

Update to the Code and Specifications for Future Codes for Infrastructure Assets

November 2022

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Foreword

The 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom is based on International Financial Reporting Standards (IFRSs) and has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board. Note this Foreword has been written specifically for this Update to the Code on infrastructure assets and applies from the financial year 2021/22 to the financial year 2024/25.

The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. The Code has been prepared on the basis of accounting standards and interpretations in effect for accounting periods commencing on or before 1 January 2021. This is with the exception of IFRS 16 Leases, where mandatory implementation been deferred to the 2024/25 Code.

This publication is an Update to the 2021/22 Code, but it also updates the 2022/23 Code and will apply to subsequent years until the 2024/25 Code, though these specifications will also be included in the 2023/24 and 2024/25 Codes for completeness. This Update to the Code and future specifications for the Code must therefore be considered against these editions of the Code, or where necessary earlier editions.

The key accounting changes in this Update to the Code for infrastructure assets are as follows:

- a) Amendments to Section 4.1 of the Code include a temporary relief so that local authorities are not required to report the gross book value and accumulated depreciation for infrastructure assets. This temporary relief is applied from the 2021/22 Code up to and including the Code applicable to the 2024/25 financial year but may also apply to local authority financial statements before this period where the auditor's opinion on those statements has not been given. Where a local authority chooses to apply this temporary relief, the Code requires that additional information is provided to explain an authority's rationale for this decision.
- b) A new Annex to Section 4.1 of the Code that sets out the prescriptions of the Code for infrastructure assets in predecessor Codes.

This Update to the Code for infrastructure assets does not apply to Scottish local authorities as this treatment is prescribed for by *Local government finance circular 09/2022: statutory override – accounting for infrastructure assets* issued in August 2022 by the Scottish Government. Note, however, that the statutory override applies until 31 March 2024 and this may be subject to review at that juncture.

Under the oversight of the Financial Reporting Advisory Board, the CIPFA/LASAAC Code Board is in a position to issue mid-year updates to the Code. This will only be done in exceptional circumstances.

In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of Section 21(2) of the Local Government Act 2003. In Scotland, the Code constitutes proper accounting practice under Section 12 of the Local Government in Scotland Act 2003. In Northern Ireland, the status and authority of the Code derives from Regulation 2 of the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 and through the relevant accounts direction issued by the Department for Communities (Northern Ireland).

STATEMENT BY THE FINANCIAL REPORTING ADVISORY BOARD ON THE 'UPDATE TO THE CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING IN THE UNITED KINGDOM 2021/22 AND PROVISIONS FOR FUTURE EDITIONS OF THE CODE FOR INFRASTRUCTURE ASSETS'

The Financial Reporting Advisory Board's role is to promote the highest possible standards in financial reporting by government and to help to ensure that any adaptations of, or departures from, GAAP are justified and properly explained. The Financial Reporting Advisory Board (FRAB) is responsible for providing independent advice to the relevant authorities on financial reporting principles and standards. The 'relevant authorities' for this purpose are HM Treasury in respect of central government, the Scottish Government, the Northern Ireland Assembly and the Welsh Government in respect of central government and the health sector in their territories, the Department of Health and Monitor (now known as NHS Improvement) in respect of the health sector in England, and CIPFA/LASAAC in respect of local authority accounts across England, Wales, Scotland and Northern Ireland.

The CIPFA/LASAAC Local Authority Accounting Code Board (the Code Board), a standing committee of CIPFA and LASAAC, is responsible for developing the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) and shares the FRAB's aim of promoting the highest possible standards in financial reporting. In developing the Code, the Code Board has followed the memorandum of understanding between the relevant authorities.

Statement

The FRAB has reviewed the Code (including this Update and future provisions for the Code for infrastructure assets) and concluded that it is consistent with International Financial Reporting Standards as applied by the *Government Financial Reporting Manual for 2021-22*, except for the differences shown in the Annex.



Lynn Pamment
Chair, Financial Reporting Advisory Board

18 November 2022

Differences between the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and the government's Financial Reporting Manual (the FReM)

Section 2.5 of the Code recognises gains or losses on transfer of a function in the Movement in Reserves Statement and other comprehensive income and expenditure. The FReM recognises gains or losses on the net/asset liability resulting from a transfer of a function as a non-operating gain/loss.

Section 3.1 of the Code requires authorities to produce a narrative report (note the Code does not include a requirement to prepare a sustainability report, but neither does the Code prevent an authority including such information within its narrative report). The FReM requires a strategic report to be produced (which in turn includes the requirements for sustainability reporting).

The content of the statement of responsibilities in Section 3.2 of the Code is less detailed than that in the FReM.

The formats of the financial statements in Section 3.4 of the Code are different from those in the FReM, reflecting the differing governance positions and different audiences for the financial statements.

Section 3.8 of the Code includes an interpretation to reflect regulations in respect of the authorised for issue date. No interpretation is required in the FReM.

Section 4.1 of the Code retains the use of the cost model for certain classes of asset (such as infrastructure assets). All classes of asset are carried at a current valuation under the FReM. Section 4.1 includes a temporary relief on the disclosure of gross cost and accumulated depreciation for infrastructure assets up to and including the 2024/25 financial year.

Section 4.5 of the Code requires intangible assets to be carried at historical cost (less accumulated amortisation and impairment) where no active market exists. The FReM requires such assets to be revalued using indices or some suitable model.

The FReM adapts the recognition of impairment losses in IAS 36 *Impairment of Assets* such that impairment losses that arise from a clear consumption of economic benefit are always taken to the statement of comprehensive net expenditure, irrespective of whether there is an accumulated revaluation surplus for the asset. The Code does not include this adaptation.

Section 4.8 of the Code permits authorities to select an accounting policy of expensing or capitalising borrowing costs on qualifying assets (IAS 23 *Borrowing Costs* requires borrowing costs in respect of qualifying assets to be capitalised). The FReM includes a different interpretation.

Unlike the FReM, Section 4.9 of the Code withdraws the option to present assets held for sale in the notes as opposed to on the face of the Balance Sheet.

Section 6.2 of the Code permits authorities to account for certain long-term disability payments in the same way as post-employment benefits. This is not permitted by the FReM.

The FReM specifies the presentation of the pension liabilities in pension fund accounts whereas Section 6.5 of the Code retains the options set out in IAS 26 *Accounting and Reporting by Retirement Benefit Plans*.

Chapter 7 of the Code includes minor interpretations in relation to soft loans advanced and received by an authority – 'prevailing interest rate'; lender option borrower option loans (LOBOs); accounting for immaterial transaction costs on initial recognition; and exchanges of debt instruments. These are not included in the FReM. It does not include the adaptation of the accounting policy choice in relation to trade receivables (debtors) and contract assets with a significant financing component and lease receivables. This adaptation is included in the FReM.

Chapter 8 of the Code does not include any interpretation of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* in relation to discount rates. The FReM specifies that where IAS 37 cash flows to be discounted are expressed in current prices, the discount rates should be those set by HM Treasury as promulgated in PES papers.

Chapter 9 of the Code requires an authority to produce group accounts where it has investments in associates and/or interests in joint ventures but no interests in subsidiaries. The FReM includes criteria for the consolidation of entities into the departmental accounting boundary based on control criteria used by the Office for National Statistics for sector classification purposes (rather than the provisions of IFRS) which are not relevant to local authorities.

In addition, a number of sections of the Code incorporate additional guidance on non-exchange transactions that is not explicitly included in the FReM. These interpretations of IFRS 9 are included for the avoidance of doubt in Sections 5.2 and 8.1 of the Code.

Non-current assets

4.1 PROPERTY, PLANT AND EQUIPMENT

4.1.1 Introduction

Adaptation and interpretation for the public sector context

4.1.1.6 The following adaptations and interpretation of IAS 16 for the public sector context apply.

Recognition and measurement

- Infrastructure assets, community assets (except for community assets where the valuation option has been adopted, in accordance with Section 4.10 of the Code) and assets under construction (excluding investment property – see Section 4.4) shall be measured at historical cost; the option given in IAS 16 to measure the carrying amount of these classes of assets at fair value has been withdrawn. Infrastructure assets or community assets (except for community assets where the valuation option has been adopted, in accordance with Section 4.10 of the Code) shall also not be measured at current value. Note that in this and predecessor Codes these assets have consistently been required to be measured at depreciated historical cost, but this has in practice been subject to modification. The Annex to this section provides a historical summary of the modifications to historical cost and sets out how the depreciated historical cost basis of measurement has been established.
- All other classes of asset shall be measured at current value (or in the case of heritage assets, valuation, in accordance with Section 4.10 of the Code). If there is no market-based evidence of current value because of the specialist nature of the asset and the asset is rarely sold, authorities may need to estimate current value using a depreciated replacement cost approach. The current value of council dwellings shall be measured using existing use value – social housing (EUV–SH).
- Where an asset is not held for the purpose of generating cash flows, **value in use** is the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential.
- An authority shall not implement the requirements of the Code in relation to accounting for the depreciation of significant components of an asset and the derecognition of old components and recognition of new components retrospectively. These requirements shall be applicable to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2010.
- For the avoidance of doubt, a 'short period' for the revaluation of a class of assets is interpreted to mean that assets are normally revalued once every five years for each class of assets, provided that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period.
- For property, plant and equipment within this section of the Code the option in IAS 16 for the treatment of accumulated depreciation and impairment where the gross carrying amount is

adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset is withdrawn.

Definitions

- For this section of the Code, current value (for land and buildings) is to be interpreted as the amount that would be exchanged for the asset in its existing use. This requirement is met by providing a valuation on the basis of existing use value (EUV) in accordance with UK VPGA 6 and UK VPGA 4²⁶ of the Royal Institution of Chartered Surveyors (RICS) *Valuation – Global Standards 2017: UK national supplement*.²⁷

Temporary relief for infrastructure assets disclosure requirements

- The Code at paragraph 4.1.4.3 d) includes a temporary relief so that local authorities are not required to report the gross book value and accumulated depreciation for infrastructure assets. This temporary relief is applied from the 2021/22 Code up to and including the 2024/25 Code but may also apply to local authority financial statements before this period where the auditor’s opinion on those statements has not been given. This temporary relief has been introduced to the Code because historical information deficits resulting from the reporting requirements outlined in the Annex to this section of the Code mean that this information is unlikely to faithfully represent what it purports to represent.

4.1.2 Accounting requirements

Measurement after recognition

- 4.1.2.30** Infrastructure assets and assets under construction (excluding investment property – see Section 4.4) shall be measured at depreciated historical cost. An authority may measure community assets at either valuation (in accordance with Section 4.10 of the Code) or historical cost. See also the Annex to this section which presents a summary of how the depreciated historical cost basis of measurement has been established.

26. UK VPGA 6 Local authority and central government accounting: existing use value (EUV) basis of value; UK VPGA 4 Valuation of local authority assets for accounting purposes.

27. As issued November 2018, effective from 14 January 2019.

4.1.4 Disclosure requirements

- 4.141** Where authorities conclude that following the requirements of this section of the Code results in accounting entries that are immaterial, authorities need not follow this section of the Code and include the de minimis level within the disclosure of accounting policies (see Section 3.4).
- 4.142** Disclosure of accounting policies in relation to property, plant and equipment is required, where these accounting policies are significant to the authority's financial statements (see Section 3.4). An authority shall disclose information within these accounting policies that helps users to understand the valuation techniques used to develop the current value measurements for significant categories of property, plant and equipment.
- 4.143** Having regard to paragraph 3.4.2.27 of the Presentation of Financial Statements section of the Code, which permits authorities not to provide a specific disclosure if information is not material, authorities shall disclose the following notes in relation to property, plant and equipment:
- 1) The financial statements shall disclose, for each class of property, plant and equipment:
 - a) the measurement bases used for determining the gross carrying amount
 - b) the depreciation methods used
 - c) the useful lives or the depreciation rates used
 - d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period,

As a temporary relief from the reporting periods commencing 1 April 2021 through to 31 March 2025 local authorities are not required to report gross book value and accumulated depreciation for infrastructure assets. This temporary relief is applied from the 2021/22 Code up to and including the 2024/25 Code but may also apply to local authority financial statements before this period where the auditor's opinion on those statements has not been given. This temporary relief has been introduced to the Code because historical information deficits resulting from the reporting requirements outlined in the Annex to this section of the Code mean that this information is unlikely to faithfully represent what it purports to represent, and*
 - e) a reconciliation of the carrying amount at the beginning and end of the period³⁵ showing:
 - i) additions (including donated assets)
 - ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with Section 4.9 of the Code and other disposals
 - iii) increases or decreases resulting from revaluations under Section 4.1 of the Code and from impairment losses recognised or reversed in other comprehensive income and expenditure and taken to the revaluation reserve in accordance with Section 4.7 of the Code
 - iv) impairment losses recognised in surplus or deficit on the provision of services in accordance with Section 4.7 of the Code
 - v) impairment losses reversed in surplus or deficit on the provision of services in accordance with Section 4.7 of the Code
 - vi) depreciation, and
 - vii) other changes.

35. Note that only a reconciliation of the carrying amount is required for the financial statements. In order to complete the Whole of Government Accounts return, the information specified for this reconciliation requires to be available the split between cost/valuation and depreciation/impairment.

- 2) The financial statements shall also disclose the amount of contractual commitments for the acquisition of property, plant and equipment.
- 3) In accordance with Section 3.3 of the Code, an authority discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant and equipment, such disclosure may arise from changes in estimates with respect to:
 - a) residual values
 - b) the estimated costs of dismantling, removing or restoring items of property, plant and equipment
 - c) useful lives, and
 - d) depreciation methods.
- 4) If items of property, plant and equipment are stated at revalued amounts, subject to the application of paragraphs 2.1.2.14 to 2.1.2.17 to ensure that material information is not obscured the following shall be disclosed:
 - a) the effective date of the revaluation
 - b) whether an in-house or external valuer was involved, and
 - c) the methods and significant assumptions applied in estimating the items' current values.
- 5) The financial statements shall disclose a summary of capital expenditure during the reporting period, including assets acquired under finance leases, analysed for each category of assets, together with the sources of finance and the capital financing requirement.

*Where a local authority decides not to report gross cost and accumulated depreciation because information does not faithfully represent the required information for infrastructure assets, the disclosure note on property, plant and equipment shall include the following statement:

"In accordance with the Temporary Relief offered by the Update to the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements."

Where a local authority decides not to report gross cost and accumulated depreciation in accordance with the temporary relief, it shall also:

- disclose the rationale for not reporting this information and set out the possible impact on the financial statements, demonstrating particularly the impact on faithful representation and the relevance of the information not disclosed including the scope for the information to enable the users of the financial statements to take economic or other decisions
- ensure that this information is maintained as memorandum information in the permanent records of the local authority.

ANNEX TO SECTION 4.1 OF THE CODE – HISTORICAL PRESCRIPTIONS FOR THE CODE FOR INFRASTRUCTURE ASSETS

This Annex to Section 4.1 of the Code sets out various prescriptions over time in local government financial reporting and the Code for infrastructure assets. Since 1994 these approaches have described the measurement basis as depreciated historical cost. The table below sets out how this basis has been established.

<u>Summary</u>	<u>Description</u>
<u>Pre-1994/95 – preceding the introduction of ‘capital accounting’ in local authority financial reporting</u>	<p>Infrastructure (and all other) assets held on the Balance Sheet as ‘capital undischarged’ – the amount of historical expenditure yet to be financed.</p> <p>The capital undischarged balance comprised gross cost net of receipts, grants and contributions and repayments of loans fund principal.</p> <p>No requirement for separate presentation of infrastructure assets in the Balance Sheet.</p>
<u>Edition of the Code of Practice on Local Authority Accounting in the United Kingdom and/or Date</u>	<u>Code/SORP prescription</u>
<p><u>1994 Code of Practice on Local Authority Accounting in the United Kingdom, A Statement of Recommended Practice</u></p> <p><u>Applies as of 1 April 1994 in England and Scotland</u></p> <p><u>Applies as of 1 April 1996 in Wales</u></p>	<p>Unamortised cost as at 31 March 1994 to be treated as deemed depreciated historical cost of the new infrastructure assets Balance Sheet item.</p> <p>Expenditure from 1 April 1994 to be accounted for on a depreciated historical cost basis.</p> <p>The new ‘capital accounting’ requirements did not specify that either gross historical cost or depreciation need to be disclosed.</p>
<p><u>2000 Code of Practice on Local Authority Accounting in the United Kingdom, A Statement of Recommended Practice</u></p> <p><u>Applies as of 1 April 2000</u></p>	<p>Prohibition on the capitalisation of expenditure on replacement parts of an asset unless the replaced parts had been accounted for as separate components.</p> <p>Introduction of the disclosure requirement for gross (historical) cost and accumulated depreciation.</p>
<p><u>2010/11 Code of Practice on Local Authority Accounting in the United Kingdom</u></p> <p><u>Applying from 1 April 2010</u></p>	<p>Application of the derecognition provisions as set out in paragraph 4.1.2.51 of the Code ie the carrying amount of a replaced or restored part of the asset is derecognised, with the carrying amount of the new component being recognised.</p>
<u>Various Codes/Dates</u>	<p>Where assets are transferred, including on local government reorganisation, they are transferred at their carrying amount (net book value) in the Balance Sheet of the receiving authority. Note that this might not apply where transfer provisions are stipulated by government.</p>

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