council tax debtors and net cash paid to major preceptors as precepts and settlement of the previous year's surplus or deficit on the Collection Fund shall be included as a net increase/decrease in other liquid resources.

3.24k The Cash Flow Statement of a major preceptor shall include the net council tax cash received from the Collection Fund in the year (ie precept for the year plus share of Collection Fund surplus for the previous year, or less the amount paid to the Collection Fund in respect of share of the previous year's Collection Fund deficit). The difference between the net cash received from the Collection Fund and the major preceptor's share of cash collected from council tax debtors by the billing authority in the year shall be included as a net increase/decrease in other liquid resources.

Accounting for Residual Community Charge in the billing authority's Core Financial Statements

3.24l Any residual community charge income 'adjustments' (losses or gains) are also required to be included in the Collection Fund. Such adjustments, which will now often be nil or negligible, are borne wholly by the billing authority and are excluded from the Collection Fund surplus or deficit in calculating the amount that is shared between the billing authority and major preceptors. The community charge adjustment for the year shall be taken to the Income and Expenditure Account; and the difference between this and the amount required by regulation to be taken to the General Fund (ie the previous year's community charge adjustment) shall be taken to the Collection Fund Adjustment Account.

Prior Year Adjustment

3.24m The change of accounting policy for council tax and residual community charge will require prior year adjustment to the 2008/09 corresponding amounts. The prior year adjustments required by billing authorities will vary since the accounting policies followed by them varied somewhat with differences centred on how the surplus or deficit on the 2008/09 Collection Fund has been treated by the billing authority in its 2008/09 statement of accounts. The prior year adjustments required will be as follows but the accounting entries required to implement them will depend on how these items, especially the balance on the Collection Fund (ie the surplus or deficit for 2008/09), was accounted for in the 2008/09 Statement of Accounts.

Income and Expenditure Account and Statement of Movement on the General Fund Balance

3.22n The council tax income (and community charge adjustment, if any) credited to the Income and Expenditure Account shall be the accrued amount for 2008/09 in accordance with the 2009 SORP. In addition, the Statement of Movement on the General Fund Balance shall be re-stated accordingly, with the change in the Income and Expenditure Account surplus/or deficit for the year being exactly matched by the inclusion of an additional reconciling item in respect of the transfer to or from the Collection Fund Adjustment Account.

Balance Sheet

3. 24o In the billing authority's re-stated balance sheet for 2008/09, the part of the council tax debtor and creditor balances and impairment allowance for doubtful debts attributable to major preceptors shall be derecognised. The amount attributable to major preceptors shall be determined in accordance with the formula in paragraph 3.24g. Major

preceptors shall recognise their share of council tax debtor and creditor balances and impairment allowance for doubtful debts in their restated 2008/09 Balance Sheets. The billing authority shall recognise a creditor in its re-stated 2008/09 balance sheet for cash collected from taxpayers on behalf of major preceptors but not yet paid to them, or a debtor for cash paid to major preceptors in advance of it receiving the cash from council tax debtors/creditors. A major preceptors shall recognise a debtor in its re-stated balance sheet for its attributable share of net cash collected from council tax debtors/creditors by the billing authority but not paid over to it at the balance sheet date; or a creditor for cash received from the billing authority in advance of the billing authority receiving the cash from council tax debtors/creditors.

Cash Flow Statement

3.24p Billing authorities shall restate their 2008/09 Cash Flow Statement to exclude from 'Revenue activities':

- major preceptors precept payments and cash paid to or received from major preceptors in respect of the previous year's Collection Fund surplus or deficit
- the major preceptors' share of the net cash received from council tax debtors in the year

such that the Cash Flow statement includes only the billing authority's own share of council tax debtor or creditors net cash received in the year. The difference between the major preceptors' share of the net cash collected from council tax debtors or creditors and net cash paid to major preceptors as precepts and settlement of the previous year's surplus or deficit on the Collection Fund shall be included as a net increase/decrease in liquid resources. Major preceptors that prepared their 2008/09 Cash Flow Statements using the direct method shall restate their 2008/09 Cash Flow Statement to remove as a cash inflow under revenue activities 'Precepts received' and include the amount under 'Council tax receipts'. All major preceptors shall include the difference between the net cash received from the Collection Fund and their share of cash collected from council tax debtors by the billing authority in the year as a net increase/decrease in other liquid resources.

COUNCIL TAX INCOME (SCOTLAND)

3.24q Scotland does not have precepting authorities. The whole council tax income accruing in the year shall be included as council tax income of the authority collecting the tax. Council tax debtors and creditors and the impairment allowance for doubtful debts shall be wholly included in the authority's balance sheet. In the Cash Flow Statement the cash inflow for council tax received shall be included in revenue activities and shall be the net cash collected from council tax debtors or creditors. It is understood that the SORP requirements accord with the accounting policies usually followed by authorities in Scotland. As there would not usually be a change of accounting policy, prior year

adjustment would not usually be required.

COUNCIL TAX INCOME (WALES)

- 3.24r** Unlike in England there is not a Collection Fund in Wales and major preceptors do not share with the billing authority the risk that actual council tax collection outturn will be greater or lesser than that assumed when setting the billing authority's council tax demand and major preceptors' precepts. Under regulation major preceptors in Wales (in effect Police Authorities), like community councils receive the exact amount of their precept. In contrast, the billing authority's council tax income for the year will not be the exact amount of its council tax demand since it will be affected by the council tax income accruing in the year being more or less than that assumed when setting the billing authority's council tax demand and preceptors' precepts.
- 3.24s** Since the billing authority bears the whole risk of council tax income being higher or lower than estimated, it is acting as a principal rather than an agent and all council tax income is the income of the billing authority and shall be included as council tax income in the billing authority's Income and Expenditure Account. The major preceptors' precepts shall be included as expenditure in the billing authority's Income and Expenditure Account. The council tax income for the year included in a major preceptor's Income and Expenditure Account shall be its council tax precept for the year. Since in Wales the billing authority acts as principal in collecting council tax, council tax debtors or creditors and impairment allowance for doubtful debts shall be included wholly in its balance sheet.
- 3.24t** In a billing authority's Cash Flow Statement the amount included in 'revenue activities' in respect of council tax receipts shall be the net cash collected from council tax debtors or creditors including amounts arising in respect of the major preceptors' precepts; and the amount included in respect of 'Revenue activities' for precepts paid shall include the amounts paid to major preceptors.
- 3.24u** Billing authorities shall establish whether implementing the 2009 SORP requirements will require prior year adjustments and restatement of the 2008/09 corresponding amounts. Practice varies but it is understood the practices that have usually been followed in Wales are:
- (a) In the Income and Expenditure Account, to net off major preceptors' precepts from the council tax income and not to show major preceptors' precepts as expenditure.
 - (b) In Cash Flow Statements prepared using the direct method, to show the council tax receipts cash inflow net of major preceptors' precepts and not to include major preceptors' precepts in the precepts paid cash outflow.
 - (c) In the Balance Sheet to wholly recognise council tax debtors or creditors and the impairment allowance for doubtful debts.

Where the above is the case, prior year adjustment would be required in respect of (a) and

(b) but authorities will need to establish their own position.

NATIONAL NON-DOMESTIC RATES (NNDR) IN ENGLAND, SCOTLAND AND WALES

3.65e Billing authorities in England, Scotland and Wales collect NNDR under what is in substance an agency arrangement with each jurisdiction's Government. It therefore follows that:

- (a) NNDR income is not the income of the billing authority and shall not be included in its Income and Expenditure Account. The cost of collection allowance received by billing authorities in England and Wales is the billing authority's income and shall be included in the Income and Expenditure Account (in Scotland an amount for 'collection of non-domestic rates' is included in Revenue Support Grant).
- (b) NNDR debtor and creditor balances with taxpayers and the impairment allowance for doubtful debts are not assets and liabilities of the billing authority and shall not be recognised in the billing authority's balance sheet.
- (c) Cash collected from NNDR taxpayers by billing authorities (net of the cost of collection allowance in England and Wales) belongs to the Government and the amount not yet paid to the Government at the balance sheet date shall be included in the balance sheet as a creditor; similarly, if cash paid to the Government exceeds the cash collected from NNDR taxpayers (net of the billing authority's cost of collection allowance in England and Wales), the excess shall be included in the balance sheet as a debtor.
- (d) Cash collected from NNDR taxpayers by a billing authority is collected for the Government and is therefore not a revenue activity of the billing authority and shall not be included in the billing authority's Cash Flow Statement as a cash inflow except for the cash retained in respect of the cost of collection allowance. Similarly, the billing authority's payment into the NNDR national pool is not a revenue activity and shall not be included in the billing authority's Cash Flow Statement as a cash outflow. The difference between the cash collected from NNDR taxpayers and the amount paid into the NNDR national pool shall be included in management of liquid resources as a net increase/decrease in other liquid resources.

Prior Year Adjustment

3.65f Billing authorities will normally need to make prior year adjustment to their 2008/09 balance sheets and cash flow statements since the 2009 SORP requirements are different from the accounting policies usually followed by billing authorities. Billing authorities' will usually have included in their balance sheet:

- NNDR taxpayers' debtor and creditor balances and an impairment allowance for doubtful debts; and
- a creditor or debtor with the Government for the under or over payment into the national pool for the year (based on the actual or estimated 'NNDR 3' return in England and Wales or 'Notified Amount of NDRI' return in Scotland for 2008/09) representing the difference between NNDR income accruing for the year (net of the billing authority's cost of collection allowance in England and Wales) and the NNDR cash paid to the Government in the year excluding the amount paid/received to settle the previous year's under or overpayment into the national pool.

3.65g Under the 2009 SORP (and GAAP) the NNDR taxpayers' debtor and creditor balances and impairment allowance for doubtful debts are not balance sheet items of the billing authority since it acts as an agent of the Government when collecting NNDR. The balance due to or from the Government based on the actual or estimated NNDR 3/Notified amount of NDRI return, is not an amount that under the 2009 SORP should be recognised in the balance sheet of the billing authority. It does not represent an actual debtor/creditor position between a billing authority and the Government: it is simply part of the mechanism for determining the instalments by which the billing authority pays over the NNDR taxpayers' cash to its principal the Government. Under the 2009 SORP the correct debtor/creditor position that needs to be recognised in the billing authority's balance sheet is the amount of cash collected from NNDR taxpayers (less the amount retained in respect of the billing authority's cost of collection allowance in England and Wales) that has not yet been paid to the Government or has been overpaid to the Government on the balance sheet date.

3.65h No prior year adjustment to the Income and Expenditure Account or Statement of Movement on the General Fund Balance would usually be required in respect of NNDR income since the accounting policies followed by billing authorities will usually be in accordance with those required by the 2009 SORP.

3.65i A billing authority shall restate its 2008/09 balance sheet by derecognising:

- NNDR taxpayers' debtor and creditor balances
- impairment allowance for doubtful NNDR debts
- the NNDR 3/Notified amount of NDRI based creditor/debtor with the Government for the amount under or overpaid into the national pool for 2008/09.

It shall recognise a creditor with the Government for cash collected from NNDR taxpayers (less cash retained in respect of the billing authority's cost of collection allowance in England and Wales) not yet paid to the Government at the balance sheet date, or, a debtor if it has 'overpaid' the Government. This amount will equal the net amount of the three balance sheet items derecognised above and therefore provides the double entry for them.

3.65j Since they are not revenue activities of billing authorities', which act as agents, the

restated 2008/09 Cash Flow Statement shall exclude from 'Revenue activities':

- cash received from non-domestic rate receipts (except for the amount retained in respect of the cost of collection allowance in England and Wales, which shall be included with revenue activities as other operating cash receipts, if the direct method of preparation is used); and
- national non-domestic rate payments to national pool.

The difference between these two above amounts shall be included in management of liquid resources as a net increase/decrease in other liquid resources.

EXPOSURE DRAFT TEXT RELATING TO SECTION 4 OF THE ITC

ACCOUNTING FOR RATES IN THE CORE FINANCIAL STATEMENTS IN NORTHERN IRELAND

RATES INCOME IN NORTHERN IRELAND

- 3.96a** In Northern Ireland rates are levied on both domestic and non-domestic properties at a rate in the pound set by the authority as the proceeds of a penny rate product but are collected by the Land and Property Services Agency (LPSA), an Executive Agency of the Department of Finance and Personnel. The rate income for the year shall be the amount receivable for the year from the LPSA ie the income shall be based on the 'actual penny rate product' for the year. Instalments of rates income are received from the LPSA during the year based on the 'estimated penny rate product' made when the authority's budget was set. A debtor or creditor for the 'actual penny rate product' adjustment for the year that will be made by the LPSA in the following year shall be included as a debtor or creditor. If the formal notification from the LPSA of the amount of the 'actual penny rate product' adjustment for the year is not available from the LPSA at the time the accounts are finalised an estimated amount shall be accrued.

EXPOSURE DRAFT TEXT RELATING TO AMENDED 2008 SORP TEXT THAT MAINLY RELATES TO THE CHANGES PROPOSED IN SECTIONS 3 OF THE ITC (COUNCIL TAX AND NDR) BUT IN SOME CASES ALSO RELATES TO SECTION 4 OF THE ITC (RATES IN NORTHERN IRELAND)

NOTE: Extract from Income and Expenditure Account

Information to be included in the Income and Expenditure Account

Gross expenditure (including depreciation and impairment of fixed assets, the current and past service costs of pensions and gains and losses on settlements and curtailment of pensions, provisions and exceptional items), income and net expenditure on General Fund continuing operations

Gross expenditure, income and net expenditure of acquired operations

Gross expenditure, income and net expenditure of discontinued operations

Gross expenditure, income and net expenditure on the Housing Revenue Account

Exceptional items not included in costs of specific services

Sub-total: Net Cost of Services

Gain or loss on disposal of fixed assets

Precepts of local precepting authorities

Surplus or deficit of trading undertakings or other operations (where not allocated back to services as internal trading surpluses or deficits), including dividends from companies

Interest payable and similar charges (including gains and losses on the repurchase or early settlement of borrowing taken to revenue and amortisation of gains and losses on repurchase or early settlement of borrowing carried forward in accordance with the SORP)

Amounts payable into the Housing Capital Receipts Pool (England and Wales only)

Interest and investment income

Pensions interest cost and expected return on pensions assets

Extraordinary items

Sub-total: Net Operating Expenditure

Income from council tax and residual community charge (if any) ~~the Collection Fund~~
~~including transfers to/or the Collection Fund (eg in respect of previous year's~~
~~deficit/surplus)~~ or income from rates (Northern Ireland)

Government grants (not attributable to specific services)

Distribution from non-domestic rate pool

Total: Surplus or deficit for the year

Note: Extract from the Statement of Movement on the General Fund Balance

Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance for the year

- Depreciation and impairment of fixed assets (in England this should exclude

depreciation charged to HRA services]

- In England only the excess of depreciation charged to HRA services over the Major Repairs Allowance element of Housing Subsidy
- Government Grants Deferred amortisation matching depreciation and impairments
- Amounts treated as revenue expenditure in accordance with the SORP but which are classified as capital expenditure by statute (ie deferred charges in England and Wales)
- Net gain or loss on sale of fixed assets
- Amount by which finance costs calculated in accordance with the SORP are different from the amount of finance costs calculated in accordance with statutory requirements
- Amount by which pension costs calculated in accordance with the SORP (ie in accordance with FRS 17) are different from the contributions due under the pension scheme regulations
- (England only) Amount by which council tax income and residual community charge adjustment included in the Income and Expenditure Account is different from the amount taken to the General Fund in accordance with regulation.

Note: Extract from the Balance Sheet

Reserves

Capital Adjustment Account

Financial Instruments Adjustment Account

Collection Fund Adjustment Account (England only)

Unequal Pay Back Pay Account

Revaluation Reserve

Note: Extract from the Cash Flow Statement

Information to be included in the Cash Flow Statement

Revenue activities

Cash outflows

Cash paid to and on behalf of employees (if direct method used)

Other operating cash payments (if direct method used)

Housing benefit paid out (if direct method used)

~~National non-domestic rate payments to national pool (if direct method used)~~

Precepts paid (if direct method used)

Payments to the Capital Receipts Pool (in England and Wales only) (if direct method used)

Cash inflows (if direct method used)

Rents (after rebates) (if direct method used)

Council tax receipts (if direct method used) (in England billing authorities exclude major preceptors' share of receipts) (Major preceptors in England include the amount received from the billing authority in the form of precept payments and prior year Collection Fund surplus or deficit adjustments here)

Rates received from Land and Property Services (Northern Ireland) (if direct method used)

Precepts received (Wales only) (if direct method used) (Major preceptors in England should include the amount received from the billing authority under 'Council tax receipts' not under this heading)

National non-domestic rate receipts from national pool (if direct method used)

~~Non-domestic rate receipts (if direct method used)~~

Revenue Support Grant (if direct method used)

General Exchequer Grant (Northern Ireland) (if direct method used)

DSS grants for benefits (if direct method used)

Other government grants (if direct method used)

Cash received for goods and services (if direct method used)

Other operating cash receipts (if direct method used)

Net revenue activities cash flow (if indirect method used)

Dividends from joint ventures and associates

Cash inflows

Dividends received

Returns on investments and servicing of finance

Cash outflows

Interest paid

Interest element of finance lease rental payments

Cash inflows

Interest received

Capital activities

Cash outflows

Purchase of fixed assets

Purchase of long-term investments

Other capital cash payments

Cash inflows

Sale of fixed assets

Capital grants received

Other capital cash receipts

Acquisitions and disposals

Cash outflows

Investments in associates or joint ventures

Investments in subsidiary undertakings

Cash inflows

Sales of investments in subsidiary undertakings

Sales of investments in associates and joint ventures

Net cash inflow/outflow before financing

Management of liquid resources

Net increase/decrease in short-term deposits

Net increase/decrease in other liquid resources (billing authorities include NNDR receipts under or overpaid to the Government and in England council tax receipts under or overpaid to major preceptors) (In England major preceptors include council tax receipts under or over paid to them by the billing authority)

EXPOSURE DRAFT TEXT RELATING TO SECTION 5 OF THE ITC

REMOVAL OF LARGER PARISH COUNCILS AND COMMUNITY COUNCILS FROM THE APPLICATION OF THE SORP

- 1.7** In England and Wales, the SORP is part of the 'proper practices' requirements governing the preparation of an authority's Statement of Accounts referred to in section 21 of the Local Government Act 2003. All authorities to which section 21 applies that are required to prepare a Statement of Accounts by the Accounts and Audit Regulations under section 27 of the Audit Commission Act 1998 or section 39 of the Public Audit (Wales) Act 2004, except larger parishes and larger community councils, therefore have a statutory duty to comply with SORP requirements. The SORP no longer applies to larger parish and community councils. From 1 April 2009 the 'proper practices' requirements governing the preparation of these bodies' accounts are contained in *Governance and Accountability for Local Councils A Practitioners' Guide 2008 Edition (England)* and *Governance and*

- 1.8** In practice this definition includes principal councils, police authorities, fire and rescue authorities, the Greater London Authority and its functional bodies, ~~and the larger parish and community councils~~. More specialised bodies should check against the definitions to decide whether they are covered. It is expected that bodies covered by the Accounts and Audit Regulations requirements to prepare a Statement of Accounts but not by the definition of proper practices in section 21 of the Local Government Act 2003 will adopt the SORP as a source of proper practices, unless adoption is ruled out by legislation or a more specialised accounting code applies to them.

3.76

- (c) ~~for town, parish and community councils and other~~ minor non-principal authorities ~~such as internal drainage boards~~ preparing their accounts in accordance with the SORP, the local government pension scheme, unless contributions are set on the basis of the authority's specific circumstances.

EXPOSURE DRAFT TEXT RELATING TO SECTION 6 OF THE ITC

ACCOUNTING FOR REORGANISED LOCAL AUTHORITIES

LOCAL GOVERNMENT REORGANISATION

- 3.65a** Public sector bodies such as local authorities are deemed to be under common control. The combination of two or more local authorities into one new authority, or the transfer of functions (in full or in relation to a geographic area) from the responsibility of one authority to another, shall be accounted for using the principles that apply to group reorganisations. Assets and liabilities shall be transferred at their carrying amount as at the transfer date.
- 3.65b** Local government reorganisations take place at the start of a financial year. The reorganisation shall be achieved in the accounts by adjusting the opening balance sheet for the current year; transfers shall not be reflected in the Income and Expenditure Account, but shall be separately disclosed in the Statement of Total Recognised Gains and Losses. The notes to the accounts shall separately identify transfers of assets and liabilities (and any consequential changes to reserves).
- 3.65c** For new authorities, no corresponding amounts for the previous year will be required in the core financial statements. The notes to the accounts of the new authority shall

include an opening balance sheet (i.e. transferred assets and liabilities and opening reserve balances). This shall be clearly identified as the opening balance on the creation of the new authority, not the previous year's balance sheet.

- 3.65d** For continuing authorities, newly acquired functions (or functions in relation to a geographic area) shall be disclosed separately in the current year. Functions (or functions in relation to a geographic area) transferred to another authority shall be disclosed separately in the comparative year. Where the transfer requires reporting in the notes to the accounts, a separate line disclosing the transfer shall be included after the balance brought forward from the previous year. A new sub-total shall be inserted to disclose the restated opening balance sheet figures. These lines will be required in the notes showing the movements in assets, liabilities and reserves, including the Statement of Movement on the General Fund Balance and the Statement of Movement on the HRA Balance.

EXPOSURE DRAFT TEXT RELATING TO SECTION 7 OF THE ITC

OTHER MINOR CHANGES

- 3.103** In Wales the Major Repairs Allowance should be credited to an unapplied grant reserve account when it becomes receivable. When the reserve account is applied to new expenditure, the authority should consider whether it would be relevant to transfer the amount to Government Grants Deferred – otherwise it will be credited to the Capital Adjustment Account.