

3.4 PRESENTATION OF FINANCIAL STATEMENTS

3.4.1 Introduction

- 3.4.1.1** Authorities shall prepare financial statements in accordance with IAS 1 *Presentation of Financial Statements*, IAS 7 *Statement of Cash Flows* and IFRS 8 *Operating Segments*, as adapted by this section of the Code.
- 3.4.1.2** IPSAS 1 *Presentation of Financial Statements* is based on IAS 1, and IPSAS 2 *Cash Flow Statements* is based on IAS 7. These standards provide additional guidance for public sector bodies.

Adaptation for the public sector context

- 3.4.1.3** IAS 1 specifies the information to be included in the financial statements, but does not prescribe a format. IAS 1 also specifies information that must be disclosed either on the face of the financial statements or in the notes to the financial statements. IAS 1 permits the terminology used to be adapted to suit the reporting entity.
- 3.4.1.4** The Code adapts the requirements of IAS 1 by specifying the format of the statements, disclosures and terminology that are appropriate for local authorities. In doing so, the Code adopts the interpretation of IAS 1 included in IPSAS 1 *Presentation of Financial Statements* that ‘function of expenses’ is equivalent to a service analysis. The Code adopts the principle of specifying the minimum level of detail for the financial statements, whilst permitting authorities to include more detail where it is appropriate to do so.
- 3.4.1.5** Where an authority prepares Group Accounts, the Code requires the authority to prepare authority-only accounts and Group Accounts incorporating all financial statements. Authorities may elect to present the Group Accounts alongside the authority-only accounts (ie a columnar approach) or as separate statements. An authority need not apply the same approach to each statement.

3.4.2 Accounting Requirements

Definitions

- 3.4.2.1** **Cash** comprises cash on hand and demand deposits.
- 3.4.2.2** **Cash equivalents** are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- 3.4.2.3** **Cash flows** are inflows and outflows of cash and cash equivalents.

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- 3.4.24 **Financing activities** are activities that result in changes in the size and composition of the principal, received from or repaid to external providers of finance.
- 3.4.25 **Impracticable:** applying a requirement is impracticable when the authority cannot apply it after making every reasonable effort to do so.
- 3.4.26 **Investing activities** are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
- 3.4.27 **Material.** Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.
- 3.4.28 **Notes** contain information in addition to that presented in the ~~Movement in Reserves Statement~~, Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and Cash Flow Statement. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.
- 3.4.29 **Other Comprehensive Income and Expenditure** comprises items of expense and income (including reclassification adjustments) that are not recognised in the Surplus or Deficit on the Provision of Services as required or permitted by the Code. Examples include changes in revaluation surplus; actuarial gains and losses on defined benefit plans; and gains and losses on remeasuring available-for-sale financial assets.
- 3.4.210 **Operating activities** are the activities of the authority that are not investing or financing activities.
- 3.4.211 **Reclassification adjustments** are amounts reclassified to Surplus or Deficit on the Provision of Services in the current period that were recognised in Other Comprehensive Income and Expenditure in the current or previous periods.
- 3.4.212 **Surplus or Deficit on the Provision of Services** is the total of income less expenses, excluding the components of Other Comprehensive Income and Expenditure.
- 3.4.213 **Total Comprehensive Income and Expenditure** comprises all components of Surplus or Deficit on the Provision of Services and of Other Comprehensive Income and Expenditure.

Cash and cash equivalents

- 3.4.214 Cash and cash equivalents shall include bank overdrafts that are an integral part of

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an authority's cash management.

3.4.215 Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. There are no strict criteria to follow relating to the nature and maturity of items treated as cash equivalents and as such an authority shall disclose the policy that it adopts in determining the composition of cash equivalents.

Financial statements

3.4.216 One of the objectives of financial statements is to provide information about the financial position, financial performance and cash flows of an authority that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of financial reporting in the public sector should be to provide information useful for decision making, and to demonstrate the accountability of the authority for the resources entrusted to it.

3.4.217 A complete set of financial statements comprises:

- ~~a) — Movement in Reserves Statement for the period~~
- ~~ba)~~ Comprehensive Income and Expenditure Statement for the period
- b) Movement in Reserves Statement for the period
- c) Balance Sheet as at the end of the period
- d) Cash Flow Statement for the period
- e) notes, comprising ~~a summary of~~ significant accounting policies and other explanatory information
- f) comparative information in respect of the preceding period as specified in paragraphs 3.4.2.2930 and 38A of IAS 1
- g) Balance Sheet as at the beginning of the preceding period (ie a third Balance Sheet) when an authority applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A to 40D of IAS 1, and
- h) statements, or other financial reports or disclosures which are required by statute to be included in the Statements of Account for the period, where relevant to the authority.

3.4.218 Authorities shall present with equal prominence all of the financial statements in a complete set of financial statements. The order of the first four statements above is recommended but not required. Authorities shall present the statements in the order that best enables their users to understand the financial statements.

3.4.219 Financial statements shall give a true and fair presentation of the financial position, financial performance and cash flows of an authority. A true and fair presentation requires the faithful representation of the effects of transactions, other events and

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conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Code. Compliance with the Code is presumed to result in financial statements that achieve a true and fair presentation.

3.4.2.20 A fair presentation also requires an authority:

- a) to select and apply accounting policies in accordance with section 3.3 of the Code and IAS 8. Paragraph 3.3.2.10 sets out the guidance that an authority's management considers in the absence of an IFRS that specifically applies to an item
- b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- c) to provide additional disclosures when compliance with the specific requirements in the Code is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the authority's financial position and financial performance.

3.4.2.21 An authority cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.

3.4.2.22 In the extremely rare circumstances in which management concludes that compliance with a requirement of the Code would be so misleading that it would prevent the financial statements achieving a true and fair view, an authority shall depart from that requirement. In doing so, an authority shall disclose that:

- a) management has concluded that the financial statements present a true and fair view of the authority's financial position, financial performance and cash flows
- b) it has complied with the Code, except that it has departed from a particular requirement to achieve a true and fair presentation
- c) the nature of the departure, including the treatment that the Code would require, the reason why that treatment would be so misleading in the circumstances that it would prevent the financial statements presenting a true and fair view, and the treatment adopted, and
- d) for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.

3.4.2.23 A local authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

3.4.2.24 A local authority shall prepare its financial statements, except for cash flow

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information, using the accrual basis of accounting, ie the authority recognises items as assets, liabilities, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Code.

3.4.2.25 A local authority shall present separately each material class of similar items. A local authority shall present separately items of a dissimilar nature or function unless they are immaterial.

3.4.2.26 When applying this section of the Code and other sections of the Code or IFRS an authority shall decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial statements, which include the notes. A local authority shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

3.4.2.27 Some sections of the Code or IFRSs specify information that is required to be included in the financial statements, which include the notes. A local authority need not provide a specific disclosure required by the Code if the information resulting from that disclosure is not material. This is the case even if the section of the Code or the IFRS contains a list of specific requirements or describes them as minimum requirements. An authority shall also consider whether to provide additional disclosures when compliance with the specific requirements in another section of the Code or IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the authority's financial position and financial performance.

3.4.2.2728 A local authority shall not offset assets and liabilities or income and expenses, unless required or permitted by the Code.

3.4.2.2829 A local authority shall present a complete set of financial statements (including comparative information) annually.

3.4.2.2930 Except when the Code permits or requires otherwise, a local authority shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. A local authority shall apply paragraphs 38A to 38D of IAS 1, as relevant to its circumstances and as appropriate to ensure a true and fair presentation of its financial statements.

3.4.2.3031 If a local authority changes the presentation or classification of items in its financial statements, the authority shall reclassify comparative amounts unless reclassification is impracticable. When comparative amounts are reclassified, the authority shall disclose (including as at the beginning of the preceding period):

- a) the nature of the reclassification
- b) the amount of each item or class of items that is reclassified, and
- c) the reason for the reclassification.

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~~3.4.2.34~~^{3.4.2.32} When it is impracticable to reclassify comparative amounts, an authority shall disclose:

- a) the reason for not reclassifying the amounts, and
- b) the nature of the adjustments that would have been made if the amounts had been reclassified.

~~3.4.2.32~~^{3.4.2.33} A local authority shall retain the presentation and classification of items in the financial statements from one period to the next unless:

- a) it is apparent, following a significant change in the nature of the authority's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in the Code, or
- b) the Code requires a change in presentation.

~~3.4.2.33~~^{3.4.2.34} A local authority shall present Group Accounts in addition to its single entity financial statements where required by chapter nine of the Code.

~~3.4.2.34~~ When presenting Group Accounts, an authority that recognises its interest in a jointly controlled entity using proportionate consolidation shall either:
combine its share of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items, line by line, in its financial statements,
or
include separate line items for its share of the assets, liabilities, income and expenses of the jointly controlled entity in its financial statements.

Structure and content of financial statements

~~3.4.2.35~~ A local authority shall clearly identify the financial statements and distinguish them from other information in the same published document.

~~3.4.2.36~~ An authority shall clearly identify each financial statement and the notes. In addition, a local authority shall display the following information prominently, and repeat it when necessary for the information presented to be understandable:

- a) the name of the authority
- b) the date of the end of the reporting period or the period covered by the set of financial statements or notes, and
- c) the level of rounding used in presenting amounts in the financial statements.

Movement in Reserves Statement

~~3.4.2.37~~ A local authority shall present a Movement in Reserves Statement. Where a local authority presents Group Accounts as well as authority-only accounts, the authority shall present either separate Movement in Reserves Statements for the authority-only accounts and the Group Accounts, or a single Movement in Reserves Statement showing both the authority-only and group reserves.

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~~3.4.238~~ An authority shall include a description of the purpose of the statement, either in the Explanatory Foreword or on the face of the statement (or both). The following description is recommended but not mandatory.

~~This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.~~

~~3.4.239~~ The Movement in Reserves Statement shall show, for each classification of reserves:

- ~~a) balance as at the end of the previous reporting period~~
- ~~b) surplus or deficit on the provision of services (accounting basis)~~
- ~~c) other comprehensive income and expenditure~~
- ~~d) total comprehensive income and expenditure~~
- ~~e) adjustments between Group Accounts and authority accounts (Group Accounts only)~~
- ~~f) net increase or decrease before transfers (Group Accounts only)~~
- ~~g) adjustments between accounting basis and funding basis under regulations~~
- ~~h) net increase or decrease before transfers to earmarked reserves (England and Wales) or other statutory reserves (Scotland)~~
- ~~i) transfers to or from earmarked reserves (England and Wales) or other statutory reserves (Scotland)~~
- ~~j) increase or decrease in year~~
- ~~k) balance as at the end of the current reporting period.~~

~~3.4.240~~ A local authority shall present, either in the Movement in Reserves Statement or in the notes, an analysis of the amounts included in items c), e), g) and i) of the statement. The analysis of item g) shall include the following items where relevant:

- ~~▪ depreciation, impairment and revaluation losses (charged to Surplus or Deficit on the Provision of Services) of non-current assets~~
- ~~▪ amortisation of intangible assets~~
- ~~▪ movements in the fair value of investment properties~~

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- ~~▪ capital grants, contributions and income in relation to donated assets credited to the Comprehensive Income and Expenditure Statement~~
- ~~▪ revenue expenditure funded from capital under statute~~
- ~~▪ costs of disposal funded from capital receipts~~
- ~~▪ net gain or loss on sale or derecognition of non-current assets and non-current assets held for sale~~
- ~~▪ amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements~~
- ~~▪ amount by which pension costs calculated in accordance with the Code (ie in accordance with IAS 19) are different from the contributions due under the pension scheme regulations~~
- ~~▪ amount by which council tax income, non-domestic rate income and residual community charge adjustment included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulation (England only)~~
- ~~▪ amounts debited or credited to the Business Rate Supplements Revenue Account~~
- ~~▪ statutory provision for repayment of debt~~
- ~~▪ capital expenditure charged to the General Fund Balance~~
- ~~▪ transfers in respect of GIL receipts~~
- ~~▪ transfer from Capital Receipts Reserve equal to the amount payable into the Housing Capital Receipts Pool (in England and Wales only)~~
- ~~▪ any voluntary provision for repayment of debt~~
- ~~▪ net transfer to or from earmarked reserves required by legislation~~
- ~~▪ transfers between other reserves required by legislation.~~

~~Note that the analysis for lines g) and i) shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics. The list of the items above that shall be included in the analysis for line g) may be aggregated to ensure that useful financial information is not obscured.~~

~~3.4.241 The classification of reserves presented in the Movement in Reserves Statement shall include the following items; authorities may choose to present additional items on the face of the statement:~~

- ~~a) General Fund Balance (in Scotland, includes earmarked portion of General Fund Balance)~~
- ~~b) Earmarked General Fund Reserves (not Scotland) (recommended but not~~

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- ~~mandatory)~~
- ~~c) — Housing Revenue Account Balance (in Scotland, includes earmarked portion of Housing Revenue Account Balance)~~
- ~~d) — Earmarked Housing Revenue Account Reserves (not Scotland) (recommended but not mandatory)~~
- ~~e) — Major Repairs Reserve (England and Wales)~~
- ~~f) — Revenue statutory funds (Scotland)~~
- ~~g) — Capital Receipts Reserve (England and Wales); Capital statutory funds (Scotland)~~
- ~~h) — Capital Grants Unapplied Account~~
- ~~i) — Total usable reserves~~
- ~~j) — Unusable reserves~~
- ~~k) — Total reserves of the authority~~
- ~~l) — Authority's share of the reserves of subsidiaries, associates and joint ventures (Group Accounts only)~~
- ~~m) — Total reserves (Group Accounts only).~~

~~3.4.242~~ A local authority shall present, either in the Movement in Reserves Statement or in the notes, an analysis of the amounts included in each item of the classification of reserves required by paragraph 3.4.2.41. This analysis shall present amounts held for capital purposes separately from those held for revenue purposes, and shall separately identify the total reserves held by schools.

Comprehensive Income and Expenditure Statement

~~3.4.2.4337~~ A local authority shall present a Comprehensive Income and Expenditure Statement. Where a local authority presents Group Accounts as well as authority-only accounts, the authority shall present either separate Comprehensive Income and Expenditure Statements for the authority-only accounts and the Group Accounts, or a single Comprehensive Income and Expenditure Statement showing both the authority-only and group transactions. An authority shall include a description of the purpose of the statement, either in the **Explanatory Foreword** **Narrative Report** or on the face of the statement (or both). The following description is recommended but not mandatory.

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation [or rents]. Authorities raise taxation [and rents] to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both in the Funding Analysis and the Movement in Reserves Statement.

This statement shows the accounting cost in the year of providing services in

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~~accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.~~

3.4.2.4438 As a minimum, the Comprehensive Income and Expenditure Statement shall include line items that present the following amounts for the period:

- a) Gross expenditure, gross income and net expenditure of continuing operations, analysed by service. Authorities shall present the service analysis on the basis of ~~the Service Reporting Code of Practice~~the organisational structure (including, where relevant, corporate support services) under which local authorities operate and shall include the direct accrued costs for those services¹.
- b) Other operating expenditure (comprising precepts (paid to non-principal authorities in England and all authorities in Wales) and levies; payments to the Housing Capital Receipts Pool; and gains or losses on the disposal of non-current assets).
- c) Financing and investment income and expenditure (comprising interest payable and similar charges; net interest on the net defined benefit liability (asset); remeasurements of the net defined benefit liability (asset) for long-term employee benefits recognised in accordance with section 6.2;² interest income; income, expenditure, and changes in the fair values of investment properties; the surplus or deficit of trading operations which are not allocated back to services; and other investment income).
- d) Surplus or deficit on discontinued operations (such a Surplus or Deficit may need to include an appropriate apportionment of the direct costs of corporate services).
- e) Taxation and non-specific grant income and expenditure (comprising council tax income, NDR distribution, non-domestic rates income and expenditure, unringfenced government grants, and all capital grants and contributions).
- f) Surplus or deficit on the provision of services.
- g) Associates and joint ventures accounted for on an equity basis (Group Accounts only).
- h) Tax expenses (Group Accounts only; taxation of group entities and reporting authority's share of taxation of associates and joint ventures shall be shown on

¹ These direct costs may include the recharges of services of a local authority's trading operations.

² Note that the recognition of these remeasurements of the net defined benefit liability (asset) is for long-term employee benefits and not post-employment benefits, which are recognised in line m).

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separate lines).

- i) Group surplus or deficit (Group Accounts only).
- j) Surplus or deficit on revaluation of non-current assets.
- k) Impairment losses on non-current assets charged to the revaluation reserve.
- l) Surplus or deficit on revaluation of available-for-sale financial assets.
- m) Remeasurements of the net defined benefit liability (asset).
- n) Share of other comprehensive income and expenditure of associates and joint ventures (Group Accounts only).
- o) Other comprehensive income and expenditure.
- p) Total comprehensive income and expenditure.

3.4.2.4539 Where a local authority presents Group Accounts, the authority shall disclose separately those amounts of Surplus or Deficit on the Provision of Services and Other Comprehensive Income and Expenditure that are attributable to the local authority and those that are attributable to any minority interest, eg impairment of goodwill, share of profits of subsidiaries.

3.4.2.4640 A local authority shall present, either in the Comprehensive Income and Expenditure Statement or in the notes, an analysis of the amounts included in items b), c) and e) of the statement.

3.4.2.41 When an authority presents subtotals in the Comprehensive Income and Expenditure Statement it shall do so in accordance with paragraphs 85 and 85A and B of IAS 1.

3.4.2.42 A local authority shall disclose information for the authority on the nature of expenses, including depreciation and amortisation expense and employee benefits expense. It may choose to use the following headings as applicable to the authority:

- 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, non-domestic rates, district rate income
- e) government grants and contributions
- f) employee benefits 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.

~~3.4.2.4743~~ An authority shall not present any items of income or expense as extraordinary items, either in the Comprehensive Income and Expenditure Statement or in the notes.

Surplus or Deficit on the Provision of Services

~~3.4.2.4844~~ An authority shall recognise all items of income and expense in a period in Surplus or Deficit on the Provision of Services unless the Code requires or permits otherwise.

Other Comprehensive Income and Expenditure for the period

~~3.4.2.4945~~ Where an authority prepares Group Accounts, the authority shall disclose the amount of income tax relating to each component of Other Comprehensive Income and Expenditure, including reclassification adjustments, either in the Comprehensive Income and Expenditure Statement or in the notes.

~~3.4.2.5046~~ Where a local authority is required to recognise amounts in Other Comprehensive Income and Expenditure for the period, ~~it shall include: which include amounts that~~

~~a) items of other comprehensive income and expenditure (excluding amounts in paragraph (b)), classified by nature and grouped into those that, in accordance with other sections of the Code or IFRSs:~~

~~may be subsequently reclassified in the Surplus or Deficit on the Provision of Services, it shall present the line items of amounts in Other Comprehensive Income and Expenditure into groups that:~~

~~a) —~~

~~i) will not be reclassified subsequently to the Surplus or Deficit on the Provision of Services; and~~

~~(ii) will be reclassified subsequently to the Surplus or Deficit on the Provision of Services when specific conditions are met.~~

~~will not be reclassified subsequently to the Surplus or Deficit on the Provision of Services, and~~

~~b) b) the share of the other comprehensive income and expenditure of associates and joint ventures accounted for using the equity method, separated into the share of items that, in accordance with other sections of the Code or other IFRSs:~~

~~i) will not be reclassified subsequently to the Surplus or Deficit on the Provision of Services; and~~

~~(ii) will be reclassified subsequently to the Surplus or Deficit on the~~

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Provision of Services when specific conditions are met.

~~will be reclassified subsequently to the Surplus or Deficit on the Provision of Services when specific conditions are met.~~

An example of amounts that may be reclassified subsequently in the Surplus or Deficit on the Provision of Services in local authorities ~~are~~ is gains or losses on available for sale financial assets.

~~3.4.2.547~~ For Group Accounts, an authority may present components of Other Comprehensive Income and Expenditure either:

- a) net of related tax effects, or
- b) before related tax effects with one amount shown for the aggregate amount of income tax relating to those components.

If an authority elects alternative b), it shall allocate the tax between the items that might be reclassified subsequently to the Surplus or Deficit on the Provision of Services and those that will not be reclassified subsequently to the Surplus or Deficit on the Provision of Services, where Other Comprehensive Income and Expenditure reflects these groupings in accordance with paragraph 3.4.2.~~5046~~.

~~3.4.2.528~~ An authority shall disclose reclassification adjustments relating to components of Other Comprehensive Income and Expenditure.

Information to be presented either in the Comprehensive Income and Expenditure Statement or in the notes

~~3.4.2.539~~ When items of income or expense are material, an authority shall disclose their nature and amount separately. Examples include:

- a) disposals of items of property, plant and equipment
- b) disposals of investments, and
- c) other reversals of provisions.

Movement in Reserves Statement

~~3.4.250~~ A local authority shall present a Movement in Reserves Statement. Where a local authority presents Group Accounts as well as authority-only accounts, the authority shall present either separate Movement in Reserves Statements for the authority-only accounts and the Group Accounts, or a single Movement in Reserves Statement showing both the authority-only and group reserves.

~~3.4.251~~ An authority shall include a description of the purpose of the statement, either in the Narrative Report or on the face of the statement (or both). The following description is recommended but not mandatory.

This statement shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into 'usable reserves' (ie those

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that can be applied to fund expenditure or reduce local taxation) and other 'unusable' reserves. The Movement in Reserves Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax [or rents] for the year. The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

3.4.2.52 The Movement in Reserves Statement shall show, for each classification of reserves:

- a) balance as at the end of the previous reporting period
- b) total comprehensive income and expenditure
- c) adjustments between Group Accounts and authority accounts (Group Accounts only)
- d) net increase or decrease before transfers (Group Accounts only)
- e) adjustments between accounting basis and funding basis under statutory provisions)
- f) increase or decrease in year
- g) balance as at the end of the current reporting period.

3.4.2.53 A local authority shall present, either in the Movement in Reserves Statement or in the notes, an analysis of the amounts included in items b), c), e) of the statement. The analysis of item e) shall include the following items where relevant, but these items do not have to be individually identified in the analysis; authorities shall refer to paragraph 3.4.2.26 and 3.4.2.27 when preparing this disclosure:

- depreciation, impairment and revaluation losses (charged to Surplus or Deficit on the Provision of Services) of non-current assets
- amortisation of intangible assets
- movements in the fair value of investment properties
- capital grants, contributions and income in relation to donated assets credited to the Comprehensive Income and Expenditure Statement
- revenue expenditure funded from capital under statute
- costs of disposal funded from capital receipts
- net gain or loss on sale or derecognition of non-current assets and non-current assets held for sale
- amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements
- amount by which pension costs calculated in accordance with the Code (ie in accordance with IAS 19) are different from the contributions due under the

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pension scheme regulations

- amount by which council tax income, non-domestic rate income and residual community charge adjustment included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulation (England only)
- amounts debited or credited to the Business Rate Supplements Revenue Account
- statutory provision for repayment of debt
- capital expenditure charged to the General Fund Balance
- transfers in respect of Community Infrastructure Levy (CIL) receipts
- transfer from Capital Receipts Reserve equal to the amount payable into the Housing Capital Receipts Pool (in England and Wales only)
- any voluntary provision for repayment of debt
- net transfer to or from earmarked reserves required by legislation
- transfers between other reserves required by legislation.

3.4.2.54 The classification of reserves presented in the Movement in Reserves Statement shall include the following items; authorities may choose to present additional items on the face of the statement:

- a) General Fund Balance
- b) Housing Revenue Account Balance
- c) Major Repairs Reserve (England and Wales)
- d) Revenue statutory funds (Scotland)
- e) Capital Receipts Reserve (England and Wales); Capital statutory funds (Scotland)
- f) Capital Grants Unapplied Account
- g) Total usable reserves
- h) Unusable reserves
- i) Total reserves of the authority
- j) Authority's share of the reserves of subsidiaries, associates and joint ventures (Group Accounts only)
- k) Total reserves (Group Accounts only).

3.4.2.55 This analysis in paragraph 3.4.2.54 shall present amounts held for capital purposes separately from those held for revenue purposes, and shall separately identify the total reserves held by schools either in the Statement or in the Notes.

3.4.2.56 A local authority shall present in a disclosure note, an analysis of the movements in its material earmarked reserves (earmarked proportion of its General Fund

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balance Scotland) showing opening and closing balances and movements in year. Note that this analysis shall have regard to paragraphs 3.4.2.26 and 3.4.2.27.

Balance Sheet

~~3.4.2.54~~^{3.4.2.57}A local authority shall present a Balance Sheet. Where a local authority presents Group Accounts as well as authority-only accounts, the authority shall present either separate Balance Sheets for the authority-only accounts and the Group Accounts, or a single statement showing both the authority-only and group Balance Sheets. An authority shall include a description of the purpose of the statement, either in the ~~Explanatory Foreword~~Narrative - or Report or on the face of the statement (or both). The following description is recommended but not mandatory.

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, ie those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

~~3.4.2.55~~^{3.4.2.58}~~As a minimum, t~~The Balance Sheet shall include line items that present the following amounts:

- a) property, plant and equipment
- b) heritage assets
- c) investment property (including held for sale* where the authority has opted to disclose this as a separate category)
- d) intangible assets (including goodwill for Group Accounts only)*
- e) assets held for sale*
- f) investments (including net pensions asset)*
- g) investments in associates and joint ventures (in Scotland where an authority has negative balances in respect of individual associates, the authority shall include any such associates with a net negative balance in a separate 'liabilities in associates' line)
- h) debtors*

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- i) deferred tax asset (Group Accounts only)
- j) long-term assets (sub-total)
- k) inventories
- l) cash and cash equivalents
- m) current tax asset (Group Accounts only)
- n) current assets (sub-total)
- o) bank overdraft
- p) borrowing*
- q) creditors*
- r) provisions*
- s) liabilities in disposal groups*
- t) current tax liability (Group Accounts only)
- u) current liabilities (sub-total)
- v) other long-term liabilities (comprising net pensions liability, deferred liabilities and any other long-term liabilities)
- w) Donated Assets Account*
- x) Grants Receipts in Advance*
- y) deferred tax liability (Group Accounts only)
- z) long-term liabilities (sub-total)
- aa) net assets (total)
- ab) usable reserves (including group reserves where appropriate)
- ac) unusable reserves (including group reserves where appropriate)
- ad) total reserves (total).

* Asterisked items are shown only once in the list, but should be presented as current

and/or non-current items in accordance with their classification (see paragraphs 3.4.2.5861 (assets) and 3.4.2.5962 (liabilities) of the Code).

3.4.2.5659 An authority shall present other lines (for example, biological assets) where relevant, (this might also require disaggregation of line items).

3.4.2.5760 An authority shall present additional line items (including by disaggregating the line items listed in paragraph 3.4.2.58) when such presentation is relevant to an understanding of the authority's financial position. For example, an authority may separately disclose one or more categories of property, plant and equipment. When an authority presents subtotals in the balance sheet it shall do so in accordance with paragraph 55A of IAS 1.

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Current assets

3.4.2.5861 An authority shall classify an asset as current when:

- a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle (the normal operating cycle for a local authority shall be assumed to be 12 months, however the normal operating cycle of other group members may be different)
- b) it holds the asset primarily for the purpose of trading
- c) it expects to realise the asset within 12 months after the reporting period, or
- d) the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

An authority shall classify all other assets as long term.

Current liabilities

3.4.2.5962 An authority shall classify a liability as current when:

- a) it expects to settle the liability in its normal operating cycle (the normal operating cycle for a local authority shall be assumed to be 12 months, however the normal operating cycle of other group members may be different)
- b) it holds the liability primarily for the purpose of trading
- c) the liability is due to be settled within 12 months after the reporting period, or
- d) the authority does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

An authority shall classify all other liabilities as long term.

Information to be presented either in the Balance Sheet or in the notes

3.4.2.6063 An authority shall disclose, either in the Balance Sheet or in the notes, further sub-classifications of the line items presented, classified in a manner appropriate to the authority. Examples include:

- a) items of property, plant and equipment are disaggregated into classes
- b) receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts, and
- c) provisions are disaggregated into provisions for employee benefits and other items.

3.4.2.6164 An authority shall disclose in the Balance Sheet, in the Movement in Reserves Statement, or in the notes a description of the nature and purpose of each reserve, the carrying amount of each reserve as at the Balance Sheet date and the

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movement in the reserve in the period. An authority shall present amounts held for capital purposes separately from those held for revenue purposes, and shall separately identify the total reserves held by schools.

Cash Flow Statement

3.4.2.6265 A local authority shall present a Cash Flow Statement. Where a local authority presents Group Accounts as well as authority-only accounts, the authority shall present either separate Cash Flow Statements for the single entity financial statements and the Group Accounts, or a single Cash Flow Statement showing both authority-only and group cash flows. An authority shall include a description of the purpose of the statement, either in the ~~Explanatory Foreword~~ Narrative ~~or Report or~~ on the face of the statement (or both). The following description is recommended but not mandatory.

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the authority.

3.4.2.6366 An authority shall report cash flows from operating activities prepared using either:

- a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed, or
- b) the indirect method, whereby net Surplus or Deficit on the Provision of Services is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of revenue or expense associated with investing or financing cash flows.

Cash Flow Statement – direct method

3.4.2.6467 As a minimum, the Cash Flow Statement prepared using the direct method shall include line items that present the following amounts:

- a) operating activities
- b) investing activities
- c) financing activities
- d) net increase or decrease in cash and cash equivalents

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- e) cash and cash equivalents at the beginning of the reporting period
- f) cash and cash equivalents at the end of the reporting period.

3.42.658 The amounts to be included (where relevant) in lines a), b) and c) above are as follows:

Operating activities

- a) taxation
- b) grants
- c) housing rents (housing authorities only)
- d) sales of goods and rendering of services
- e) interest received
- f) other receipts from operating activities
- g) cash inflows generated from operating activities (sub-total)
- h) cash paid to and on behalf of employees
- i) housing benefit paid out (housing authorities only)
- j) national non-domestic rate payments to national pool (billing authorities in Scotland and Wales only)
- k) precepts paid (billing authorities only)
- l) payments to the Capital Receipts Pool (in England and Wales only)
- m) cash paid to suppliers of goods and services
- n) interest paid
- o) other payments for operating activities
- p) cash outflows generated from operating activities (sub-total)
- q) net cash flows from operating activities.

Investing activities

- a) purchase of property, plant and equipment, investment property and intangible assets
- b) purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)
- c) other payments for investing activities
- d) proceeds from the sale of property, plant and equipment, non-current assets held for sale, investment property and intangible assets
- e) proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)

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- f) other receipts from investing activities
- g) net cash flows from investing activities.

Financing activities

- a) cash receipts of short- and long-term borrowing
- b) other receipts from financing activities
- c) cash payments for the reduction of the outstanding liability relating to finance leases and on-Balance-Sheet service concession arrangements (PFI) contracts
- d) repayments of short- and long-term borrowing
- e) other payments for financing activities
- f) net cash flows from financing activities.

3.4.2.6669 A local authority shall consider presenting the detail of the amounts of major classes of gross cash receipts and gross cash payments arising from operating, investing and financing activities (see paragraph 3.4.2.65) in the Cash Flow Statement based on the direct method where such presentation is relevant to an understanding of the authority's cash flow position, or otherwise in the notes.

3.4.2.670 Cash flows from interest and dividends received and paid (dividends paid will only be applicable to Group Accounts) shall be disclosed separately either in the Cash Flow Statement or in the notes and be classified as operating activities. In the rare event that cash flows of a local authority (or Group Accounts) arise from transactions in a foreign currency, the cash flows shall be recorded in pounds sterling by applying to the foreign currency amount the exchange rate at the time of the cash flow.

Cash Flow Statement – indirect method

3.4.2.6871 Where an authority presents a Cash Flow Statement prepared using the indirect method, as a minimum the statement shall include line items that present the following amounts:

- a) net surplus or deficit on the provision of services
- b) adjust net surplus or deficit on the provision of services for non-cash movements
- c) adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities
- d) net cash flows from operating activities
- e) investing activities
- f) financing activities
- g) net increase or decrease in cash and cash equivalents

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- h) cash and cash equivalents at the beginning of the reporting period
- i) cash and cash equivalents at the end of the reporting period.

3.42.6972 The amounts to be included (where relevant) in lines b), c), e) and f) above are as follows:

Adjust net surplus or deficit on the provision of services for non-cash movements

- a) depreciation
- b) impairment and downward valuations
- c) amortisation
- d) increase/decrease in impairment for bad debts
- e) increase/decrease in creditors
- f) increase/decrease in debtors
- g) increase/decrease in inventories (stock)
- h) movement in pension liability
- i) carrying amount of non-current assets and non-current assets held for sale, sold or derecognised
- j) other non-cash items charged to the net surplus or deficit on the provision of services.

Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities

- a) proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)
- b) proceeds from the sale of property plant and equipment, investment property and intangible assets
- c) any other items for which the cash effects are investing or financing cash flows.

Investing activities

- a) purchase of property, plant and equipment, investment property and intangible assets
- b) purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)
- c) other payments for investing activities
- d) proceeds from the sale of property, plant and equipment, non-current assets held for sale, investment property and intangible assets
- e) proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and

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subsidiaries)

- f) other receipts from investing activities
- g) net cash flows from investing activities.

Financing activities

- a) cash receipts of short- and long-term borrowing
- b) other receipts from financing activities
- c) cash payments for the reduction of the outstanding liability relating to a finance lease and on-Balance-Sheet service concession arrangements (PFI) contracts
- d) repayments of short- and long-term borrowing
- e) other payments for financing activities
- f) net cash flows from financing activities.

3.4.2.7073 A local authority shall consider presenting the detail of the amounts of major classes of gross cash receipts and gross cash payments rising from operating, investing and financing activities (see paragraph 3.4.2.6971) in the Cash Flow Statement based on the indirect method where such presentation is relevant to an understanding of the authority's cash flow position, or otherwise in the notes.

3.4.2.7474 Cash flows from interest and dividends received and paid (dividends paid will only be applicable to Group Accounts) shall be disclosed separately either in the Cash Flow Statement or in the notes and be classified as operating activities. In the rare event that cash flows of a local authority (or Group Accounts) arise from transactions in a foreign currency, the cash flows shall be recorded in pounds sterling by applying to the foreign currency amount the exchange rate at the time of the cash flow.

Cash Flow Statement – general

3.4.2.7275 In the rare event that cash flows arise from obtaining and losing control of subsidiaries or other businesses, authorities should refer to IAS 7.

3.4.2.7376 For cash flow purposes, bank overdrafts are shown separately from cash and cash equivalents where they are not an integral part of an authority's cash management. Where they are an integral part of an authority's cash management (ie the bank balance often fluctuates from being positive to overdrawn), they are shown as part of cash and cash equivalents.

3.4.2.7477 Where an authority prepares Group Accounts, the authority shall also include (where relevant) lines in relation to operating activities – preference dividend paid to minority interest, equity dividends paid, income tax paid; investing activities – net overdraft acquired with subsidiary, net cash acquired with subsidiary; financing activities – purchase/redemption of share capital, issue of share capital and any other lines that may be relevant, and disclosed separately where material in the Cash Flow Statement or in the notes. Cash flows between the reporting authority

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and an associate or joint venture should be included under the appropriate cash flow heading for the activity giving rise to the cash flow. None of the other cash flows of an associate or joint venture should be included in the Cash Flow Statement of the Group Account.

~~3.4.2.757~~ 3.4.2.758 Operating, investing and financing transactions that do not require the use of cash and cash equivalents shall be excluded from an authority's (or group) Cash Flow Statement.

~~3.4.2.767~~ 3.4.2.769 An authority (and Group Accounts) shall disclose the components of cash and cash equivalents in the Cash Flow Statement or in the notes.

~~3.4.2.770~~ 3.4.2.780 The impact on the Cash Flow Statement of the accounting requirements in England for council tax and NDR are shown in section 2.8 of the Code.

Notes to the financial statements

~~3.4.2.781~~ 3.4.2.781 A local authority shall present notes to the financial statements. Where a local authority presents Group Accounts as well as authority-only accounts, the authority shall present either separate notes to the financial statements for the authority-only accounts and the Group Accounts, or notes to the financial statements showing both authority-only and group information. The notes shall:

- a) present information about the basis of preparation of the financial statements and the specific accounting policies used
- b) disclose the information required by the Code that is not presented elsewhere in the financial statements, and
- c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

~~3.4.2.782~~ 3.4.2.782 An authority shall, as far as practicable, present notes in a systematic manner. In determining a systematic manner, an authority shall consider the effect on the understandability and comparability of its financial statements. An authority shall cross-reference each item in the ~~Movement in Reserves Statement~~, Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and Cash Flow Statement to any related information in the notes.

~~3.4.2.83~~ 3.4.2.83 Examples of systematic ordering or grouping of the notes include:

- a) giving prominence to the areas of its activities that the authority considers to be most relevant to an understanding of its financial performance and financial position, such as grouping together information about particular activities;
- b) grouping together information about items measured similarly such as assets measured at current value; or
- c) following the order of the line items in the statement(s) of Comprehensive Income and Expenditure Statement and the Balance Sheet.

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~~3.4.2.8084~~ An authority shall disclose ~~in the summary of its~~ significant accounting policies, comprising:

- a) the measurement basis (or bases) used in preparing the financial statements, and
- b) the other accounting policies used that are relevant to an understanding of the financial statements.

~~3.4.2.8485~~ An authority shall disclose, in along with the summary of its significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the authority's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

~~3.4.2.8286~~ The ~~summary of~~ significant accounting policies shall include the following items where they have a significant effect on the amounts recognised in the financial statements:

- a) accruals of expenditure and income
- b) acquired operations
- c) back pay arising from unequal pay claims
- d) Business Improvement District schemes (England, Scotland and Wales)
- e) cash and cash equivalents
- f) contingent assets
- g) contingent liabilities
- h) council tax, district rates and non-domestic rates
- ~~hi~~) discontinued operations
- ~~ij~~) employee benefits
- ~~jk~~) events after the reporting period
- ~~kl~~) prior period adjustments
- ~~lm~~) financial instruments
- ~~mn~~) foreign currency translation
- ~~no~~) government grants and other contributions
- ~~op~~) heritage assets
- ~~pq~~) intangible assets
- ~~qr~~) inventories and long-term contracts
- ~~rs~~) investment property
- ~~st~~) landfill allowances schemes
- ~~tu~~) leases (separate policies required for operating and finance leases)

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- ~~uv~~) non-current assets held for sale
- ~~vw~~) overheads
- ~~wx~~) service concession arrangements (PFI/PPP schemes)
- ~~xy~~) property, plant and equipment
- ~~yz~~) provisions
- ~~zaa~~) reserves
- ~~aaab~~) revenue expenditure funded from capital under statute, and
- ~~abac~~) value added tax.

~~3.4.2.8387~~ A local authority shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

- a) their nature, and
- b) their carrying amount as at the end of the reporting period.

~~3.4.2.8488~~—These disclosures are not required for assets and liabilities measured at fair value based on a quoted price in an active market for an identical asset or liability. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting period.

Segment reporting

~~3.4.2.8589~~ 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.

~~3.4.2.8690~~ An authority shall present information on reportable segments within the notes, where necessary. However, the service analysis in the Comprehensive Income and Expenditure Statement and the segmental analysis within the Funding Analysis will fulfill a local authority's segmental reporting requirements. Where this is not the case local authorities will need to add additional disclosure notes to meet the requirements of paragraphs 3.4.2.90 to 3.4.2.93. 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

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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.

~~3.4.2.8791~~ 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.

~~3.4.2.8892~~ 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.

~~3.4.2.8993~~ For each reportable segment, an authority shall present an analysis of the income and expenditure for that segment in the Comprehensive Income and Expenditure Statement (paragraph 3.2.4.38) and in the Funding Analysis in the Narrative Report. The Funding Analysis in the Narrative Report shall be treated as a part of the financial statements (see paragraph 3.1.2.2). ~~(ie a subjective analysis), to include those items 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

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~~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~~
- ~~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

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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.

3.4.3 Statutory Accounting Requirements

3.4.3.1 There are no statutory accounting requirements regarding the presentation of financial statements in England, Scotland and Wales. In Northern Ireland, the format of the statements is prescribed by the Department for the Environment, and authorities should follow those requirements.

3.4.4 Disclosure Requirements

3.4.4.1 Authorities shall disclose the information in the financial statements as required by this section. Having regard to paragraph 3.4.2.26 of this section of the Code, which permits authorities not to provide a specific disclosure if information is not material, authorities shall disclose the notes as set out in the other sections of the Code in addition to the following:

- 1) The nature of any acquired or discontinued operations and details of any outstanding liabilities in respect of discontinued operations.
- 2) The nature, turnover, and surpluses/deficits of any significant trading operation and for Scottish local authorities the cumulative surplus or deficit for the current year and two preceding financial years in accordance with the requirements of the Local Government in Scotland Act 2003.
- 3) The nature and amount of any significant agency income and expenditure.
- 4) Sufficient information on any partnership schemes under s75 of the National Health Service Act 2006, under the Community Care and Health (Scotland) Act 2002 and under s33 of the National Health Service (Wales) Act 2006 to allow for the understanding of the authority's financial affairs. As a minimum this includes the purpose of the partnership, the identities of partner bodies, the gross income and expenditure of the partnership and the authority's contribution.
- 5) The totals of members' allowances (and expenses) paid in the year. In Scotland all elements of members remuneration and reimbursement of actual expenditure under the heads of salaries, allowances and expenses.
- 6) ~~a) Number of employees and police officers whose remuneration in the year was greater or equal to £50,000, grouped in rising bands of £5,000, and/or other disclosures specified in regulations or statutory guidance~~

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~~(Northern Ireland).~~³

- b) Number of exit packages agreed (grouped in rising bands of £20,000 up to £100,000, and bands of £50,000 thereafter), analysed between compulsory redundancies and other departures. Authorities shall also disclose the total cost of packages agreed in each band. Bands shall be combined where this is necessary to ensure that individual exit packages cannot be identified (except where disclosure of payments to the individuals is required elsewhere under regulations). Exit packages include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs (England, Wales, Scotland and Northern Ireland). Scottish local authorities are required to include the disclosure of exit packages in the remuneration report.
- 7) The following amounts for the year:
- a) Fees payable to auditors appointed ~~by the Audit Commission under the Local Audit and Accountability Act 2014 or the Auditor General for Wales~~ with regard to external audit services carried out by the appointed auditor under the ~~Audit Commission's Code of Audit Practice prepared by the Comptroller and Auditor General or Auditor General for Wales' Code of Audit and Inspection Practice~~ in accordance with ~~s5-s18 of the Audit Commission Act 1998 Local Audit and Accountability Act 2014 or s16 of the Public Audit (Wales) Act 2004.~~
 - b) ~~Fees payable to the Auditor General for Wales with regard to external audit services carried out under the Code of Audit Practice prepared by the Auditor General for Wales.~~
 - bc) Fees payable to ~~auditors appointed by the Audit Commission or the Auditor General for Wales~~ in respect of statutory inspection ~~under s10 of the Local Government Act 1999.~~
 - cd) Fees payable to ~~auditors appointed by the Audit Commission or the Auditor General for Wales~~ for the certification of grant claims and returns ~~by the appointed auditor under s28 of the Audit Commission Act 1998 or s2 of the Public Audit (Wales) Act 2004.~~
 - de) Fees payable to Audit Scotland in respect of external audit services undertaken in accordance with the *Code of Audit Practice*.
 - ef) In Northern Ireland, the amount payable to the Comptroller and Auditor General for Northern Ireland in respect of external audit services.
 - fg) Fees payable in respect of any other services provided by the appointed

³ Exposure Draft footnote only: It is anticipated that this requirement will be superseded by the Remuneration Report requirements as stipulated by the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015.

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auditor over and above the duties described in notes 7 a) to **ef)** above.

- 8) In Wales, the following information is also to be disclosed:
 - a) The total non-domestic rateable value at the year-end and the national non-domestic rate multiplier for the year.
 - b) The calculation of the council tax base, ie the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings.
 - c) The name of each authority which made a significant precept or demand on the account and the amount included for each authority.
- 9) In Northern Ireland, disclosure of details of the rates receivable by the authority (ie rate in the pound for domestic and non-domestic properties).
- 10) A breakdown of the movement of the amounts shown in the Movement in Reserves Statement that are adjustments between accounting basis and funding basis under regulations to be debited or credited to the General Fund and Housing Revenue Account for the year and the transfers to/from reserves.
- 11) Details of the nature and amount of trust funds where the authority acts as the sole trustee. For other trust funds and other third party funds administered by the authority, a statement providing an indication of the overall nature and amounts administered by the authority. Where land or non-financial assets are managed, occupied or held by the local authority which are impressed with charitable trusts, the nature of those holdings.

Cash Flow Statement

- 12) An analysis of the components of cash and cash equivalents.

3.4.5 Statutory Disclosure Requirements

3.4.5.1 There are no statutory disclosure requirements in relation to the presentation of financial statements. Authorities shall disclose the statutory notes as set out in the other sections of the Code in addition to the following:

- 1) [The following disclosures on employee remuneration in accordance with the Accounts and Audit Regulations 2015 for English authorities and the Accounts and Audit \(Wales\) Regulations 2014.](#)
 - a) Number of employees and senior police officers (all police officers in Wales) (except those included in b) below) whose remuneration in the year was greater or equal to £50,000, grouped in rising bands of £5,000 (England and Wales), and
 - b) An analysis by job title of the remuneration and employer's pension contributions [\(as defined by the regulations referred to in 1\) above](#) in respect of senior employees and relevant police officers whose salary is £50,000 or more per year (or by name and job title where the salary is

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£150,000 or more per year) (England and Wales).

- c) In Wales, the reference to '£50,000' in a) and b) above shall be read as '£60,000'.
 - d) In Wales, the remuneration ratio as required by the Accounts and Audit (Wales) Regulations 2014 (see Regulation 9(2)).
- 2) A brief explanation of the nature of any scheme under the Transport Act 2000 or the Transport (Scotland) Act 2001, including the gross income and expenditure of the scheme, and the net proceeds of the scheme (including for joint schemes the apportionment of such proceeds).
 - 3) A disclosure that demonstrates whether the Dedicated Schools Grant (made under section 14 of the Education Act 2002) has been deployed in accordance with regulations made under sections 45A, 45AA, 47, 48(1) and (2) and 138(7) of, and paragraph 1(7)(b) of Schedule 14 to, the School Standards Framework Act 1998 (England).

Remuneration report (Northern Ireland)

3.4.5.2 Local authorities in Northern Ireland shall produce the statutory remuneration report required by the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015.⁴

Remuneration report (Scotland)

3.4.5.2 Local authorities in Scotland shall produce the statutory remuneration report in accordance with the requirements of the Local Authority Accounts (Scotland) Regulations 2014 (SSI 2014/200) and the guidance issued by the Scottish Government (Scottish Government Finance Circulars 8/2011 and 7/2014).

3.4.6 Changes since the 2014/15-16 Code

3.4.6.1 The 2015/16-17 Code includes amendments to the Code's provisions on the presentation of financial statements to amend the reporting requirements for the Comprehensive Income and Expenditure Statements and the Movement in Reserves Statement under the telling the story, improvements to the presentation of local authority financial statements review.

3.4.6.2 The presentation of the financial statements section of the Code has also been amended to reflect the December 2014 changes to IAS 1 under the IASB Disclosure Initiative.

3.4.6.3 The presentation of the financial statements section of the Code has also been amended to reflect the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 requirement for local authorities in Northern Ireland to

⁴ It is anticipated that the Department of the Environment Northern Ireland will specify the form and content of the Remuneration Report.

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produce a statutory remuneration report.

to reflect:

~~changes to the reporting requirements for exit packages in the remuneration report for local authorities in Scotland as a result of the Local Authority Accounts (Scotland) Regulations 2014~~

~~the introduction of the remuneration ratio disclosure by the Accounts and Audit (Wales) Regulations 2014, and~~

~~clarifications of the reporting requirements for disclosures to support the Movement in Reserves Statement.~~

CHAPTER THREE

Financial statements

3.1 ~~EXPLANATORY FOREWORD~~NARRATIVE REPORT

3.1.1 Introduction

- 3.1.1 A local authority in England, Northern Ireland and Wales shall publish ~~an~~ Narrative Report ~~Explanatory Foreword~~ with the financial statements. The purpose of the ~~foreword~~ Narrative Report is to offer interested parties an easily understandable guide to the most significant matters reported in the accounts. Local authorities are encouraged to prepare the ~~Explanatory Foreword~~ Narrative Report taking into consideration the provisions of the Government's *Financial Reporting Manual* (FRoM), paragraphs 5.2.1 to 5.2.10, of the 2015/16 FRoM, where these paragraphs disclose information relevant to local authorities. Authorities should note that, unlike the FRoM, the Code does not require local authorities to consider the requirements for sustainability reporting; but neither does the Code prevent an authority including such information within its ~~Explanatory Foreword~~ Narrative Report.
- 3.1.2 The ~~Explanatory Foreword~~ Narrative Report shall provide an explanation of the authority's financial position, and assist in the interpretation of the financial statements, including the Group Accounts. It shall also contain a commentary on the major influences affecting the authority's income and expenditure and cash flow, and information on the financial needs and resources of the authority. Content and style are left to local judgement.

Management Commentary – Scottish Local Authorities

- 3.1.3 ~~Local authorities in Scotland are required by the Local Authority Accounts (Scotland) Regulations 2014 to provide a management commentary in addition to the Annual Accounts. Provided that the management commentary includes an easily understandable guide to the most significant matters in the accounts and assists with the interpretation of the accounts in accordance with the requirements of this section of the Code, local authorities need not provide an Explanatory Foreword in addition to a management commentary. Statutory guidance on the Management Commentary in Scottish Government Circular 5/2015 "sets aside" the Code requirement for an Explanatory Foreword. This will mean the requirements of this section of the Code, with the exception of the requirements to produce a Funding Analysis (see paragraphs 3.1.2.2 to 3.1.2.6).~~

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3.1.14 Local authorities in England are required by Accounts and Audit Regulations 2015 to publish a narrative statement with the Statement of Accounts. Such a narrative statement shall be provided in accordance with this section of the Code. Note that CIPFA/LASAAC considers this to be an interim measure until the CIPFA Integrated Reporting: Public Sector Network⁵ has finalised its recommendations on integrated reporting. It is anticipated that these recommendations will be available in 2016 and therefore should be able to be included in the 2017/18 Code.

3.1.15 As a part of the requirement to provide a narrative statement, regulation 8(2) stipulates that a local authority must provide information on its “financial performance and economy, efficiency and effectiveness in its use of resources over the financial year”. CIPFA/LASAAC considers that to meet the requirement to report on the use of resources local authorities in England should follow the FRC Guidance on the Strategic Report (FRC Guidance) in relation to business performance. Therefore the narrative statement should provide an analysis of:

- a) the development and the performance of the authority in that financial year and its position at the end of the year (see FRC guidance paragraph 7.38), the narrative report in that context should:
 - i) complement the financial statements, where relevant providing additional explanations of amounts recognised in the financial statements and the conditions and events that shaped the information in them,
 - ii) be analysed in the context of the authority’s strategic/corporate reports for that year: any segmental analysis should be consistent with the authority’s segment analysis provided in accordance with this section and section 3.4 of this Code,
 - iii) make reference to cashflows during the year and the factors that may affect future cash flows, and
 - iv) include information on an authority’s key strengths and resources (this might include consideration of an authority’s employees, capital expenditure and commitments, key services including commentary on significant matters covered in the budget report, consideration of any significant assets or liabilities earned or incurred, corporate reputation and relevant information on service recipients). This might also necessitate cross reference to the items included in paragraph 3.1.4.1 below.
- b) the financial and non-financial performance indicators as relevant to the performance of the authority (see FRC Guidance, paragraph 7.43); thus in producing a narrative commentary on the use of resources a local authority should consider the following:
 - i) the performance indicators used should include those that the local

⁵ The Integrated Reporting Network whose Secretariat is provided by CIPFA and the International Integrated Reporting Council is expected to run over two years, covering two reporting cycles 2014/2015 onwards.

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authority judges as central in assessing progress against the its strategic objectives, monitoring its risks or otherwise used to measure performance in the year.

- ii) non-financial indicators can be indicators of future financial prospects and progress in managing risks and opportunities,
- iii) performance indicators should, where possible, represent generally accepted measures of performance for local authorities whether on a corporate, financial or service basis,
- iv) comparatives should be included and any significant changes from year to year should be explained, and
- v) if necessary, appropriate description of the performance indicators should be provided.

In preparing this section of the narrative report local authorities should also have regard for the communication principles and the approach to materiality set out in the FRC Guidance.

3.1.2 Accounting Requirements

3.121 Information provided in the Explanatory Foreword~~Narrative Report~~ shall reflect the accounting requirements of the Code.

Funding Analysis

3.122 A local authority shall present a Funding Analysis in the Narrative Report (Management Commentary for Scottish local authorities). The Funding Analysis specified in paragraphs 3.1.2.3 to 3.1.2.5 shall be a part of the financial statements even though it is included in the Narrative Report (Management Commentary for Scottish local authorities).

3.123 An authority shall include a description of the purpose of the Funding Analysis. The following description is recommended but not mandatory.

The objective of the Funding Analysis is to demonstrate to council tax, [rent payers] and other key stakeholders how annual expenditure is used (as defined by statutory provisions for council tax [and rent setting purposes]) and is funded from annual resources government grants, rents, council tax and business rates) by local authorities in comparison with those economic resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

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3.124 As a minimum, the Funding Analysis shall include three columns I), II) and III).

These three columns shall present:

I) for income and expenditure chargeable to the General Fund⁶ the line items that present the following amounts for the period:

- a) Net expenditure of continuing operations chargeable under statutory funding provisions, analysed by segment. Authorities shall present the segmental analysis within the analysis on the basis of their organisational structure under which they operate (see paragraphs 3.4.2.89. to 3.4.2.93 for provisions on the segmental analysis).
- b) Other operating expenditure (including precepts (paid to non-principal authorities) and levies; transfers from the Capital Receipts Reserve equal to the amounts payable to the Housing Capital Receipts Pool; and transfer of income on disposal of assets from the Capital Receipts Reserve), all items as chargeable to the General Fund.
- c) Financing and investment income and expenditure (including statutory charges for financing ie the Minimum Revenue Provision, or, in Scotland loans fund charges, capital expenditure charged to the general fund and HRA balances, revenue expenditure funded from capital, any voluntary provisions for the repayment of debt).
- d) Surplus or deficit on discontinued operations as chargeable to the General Fund.
- e) Taxation and non-specific grant income and expenditure (comprising council tax income, NDR distribution, non-domestic rates income and expenditure, unringfenced government grants, Business Rate Supplements Revenue Account transfers, transfers for Community Infrastructure Levy chargeable to the General Fund under statutory requirements).
- f) Surplus or deficit on the provision of services.

II) The amounts for each of the line items in I) for the period that adjust column I) amounts to arrive at column III) (column III) amounts are described below). These adjustments may be described as adjustments to add expenditure or income not chargeable to Council Tax or Rents and the removal of transactions which are only chargeable under statutory provisions; and

III) The net expenditure, or where applicable, income for the equivalent amounts in the Comprehensive Income and Expenditure Statement per paragraph 3.4.2.38.

The foot of the Funding Analysis shall show the movement for the period including

⁶ Note this shall include HRA balances, HRA balances are separately analysed in the Movement in Reserves Statement and under the requirements of Section 3.5 of the Code.

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opening and closing balances on the General Fund. Where an authority has a Housing Revenue Account these Movements shall be split between the General Fund and the HRA Movements or, an appropriate cross reference shall be made to those same balances in the Movement in Reserves Statement.

3.1.2.5 An authority will present an analysis of the adjustments between the Funding Analysis and the Surplus or Deficit on the Provision of Services (including the net cost of service) in the Comprehensive Income and Expenditure Statement in the Funding Analysis. It shall present a note to the Funding Analysis which describes all material reconciling items.

The analysis shall include items that are not a part of the segmental analysis items chargeable to the General Fund that are chargeable to the Comprehensive Income and Expenditure Statement and vice versa ie adjustments to add expenditure or income not chargeable to Council Tax or Rents and the removal of transactions which are only chargeable under statutory provisions. The analysis shall:

- remove items of income and expenditure in paragraph 3.1.2.4 lines l) a) to e) in the Funding Analysis that are chargeable to the General Fund but are not chargeable to the Comprehensive Income and Expenditure Statement for example the Minimum Revenue Provision
- add in items of expenditure or income that are chargeable to the Comprehensive Income and Expenditure Statement which are not chargeable to General Fund Balances eg net gain or loss on sale or derecognition of non-current assets and non-current assets held for sale.

Local authorities may wish to use the items listed in paragraph 3.4.2.53 as they apply to the Funding Analysis to ensure that they have identified the main statutory reversals that apply. However, all of these items do not need to be listed separately in the analysis and may be aggregated, as appropriate.

3.1.2.6 An authority may wish to present a comparison between an authority's budgeted performance with the analysis of the income and expenditure required by paragraph 3.1.2.4, Column I above to demonstrate a local authority's financial performance in the year.

3.1.3 Statutory Accounting Requirements

3.1.3.1 There are no statutory accounting requirements in respect of the ~~Explanatory Foreword~~Narrative Report.

3.1.4 Disclosure Requirements

3.1.4.1 It is recommended that the ~~foreword~~Narrative Report include the following items that are likely to be significant to the understanding of the financial statements (these recommended topics are not intended to restrict the content of the

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~~foreword~~Narrative Report):

- a) An explanation of which statements follow, their purpose and the relationship between them.
- b) Service expenditure, interest payable and other operating costs, income from grants, local taxpayers and other sources, compared in overall terms to the budget.
- c) A note of any material assets acquired or liabilities incurred. If these are unusual in scale, having regard to the normal activities of the authority, or for any other reason, the circumstances shall be explained.
- d) A note explaining the significance of any pensions liability or asset disclosed.
- e) An explanation of any material and unusual charge or credit in the accounts. This shall be provided whether the charge is made as part of the cost of services or as an adjustment to the cost of services.
- f) Any significant change in accounting policies. The reason for the change, and the effect on the accounts, shall be explained.
- g) Any major change in statutory functions, eg local government reorganisation, which has a significant impact on the accounts. In addition, a comment on planned future developments in service delivery, including a summary of revenue and capital investment plans, distinguishing between expenditure intended to maintain existing levels of service provision and that intended to expand existing services or develop new services and the impact of any reduction in services.
- h) A note of the authority's current borrowing facilities and capital borrowing, outlining the purpose and impact of financing transactions entered into during the year and major non-current asset acquisitions and disposals.
- i) A summary of the authority's internal and external sources of funds available to meet its capital expenditure plans and other financial commitments including PFI schemes.
- j) Details of significant provisions or contingencies and material write-offs. This disclosure should focus on new items and any significant changes to existing items.
- k) Details of any material events after the reporting date (up to the date the accounts are authorised for issue).
- l) An explanation of the impact of the current economic climate on the authority and the services it provides.

3.1.5 Statutory Disclosure Requirements

3.1.5.1 ~~There are no statutory disclosure requirements in relation to the Explanatory Foreword~~The statutory reporting requirements for a narrative statement are included in the Accounts and Audit Regulations 2015 for English local authorities.

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3.1.52 The statutory reporting requirements for a Management Commentary are included in the Local Authority Accounts (Scotland) Regulations 2014. Scottish Government Finance Circular 5/2015 provides statutory guidance on the Management Commentary.

3.1.6 Changes since the ~~2014~~2015/15-16 Code

3.1.6.1 This section of the Code has been amended to reflect the requirement ~~for Scottish local authorities to provide a management commentary with the Annual Accounts~~for local authorities in England to provide a narrative statement with its published statement of accounts in accordance with the Accounts and Audit Regulations 2015. It has also been updated for the Statutory Guidance issued by the Scottish Government on the Management Commentary.

3.1.6.2 This section of the Code now uses the term Narrative Report rather than an Explanatory Foreword.

3.1.6.3 This section of the Code includes the requirement to produce a Funding Analysis in the Narrative Report (Management Commentary in Scotland).