

# CHAPTER THREE

## Financial statements

### 3.4 PRESENTATION OF FINANCIAL STATEMENTS

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#### 3.4.2 Accounting Requirements

##### Segment reporting

- 3.4.2.85** The aim of segment reporting is to disclose information to enable users of a local authority's financial statements to evaluate the nature and financial effects of the activities in which it engages and the economic environments in which it operates.
- 3.4.2.86** An authority shall present information on reportable segments within the notes. Reportable segments shall be based on an authority's internal management reporting, for example departments, directorates or portfolios. Where more than one presentation is used for internal management reporting, the authority shall select the presentation most commonly used by the individual or group within the authority who has the most significant role in allocating resources and assessing the performance of services (for example cabinet, board or senior directors) when considering the allocation of financial resources. Segments may include support services. Normally for local authorities the judgments made by management on aggregation of segments arise as a result of their internal management reporting requirements and therefore disclosure of these judgments should not be onerous. This should be covered by including a description of the aggregation of the operating segments.
- 3.4.2.87** An authority need not report all segments. A segment shall be reported where its expenditure is 10% or more of the gross expenditure within the net expenditure of continuing operations; or its income is 10% or more of the gross income within the net expenditure of continuing operations. An authority may report segments that do not meet these criteria, either individually or combined with other segments.
- 3.4.2.88** Where the reportable segments identified by applying the criteria above do not include at least 75% of the gross expenditure within the net expenditure of continuing operations, additional segments or combinations of segments shall be treated as reportable segments until the reportable segments include at least 75% of the gross expenditure within the net expenditure of continuing operations.
- 3.4.2.89** For each reportable segment, an authority shall present an analysis of the income and expenditure for that segment (ie a subjective analysis), to include those items

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of income and expenditure that are reported as part of internal management reporting. Authorities should note that this analysis may include items that do not form part of the Comprehensive Income and Expenditure Statement (for example, that statutory provision for the repayment of debt) and exclude items that do form part of the Comprehensive Income and Expenditure Statement (for example, depreciation).

**3.4.2.90** Production of the segment reporting analysis is not intended to be onerous, and it is expected that in most cases authorities will be able to use existing information (for example, outturn reports) as the basis of the analysis.

**3.4.2.91** An authority shall present a reconciliation between the segment reporting analysis and the net cost of services in the Comprehensive Income and Expenditure Statement. The reconciliation will be dependent on the information included in the segment reporting analysis, but is expected to include items from the following areas:

- additional segments not included in the analysis
- amounts not included in the analysis but included in the Comprehensive Income and Expenditure Statement (for example, pension costs calculated in accordance with IAS 19)
- amounts included in the analysis but not included in the Comprehensive Income and Expenditure Statement (for example, pension contributions payable to the pension fund).

**3.4.2.92** An authority shall present a reconciliation between the segment reporting analysis and an analysis of total income and expenditure (ie a subjective analysis). The analysis of total income and expenditure shall be prepared on a Group Accounts basis where the authority prepares Group Accounts and shall include as a minimum the following lines:

- a) fees, charges and other service income
- b) surplus or deficit on associates and joint ventures
- c) interest and investment income
- d) income from council tax
- e) government grants and contributions
- f) employee expenses
- g) other service expenses
- h) support service recharges
- i) depreciation, amortisation and impairment
- j) interest payments
- k) precepts and levies
- l) payments to Housing Capital Receipts Pool

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m) gain or loss on disposal of non-current assets

n) surplus or deficit on the provision of services.

**3.4.2.93** The reconciliation will be dependent on the information included in the segment reporting analysis, but is expected to include items from the following areas:

- additional segments not included in the analysis
- amounts not included in the analysis but included in the Comprehensive Income and Expenditure Statement (for example, pension costs calculated in accordance with IAS 19)
- amounts included in the analysis but not included in the Comprehensive Income and Expenditure Statement (for example, pension contributions payable to the pension fund)
- allocation of support service recharges
- allocation of lines in the segment reporting analysis that include items from more than one line of the analysis of total income and expenditure
- amounts reported below the net cost of services in the Comprehensive Income and Expenditure Statement.

**3.4.2.94** The analysis of total income and expenditure also satisfies the requirement in IAS 1 to present information regarding the nature of expenses.

**3.4.2.95** If an authority reports segment assets and/or liabilities internally, it shall present an analysis of segment assets and/or liabilities in the financial statements. This analysis shall be on the same basis as that used to report internally (ie assets and/or liabilities that are not reported on a segment basis internally are not presented in the analysis in the financial statements). Where an analysis of segment assets and/or liabilities is presented in the financial statements, the authority shall also present a reconciliation of segment assets and/or liabilities to the total assets and/or liabilities included in the Balance Sheet.