

Text of Code of Practice on Local Authority Accounting 20/21 for FRAB review

FRAB Members are requested to note that, following CIPFA/LASAAC member review, there is one substantive change to the details noted in the report provided with the papers:

This relates to the Code allowance that authorities may revalue an asset previously carried as a finance lease asset on transition to IFRS 16 *Leases*. The report provided indicated this may be regarded as an adaptation as this is not specified in the IFRS 16 transition arrangements.

An audit body representative indicated the view that the allowance did not meet the definition of an adaptation at paragraph 2.1.1.1 of the Code, i.e. 'required in cases where the needs of the users of local authority accounts differ from those of the profit seeking entities'. This is on the bases that

- (a) IFRS 16 is silent on revaluations and therefore there is nothing to adapt
- (b) It is not clear that a different user need has been identified.

The representative considered that the paragraph was added to the code to avoid doubt that a revaluation was permitted. It can therefore be considered an interpretation (i.e. 'the substance of local government transactions or balances goes beyond that considered by the IASB in its standards development process').

4.2.1.4B has been amended to specify the allowance as an interpretation

FRAB consideration of the above is welcome.

Foreword

This Code of Practice 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.

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 2019.

This edition of the Code applies for accounting periods commencing on or after 1 April 2019. It supersedes the edition published on 1 April 2018 (the 2018/2019 Code).

The key accounting changes in this edition of the Code include:

- a) amendments to Chapter 1 of the Code to augment the descriptions of adaptations and interpretations in the Code, explain the Code process for identifying statutory adjustments to explain the function of the two most significant reserves relating primarily to statutory adjustments and confirm that where application guidance is integral to standards that where relevant it should be considered by local authorities
- b) updates to Section 2.1 (Concepts and Principles) to reflect the issue of the International Accounting Standards Board March 2018 *IFRS Conceptual Framework* including:
 - improvement to the objectives of the financial statements
 - updates to qualitative characteristics of useful financial information
 - new definitions of assets, liabilities, income and expenses
 - updates for the inclusion of the recognition process and criteria and new provisions on derecognition
 - more guidance on measurement bases
- c) amendments to Section 2.4 of the Code (Landfill Allowances and Other Trading Schemes) to remove references to the previous carbon reduction commitment scheme and the landfill allowances schemes for England and Scotland
- d) a new Section (2.11) including application guidance on the accounting treatment for the apprenticeship levy has been added to the Code.

- e) updates to Section 3.4 (Presentation of Financial Statements) of the Code to include amendments to the movement in reserves statement and expenditure and funding analysis to reflect voluntary transfers between the revaluation reserve and the general fund for Scottish local authorities, and the Scottish authority legal capacity to undertake transfers between different statutory usable reserves.
- f) amendments to Section 4.1 (Property, Plant and Equipment) to permit Scottish local authorities to make a voluntary transfer under accounting standards of an element of the revaluation gain to general fund balances subject to where this option is applied it will only be the remaining historical cost element of depreciation in the general fund which is subject to transfer to the capital adjustment account.
- g) amendments to Section 6.5 (Accounting and Reporting by Pension Funds) to reflect the removal of the requirement to include pension fund accounts in the Welsh local authority statements of account and for new legislative references for Scottish pension funds.
- h) updates to Section 7.1 (Financial Instruments, Introduction etc) to reflect the amendments to IFRS 9 *Financial Instruments: Prepayment Features with Negative Compensation*.
- i) amendments to Section 7.1 (*Financial Instruments, Introduction etc*) to clarify one of the interpretations for contracts with lender option borrower option clauses.
- j) amendments to Chapter 9 (Group Accounts) to include the scope clarifications for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* introduced by the Annual Improvements to IFRSs 2014 to 2016 Cycle.

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 'CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING IN THE UNITED KINGDOM 2019/20'20'

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, and concluded that it is consistent with International Financial Reporting Standards as applied by *the Government Financial Reporting Manual for 2019-20*, except for the differences shown in the Annex.

Ian Mackintosh
Chairman, Financial Reporting Advisory Board

April 2019

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 4.5 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.

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 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.

CHAPTER 1

Introduction

1.1 OBJECTIVE OF THE CODE

- 1.11 The *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position, financial performance and cash flows of a local authority, including the group accounts where a local authority has material interests in subsidiaries, associates or joint ventures.

1.2 LEGISLATIVE PROVISIONS FOR PROPER ACCOUNTING PRACTICES

Proper accounting practices – England

- 1.21 The Code sets out the proper accounting practices defined by Section 21(2) of the Local Government Act 2003. These proper practices apply to statements of accounts prepared in accordance with the statutory framework established for England by the Accounts and Audit Regulations 2015. The audit of those accounts is undertaken in accordance with the statutory framework established by sections 3 and 20 of the Local Audit and Accountability Act 2014 for England.

Proper accounting practices – Northern Ireland

- 1.22 In Northern Ireland, the statutory framework for the accounts and audit is established by Article 24 of the Local Government (Northern Ireland) Order 2005 and the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015.

Proper accounting practices – Scotland

- 1.23 In Scotland, the Code constitutes proper accounting practices under Section 12 of the Local Government in Scotland Act 2003. These proper practices apply to:
- annual accounts prepared under the statutory framework established by the Local Authority Accounts (Scotland) Regulations 2014
 - the audit of those accounts, undertaken in accordance with the statutory framework established by Section 99 of the Local Government (Scotland) Act 1973.

Proper accounting practices – Wales

- 1.24 The Code sets out the proper accounting practices defined by Section 21(2) of the Local Government Act 2003. These proper practices apply to statements of accounts prepared in accordance with the statutory framework established for Wales by the Accounts and Audit (Wales) Regulations 2014. The audit of those accounts is undertaken in accordance with the statutory framework established by sections 39 and 58 of the Public Audit (Wales) Act 2004.

Proper accounting practices – application of the Code

- 1.25 Proper accounting practices specified in paragraphs 1.2.1 to 1.2.4 set out that where statutory accounting requirements and the accounting requirements in the Code conflict the statutory accounting requirements take precedence. In the unusual event that other statutory provisions require departures from the Code, then those statutory provisions shall be followed. Regard will still need to be given, however, to the need for the statement of accounts/financial statements within the annual accounts in Scotland¹ to give a ‘true and fair’ view of the financial position, financial performance and cash flows of the authority, which may mean the inclusion of additional information in accordance with the provisions of the Code.
- 1.26 Statutory accounting requirements across the UK (see Appendix B for the legislative basis) also specify what is chargeable to taxation (council tax, non-domestic rates). The Code refers to this as what is chargeable to the general fund. References to the general fund or general fund balances in this Code should be understood to mean council fund in Wales and police fund for police bodies applying this Code. The relevant statutory accounting requirements are described at the end of each section of the Code which sets out the transactions required to adjust the accounting requirements under IFRS as adopted by this Code to arrive at the amounts chargeable to the general fund. This includes the presentation of those statutory requirements. The impact of the statutory reporting requirements is presented in the movement in reserves statement.
- 1.27 The Code prescribes the accounting treatment and disclosures for all normal transactions of a local authority, and is based on EU-adopted IFRS². On the few occasions where the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC) considers it appropriate to adapt or interpret IFRSs, the accounting treatment is based on the approach in the memorandum of understanding between the relevant authorities.

¹ References to statement of accounts in this Code mean annual accounts or, where relevant, financial statements within the annual accounts for Scottish authorities following the specifications of the Local Authority Accounts (Scotland) Regulations 2014.

² [In the event of the UK withdrawing from the remit of the EU-endorsement framework, the Code will ~~apply~~ be based on standards adopted for UK application under the terms of The International Accounting Standards and European Public Limited-Liability Company \(Amendment etc.\) \(EU Exit\) Regulations 2019 \(SI 2019/685\).](#)

- 1.2.8 The Code includes adaptations and interpretations of International Financial Reporting Standards and other pronouncements by the International Accounting Standards Board (IASB) subject to such adaptations and interpretations as are necessary for the local government context - these have been subject to consultation in accordance with CIPFA/LASAAC's Terms of Reference and under the memorandum of understanding between the relevant authorities.
- 1.2.9 An adaptation of international financial reporting standards is an amendment to the requirements of international financial reporting standards.
- 1.2.10 An interpretation of international financial reporting standards specifies more precisely how a local authority is required to apply the requirements in a standard. An interpretation is not an amendment to the requirements of international financial reporting standards.
- 1.2.11 Adaptations and interpretations will be clearly identified in each chapter or section of the Code. In all other cases, the Code implements the requirements of International Financial Reporting Standards. Where users experience difficulties interpreting this Code, they shall refer back to the relevant International Financial Reporting Standard or other pronouncement for further guidance. Where adaptations and interpretations of International Financial Reporting Standards contained in the Code are in line with the guidance contained in International Public Sector Accounting Standards or other reporting standards relevant to the public sector, authorities shall refer to those standards for further guidance.
- 1.2.12 In the unusual event that a local authority enters into a transaction, the accounting treatment and disclosure requirements of which are not covered by the Code, but which are covered by an extant IAS, IFRS, SIC Interpretation or IFRIC Interpretation, by an IPSAS or other reporting standards relevant to the public sector, the requirements of the relevant IAS, IFRS, SIC Interpretation, IFRIC Interpretation, IPSAS or other GAAP shall be followed.
- 1.2.13 IFRS increasingly uses application guidance to support the provisions in standards. Where particularly relevant to local authority transactions, events or circumstances application guidance may be included directly in the Code. However, where the standards are clear that the application guidance is an integral part of the standard local authorities are required to refer to that application guidance when relevant transactions, events or circumstances arise. This may be particularly important for complex transactions.

Proper accounting practices – local authority reserves

- 1.2.14 In order to appropriately present the financial performance and financial position of a local authority the Code draws a distinction between usable and unusable reserves. These are discussed in more detail in the narrative description of both the movement in reserves statement and the balance sheet. Section 3.4 of the Code requires a description of the nature and purpose of an authority's reserves to be included either in the narrative report or with the financial statements themselves.

- 1.2.15 A usable reserve represents resources which the authority might use to support service delivery at the reporting date. Some usable reserves may have restrictions upon their use dependent upon the relevant legislative requirements.
- 1.2.16 Unusable reserves are not available to use to support service delivery at the reporting date. These reserves arise from either:
- a) statutory adjustments required to reconcile balances to the amounts chargeable to council tax (or rents) for the year, in order to comply with legislation, or
 - b) accounting gains or losses recognised in other comprehensive income and expenditure in accordance with accounting standards adopted by the Code, rather than in the surplus or deficit on the provision of services.
- 1.2.17 Due to the particular accounting arrangements adopted by this Code some unusable reserves represent both statutory adjustments and movements relating to accounting gains or losses. For example:
- a) The capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions. The account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the comprehensive income and expenditure statement and credited with amounts set aside by the authority as finance these costs. However, the account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the authority. The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the revaluation reserve was created to hold such gains.
 - b) The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. This Code requires that an authority accounts for post-employment benefits in the comprehensive income and expenditure statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory accounting requirements require benefits earned to be financed as the authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The pensions reserve also includes gains or losses from the remeasurement of the net defined benefit liability (asset). Such gains or losses are recognised in other comprehensive income and expenditure.

1.3 APPLICABILITY OF THE CODE

- 131 This Code has effect for financial years commencing on or after 1 April 2020~~19~~.

Applicability – English authorities/bodies

- 132 In England, the Code is part of the ‘proper practices’ requirements governing the preparation of an authority’s statement of accounts referred to in Section 21 of the Local Government Act 2003. However, the Code does not apply to any parish councils, even those required to prepare a statement of accounts. Alternative guidance is applicable to these councils. All authorities to which Section 21 applies that are required to prepare a statement of accounts in compliance with the Accounts and Audit Regulations 2015 made under Section 32 of the Local Audit and Accountability Act 2014, except parish councils, therefore have a statutory duty to comply with Code requirements. In practice this definition includes principal councils, police and crime commissioners, fire and rescue authorities, and the Greater London Authority and its functional bodies.
- 133 Section 3 of the Local Audit and Accountability Act 2014 requires a relevant authority (defined in Schedule 2 of the Act (other than a health service body)) to prepare a statement of accounts. It is expected that bodies covered by the Accounts and Audit Regulations 2015 requirements to prepare a statement of accounts but not by the definition of proper practices in Section 21 of the Local Government Act 2003 will adopt the Code as a source of proper practices, unless adoption is ruled out by legislation, or a more specialised accounting code or other guidance applies. Specialised bodies should check against the definitions in the relevant Acts to determine whether they are covered.
- 134 Section 141 of the Anti-social Behaviour, Crime and Policing Act 2014 stipulates that a number of sections of Part 1 Capital Finance etc and Accounts of the Local Government Act 2003 (including sections 21 and 22) apply to chief constables as they apply to a local authority.
- 135 The Local Audit and Accountability Act 2014 confirmed the threshold for smaller relevant authorities in England below which a statement of accounts is not required to be prepared. However, these authorities are permitted by legislation to follow the requirements for larger relevant authorities in relation to the statement of accounts, which might mean the requirements of the Code.

Applicability – Northern Irish district councils

- 136 In Northern Ireland, district councils are required to prepare statements of accounts under Regulation 7 of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 and the Code is part of the proper practices governing their preparation.

Applicability – Scottish authorities/bodies

- 137 Scottish local authorities have a duty under Section 12 of the Local Government in Scotland Act

2003 to observe proper accounting practices. The Code is recognised as setting out proper accounting practices in this regard. Local authorities are defined as a council constituted under Section 2 of the Local Government (Scotland) Act 1994, the Strathclyde Partnership for Transport and transport partnerships created under the Transport (Scotland) Act 2005, integration joint boards established by order under Section 9 of the Public Bodies (Joint Working) (Scotland) Act 2014, and other bodies and trust funds to which Section 106(1) of the Local Government (Scotland) Act 1973 applies.

- 1.3.8 As a consequence of the requirements of Part 4 of the Local Authority Accounts (Scotland) Regulations 2014, where a trust fund falls within Section 106(1) and is a registered charity it should comply with the accounting requirements of those regulations, including following the charities statement of recommended practice (SORP) and other financial reporting requirements as specified by the Office of the Scottish Charity Regulator (OSCR). Where the trust fund is not a registered charity, it should follow the requirements of this Code.

Applicability – Welsh authorities/bodies

- 1.3.9 In Wales, the Code is part of the ‘proper practices’ requirements governing the preparation of an authority’s statement of accounts referred to in Section 21 of the Local Government Act 2003. However, the Code does not apply to any community councils, even those required to prepare a statement of accounts. Alternative guidance is applicable to these councils. All authorities to which Section 21 applies that are required to prepare a statement of accounts in compliance with the Accounts and Audit (Wales) Regulations 2014 made under Section 39 of the Public Audit (Wales) Act 2004, except community councils, therefore have a statutory duty to comply with Code requirements. In practice this definition includes principal councils, police and crime commissioners and fire and rescue authorities.
- 1.3.10 It is expected that bodies covered by the Accounts and Audit (Wales) Regulations 2014 requirements to prepare a statement of accounts but not by the definition of proper practices in Section 21 of the Local Government Act 2003 will adopt the Code as a source of proper practices, unless adoption is ruled out by legislation, or a more specialised accounting code applies. Specialised bodies should check against the definitions to determine whether they are covered.
- 1.3.11 Section 141 of the Anti-social Behaviour, Crime and Policing Act 2014 stipulates that a number of sections of Part 1 Capital Finance etc and Accounts of the Local Government Act 2003 (including sections 21 and 22) apply to chief constables as they apply to a local authority.

Applicability – general

- 1.3.12 This is the tenth edition of the Code to be prepared under International Financial Reporting Standards. ~~This is with the exception of IFRS 16 Leases, the implementation of this standard in the Code is delayed until 1 April 2020.~~ This version of the Code reflects a number of changes to accounting practice since the 2019/2019 Code. These changes are set out at the end of each section.

- 1313 Proper practice, as defined by regulations, also includes the requirements of other codes of practice, such as the *Service Reporting Code of Practice (SeRCOP)*. Although this Code no longer requires statements or notes to be prepared in accordance with SeRCOP, in preparing relevant statistical information based on accounting records local authorities will need to ensure that they comply with the requirements of SeRCOP and other codes of practice as well as the requirements of this Code. Other codes of practice, such as CIPFA's *Prudential Code*, also rely on information in the financial statements and accounting records. In preparing the financial statements local authorities shall comply with the requirements of that Code.

1.4 PUBLICATION

General

- 141 The statement of accounts should be prepared promptly by authorities in a form which fulfils the purpose outlined above in accordance with the statutory timetable and CIPFA's *Standard of Professional Practice on Financial Reporting*.

Confirmation and publication requirements for the statement of accounts in England

- 142 In England, the responsible financial officer in each authority is required to confirm that they are satisfied that the statement of accounts presents a true and fair view of the financial position of the authority at the end of the relevant financial year and the authority's income and expenditure for that financial year, prior to the commencement of the period for the exercise of public rights (which includes the first ten working days in June) and to approve and publish them by 31 July, or as soon as reasonably practicable after the receipt of the auditor's final findings (if later). The complete set of financial statements as defined in paragraph 3.4.2.17, and including the significant accounting policies and notes to the accounts, should form the relevant statement of accounts for the purpose of the auditor's certificate and opinion in England. The statements should be published with an audit certificate and opinion in England. If the published statement of accounts has not been audited, this should be stated clearly on the front of the document.

Issue and publication requirements for the statement of accounts in Northern Ireland

- 143 In Northern Ireland, the requirement is to prepare and approve accounts by 30 June and to publish them by 30 September. The complete set of financial statements as defined in paragraph 3.4.2.17, and including the significant accounting policies and notes to the accounts, should form the relevant statement of accounts for the purpose of the auditor's certificate and opinion. The statements should be published with an audit certificate and opinion. If the published statement

of accounts has not been audited, this should be stated clearly on the front of the document.

Submission and publication of the annual accounts in Scotland

- 144 In Scotland, the proper officer is required to submit the unaudited accounts to the appointed auditor by 30 June. The local authority or a committee of that authority whose remit includes audit or governance functions must meet to consider the unaudited annual accounts as submitted to the auditor by 31 August. The Local Authority Accounts (Scotland) Regulations 2014 require the local authority to aim to approve the annual accounts for signature by 30 September and to publish them by 31 October. In Scotland, the financial statements are required to be included in the annual accounts. The complete set of financial statements as defined in paragraph 3.4.2.17, and including the significant accounting policies and notes to the accounts, should form the financial statements in the annual accounts. The statements should be published with an audit certificate. If the published statement of accounts has not been audited, this should be stated clearly on the front of the document.

Issue and publication of the statement of accounts in Wales

- 145 In Wales, the requirement is to prepare and approve accounts by ~~31 May~~ June and to publish them by ~~31 July~~ 15 September. ~~Note that for fire and rescue authorities, national park authorities, police and crime commissioners and chief constables these dates are 31 May and 31 July respectively.~~ The complete set of financial statements as defined in paragraph 3.4.2.17, and including the significant accounting policies and notes to the accounts, should form the relevant statement of accounts for the purpose of the auditor's certificate and opinion. The statements should be published with an audit certificate and opinion. If the published statement of accounts has not been audited, this should be stated clearly on the front of the document.

Other publication issues

- 146 The publication of a statement of accounts/annual accounts in Scotland is a statutory requirement. However, statements of accounts/annual accounts form part of reporting in its wider sense, and must, therefore, be considered in relation to annual reports. It is recommended that the statement of accounts should be included within the annual report. However, where this is not appropriate, the annual report should contain a fair summary of the statement of accounts, with a cross-reference to where and how the full statement of accounts may be obtained.
- 147 The Code states which financial statements should be published as part of the statement of accounts/annual accounts in Scotland, and the information to be included in each statement. It also sets out recommendations regarding the order in which the financial statements and notes to the accounts are presented. Within the general framework and requirements of the Code, the layout of financial statements and terminology used are at the discretion of authorities.

1.5 THE CONTEXT OF THE CODE'S RECOMMENDATIONS

- 151 The Code is supported by a number of detailed accounting recommendations which have evolved as best accounting practice over many years. The provisions of the Code are updated where professional or statutory developments make it appropriate. The primary sources are set out in Appendix B.
- 152 The Code sets out the accounting concepts and accounting principles which underpin the statement of accounts. The following points are intended to put some of those requirements in context:
- The overriding requirement of the Code remains that the statement of accounts and the financial statements within the annual accounts give a 'true and fair' view of the financial position, financial performance and cash flows of the authority. Where there are changes in accounting policies or where the requirements of the Code are not met, then full disclosure and, where relevant, quantification in the statement of accounts is required.
 - The Code represents the minimum requirements for disclosure and presentation (subject to materiality) and is not intended to prejudice the provision of further information by authorities.

1.6 ACCOUNTING STANDARDS

- 161 The Code is based on approved accounting standards and also reflects specific statutory accounting requirements. Compliance with the Code is therefore necessary (save in exceptional circumstances) in order that an authority's accounts give a 'true and fair' view of the financial position, financial performance and cash flows of the authority.
- 162 The requirements of International Financial Reporting Standards and other pronouncements by the International Accounting Standards Board in effect for accounting periods commencing on or before 1 January 2020 (as adopted by the EU) apply unless specifically adapted or interpreted by the Code. This is with the exception of IFRS 16 *Leases*; the implementation of this standard in the Code is delayed until 1 April 2020.

1.7 MATERIALITY

1.7.1 The Code provides a definition of materiality in paragraph 2.1.2.14 which is applied to information and disclosures in local authority financial statements. This Code only requires local authority financial statements to disclose information which is material.³ ~~CIPFA/LASAAC is of the view that local authority financial statements should only include disclosures that are material to the presentation of a 'true and fair' view of the financial position, financial performance and cash flows of the authority and to the understanding of users of the financial statements.~~

1.8 PURPOSE OF THE STATEMENT OF ACCOUNTS

1.8.1 The Code has been prepared on the basis that the purpose of a local authority's published statement of accounts/annual accounts (Scotland) is to give electors, those subject to locally levied taxes and charges, members of the authority, employees and other interested parties clear information about the authority's finances. It should answer such questions as:

- What did the authority's services cost in the year of account?
- Where did the money come from?
- What were the authority's assets and liabilities at the year end?

1.8.2 It is important for compliance with the Code that two particular aspects are understood clearly. First, all statements of accounts should reflect a common pattern of presentation, although this does not necessarily require them to be in an identical format. One of the main aims of the Code is to narrow the areas of difference and variety in accounting treatment and thereby to enhance the usefulness of published statements of accounts.

1.8.3 Secondly, interpretation and explanation of the accounts are considered to be extremely important. The Code requires that there should be a narrative report to accompany the financial statements/statement of accounts. The narrative report should explain the more significant features of the accounts (see Section 3.1 of the Code for further details of the requirements to produce a narrative report). It should be based on the information contained in the statement of accounts and local authorities should ensure that it does not contain material inaccuracies or misleading statements in relation to the statement of accounts.

1.8.4 Wherever possible the statement of accounts and the supporting notes should be written in plain language and technical terms or jargon should be used only sparingly. Where the use of

³ This position is based on paragraph 3.4.2.27 from the Code's adoption of IAS 1 *Presentation of Financial Statements* which states: "A local authority need not provide a specific disclosure required by the Code if the information resulting from that disclosure is not material."

technical terms cannot be avoided, they should always be explained clearly in a glossary.

1.85 Where an authority also publishes a summarised or simplified version of its statement of accounts, it should contain a clear reference to the existence of the full statement of accounts and to its availability.

1.86 Information contained in the statement of accounts will be consolidated into the Whole of Government Accounts. The Code aims to narrow the areas of difference and variety in accounting treatment with the rest of the public sector, facilitating consolidation. As part of the consolidation process, additional information to that disclosed in the statement of accounts may need to be submitted to government; such information is expected to be in line with the requirements of the Code.

DRAFT

CHAPTER 2

Concepts and principles

2.1 CONCEPTS

2.1.1 Introduction

- 2.1.1.1** As explained at paragraphs 1.2.8 to 1.2.11, the Code adapts and interprets IFRS and other pronouncements by the International Accounting Standards Board (IASB), to the extent that this is necessary for the local government context. Broadly speaking:
- adaptations are required in cases where the needs of the users of local authority accounts differ from those of the profit seeking entities for which IFRS are developed, and
 - interpretations are required in the Code where the substance of local government transactions or balances goes beyond that considered by the IASB in its standards development process, generally reflecting the role of local authorities as providers of public services.
- 2.1.1.2** When considering whether to adapt or interpret IFRS, CIPFA/LASAAC considers the *Conceptual Framework for Financial Reporting*⁴, (IASB March 2018) and other material which explains the thinking behind IASB standards development. In deciding what kind of change to make, it also considers the International Public Sector Accounting Standards Board (IPSASB) *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*⁵ (IPSASB, October 2014).
- 2.1.1.3** The conceptual frameworks referred to above are not standards. Neither does consideration of concepts or principles allow preparers to override or dis-apply the requirements of standards or the Code. However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events

⁴ Hereafter referred to as the IASB Conceptual Framework.

⁵ Hereafter referred to as the IPSASB Conceptual Framework

where standards do not provide specific guidance, or where a choice of accounting policies is available.

2.1.14 It should be noted that the objective of general purpose financial reporting set out in Chapter 1 of the IASB Conceptual Framework (paragraph 1.2) has been expanded in the Code to reflect public sector circumstances. The Code is also developed having regard to the needs of the users of public sector financial statements (which are different to those of investors and lenders, as explained at paragraphs 2.1.2.4 and 2.1.2.6).

2.1.15 This chapter of the Code is structured in line with the IASB Conceptual Framework used for IFRS development. The IPSASB Conceptual Framework provides additional guidance for local authorities on issues raised by Section 2.1.

2.1.16 In presenting information in their financial statements, local authorities shall have regard to the:

- a) objective of financial statements
- b) going concern assumption
- c) qualitative characteristics of financial statements
- d) elements of financial statements
- e) recognition of the elements of financial statements
- f) measurement of the elements of financial statements.

2.1.17 In particular, regard should be had to the qualitative characteristics in the selection and application of accounting policies and estimation techniques (see Section 3.3 of the Code), and in the exercise of professional judgement. The Code specifies many of the accounting policies and estimation techniques to be adopted for material items. These policies and techniques have been selected to accord with the accounting concepts and principles set out in this Section and with International Financial Reporting Standards (as adapted for the public sector context, where necessary).

2.1.18 Financial statements shall give a true and fair view of the financial position, financial performance and cash flows of an authority. A true and fair view requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Code. Although the IASB Conceptual Framework does not deal directly with such a concept, the application of the principal qualitative characteristics and compliance with the Code is presumed to result in financial statements that convey a true and fair view. Nevertheless, it remains the responsibility of the authority to ensure that its financial statements present a true and fair view of the financial position, performance and cash flows of the authority.

2.1.2 Accounting requirements

Objectives of financial statements

2.121 Authorities need to be familiar with the objective of the financial statements. For each local authority the objective of the financial statements is to provide information about the authority's:

- financial performance (income and expenses)
- financial position (assets, liabilities and reserves), and
- cash flows

that is useful to a wide range of users for assessing the stewardship of the authority's management and for making economic decisions.

2.122 The objectives of financial reporting are therefore determined by reference to the users of the financial statements, and their information needs. In the public sector, providing information that allows for an assessment of the stewardship and accountability of elected members and management for the resources entrusted to them is of paramount importance.

2.123 The information referred to in paragraphs 2.1.2.1 and 2.1.2.2 is provided by:

- a) recognising assets, liabilities and reserves in the balance sheet
- b) recognising income and expenses in the comprehensive income and expenditure statement, and
- c) presenting and disclosing in other statements and notes information about:
 - i) recognised assets, liabilities, reserves, income and expenses (see paragraph 2.1.2.36) including their nature and the risks arising from them
 - ii) assets and liabilities that have not been recognised (see paragraph 2.1.2.37), including their nature and the risks arising from them
 - iii) cash flows
 - iv) contributions from and distributions to holders of equity claims (for the group accounts), and
 - v) methods, assumptions and judgements used in estimating amounts presented or disclosed, and changes in those methods, assumptions and judgements.

2.124 It should be noted that the IASB Conceptual Framework sets out that general purpose financial reports are not primarily directed to regulators and members of the public other than investors, lenders and other creditors (IASB Conceptual Framework, paragraph 1.10). However, CIPFA/LASAAC is of the view that the nature of public sector financial statements would mean that this paragraph is not applicable to local authorities. It considers that, consistent with the views issued in previous editions of the Code, the presentation of the financial statements shall meet the common needs of most users, focusing on the ability of the users to make economic

decisions, the needs of public accountability and the stewardship of an authority's resources.

- 2.125 Furthermore, preparers should be aware that some standards⁶ referred to in the Code were initially developed using earlier frameworks and are not fully consistent with the 2018 Conceptual Framework included in this section of the Code. When preparers refer to an underlying these standards to determine the treatment of a transaction, circumstance or event covered by the Conceptual Frameworks, they should refer to any relevant amendments⁷ to determine ~~not construe references to the~~ appropriate application of the *Framework for the Preparation and Presentation of Financial Statements (2001)*, ~~the and~~ *Conceptual Framework for Financial Reporting 2010* or the ~~as referring to the~~ 2018 Conceptual Framework⁸.
- 2.126 Local authority financial statements are developed primarily to respond to the information needs of service recipients and resource providers who cannot require local authorities to disclose the information they need. Local authority members and members of parliament are also primary users of local authority financial statements, when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of Code, the primary users of the financial statements are service recipients and their representatives and resource providers and their representatives⁹.
- 2.127 CIPFA/LASAAC would note that government has prescribed the Code as a proper practice in legislation and relies on the assurance it obtains from local authorities producing a set of IFRS-based financial statements to ensure that local authority financial performance, financial position and cash flows are disclosed to present a true and fair view and thus the government across the four UK administrations may be described as an interested stakeholder in the local authority financial statements.

Financial performance reflected by accrual accounting

- 2.128 An authority shall prepare its financial statements, except for cash flow information, using the

⁶ ~~These include the following standards which are relevant to local authority financial reporting: IAS 37 Provisions, Contingent Liabilities and Contingent Assets, IAS 38 Intangible Assets, IFRIC 12 Service Concession Arrangements and SIC 32 Intangible Assets—Web Site Costs.~~

⁷ ~~The IASB has issued a clarifying standard *Amendments to References to the Conceptual Framework in IFRS Standards* which is designed to remove any ambiguity.~~

⁸ ~~The IASB has issued a clarifying standard *Amendments to References to the Conceptual Framework in IFRS Standards* which is designed to remove any ambiguity. However, this standard has not yet been EU adopted and so these amendments have not taken effect for the purposes of the Code.~~

⁹ The inclusion of 'service recipients and their representatives' and the inclusion of representatives of resource providers is an adaptation. The different needs of this wider class of users provide the conceptual basis for further adaptations to specific standards, which are explained in later chapters of the Code.

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. Accrual accounting shows the effects of transactions and other events and circumstances on an authority's economic resources and claims when those effects occur, even if the resulting cash receipts and payments occur in a different period.

Going concern assumption

- 2.12.9** **Going concern** – an 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 (see also paragraph 3.4.2.23 for bodies that follow the Code but may be discontinued without statutory prescription). Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

Qualitative characteristics of useful financial information

Fundamental qualitative characteristics

- 2.12.10** The fundamental qualitative characteristics of financial information are **relevance** and **faithful representation**. Information must be both relevant and faithfully presented to be useful.
- 2.12.11** **Relevance** – relevant financial information can make a difference to the decisions made by users. Information may be capable of making a difference to a decision even if some users choose not to use it or are not aware of it. Financial information can make a difference if it has predictive value, confirmatory value or both.
- 2.12.12** Financial information with predictive value can be an input to processes used to predict future outcomes. Financial information need not be a prediction or forecast to have predictive value.
- 2.12.13** Financial information with confirmatory value provides feedback about (confirms or does not confirm) previous evaluations.

2.12.14 Materiality – information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity~~local authority~~. ~~is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting authority.~~ In other words, materiality is an authority-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual authority's financial statements. Consequently, the Code cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation. Materiality is an important concept for preparers of financial statements, because although decisions on the type of information which is useful are generally made by standard setters¹⁰, judgments on whether matters are material are necessarily a matter for preparers. An authority can comply with the Code, while not complying with specific disclosure and accounting requirements in the Code, if the information is not material to the 'true and fair' view of the financial position, financial performance and cash flows of the authority and to the understanding of users.

2.12.14B Information regarding a material item may be obscured for the users of the financial statements if, for example:

- a) information is provided but the language used is vague or unclear
- b) information is scattered throughout the financial statements
- c) dissimilar items are inappropriately aggregated
- d) similar items are inappropriately disaggregated
- e) a user is unable to determine what is material as a result of information regarding a material item being hidden by immaterial information

2.12.14B2 In ensuring that material information is not obscured judgement is required regarding the extent of supporting disclosures which are appropriate for a specific item. In particular the materiality of an item in a primary statement does not include a presumption that all supporting information disclosures specified in the Code for that item are material. This applies for both descriptive and quantitative-numerical supporting information.

2.12.14C Judgements regarding materiality should be based upon the needs of users as defined in Section

¹⁰ IASB decisions on usefulness are incorporated in IFRS requirements, and apply to local authority financial statements, subject to any interpretations or adaptations in the Code.

[2.1 above. Additional information may be disclosed where this does not obscure information which is material for users.](#)

2.12.15 Faithful representation – the financial statements represent economic phenomena in words and numbers. In many circumstances, the substance of an economic phenomenon and its legal form are the same, but when they are not, providing information only about the legal form will not faithfully represent the economic phenomenon. A perfectly faithful representation would have three characteristics. It would be **complete, neutral and free from error**. The Code seeks to maximise these qualities as much as possible.

- A **complete depiction** includes all the information a user needs to understand the phenomenon depicted, including necessary descriptions and explanations.
- A **neutral depiction** selects and presents financial information without bias, and is not slanted, weighted, emphasised, de-emphasised or manipulated to increase the probability that it will be received favourably or unfavourably. Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgements under conditions of uncertainty: assets and income must not be overstated and liabilities and expenses must not be understated.¹¹ Equally, prudence does not allow assets or income to be understated or liabilities or expenses to be overstated: such misstatements can lead to the overstatement or understatement of income or expenses in future periods. The exercise of prudence does not imply a need for asymmetry, for example, by requiring more persuasive evidence to support the recognition of assets than the recognition of liabilities. Such asymmetry is not a qualitative characteristic of useful financial information.
- Faithful representation does not mean accurate in all respects. **Free from error** means the description of the phenomenon contains no errors or omissions, and the reported information has been selected and applied with no errors in the process. For example, an estimate of an unobservable price cannot be determined to be accurate or inaccurate. However, an estimate can be faithfully represented if described clearly and accurately as being an estimate, the nature and limitations of the estimating process are explained, and no errors have been made in selecting and applying an appropriate process. The use of estimates is an essential part of financial information and does not undermine usefulness if the estimates are clearly and accurately described and explained. Even a high level of measurement uncertainty does not necessarily prevent an estimate from providing useful information.

Enhancing qualitative characteristics

2.12.16 Comparability, verifiability, timeliness and understandability enhance the usefulness of

¹¹ Assets, liabilities, income and expenses, four of the elements of the financial statements are defined in paragraphs 2.1.2.27 to 2.1.2.28 and 2.1.2.33 to 2.1.2.34.

information. These characteristics may also help determine which of two ways should be used to depict a phenomenon if both are considered equally relevant and faithfully represented.

2.12.17 Comparability – information about an authority is more useful if it can be compared with similar information about other authorities and entities, and with similar information about the same authority for another period or another date. Comparability enables users to identify and understand similarities in, and differences between, items. Unlike the other characteristics, comparability does not relate to a single item. A comparison requires at least two items. It should be noted that:

- Consistency is not the same as comparability. Consistency refers to the use of the same methods for the same items from period to period within a reporting entity or in a single period across entities. Comparability is the goal; consistency helps achieve that goal.
- Comparability is not uniformity. To be comparable, like things must look alike and different things must look different. Comparability is not enhanced by making unlike things look alike or making like things look different. Application of the terms of the Code should ensure adequate disclosure and consistency, and thus comparability.

2.12.18 Verifiability means that knowledgeable and independent observers could agree or reach a reasonable consensus, that a depiction is a faithful representation. Quantified information need not be a single point estimate to be verifiable. A range of possible amounts and the related probabilities can also be verified.

2.12.19 Direct verification involves direct observation; for example, by counting cash. Indirect verification involves checking inputs to a model, formula or other technique and recalculating the outputs.

2.12.20 It may not be possible to verify some information until a future period, or at all. To help users decide whether to use such information, it would normally be necessary to disclose the assumptions, methods and other factors that support it.

2.12.21 Timeliness means that information is available in time to be capable of influencing decisions. Generally, the older information is, the less useful it is. However, some information may continue to be useful, for example, if users need to identify and assess trends.

2.12.22 Understandability – classifying, characterising and presenting information clearly and concisely makes it understandable. Some phenomena are inherently complex and cannot be made easy to understand, but that does not mean that information about them should not be provided.

2.12.23 The financial statements are prepared for users with a reasonable knowledge of business and economic activities¹². Some economic and other phenomena are particularly complex and

¹² This echoes similar text in the IASB Conceptual Framework, paragraph 1.10. While CIPFA/LASAAC has determined that this paragraph is not applicable and the statements should meet the needs of a wider range of users than those described in the IASB Conceptual Framework, there is still an expectation that readers of local authority financial statements will have reasonable knowledge of the local authority's business and economic activities.

difficult to represent in local authority financial statements and some users may need to seek the aid of an advisor to assist in their understanding of them. All efforts should be undertaken to represent economic and other phenomena included in the financial statements in a manner that is understandable to a wide range of users. However, information should not be excluded from financial statements solely because it may be too complex or difficult for some users to understand without assistance.

- 2.1.2.24** Enhancing qualitative characteristics should be maximised as far as possible. However, enhancing qualitative characteristics cannot make information useful if it is irrelevant or not faithfully represented.
- 2.1.2.25** Local authorities derive their powers from statute and their financial and accounting framework is closely controlled by primary and secondary legislation. It is a fundamental principle of local authority accounting that, where specific legislative requirements and accounting requirements conflict, legislative requirements shall apply. However, the Code deals with such conflicts by showing the position required by the Code's accounting requirements in the comprehensive income and expenditure statement, and the effect of the legislative requirements in the movement in reserves statement.

Elements of financial statements

- 2.1.2.26** As indicated in paragraph 2.1.2.3 the elements directly related to the measurements of financial position in the balance sheet are assets, liabilities and reserves. The elements directly related to the measurement of the financial performance in the comprehensive income and expenditure statement are income and expenses. The presentation of these elements is shown in Section 3.4 of the Code. The cash flow statement reflects elements in both the comprehensive income and expenditure statement and the balance sheet.
- 2.1.2.27** In assessing whether an item meets the definition of an asset, liability or reserve, attention needs to be given to its underlying substance and economic reality and not merely its legal form. These elements are defined in terms of economic resources and claims and changes in economic resources and claims.
- 2.1.2.28** An **asset** is a present economic resource controlled by the authority as a result of past events. For a detailed consideration of the definition of an asset local authorities shall refer to paragraphs 4.5 to 4.25 of the IASB Conceptual Framework.
- 2.1.2.29** A **liability** is a present obligation of the authority to transfer an economic resource as a result of past events. For a detailed consideration of the definition of a liability local authorities shall refer to paragraphs 4.27 to 4.45 of the IASB Conceptual Framework.
- 2.1.2.30** An **economic resource** is a right that has the potential to produce economic benefits, service

potential¹³ or both.

2.1231 Rights that have the potential to produce economic benefits or service potential take many forms, including:

- a) rights that correspond to an obligation of another party, for example:
 - i) rights to receive cash
 - ii) rights to receive goods or services
 - iii) rights to exchange resources on favourable terms
 - iv) rights to benefit from an obligation of another party to transfer a resource if a specified uncertain future event occurs
- b) rights that do not correspond to an obligation of another party, for example:
 - i) rights over physical objects, such as property, plant and equipment
 - ii) rights to use intellectual property.

2.1232 An **obligation** is a duty or responsibility that an authority has no practical ability to avoid. An obligation is always owed to another party (or parties) which could be one or more persons or entities, or society at large. It is not necessary to know to whom the obligation is owed.

2.1233 **Reserves**¹⁴ represent the residual interest in the assets of the authority after deducting all its liabilities. The movement in reserves statement shows the true economic cost of providing the authority's services. Some income and expenditure is required to be recognised on a different basis or in a different accounting period (ie in accordance with legislation) in the general fund and Housing Revenue Account. These differences are shown in the line 'Adjustments between accounting basis and funding basis under regulations'. The movement in reserves statement shows total comprehensive income and expenditure and the comprehensive income and expenditure statement shows the breakdown between the surplus or deficit on the provision of services and other comprehensive income and expenditure.

2.1234 **Income** is increases in assets, or decreases in liabilities, that result in increases in reserves. Income includes both revenue arising in the normal operating activities of an authority and gains such as the revaluation of property, plant and equipment.

2.1235 **Expenses** are decreases in economic benefits or service potential in the form of outflows or consumption of assets or increases of liabilities that result in decreases in reserves. Expenses

¹³ The inclusion of 'service potential' within the definition of economic resource is an interpretation, reflecting the different economic substance of resource utilisation by public sector service providers. This provides the conceptual basis for further interpretations of specific standards, which are explained in later chapters of the Code.

¹⁴ The term 'reserves' is used in the Code and replaces many references to 'equity' residual interest in IFRS and other IASB pronouncements. This reflects the fact that most accounts prepared under the Code will not be for investor owned companies. Some references to 'equity' are retained where appropriate.

include expenses that arise in the course of the ordinary activities and losses such as revaluation of property, plant and equipment.

The Recognition Process

2.12.36 Recognition captures items in the balance sheet or comprehensive income and expenditure statement that meet the definition of one of the elements of financial statements. Recognition involves depicting an item either alone or in aggregation with other items – in words and by a monetary amount, and including that amount in one or more totals. The amount at which an item is recognised in the balance sheet is referred to as its ‘carrying amount’.

Recognition Criteria

2.12.37 Only items meeting the definition of an asset, a liability or reserves are recognised in the balance sheet. Similarly, only items meeting the definition of income or expenses are recognised in the comprehensive income and expenditure statement. However, not all such items are recognised. An item is recognised only if recognition of that asset or liability and of any resulting income, expenses or changes in reserves provides information that is useful (having regard to the qualitative characteristics of useful information described at paragraphs 2.1.2.10 to paragraphs 2.1.2.16 as modified by public sector adaptations or interpretations specified in the Code).

Derecognition

2.12.38 Derecognition is the removal of all or part of an asset or liability from an authority’s balance sheet, and normally occurs when the item no longer meets the definition of an asset or liability. Derecognition normally occurs when the entity:

- a) loses control of all or part of an asset, or
- b) no longer has a present obligation for all or part of a liability.

Recognition of revenue

2.12.39 The principles of revenue recognition are included in a number of sections of Chapter 2 of the Code. Typical revenue transactions that occur in local authorities include income from:

- taxation charged by local authorities, for example, council tax, general rates and non-domestic rates (see sections 2.2, 2.8 and 3.6)
- breaches or contraventions of laws or regulations, for example, fines and penalties (see Section 2.3 and IPSAS 23 *Revenue from Non-Exchange Transactions*)
- fees and charges for both exchange and non-exchange transactions, for example, precepts and levies, car parking fees and taxi licences
- government grants or contributions – including grants and contributions from central government and other public sector bodies (see Section 2.3)
- transfers given voluntarily to a local authority, for example, bequests and donations (see

Section 2.3 and IPSAS 23)

- income from charging from the sale of goods or services to local authority service recipients (see Section 2.7), and
- income from the disposal of the sale of non-current assets (see Chapter 4).

2.1.2.40 Revenue transactions can be broadly divided into two types ie those which are exchange transactions and those which are non-exchange transactions. Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange. Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an authority either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

2.1.2.41 There is a further group of non-exchange transactions where an entity may provide some consideration directly in return for the resources received, but that consideration does not approximate the fair value of the resources received. In these cases, the authority will need to determine whether there is a combination of exchange and non-exchange transactions, each component of which is recognised separately.

2.1.2.42 For non-exchange transactions: revenue shall be recognised when the event that triggers the payment to the authority has taken place and:

- a) it is probable that the economic benefits associated with the transaction will flow to the authority, and
- b) the amount of the revenue can be measured reliably.

2.1.2.43 The vast majority of exchange transactions (that are not sales of non-current assets) incurred by local authorities are likely to be recognised in accordance with Section 2.7 as in most cases the exchange is likely to be as a result of a contract, even if this contract is not written. The recognition criteria for these transactions are set out in paragraphs 2.7.2.13 to 2.7.2.26 and IFRS 15 *Revenue from Contracts with Customers*. Where there is no contract and paragraph 15 of IFRS 15 does not apply then revenue should be recognised in accordance with paragraph 2.1.2.35. The remaining exchange transactions are likely to be as a result of disposals of non-current assets and those proceeds should be recognised in accordance with Chapter 4 of the Code. For these latter transactions local authorities will also need to account for the disposals in accordance with the statutory provisions and proper practices to recognise capital receipts (see Chapter 4).

2.1.2.44 The following diagram shows the recognition principles for the main types of income recognised by local authorities.

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Taxation (for example, council tax, general rates, non-domestic rates and district rates)

- [2.12.45](#) A major source of local authority income is council tax, district (or general) rates and non-domestic rates. There is substantial statutory prescription for how and when these taxes are levied by a local authority and this section of the Code will not replicate this. These taxes are property taxes and the taxable event is the financial year for which the tax is levied and becomes payable. For more on the accounting requirements for council tax, district rates and non-domestic rates see sections 2.8 and 3.6 of the Code.
- [2.12.46](#) Other taxes include the business rate supplements and business improvement district schemes. Revenue recognition criteria for these schemes are set out in Section 2.2.

Breaches or contraventions of laws and regulations (for example, fines and penalties)

- [2.12.47](#) Fines are inflows of economic benefits arising from breaches or contraventions of laws or regulations when there is a statutory obligation to pay. Examples of fines and penalties include fly tipping fines, car parking fines, library fines etc. Fines and penalties are recognised at the time when they are imposed by the local authority and in accordance with the recognition criteria set out in paragraph 2.1.2.34.

Fees and charges required under statute (non-exchange transactions)

- [2.12.48](#) There are other occasions that local authorities can charge other bodies and for which there is no exchange or consideration in return. Examples of this would be precepts and levies imposed by precepting and levying bodies under the relevant local government finance acts or the community infrastructure levy (CIL). Revenue would be recognised for such charges on the date on which the payment is due under the relevant statutory requirements and in accordance with paragraph 2.1.2.35. The recognition criteria for CIL charges will be met at the commencement date of the chargeable development (see also Section 2.2 for the recognition requirements for CIL).

Government grants or contributions

- [2.12.49](#) Government grants or contributions are assistance in the form of transfers of resources to an authority in return for past or future compliance with certain stipulations relating to the operation of activities. Local authorities receive numerous grants from various bodies including central government, grants from the EU and from other local authorities. The recognition criteria and requirements for government grants and contributions are set out in paragraphs 2.3.2.8 to

2.3.2.16.

Transfers given voluntarily (for example, bequests and donations)

2.1250 A bequest is a transfer made according to the provisions of a deceased person's will. The past event giving rise to the control of resources embodying future economic benefits or service potential for a bequest occurs when the authority has an enforceable claim, for example, on the death of the testator, or the granting of probate. Donations are voluntary transfers of assets, including cash or other monetary assets. For gifts and donations of cash or other monetary assets and goods in kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation (see IPSAS 23).

Fees and charges for services under statutory requirements (exchange transactions)

2.1251 Local authorities are required or permitted to charge for services or goods under numerous statutory provisions. These include charges for planning application fees, application fees for taxi licensing or alcohol and entertainment licensing, various inspection fees, [housing rental income for the Housing Revenue Account](#) etc. There is an implied contract for these transactions and therefore income is recognised in accordance with Section 2.7 of the Code.

Sale of goods (exchange transactions)

2.1252 Local authorities sell various goods as a part of the discretionary services they provide. These sales may include retail sales of sporting equipment at leisure centres, aids and adaptations for social care activities or concessionary sales at leisure centres or theatres. Income for these transactions is recognised in accordance with Section 2.7 of the Code.

Charges for services provided by local authorities (exchange transactions)

2.1253 Local authorities provide numerous services for which they are required or permitted to charge. Examples of these include homecare services to the elderly, leisure services, cemetery, cremation and mortuary services and maintenance service charges for housing dwellings. Income for these transactions is recognised in accordance with Section 2.7 of the Code.

Measurement of the elements of financial statements

2.1254 Elements recognised in the financial statements are quantified in monetary terms. This requires the selection of a measurement basis. Applying a measurement basis creates a measure for an asset or liability and for related income and expenses. The relevant sections of the Code set out the basis of measurement for the elements of financial statements, which will be one of

historical cost, fair value or current value.

Historical cost

2.12.55 The historical cost of an asset is the value of the costs incurred in acquiring or creating the asset, comprising the consideration paid plus transaction costs. The historical cost of a liability is the value of the consideration received to incur or take on the liability minus transaction costs. The historical cost of assets may be updated over time to reflect depreciation or amortisation, payments received that settle an obligation owed to the authority, impairment and accrual of interest. The historical cost of a liability may be updated over time to reflect settlement of an obligation owed to a third party, the accrual of interest, or events which have the effect of making the liability onerous.

Fair value

2.12.56 The concept of fair value is used throughout the Code. International Financial Reporting Standards have a consistent definition of fair value introduced by IFRS 13 *Fair Value Measurement* which applies unless otherwise specified by an applicable standard. The measurement and disclosure requirements of IFRS 13 are included in Section 2.10.

Measurement of property, plant and equipment

2.12.57 The Code has introduced the concept and definition of current value to the measurement of property, plant and equipment. Current value measures provide monetary information about assets, liabilities and related income and expenses, using information updated to reflect conditions at the measurement date. Current value measurements reflect the economic environment prevailing for the service or function the asset is supporting at the reporting date (see paragraph 4.1.2.4).

2.12.58 Those property, plant and equipment assets which are surplus to requirements are measured using fair value as a current value measurement base.

2.12.59 Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost.

2.12.60 Local authorities may elect to measure community assets using either the historical cost basis, or at 'valuation' in accordance with the measurement requirements for heritage assets.

Measurement bases to be applied

2.12.60A The following table shows accounts preparers how measurement on a basis which is not historical cost applies to the main income, expenditure, assets and liabilities classifications within local authority financial statements.

Circumstance	Measurement Basis
Revenue recognition	<p>Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Section 2.10) (this is the general definition of fair value that applies unless standards specify otherwise.)</p>
Property, plant and equipment	<p>For non-specialised assets, current value should be interpreted as existing use value. In the UK VPGA 6 of the Royal Institution of Chartered Surveyors (RICS) Valuation - Global Standards 2017: UK national supplement RICS Valuation – Professional Standards, this is market value based on the assumption that property is sold as part of the continuing enterprise. This requirement is met by providing an existing use valuation in accordance with UK VPGA 6 and UK VPGA 4 UKVS 1.3 of the RICS Valuation - Global Standards 2017: UK national supplement RICS Valuation – Professional Standards.</p> <p>For specialised assets where no market exists, current value should be interpreted as the present value of the assets’ remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential. Under these circumstances, property, plant and equipment is measured at depreciated replacement cost.</p> <p>The current value of council dwellings shall be measured using existing use value – social housing (EUV–SH).</p> <p>The fair value of surplus assets is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Section 2.10).</p> <p>(NB infrastructure assets are measured using the historical cost basis, and community assets measured using historical cost unless the authority elects to use current value.)</p>
Leases	<p>On initial recognition, fair value will be defined in accordance with Section 4.2 of the Code. Subsequent measurement, at current value, will follow the appropriate class of property, plant and equipment. Intangible assets are measured at fair value where relevant in accordance with Section 4.2.</p>
Service concession (PFI and PPP) arrangements	<p>On initial recognition, fair value is the estimated cost to purchase the asset. Subsequently, the asset is measured at current value, which will follow the appropriate class of property, plant and equipment. Fair</p>

Circumstance	Measurement Basis
	value measurement will apply, where relevant for intangible assets acquired under service concession arrangements.
Investment property	Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Section 2.10). As a non-financial asset an investment property shall be measured at highest and best use. The fair value of investment property held under a lease is the lease interest fair value of the right of use asset and see also (see sections 4.2 and 4.4) .
Intangible assets	IAS 38 allows an intangible asset to be carried at a revalued amount only where its fair value can be determined by reference to an active market. Where there is no active market, assets are carried at cost less any accumulated amortisation and any accumulated impairment loss. Where an intangible asset is required under Section 4.5 of the Code to be measured at fair value, the definition in Section 2.10 of the Code will apply.
Non-current assets held for sale	<p>Non-current assets held for sale shall be measured in accordance with the measurement requirements of Section 4.9 of the Code and IFRS 5 <i>Non-Current Assets Held for Sale and Discontinued Operations</i>, ie the lower of its carrying amount and fair value less costs to sell.</p> <p>Fair value in Section 4.9 is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Section 2.10). When applying the definition of fair value, as non-financial assets, non-current assets held for sale shall be measured at highest and best use. Fair value for social housing being disposed of under right to buy (RTB) legislation is the discounted RTB value.</p>
Heritage assets	Heritage assets are carried at valuation rather than current or fair value, reflecting the fact that sales and exchanges of heritage assets are uncommon. Valuations may be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations. In some cases it may not be practicable to establish a valuation for a heritage asset, in which case the asset is carried at historical cost if this information is available. Authorities may elect to use this basis for community assets.

Circumstance	Measurement Basis
Inventories	Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Section 2.10).
Debtors	Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Section 2.10).
Financial instruments	Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Section 2.10).
Creditors	Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Section 2.10).
Employee benefits	Plan assets measured at fair value in accordance with sections 6.1 to 6.4 of the Code and IAS 19 <i>Employee Benefits</i> apply the definition and measurement requirements of fair value in accordance with Chapter 6 of the Code and with the definition of fair value included in Section 2.10 of the Code.
Pension fund plan investments	Retirement benefit plan investments measured at fair value in accordance with Section 6.5 (Accounting and Reporting by Pension Funds) of the Code apply the definition, measurement and disclosure requirements of fair value in accordance with Chapter 6 of the Code and with the definition of fair value included in Section 2.10 of the Code.

2.1.3 Statutory accounting requirements

2.131 There are no statutory accounting requirements regarding the concepts and principles.

2.1.4 Disclosure requirements

2.141 Authorities shall apply the objective, underlying assumption and qualitative characteristics of useful financial information, in the selection and application of accounting policies and estimation techniques (see Section 3.3 of the Code).

2.1.5 Statutory disclosure requirements

2.151 There are no statutory disclosure requirements in relation to the concepts and principles.

2.1.6 Changes since the 2019/2020 Code

2.161 The Concepts section of the 2019/2020 Code has been updated.

2.161B To reflect CIPFA/LASAAC's strategic direction amendments to the definition and assessment of materiality have been made, incorporating 'Definition of Material: Amendments to IAS 1 and IAS 8'.

2.161C Reference to reliance on IFRS Conceptual Frameworks has been updated to recognize the implementation of 'Amendments to References to the Conceptual Framework in IFRS Standards'

2.161D Housing Revenue Account rental income has been included as an example of fees and charges for services under statutory requirements (exchange transactions).

the replacement of the IASB Conceptual Framework (2010) with a revised IASB Conceptual Framework (2018).

PRINCIPLES OF INCOME AND EXPENDITURE RECOGNITION

2.2 BUSINESS IMPROVEMENT DISTRICT SCHEMES (ENGLAND, WALES AND SCOTLAND); BUSINESS RATE SUPPLEMENTS (ENGLAND); AND COMMUNITY INFRASTRUCTURE LEVY (ENGLAND AND WALES)

2.2.1 Introduction

Business improvement district schemes

2.211 Business improvement district (BID) projects are projects for the benefit of a particular area that are financed (in whole or in part) by a BID levy paid by the non-domestic ratepayers, or a class of such ratepayers, in the BID area. There are two key participants – the billing authority for the area and the BID body.

2.212 There is no IFRS, IPSAS or UK GAAP covering BID schemes. The appropriate accounting treatment for the billing authority is determined by whether it acts as principal or agent, in accordance with Section 2.6 of the Code. England and Wales have had a BID scheme for some time; the Business Improvement Scheme for Scotland came into force on 1 April 2007 under the Business Improvement Districts (Scotland) Regulations 2007.

Business rate supplements

2213 Business rate supplements (BRS) were introduced by the business rate supplements Act 2009 and related regulations and statutory guidance. The Act confers powers on relevant local authorities “to impose a levy on non-domestic ratepayers to raise money for expenditure on projects expected to promote economic development”. Levying authorities are required to maintain a statutory ringfenced business rate supplement revenue account. Business rate supplements currently apply to England only; although the Act extends to Wales, the Welsh Government has not enacted regulations to permit business rate supplements to be levied.

2214 A business rate supplement is a non-exchange transaction, and as such is accounted for under IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* as adopted by this Code.

Community infrastructure levy

2215 The community infrastructure levy (CIL) was introduced by the Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948) as amended, and is a discretionary charge which relevant local authorities are empowered to charge on new development in their area. CIL charges will be based on a formula which relates the charge to the size of the development. The proceeds of the levy must be spent on infrastructure to support the development of the area. CIL applies in England and Wales only where the charging authority has implemented a CIL scheme.

2216 CIL is a non-exchange transaction, and as such is accounted for under IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* as adopted by this Code.

2.2.2 Accounting requirements

Business improvement district schemes

2221 If the billing authority acts as principal, the income received and expenditure incurred by the billing authority is included in the surplus or deficit on the provision of services under the appropriate service heads. If the billing authority acts as an agent, only the following amounts are recognised in the billing authority’s comprehensive income and expenditure statement:

- A contribution made by the billing authority to the BID project (ie grant-in-aid), which would be shown as service expenditure under the relevant service in the comprehensive income and expenditure statement.
- BID levy collection costs and associated (reimbursement) income, which would be shown in net cost of services under the relevant service in the comprehensive income and expenditure statement.
- Income from services supplied by the billing authority to the BID project on a paid basis, which would usually be accounted for as a trading activity as part of net operating

costs in the comprehensive income and expenditure statement. However, where the service supplied for charge is a function of the authority, eg a planning application, it is accounted for in the same way as other income of that function.

Business rate supplements

- 2222** The collection of a business rate supplement by a billing authority that is not a levying authority is in substance an agency arrangement, and shall be accounted for in accordance with Section 2.6 of the Code.
- 2223** BRS income is not the income of a billing authority that is not a levying authority and shall not be included in its comprehensive income and expenditure statement. Amounts deducted from BRS income to meet administrative expenses are a billing authority's income and shall be included in the comprehensive income and expenditure statement on an accruals basis.
- 2224** Levying authorities shall account for BRS income in the taxation and non-specific grant income and expenditure line of the comprehensive income and expenditure statement.
- 2225** A levying authority may only use BRS income to finance a project to which the business rate supplement relates. A levying authority is also required to refund BRS levies that have not been used to finance a project where the imposition of the business rate supplement has come to an end (see also paragraph 2.2.2.7). BRS income is therefore subject to a condition, and authorities shall initially recognise receipts of BRS levies as a creditor. A levying authority shall recognise BRS levies as income in the comprehensive income and expenditure statement at the point the condition is satisfied (ie at the point the related expenditure, whether revenue or capital, is incurred).
- 2226** Revenue expenditure relating to a BRS project shall be recognised as expenditure in the relevant service revenue account(s) as it is incurred. Capital expenditure relating to a BRS project shall be recognised as an asset. Any BRS expenditure meeting the definition of revenue expenditure funded from capital under statute shall be accounted for in accordance with the requirements of Section 4.6 of the Code.
- 2227** Where, at the end of an imposition of a BRS, a levying authority is required to refund business ratepayers for unused levies, refunds shall be charged to the creditor as this represents unapplied BRS levies. Where the authority is not required to refund business ratepayers the creditor shall be transferred to the taxation and non-specific grant income and expenditure line of the comprehensive income and expenditure statement. These transactions must be carried out in accordance with the requirements of BRS legislation.

Community infrastructure levy

- 2228** Where an authority is a charging authority, CIL charges (including amounts applied to meet the administrative expenses of the charging authority in accordance with the CIL regulations) shall be accounted for on an accruals basis, and recognised immediately in the comprehensive income

and expenditure statement as income. The recognition criteria for CIL charges will be met at the commencement date of the chargeable development.

- 2.2.9** Surcharges and interest received by a charging authority in accordance with the CIL regulations shall be accounted for as if they were receipts of CIL charges.
- 2.2.10** CIL charges received by a collecting authority that is not a charging authority are not the income of the collecting authority. The collecting authority is acting as an agent and shall account for the amounts received on that basis (see Section 2.6 of the Code).
- 2.2.11** CIL charges applied to meet the administrative expenses of a collecting authority that is not a charging authority in accordance with the CIL regulations are the income of the collecting authority. Such amounts shall be accounted for on an accruals basis, and recognised immediately in the comprehensive income and expenditure statement as income. Administrative or, where relevant, other revenue expenses of a collecting or a charging authority shall be charged to the appropriate service revenue accounts.

2.2.3 Statutory accounting requirements

Business improvement district schemes

- 2.2.3.1** The billing authority for the area of a proposed BID is required to oversee the balloting arrangements and will incur the costs of this whether a BID is eventually established or not. These costs would be shown in the net expenditure of continuing operations under the relevant service in the comprehensive income and expenditure statement.

Business rate supplements

- 2.2.3.2** A levying authority shall transfer an amount equal to the BRS income recognised in the financial year (net of administrative expenses) from its general fund to its business rate supplement revenue account; this transfer shall be reported in the movement in reserves statement. Any difference between the cumulative income transferred to the business rate supplement revenue account and the amount required by regulation to be transferred to that account shall be credited or debited to that account, with the corresponding debit or credit being made to the collection fund adjustment account.
- 2.2.3.3** Where revenue expenditure is incurred in respect of a BRS project, a levying authority shall transfer an amount equal to that expenditure from the business rate supplement revenue account to the general fund as the expenditure is incurred. Where capital expenditure in respect of a BRS project is funded directly from BRS levies, a levying authority shall transfer an amount equal to the capital expenditure from the business rate supplement revenue account to the capital adjustment account as the capital expenditure is incurred. Where capital expenditure in respect of a BRS project has been funded from borrowing, a levying authority shall transfer from its business rate supplement revenue account to its general fund an amount equal to the sum of the minimum revenue provision and interest charged to the general fund in the year in respect

of the BRS project. These transfers shall be reported in the movement in reserves statement. Depreciation and impairment of assets financed from BRS levies are not BRS expenditure.

- 2.2.3.4** Where the business rate supplement revenue account is in deficit, a levying authority shall transfer an amount equivalent to the deficit from its general fund to the business rate supplement revenue account; this transfer shall be reported in the movement in reserves statement.
- 2.2.3.5** Where the business rate supplement revenue account is in surplus, a levying authority shall transfer the surplus to its general fund to the extent that this reverses any amounts charged to that fund in the ten years immediately preceding the financial year; this transfer shall be reported in the movement in reserves statement.
- 2.2.3.6** Where, at the end of the imposition of a BRS, the business rate supplement revenue account is in surplus, this amount shall be transferred to the collection fund adjustment Account.

Community infrastructure levy

- 2.2.3.7** Income from CIL charges, with the exception of amounts applied in accordance with the CIL regulations to meet administrative expenses, must be applied to fund infrastructure to support the development of the area in accordance with the Community Infrastructure Levy Regulations 2010, as amended.
- 2.2.3.8** Where CIL charges to be applied to fund capital expenditure have been received prior to the commencement date for the chargeable development, the CIL charges shall be recognised initially in the grants receipts in advance account until such a time that the chargeable development commences and then the charges are recognised as income in accordance with paragraph 2.2.3.7. Where CIL charges have been recognised as income in the comprehensive income and expenditure statement, but have yet to be applied to fund infrastructure, the CIL charges shall be transferred to usable reserves (capital grants unapplied account). When the CIL charges are applied to capital expenditure the CIL charges shall be transferred from the general fund (or the capital grants unapplied account) to the capital adjustment account.
- 2.2.3.9** Where CIL charges are to be applied to fund revenue expenditure (such as but not limited to administration expenses), the CIL charges shall not be transferred out of the general fund.

2.2.4 Disclosure requirements

- 2.2.4.1** There are no specific disclosure requirements for BID schemes. Authorities shall consider separate disclosure of the transactions within a BID scheme if these amounts are material.
- 2.2.4.2** Transfers to or from the business rate supplement revenue account shall be reported in the movement in reserves statement. An authority shall consider whether material BRS income and BRS projects require separate disclosure to assist users to understand the financial statements.
- 2.2.4.3** There are no specific disclosure requirements in relation to CIL. Transfers to the capital grants

unapplied account will be reported in the movement in reserves statement and associated notes. In addition, an authority shall consider whether material CIL income and expenditure, and material balances on the capital grants unapplied account, require separate disclosure to assist users to understand the financial statements.

2.2.5 Statutory disclosure requirements

Business improvement district schemes

2251 There are no statutory disclosure requirements in relation to BID schemes.

Business rate supplements

2252 BRS transactions shall be included in billing authorities' collection fund statements.

2253 A levying authority shall include in the notes to the accounts a business rate supplement statement, comprising the following items, calculated in accordance with the Business Rate Supplements (Accounting) (England) Regulations 2010:

- a) balance at the start of the relevant year
- b) BRS revenues
- c) administrative expenses of BRS
- d) BRS expenditure
- e) payments to functional bodies
- f) refunds
- g) transfers to or from the general fund, and
- h) balance at the end of the year.

Community infrastructure levy

2254 There are no statutory disclosure requirements in relation to CIL.

2.2.6 Changes since the ~~2018~~2019/2019 Code

2261 There have been no changes to the business improvement district schemes (England, Wales and Scotland), business rate supplements (England), and community infrastructure levy (England and Wales) Section since the 201~~98~~/2019 Code.

2.3 GOVERNMENT AND NON-GOVERNMENT GRANTS

2.3.1 Introduction

2311 Authorities shall account for and provide disclosures in relation to grants and contributions in

accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, except where adaptations to fit the public sector are detailed in the Code. IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* provides additional guidance on the adaptations of IAS 20 adopted by the Code.

Adaptation for the public sector context

23.12 The following adaptations of IAS 20 and IPSAS 23 for the public sector context apply.

Scope

- The scope of IAS 20 is extended to include grants and contributions from non-government organisations.

Recognition and presentation

- Grants and contributions shall be recognised immediately as income, unless any conditions have not been met; an authority shall not include grants and contributions deferred in the balance sheet.
- The transfer of assets for nil consideration or less than fair value (ie donated assets) shall be credited to a donated assets account where any conditions of the transfer have not been met.

Recognition and presentation

- The option of deducting the grant from the carrying amount of the asset(s) is not permitted.

2.3.2 Accounting requirements

Definitions

23.21 **Conditions on transferred assets** are stipulations that specify that the future economic benefits or service potential embodied in the asset are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

23.22 **Donated assets** are assets (including heritage assets) transferred at nil value or acquired at less than fair value.

23.23 **Grants and contributions** are assistance in the form of transfers of resources to an authority in return for past or future compliance with certain conditions relating to the operation of activities. They exclude those forms of assistance which cannot reasonably have a value placed upon them and transactions with organisations which cannot be distinguished from the normal service transactions of the authority.

23.24 **Non-exchange transactions** are transactions that are not exchange transactions. In a non-

exchange transaction, an authority either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

2325 Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential are required to be returned to the transferor if not deployed as specified.

2326 Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting authority.

2327 Further definitions are contained in IAS 20 and IPSAS 23.

Recognition and presentation – grants and contributions

2328 Grants and contributions, including donated assets, shall not be recognised until there is reasonable assurance that:

- the authority will comply with the conditions attached to them, and
- the grants or contributions will be received.

2329 Grants and contributions relating to capital and revenue expenditure shall be accounted for on an accruals basis, and recognised immediately (when the two criteria in paragraph 2.3.2.8 are met) in the comprehensive income and expenditure statement as income, except to the extent that the grant or contribution has a condition(s) (as opposed to restrictions) relating to initial recognition that the authority has not satisfied. Grants and contributions that satisfy the recognition criteria in paragraph 2.3.2.8 but which have a condition attached that remains to be satisfied are recognised initially in the relevant grants Receipts in advance account.

23210 General grants and contributions (comprising Revenue Support Grant, NDR redistribution and unringfenced government grants) are required to be disclosed as one or more items on the face of the comprehensive income and expenditure statement.

23211 Revenue grants and contributions that are not general grants described above shall be credited to service revenue accounts, support services, trading accounts and the Housing Revenue Account.

23212 Donated assets transferred to an authority for nil consideration shall be recognised immediately at fair value as an asset on the balance sheet. The asset shall be recognised in the comprehensive income and expenditure statement as income, except to the extent that the transfer has a condition(s) (as opposed to restrictions) that the authority has not satisfied. In this case the asset is credited to the donated assets account and recognised in the comprehensive income and expenditure statement once the condition(s) has been satisfied.

23213 Where donated assets have been acquired for less than fair value (ie a non-exchange transaction), the difference between the fair value of the asset and the consideration paid shall be recognised immediately in the comprehensive income and expenditure statement as income,

or in the event that the transfer has a condition(s), recognised in the donated assets account until such time as the condition(s) have been met. The measurement at fair value of an asset, acquired for no consideration or for less than fair value, does not constitute a revaluation.

2.32.14 A grant, contribution or donated asset may be received subject to a condition that it be returned to the transferor (subsequent to initial recognition) if a specified future event does or does not occur (for example, a grant may need to be returned if the authority ceases to use the asset purchased with that grant for a purpose specified by the transferor). In these cases, a return obligation does not arise until such time as it is expected that the condition will be breached and a liability is not recognised until that time. Such conditions do not prevent the grant, contribution or donated asset being recognised as income in the comprehensive income and expenditure statement.

2.32.15 After initial recognition, donated assets shall be revalued and depreciated in line with Section 4.1 of the Code (also see IAS 16 *Property, Plant and Equipment*) or Section 4.10 of the Code and impaired in line with Section 4.7 of the Code (also see IAS 36 *Impairment of Assets*).

2.32.16 The benefit of a loan at a below market rate¹⁵ of interest is treated as a grant or contribution. The loan shall be recognised and measured in accordance with Chapter 7 of the Code (also see IFRS 9 *Financial Instruments*). The benefit of the below market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with Chapter 7 of the Code and the proceeds received. It is expected that in the majority of circumstances the loan will be for the acquisition or enhancement of an asset and as such the benefit is accounted for in accordance with paragraph 2.3.2.9. An authority shall consider the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate.

2.32.16B Leases with payments at peppercorn or nominal consideration that are provided at substantially below market terms, and leases for nil consideration, shall be accounted for as follows:

- a) The portion of the lease that is payable, if any, along with any interest payments, is an exchange transaction and is accounted for in accordance with section 4.2 (Leases).
- b) An authority shall recognise the difference between the consideration (lease payments) and the fair value of the lease on initial recognition (see section 4.2) as non-exchange revenue and this should be accounted for in accordance with this section of the Code and IPSAS 23.

¹⁵ PWLB loans are not loans at below market value for this purpose.

Transition

2.32.18 The transitional provisions in section 4.2 are also applicable to the measurement of the right-of-use assets held by a lessee for a peppercorn or nominal lease payment, or for nil consideration.

- c) Leases with payments at peppercorn or nominal consideration, or for nil consideration, should be accounted for in the same way as other donated assets.

Repayment of grants and contributions

- 232.17** A grant or contribution that becomes repayable shall be accounted for as a revision to an accounting estimate in line with paragraphs 3.3.2.14 to 3.3.2.17 of the Code (also see IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*). Repayment shall first be applied to any receipt in advance set up in respect of the grant or contribution (ie the balance on the capital grants receipts in advance). To the extent that the repayment exceeds any such receipt in advance, or where no receipt in advance exists, the repayment shall be recognised within the comprehensive income and expenditure statement as an expense.
- 232.18** Circumstances giving rise to repayment of a grant relating to an asset may require consideration to be given to the possible impairment of the asset (see Section 4.7 of the Code).

Transfers

- 232.19** IPSAS 23 includes the recognition and accounting treatment of debt forgiveness and assumption of liabilities; fines; bequests; gifts and donations, including goods in kind and services in kind. In the event that these areas are relevant, authorities should refer to IPSAS 23.

2.3.3 Statutory accounting requirements

Grants, contributions and donated assets

- 233.1** Grants and contributions funding capital expenditure and donated assets that have been credited to the comprehensive income and expenditure statement are not proper income charges to the general fund or the Housing Revenue Account. This is as a consequence of the capital control regime¹⁶ requiring capital expenditure to be financed as part of the capital financing requirement (as defined in CIPFA's *Prudential Code for Capital Finance in Local Authorities*) unless other resources are set aside to finance the expenditure. Authorities shall account for these amounts in accordance with the following paragraphs.

Capital grants and contributions where conditions initially remain outstanding

- 233.2** Where a capital grant or contribution has been received, and conditions remain outstanding at the balance sheet date, no statutory accounting requirements apply; the grant or contribution will be recognised as part of capital grants receipts in advance in accordance with paragraph 2.3.2.9 of the Code.

¹⁶ See part 2 of Appendix B.

- 2333 Once the condition has been met, the grant or contribution will be transferred from capital grants receipts in advance and recognised as income in the comprehensive income and expenditure statement. At that point, an authority shall apply the appropriate statutory accounting requirements for grants and contributions with no conditions.

Capital grants and contributions where no conditions remain outstanding – expenditure has been incurred

- 2334 Where a capital grant or contribution (or part thereof) has been recognised as income in the comprehensive income and expenditure statement, and the expenditure to be financed from that grant or contribution has been incurred at the balance sheet date, the grant or contribution shall be transferred from the general fund (or the Housing Revenue Account) to the capital adjustment account, reflecting the application of capital resources to finance expenditure. This transfer shall be reported in the movement in reserves statement.

Capital grants and contributions where no conditions remain outstanding – expenditure has not been incurred

- 2335 Where a capital grant or contribution (or part thereof) has been recognised as income in the comprehensive income and expenditure statement, but the expenditure to be financed from that grant or contribution has not been incurred at the balance sheet date, the grant or contribution shall be transferred to the capital grants unapplied account [/ capital grants and receipts unapplied account in Scotland](#) (within the usable reserves section of the balance sheet), reflecting its status as a capital resource available to finance expenditure. This transfer shall be reported in the movement in reserves statement.

- 2336 When, at a future date, the expenditure to be financed from the grant or contribution is incurred, the grant or contribution (or part thereof) shall be transferred from the capital grants unapplied account [\(capital grants and receipts unapplied account in Scotland\)](#) to the capital adjustment account, reflecting the application of capital resources to finance expenditure. This transfer shall be reported in the movement in reserves statement or in the notes to the accounts.

Donated assets where conditions initially remain outstanding

- 2337 Where a donated asset has been received, and conditions remain outstanding at the balance sheet date, no statutory accounting requirements apply; the donated asset will be recognised in the donated assets account in accordance with paragraph 2.3.2.12 of the Code.
- 2338 Once the condition has been met, and the donated asset has been transferred from the donated assets account and recognised as income in the comprehensive income and expenditure statement, an authority shall transfer the income from the general fund (or the Housing Revenue Account) to the capital adjustment account. This transfer shall be reported in the movement in reserves statement.

Donated assets where no conditions remain outstanding

2339 Where a donated asset has been recognised as income in the comprehensive income and expenditure statement, the income shall be transferred from the general fund (or the Housing Revenue Account) to the capital adjustment account. This transfer shall be reported in the movement in reserves statement.

Repayments of capital grants or contributions

23310 A capital grant or contribution may become repayable in accordance with paragraph 2.3.2.17 of the Code. Where conditions in respect of the grant or contribution have not been met, the grant or contribution will have been recognised as part of capital grants receipts in advance rather than as income in the comprehensive income and expenditure statement. The repayment shall be applied against capital grants receipts in advance in accordance with paragraph 2.3.2.17 of the Code, and no statutory accounting requirements will apply.

23311 Where the grant or contribution has previously been recognised as income in the comprehensive income and expenditure statement (or to the extent that the repayment exceeds the balance in respect of the specific grant or contribution in capital grants receipts in advance), the repayment is recognised as an expense in the comprehensive income and expenditure statement.

23312 In England and Wales, regulations specify that the repayment of grants and financial assistance given to an authority for capital purposes is to be capital expenditure. The repayment shall therefore be transferred from the general fund (or Housing Revenue Account) to the capital adjustment account. This transfer shall be reported in the movement in reserves statement.

2.3.4 Disclosure requirements

2341 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 grants and contributions, and donated assets:

- 1) The financial statements shall disclose:
 - a) the accounting policy adopted for grants and contributions, and donated assets
 - b) the nature and extent of grants and contributions, and donated assets recognised in the financial statements
 - c) where the condition(s) of the grant and contributions, and donated assets have not been met, the breakdown of any balance of the liability (ie the capital grants receipts in advance and the donated assets account).

2.3.5 Statutory disclosure requirements

2351 ~~There are no statutory disclosures required in relation to grants and contributions~~[In Scotland statutory guidance requires that a disclosure is provided to analyse the balances held in the](#)

[capital grants and receipts unapplied account \(Scotland only\).](#)

~~a)~~

2.3.6 Changes since the ~~2019~~/~~2019~~ Code

236.1 There have been ~~no~~ changes to the Government and Non-government Grants section of the Code [for new treatments for leases with peppercorn or nominal lease payments, or nil consideration, on the adoption of IFRS 16 in the Code.](#) ~~since the 2018/19 Code.~~

2.4 LANDFILL ALLOWANCE AND OTHER TRADING SCHEMES

2.4.1 Introduction

241.1 The Waste and Emissions Trading Act 2003 placed a duty on waste disposal authorities (WDAs) in England, Scotland, Wales and Northern Ireland to reduce the amount of biodegradable municipal waste (BMW) disposed of to landfill. It also provides the legal framework for the:

- Landfill Allowances Scheme (Wales) Regulations, which commenced operation on 1 October 2004
- Landfill Allowances Scheme (Scotland) Regulations, which came into force on 1 April 2005 and became a 'cap and trade' scheme from 1 April 2008
- Landfill Allowances Scheme (Northern Ireland) Regulations, which came into force on 1 April 2005.

The CIPFA/LASAAC Code Board has taken the view that as the scheme is currently suspended in Scotland, the Code shall not contain provisions for the scheme in Scotland.

2.4.2 Accounting requirements

Landfill allowance schemes – Wales and Northern Ireland

242.1 The landfill allowance schemes that operate in Wales and Northern Ireland are not 'cap and trade' schemes and therefore authorities shall not recognise an asset for landfill allowances, grant income in respect of the allowances or liabilities for actual BMW landfill usage.

242.2 WDAs in Wales and district councils in Northern Ireland are required to meet annual target figures for the maximum amount of BMW that can be sent to landfill. For each tonne of BMW sent to landfill in excess of the target, an authority may be liable to a penalty (different values apply in Wales and Northern Ireland). However, current guidance indicates the penalty will be exercised with discretion rather than as an automatic consequence of exceeding the target. An authority shall recognise a provision for penalties payable to the Welsh Government or the Department of Agriculture, Environment and Rural Affairs in Northern Ireland. Where a possible landfill allowance liability exists but the authority has concluded that it does not need to make a

provision, the authority shall disclose a separate class of contingent liability in relation to the possible penalty.

2.4.3 Statutory accounting requirements

243.1 There are no statutory accounting requirements in respect of landfill allowances.

2.4.4 Disclosure requirements

244.1 There are no disclosure requirements in relation to landfill allowances.

2.4.5 Statutory disclosure requirements

245.1 There are no statutory disclosure requirements in relation to landfill allowances .

2.4.6 Changes since the 2018/2019 Code

246.1 ~~There have been no changes to this section of the Code since the 2019/20 Code. References to the previous carbon reduction commitment scheme and the landfill allowances schemes for England and Scotland have been removed from the landfill allowances and other trading schemes section of the Code.~~

2.5 LOCAL GOVERNMENT REORGANISATION AND OTHER COMBINATIONS

2.5.1 Introduction

251.1 Chapter 9 of the Code (Group Accounts) includes an adaptation of IFRS 3 *Business Combinations* that combinations of public sector bodies (eg local government reorganisation and other transfers of function from one public sector body to another) are deemed to be a combination of businesses under common control and as such excluded from the scope of IFRS 3. This section of the Code sets out the accounting requirements for such combinations.

2.5.2 Accounting requirements

Definitions

252.1 **A transfer of a function to or from a local authority** – a transfer of a function in this section of the Code is defined as a transfer of an identifiable service or business operation with an integrated set of activities, staff and recognised assets and/or liabilities that are capable of being conducted and managed to achieve the objectives of that service or business operation.

Recognition and measurement

- 2522** Public sector bodies such as local authorities are deemed to be under common control. The combination of two or more local authorities (or other public sector bodies) into one new authority, or the transfer of functions (in full or in relation to a geographic area) from the responsibility of one authority (or other public sector body) to another, shall be accounted for using the principles that apply to group reconstructions and shall be accounted for as either a *transfer by absorption* or a *transfer by merger*.
- 2523** Transfers from one local authority to another or from one authority to another part of the public sector are normally (and have historically been) accounted for as a *transfer by absorption*, ie as specified in paragraph 2.5.2.7 below, taking the date of the transfer of a function or a public sector combination as the starting point of the newly combined authority or function.
- 2524** *Transfers by merger* are rare transactions in local government but may occur when legal transfers take place and management of the local government entity consider that in substance for a true and fair presentation the financial statements would be best presented as if the entity had always existed in its newly combined form. The results and cash flows of all of the combining bodies (or functions) should be brought into the financial statements of the combined body from the beginning of the financial year in which the combination occurred. To ensure symmetrical accounting treatment with the rest of the public sector transfers by merger are not permitted when a local government body is transferring to another part of the public sector, ie outside of local government, or when a function from another part of the public sector is transferring to the local government sector.
- 2525** For both types of transaction the accounting treatment for transfers of function under common control should be determined by aligning the reporting with the accountability for financial performance. The underlying objective is to ensure the financial reporting supports the accountability for the transferring function, and to do so in a symmetrical way with the other public sector body to ensure there is no transparency gap.
- 2526** For both forms of transfer, assets and liabilities shall normally be transferred at their carrying amount as at the transfer date, except where:
- a) the authorities (or other public sector bodies) have agreed revised amounts (in accordance with their statutory duties), and
 - b) such amounts were agreed after authorities (or other public sector bodies) transferring the services had issued their accounts for the year immediately prior to the transfer date

in which case, assets and liabilities shall be transferred at their agreed amounts, and the difference between these agreed amounts and their previous carrying amounts shall be disclosed in a note to the financial statements.

- 2527** Local government reorganisations normally take place at the start of a financial year. The

reorganisation shall be achieved in the financial statements by adjusting the opening balance sheet for the current year; transfers shall not be reflected in the surplus or deficit on the provision of services, but shall be separately disclosed in the movement in reserves statement and other comprehensive income and expenditure. The notes to the accounts shall separately identify transfers of assets and liabilities (and any consequential changes to reserves).

- 2528** Local government transfers of functions that take place during the financial year are also relatively rare occurrences. Where they do take place they will need to be reported in accordance with the principles of transfers by absorption, ie from the date that the transfer took place, or, in rare cases where management consider that a true and fair presentation requires this to be presented as a transfer by merger, the resultant transfer would be reported as if the newly combined body or functions has always existed.
- 2529** Functions may be transferred from an authority to another body outside the public sector (eg a social enterprise). Such transfers shall be accounted for by derecognising any assets and liabilities transferred to the non-public sector body. Any income received shall be accounted for as proceeds of sale of the asset(s).

2.5.3 Statutory accounting requirements

- 2531** There are no statutory accounting requirements in respect of combinations of public sector bodies unless specific requirements are included in the legislation or other legal documents issued by ministers giving rise to the transfer.

2.5.4 Disclosure requirements

- 2541** A local authority that receives a transfer of functions should disclose in its financial statements that the transfer has taken place (including a brief description of the transferred function) giving the date of the transfer, the name of the transferring body and the effect on the financial statements. An authority that transfers functions to another authority or public sector entity shall also provide the same information in its financial statements. Where accounted for as a transfer by absorption, the authority should apply judgment as to whether the additional disclosure of historical financial performance of the function should be provided, to enable users to understand the operational performance.
- 2542** For new authorities, where transfers take place at the beginning of the financial year, under transfer by absorption no corresponding amounts for the previous year will be required in the financial statements. The notes to the accounts of the new authority shall include an opening balance sheet (ie transferred assets and liabilities and opening reserve balances). This shall be clearly identified as the opening balance on the creation of the new authority, not the previous year's balance sheet.
- 2543** For authorities created under transfers by merger, restatement of comparatives, including that of the results for all the combining bodies for the previous period, shall be provided in

accordance with IAS 1 as adopted by this Code. Comparatives shall be adjusted as necessary to achieve uniformity of accounting policies and consistency of presentation. In addition, the authority shall disclose:

- a) an explanation that the transfer has been accounted for under the merger accounting provisions of the Code
- b) an analysis of the principal components of the surplus or deficit on the provision of services and of other comprehensive income and expenditure pre- and post-merger
- c) the carrying amount of the net assets at the merger date
- d) a statement of any adjustment to reserves resulting from the merger.

2544 Where transfers by absorption have taken place during the financial year no comparative information will be required for the previous year and the information reported in the complete set of financial statements will be reported from the date the transfer took place (see also paragraphs 2.5.4.1 and 2.5.4.2 where these paragraphs apply to transfer by absorption).

2545 Where transfers by merger have taken place during the financial year comparative information is required in accordance with IAS 1 as adopted by this Code. The disclosures required by paragraph 2.5.4.1 and 2.5.4.3, where they apply to transfers by merger, will also be required.

2546 For continuing authorities, newly acquired functions (or functions in relation to a geographic area) shall be disclosed separately in the current year. Functions (or functions in relation to a geographic area) transferred to another authority or other public sector body shall be disclosed separately in the comparative year. Where the transfer requires reporting in the notes to the accounts, a separate line disclosing the transfer shall be included after the balance brought forward from the previous year. A new sub-total shall be inserted to disclose the restated opening balance sheet figures. These lines will be required in the notes showing the movements in assets, liabilities and reserves, including the movement in reserves statement and the Movement on the Housing Revenue Account statement.

2547 An authority shall disclose the circumstances of any transfer of assets and liabilities to a non-public sector body arising from the transfer of one or more functions to that body. The disclosure shall include details of the assets and liabilities transferred, and their carrying amounts.

2.5.5 Statutory disclosure requirements

2551 There are no statutory disclosures in respect of combinations of public sector bodies.

2.5.6 Changes since the ~~2018/19~~ 2019 Code

2561 [There have been no changes to this section of the Code since the 2019/20 Code. There have been no changes to the Local Government Reorganisation and Other Combinations section of the Code since the 2018/19 Code.](#)

2.6 PRINCIPAL AND AGENT TRANSACTIONS

2.6.1 Introduction

2611 The accounting treatment of transactions within an authority's financial statements shall have regard to the general principle of whether the authority is acting as the principal or agent, in line with IFRS 15 *Revenue from Contracts with Customers*, IPSAS 9 *Revenue from Exchange Transactions* and IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

2.6.2 Accounting requirements

Definitions

2621 **Agent** is where the authority is acting as an intermediary.

2622 **Principal** is where the authority is acting on its own behalf.

Recognition and measurement

2623 Where an authority is acting as a principal as opposed to acting as an agent, transactions shall be included in an authority's financial statements, following the relevant section of the Code.

2624 Where an authority is acting as an agent, transactions shall not be reflected in an authority's financial statements, with the exception in respect of cash collected or expenditure incurred by the agent on behalf of the principal, in which case there is a debtor or creditor position and the net cash position is included in financing activities in the cash flow statement. Another exception is where the authority receives payment for acting as an agent, in which case any amount of commission received or receivable shall be recognised as revenue in the authority's financial statements.

2625 Examples of where an authority is acting as an agent include billing authorities for the collection of NDR and council tax in England (see Section 2.8 of the Code).

2.6.3 Statutory accounting requirements

2631 There are no statutory accounting requirements in relation to principal and agent transactions.

2.6.4 Disclosure requirements

2641 There are no specific disclosure requirements for principal and agent transactions. The transactions will be included in the disclosure requirements of other sections of the Code.

2.6.5 Statutory disclosure requirements

2651 There are no statutory disclosures required in relation to principal and agent transactions.

2.6.6 Changes since the 2019/20 Code

2661 ~~There have been no changes to this section of the Code since the 2019/20 Code. There have been no changes in the Principal and Agent Transactions section of the Code since the 2018/19 Code.~~

2.7 REVENUE FROM CONTRACTS WITH SERVICE RECIPIENTS

2.7.1 Introduction

- 2711 Authorities shall account for revenue recognition in accordance with IFRS 15 *Revenue from Contracts with Customers* and IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. In this section of the Code references to ‘customer’ in IFRS 15 are replaced with ‘service recipient’.
- 2712 IPSAS 9 *Revenue from Exchange Transactions* is based on IAS 18, and provides additional guidance for public sector bodies. IPSAS 9 has not been updated for the introduction of IFRS 15 and therefore IPSAS 9 should only be followed when instructed by this Code or where it remains consistent with the provisions of IFRS 15.
- 2713 This section of the Code does not cover revenue arising from:
- lease contracts (see Section 4.2)
 - financial instruments and other contractual rights or obligations within the scope of Chapter 7 and IFRS 9 *Financial Instruments*, Chapter 9 and IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*
 - insurance contracts (see Appendix A, paragraph A.1.7), and
 - non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.
- 2714 An authority shall apply this section of the Code and IFRS 15 to a contract (other than a contract listed in paragraph 2.7.1.3) only if the counterparty to the contract is a service recipient. A service recipient is a party that has contracted with an authority to obtain goods or services that are an output of the authority’s normal operating activities in exchange for consideration. The provisions in this section of the Code ie from paragraph 2.7.2.1 to 2.7.2.39 apply to exchange transactions. However, where relevant, the provisions may be applied to non-exchange transactions.
- 2715 This section of the Code also refers to revenue from non-exchange transactions in general terms. However, for certain types of non-exchange transactions reference shall be made to other sections of this Code ie sections 2.2, 2.3, 2.8 and 2.9. See also the revenue recognition principles in Section 2.1.

Adaptation for the public sector context

- 2.7.16 No adaptations of IFRS 15 and IPSAS 23 are required for the public sector context; these standards are applied in full in relation to the recognition and measurement of revenue.
- 2.7.17 IPSAS 9 includes a public sector adaptation which the Code has adopted. The adaptation is as follows:

Definitions

- The definition of revenue excludes the reference to 'ordinary activities'.

2.7.2 Accounting requirements

Definitions

- 2.7.21 A **contract** is an agreement between two or more parties that creates enforceable rights and obligations.
- 2.7.22 A **contract asset** is an authority's right to consideration in exchange for goods or services that the authority has transferred to a service recipient when that right is conditioned on something other than the passage of time (for example, the authority's future performance).
- 2.7.23 A **contract liability** is an authority's obligation to transfer goods or services to a service recipient for which the authority has received consideration (or the amount is due) from the service recipient.
- 2.7.24 **Exchange transactions** are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.
- 2.7.25 **Income** is defined as increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in an increase in reserves or net worth.
- 2.7.26 A **performance obligation** is a promise in a contract with a service recipient to transfer to the service recipient either:
- a) a good or service (or a bundle of goods or services) that is distinct; or
 - b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the service recipient.
- 2.7.27 **Non-exchange transactions** are transactions that are not exchange transactions. In a non-exchange transaction, an authority either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange. For additional guidance on what represents a non-exchange transaction see paragraphs 2.1.2.32 to 2.1.2.50 of the Code and 8 to 11 of IPSAS 23.

- 2.7.2.8 Revenue** is income arising as a result of an authority's normal operating activities.
- 2.7.2.9** A **service recipient** is a party that has contracted with an authority to obtain goods or services that are an output of the authority's normal operating activities in exchange for consideration. Note that in this section of the Code all references to 'customer' in IFRS 15 have been replaced with 'service recipient'.
- 2.7.2.10** The **stand-alone selling price** of a good or service is the price at which an authority would sell a promised good or service separately to a service recipient.
- 2.7.2.11** The **transaction price** for a contract with a service recipient is the amount of consideration to which an authority expects to be entitled in exchange for transferring promised goods or services to a service recipient, excluding amounts collected on behalf of third parties.

Recognition

Steps to revenue recognition

- 2.7.2.12** An authority recognises revenue from contracts with service recipients in accordance with the following five steps:
- step 1: identify the contract(s) with a service recipient – see paragraphs 2.7.2.13 to 2.7.2.14
 - step 2: identify the performance obligations in the contract – see paragraphs 2.7.2.15 to 2.7.2.19
 - step 3: determine the transaction price – see paragraphs 2.7.2.28 to 2.7.2.35
 - step 4: allocate the transaction price to the performance obligations in the contract – see paragraphs 2.7.2.36 to 2.7.2.39, and
 - step 5: recognise revenue when (or as) the authority satisfies a performance obligation – see paragraphs 2.7.2.20 to 2.7.2.26.

Identifying the contract

- 2.7.2.13** An authority shall account for a contract with a service recipient that is within the scope of this section of the Code only when all of the following criteria are met:
- a) the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices of the authority) and are committed to perform their respective obligations
 - b) the authority can identify each party's rights regarding the goods or services to be transferred
 - c) the authority can identify the payment terms for the goods or services to be transferred
 - d) the contract has commercial substance (ie the risk, timing or amount of the

authority's future cash flows is expected to change as a result of the contract). Note that providing goods or services at less than market rates does not necessarily mean that a contract does not have commercial substance, and

- e) it is probable that the authority will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the service recipient. In evaluating whether collectability of an amount of consideration is probable, an authority shall consider only the service recipient's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the authority will be entitled may be less than the price stated in the contract if the consideration is variable because the authority may offer the service recipient a price concession.

2.72.14 A contract is an agreement between two or more parties that creates enforceable rights and obligations. Enforceability of the rights and obligations in a contract is a matter of law. Contracts can be written, oral or implied by an authority's customary business practices. For provisions on contract modifications see paragraphs 18 to 21 of IFRS 15.

Recognition – identifying performance obligations

2.72.15 At contract inception, an authority shall assess the goods or services promised in a contract with a service recipient and shall identify as a performance obligation each promise to transfer to the service recipient either:

- a) a good or service (or a bundle of goods or services) that is distinct, or
- b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the service recipient.

2.72.16 A series of distinct goods or services has the same pattern of transfer to the service recipient if both of the following criteria are met:

- a) each distinct good or service in the series that the authority promises to transfer to the service recipient would meet the criteria in paragraph 2.7.2.22 to be a performance obligation satisfied over time, and
- b) the same method would be used to measure the authority's progress towards complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the service recipient.

Distinct goods or services

2.72.17 Promised goods or services from contracts with service recipients may include, but are not limited to, the following:

- a) performing a contractually agreed-upon task (or tasks) for a service recipient; examples include social care activities, for example, home care for older people, burial and cremation services, service charges for council dwellings, registration services etc

- b) resale of goods purchased by an authority (for example, merchandise of a retailer at leisure centres, concession goods at local authority theatres etc)
- c) constructing, manufacturing or developing an asset on behalf of a service recipient, for example, adaptations to residents' homes for social care purposes
- d) sale of goods produced by the authority (for example, sale of copies of statutory or archived documents).

2.7.2.18 A good or service that is promised to a service recipient is distinct if both of the following criteria are met:

- a) the service recipient can benefit from the good or service either on its own or together with other resources that are readily available to the service recipient (ie the good or service is capable of being distinct), and
- b) the authority's promise to transfer the good or service to the service recipient is separately identifiable from other promises in the contract (ie the promise to transfer the good or service is distinct within the context of the contract).

2.7.2.19 If a promised good or service is not distinct, an authority shall combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct.

Satisfaction of performance obligations

2.7.2.20 An authority shall recognise revenue when (or as) the authority satisfies a performance obligation by transferring a promised good or service (ie an asset) to a service recipient. An asset is transferred when (or as) the service recipient obtains control of that asset.

2.7.2.21 For each performance obligation identified in accordance with paragraphs 2.7.2.15 to 2.7.2.19, an authority shall determine at contract inception whether it satisfies the performance obligation over time (in accordance with paragraphs 2.7.2.22 and 36 to 37 of IFRS 15, see also paragraphs B6 to B8 and B9 to B13 of IFRS 15) or satisfies the performance obligation at a point in time (in accordance with paragraph 2.7.2.23). If an authority does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

Performance obligations satisfied over time

2.7.2.22 An authority transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- a) the service recipient simultaneously receives and consumes the benefits provided by the authority's performance as the authority performs (for example, home care service for older people)
- b) the authority's performance creates or enhances an asset (for example, work in progress) that the service recipient controls as the asset is created or enhanced, for example, an authority might build a community centre on land owned by a community

charity, or

- c) the authority's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date, for example, building an asset that only the service recipient can use; examples of this might be adaptations of property for social care purposes.

Performance obligations satisfied at a point in time

2.7.2.3 If a performance obligation is not satisfied over time an authority satisfies the performance obligation at a point in time. To determine the point in time at which a service recipient obtains control of a promised asset and the authority satisfies a performance obligation, the authority shall consider the requirements for control in paragraphs 2.7.2.20 to 2.7.2.21. In addition, an authority shall consider indicators of the transfer of control, which include, but are not limited to, the following:

- a) The authority has a present right to payment for the asset – if a service recipient is presently obliged to pay for an asset, then that may indicate that the service recipient has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset in exchange.
- b) The service recipient has legal title to the asset – legal title may indicate which party to a contract has the ability to direct the use of, and obtain substantially all of the remaining benefits from, an asset or to restrict the access of other entities to those benefits. Therefore, the transfer of legal title of an asset may indicate that the service recipient has obtained control of the asset. If an authority retains legal title solely as protection against the service recipient's failure to pay, those rights of the authority would not preclude the service recipient from obtaining control of an asset.
- c) The authority has transferred physical possession of the asset – the service recipient's physical possession of an asset may indicate that the service recipient has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset or to restrict the access of other entities to those benefits. However, physical possession may not coincide with control of an asset.
- d) The service recipient has the significant risks and rewards of ownership of the asset – the transfer of the significant risks and rewards of ownership of an asset to the service recipient may indicate that the service recipient has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. However, when evaluating the risks and rewards of ownership of a promised asset, an authority shall exclude any risks that give rise to a separate performance obligation in addition to the performance obligation to transfer the asset. For example, an authority may have transferred control of an asset to a service recipient but not yet satisfied an additional performance obligation to provide maintenance services related to the transferred asset.

- e) The service recipient has accepted the asset – the service recipient’s acceptance of an asset may indicate that it has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

Measuring progress towards complete satisfaction of a performance obligation

- 2.7.2.24** For each performance obligation satisfied over time in accordance with paragraphs 2.7.2.22 and 36 to 37 of IFRS 15 (see also paragraphs B6 to B8 and B9 to B13 of IFRS 15), an authority shall recognise revenue over time by measuring the progress towards complete satisfaction of that performance obligation. The objective when measuring progress is to depict an authority’s performance in transferring control of goods or services promised to a service recipient (ie the satisfaction of an authority’s performance obligation).
- 2.7.2.25** An authority shall apply a single method of measuring progress for each performance obligation satisfied over time and the authority shall apply that method consistently to similar performance obligations and in similar circumstances. At the end of each reporting period, an authority shall remeasure its progress towards complete satisfaction of a performance obligation satisfied over time. An authority shall follow paragraphs 41 to 43 of IFRS 15 when applying a method for measuring progress of a performance obligation; additional guidance is provided in paragraphs B14 to B19 of IFRS 15.
- 2.7.2.26** An authority shall recognise revenue for a performance obligation satisfied over time only if the authority can reasonably measure its progress towards complete satisfaction of the performance obligation. See also paragraphs 44 to 45 of IFRS 15.

Measurement

- 2.7.2.27** When (or as) a performance obligation is satisfied, an authority shall recognise as revenue the amount of the transaction price (which excludes estimates of variable consideration that are constrained in accordance with paragraphs 56 to 58 of IFRS 15) that is allocated to that performance obligation.

Determining the transaction price

- 2.7.2.28** An authority shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an authority expects to be entitled in exchange for transferring promised goods or services to a service recipient, excluding amounts collected on behalf of third parties (for example, VAT). The consideration promised in a contract with a service recipient may include fixed amounts, variable amounts, or both.
- 2.7.2.29** The nature, timing and amount of consideration promised by a service recipient affect the estimate of the transaction price. When determining the transaction price, an authority shall consider the effects of all of the following:

- a) variable consideration (see paragraph 2.7.2.30 below; and paragraphs 51 to 55 and 59 of IFRS 15)
- b) constraining estimates of variable consideration, where it is less than highly probable that there will not be a significant reversal of cumulative revenue recognised (see paragraphs 56 to 58 of IFRS 15)
- c) the existence of a significant financing component in the contract (see paragraphs 2.7.2.31 to 2.7.2.35 and paragraphs 60 to 65 of IFRS 15)
- d) non-cash consideration (see paragraphs 66 to 69 of IFRS 15), and
- e) consideration payable to a service recipient (see paragraphs 70 to 72 of IFRS 15).

Variable consideration

2.7.2.30 If the consideration promised in a contract includes a variable amount, an authority shall estimate the amount of consideration to which the authority will be entitled in exchange for transferring the promised goods or services to a service recipient. An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. An authority shall estimate an amount of variable consideration by using either the expected value or the most likely amounts methods (see paragraph 53 of IFRS 15). An authority shall apply one method consistently throughout the contract when estimating the effect of an uncertainty on an amount of variable consideration to which it will be entitled.

The existence of a significant financing component in the contract

2.7.2.31 In determining the transaction price, an authority shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the service recipient or the authority with a significant benefit of financing the transfer of goods or services to the service recipient. In those circumstances, the contract contains a significant financing component.

2.7.2.32 The objective when adjusting the promised amount of consideration for a significant financing component is for an authority to recognise revenue at an amount that reflects the price that a service recipient would have paid for the promised goods or services if the service recipient had paid cash for those goods or services when (or as) they transfer to the service recipient (ie the cash selling price). An authority shall consider all relevant facts and circumstances in assessing whether a contract contains a financing component and whether that financing component is significant to the contract, including both of the following:

- a) the difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services, and
- b) the combined effect of both of the following:

- i) the expected length of time between when the authority transfers the promised goods or services to the customer and when the customer pays for those goods or services, and
- ii) the prevailing interest rates in the relevant market.

2.7.2.33 As a practical expedient, an authority need not adjust the promised amount of consideration for the effects of a significant financing component if the authority expects, at contract inception, that the period between when the authority transfers a promised good or service to a customer and when the service recipient pays for that good or service will be one year or less.

2.7.2.34 When adjusting the promised amount of consideration for a significant financing component, an authority shall use the discount rate that would be reflected in a separate financing transaction between the authority and its service recipient at contract inception. That rate would reflect the credit characteristics of the party receiving financing in the contract.

2.7.2.35 An authority shall present the effects of financing (interest revenue or interest expense) separately from revenue from contracts with service recipients in the comprehensive income and expenditure statement and in the financing and investment income and expenditure line. Interest revenue or interest expense is recognised only to the extent that a contract asset (or receivable) or a contract liability is recognised in accounting for a contract with a service recipient.

Allocating the transaction price to performance obligations

2.7.2.36 The objective when allocating the transaction price is for an authority to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the authority expects to be entitled in exchange for transferring the promised goods or services to the service recipient.

2.7.2.37 To meet the allocation objective, an authority shall allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis in accordance with paragraph 2.7.2.38 and paragraphs 77 to 80 of IFRS 15, except as specified in paragraph 2.7.2.39 and paragraphs 82 to 83 of IFRS 15 (for allocating discounts) and paragraphs 84 to 86 of IFRS 15 (for allocating consideration that includes variable amounts).

Allocation based on stand-alone selling prices

2.7.2.38 To allocate the transaction price to each performance obligation on a relative stand-alone selling price basis, an authority shall determine the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract and allocate the transaction price in proportion to those stand-alone selling prices.

Allocation of a discount

2.7.2.39 A service recipient receives a discount for purchasing a bundle of goods or services if the sum of

the stand-alone selling prices of those promised goods or services in the contract exceeds the promised consideration in a contract. Except when an authority has observable evidence in accordance with paragraph 82 of IFRS 15 that the entire discount relates to only one or more, but not all, performance obligations in a contract, the authority shall allocate a discount proportionately to all performance obligations in the contract. The proportionate allocation of the discount in those circumstances is a consequence of the authority allocating the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of the underlying distinct goods or services.

Non-exchange transactions, for example, council tax, general rates and business rates

2.72.40 There is no difference between the delivery and payment dates for non-contractual, non-exchange transactions, for example, revenue relating to council tax, general rates and business rates, and therefore these transactions shall be measured on recognition at their full amount receivable.

2.72.41 For non-exchange transactions, revenue shall be recognised when the obligating event that triggers the payment to the authority has taken place and:

- a) it is probable that the economic benefits associated with the transaction will flow to the authority, and
- b) the amount of the revenue can be measured reliably.

Presentation

2.72.42 When either party to a contract has performed, an authority shall present the contract in the balance sheet as a contract asset or a contract liability, depending on the relationship between the authority's performance and the service recipient's payment. An authority shall present any unconditional rights to consideration separately as a receivable.

2.72.43 If a service recipient pays consideration, or an authority has a right to an amount of consideration that is unconditional (ie a receivable), before the authority transfers a good or service to the service recipient, the authority shall present the contract as a contract liability when the payment is made or the payment is due (whichever is earlier). A contract liability is an authority's obligation to transfer goods or services to a service recipient for which the authority has received consideration (or an amount of consideration is due) from the service recipient.

2.72.44 If an authority performs by transferring goods or services to a service recipient before the service recipient pays consideration or before payment is due, the authority shall present the contract as a contract asset, excluding any amounts presented as a receivable. A contract asset is an authority's right to consideration in exchange for goods or services that the authority has transferred to a service recipient. An authority shall assess a contract asset for impairment in accordance with Section 7.2.9. An impairment of a contract asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of Chapter 7.

2.7.2.45 A receivable is an authority's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. An authority shall account for a receivable in accordance with Chapter 7 and IFRS 9. On initial recognition of a receivable from a contract with a service recipient, any difference between the measurement of the receivable in accordance with Chapter 7 and IFRS 9 and the corresponding amount of revenue recognised shall be presented as an expense (for example, as an impairment loss).

2.7.3 Statutory accounting requirements

2.7.3.1 There are no statutory accounting requirements in relation to revenue from contracts with service recipients.

2.7.4 Disclosure requirements

2.7.4.1 Disclosure of accounting policies in relation to revenue from contracts with service recipients is required where these accounting policies are significant to the authority's financial statements (see Section 3.4 of the Code). Disclosure of accounting policies for non-exchange transactions is also required when significant to the financial statements (see the relevant section of the Code, for example, Section 2.3 for government grants and contributions and Section 2.8 for council tax, general rates and non-domestic rates).

2.7.4.2 IFRS 15 is a standard drafted for commercial entities, where the recognition of revenue is normally of paramount importance for the presentation of financial performance in the financial statements. Therefore a local authority shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements and shall consider the concept of materiality set out in paragraph 2.1.2.14 for the users of local authority financial statements. An authority 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 substantially different characteristics.

2.7.4.3 The objective of the disclosure requirements for this section of the Code is for an authority to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with service recipients. To achieve that objective, an authority shall disclose qualitative and quantitative information about the following:

- a) its contracts with service recipients, and
- b) the significant judgements, and changes in the judgements, made in applying this section of the Code to those contracts.

2.7.4.4 An authority need not disclose information in accordance with this section of the Code if it has provided the information in accordance with another section of the Code or IFRS or other reporting requirement included in its financial statements.

Contracts with service recipients

- 2.7.4.5** An authority shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in other comprehensive income and expenditure in accordance with other sections of the Code:
- a) revenue recognised from contracts with service recipients, which the authority shall disclose separately from its other sources of revenue; and
 - b) any impairment losses recognised (in accordance with Chapter 7 of the Code and IFRS 9) on any receivables or contract assets arising from an authority's contracts with service recipients, which the authority shall disclose separately from impairment losses from other contracts.

Disaggregation of revenue

- 2.7.4.6** An authority shall disaggregate revenue recognised from contracts with service recipients into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An authority shall apply the guidance in paragraphs B87 to B89 of IFRS 15 when selecting the categories to use to disaggregate revenue.
- 2.7.4.7** In addition, an authority shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 2.7.4.6) and revenue information that is disclosed for each reportable segment in accordance with an authority's segments as required by Section 3.4.

Contract balances

- 2.7.4.8** An authority shall disclose all of the following.
- a) the opening and closing balances of receivables, contract assets and contract liabilities from contracts with service recipients, if not otherwise separately presented or disclosed
 - b) revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period, and
 - c) revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price).
- 2.7.4.9** An authority shall explain how the timing of satisfaction of its performance obligations (see paragraph 2.7.4.11 a)) relates to the typical timing of payment (see paragraph 2.7.4.11 b)) and the effect that those factors have on the contract asset and the contract liability balances. The explanation provided may use qualitative information.
- 2.7.4.10** An authority shall provide an explanation of the significant changes in the contract asset and the contract liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the authority's balances of contract assets

and contract liabilities include any of the following:

- a) changes due to business combinations
- b) cumulative catch-up adjustments to revenue that affect the corresponding contract asset or contract liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction price (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a contract modification
- c) impairment of a contract asset
- d) a change in the time frame for a right to consideration to become unconditional (ie for a contract asset to be reclassified to a receivable), and
- e) a change in the time frame for a performance obligation to be satisfied (ie for the recognition of revenue arising from a contract liability).

Performance obligations

2.7.4.11 An authority shall disclose information about its performance obligations in contracts with service recipients, including a description of all of the following:

- a) when the authority typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service)
- b) the significant payment terms (for example, when payment is typically due, whether the contract has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 56 to 58 of IFRS 15)
- c) the nature of the goods or services that the authority has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (ie if the authority is acting as an agent)
- d) obligations for returns, refunds and other similar obligations, and
- e) types of warranties and related obligations.

Transaction price allocated to the remaining performance obligations

2.7.4.12 An authority shall disclose the following information about its remaining performance obligations:

- a) the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period, and
- b) an explanation of when the authority expects to recognise as revenue the amount disclosed in accordance with paragraph 2.7.4.12 a), which the authority shall disclose in either of the following ways:

- i) on a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations, or
- ii) by using qualitative information.

2.7.4.13 As a practical expedient, an authority need not disclose the information in paragraph 2.7.4.12 for a performance obligation if either of the following conditions is met:

- a) the performance obligation is part of a contract that has an original expected duration of one year or less, or
- b) the authority recognises revenue from the satisfaction of the performance obligation in accordance with paragraph B16 of IFRS 15.

2.7.4.14 An authority shall explain qualitatively whether it is applying the practical expedient in paragraph 2.7.4.13 and whether any consideration from contracts with service recipients is not included in the transaction price and, therefore, not included in the information disclosed in accordance with paragraph 2.7.4.12. For example, an estimate of the transaction price would not include any estimated amounts of variable consideration that are constrained (see paragraphs 56 to 58 of IFRS 15).

Significant judgements in the application of this section of the Code and IFRS 15

2.7.4.15 An authority shall disclose the judgements, and changes in the judgements, made in applying this section of the Code and IFRS 15 that significantly affect the determination of the amount and timing of revenue from contracts with service recipients. In particular, an authority shall explain the judgements, and changes in the judgements, used in determining both of the following:

- a) the timing of satisfaction of performance obligations (see paragraphs 2.7.4.16 to 2.7.4.17), and
- b) the transaction price and the amounts allocated to performance obligations (see paragraph 2.7.4.18).

Determining the timing of satisfaction of performance obligations

2.7.4.16 For performance obligations that an authority satisfies over time, an authority shall disclose both of the following:

- a) the methods used to recognise revenue (for example, a description of the output methods or input methods used and how those methods are applied), and
- b) an explanation of why the methods used provide a faithful depiction of the transfer of goods or services.

2.7.4.17 For performance obligations satisfied at a point in time, an authority shall disclose the significant judgements made in evaluating when a service recipient obtains control of promised goods or services.

Determining the transaction price and the amounts allocated to performance obligations

274.18 An authority shall disclose information about the methods, inputs and assumptions used for all of the following:

- a) determining the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration
- b) assessing whether an estimate of variable consideration is constrained
- c) allocating the transaction price, including estimating stand-alone selling prices of promised goods or services and allocating discounts and variable consideration to a specific part of the contract (if applicable), and
- d) measuring obligations for returns, refunds and other similar obligations.

Disclosures for revenue from non-exchange transactions

274.19 Disclosures for revenue from non-exchange transactions are included in the relevant sections of the Code ie sections 2.2, 2.3, 2.8 and 2.9.

2.7.5 Statutory disclosure requirements

275.1 There are no statutory disclosures required in relation to revenue from contracts with service recipients.

2.7.6 Changes since the 2019/20 Code

275.1 ~~There have been no changes to this section of the Code since the 2019/20 Code. There have been no changes to the Revenue from Contracts with Service Recipients section of the Code since the 2018/19 Code.~~

2.8 TAX INCOME (COUNCIL TAX, RESIDUAL COMMUNITY CHARGES, NON-DOMESTIC RATES (NDR) AND RATES)

2.8.1 Introduction

28.1.1 This section of the Code applies the accounting principles contained within the Code to the accounting requirements in respect of tax income collected by local authorities. There is no IFRS covering tax income. IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* sets out the principles that are to be followed.

2.8.2 Accounting requirements

Non-domestic rates (NDR) (Wales and Scotland)

2.821 Billing authorities in Scotland and Wales collect NDR under what is in substance an agency arrangement with each jurisdiction's government. It therefore follows that:

- a) NDR income is not the income of the billing authority and shall not be included in its comprehensive income and expenditure statement. The cost of collection allowance received by billing authorities in Wales is the billing authority's income and shall be included in the comprehensive income and expenditure statement (in Scotland an amount for 'collection of non-domestic rates' is included in Revenue Support Grant).
- b) NDR debtor and creditor balances with taxpayers and the impairment allowance for doubtful debts are not assets and liabilities of the billing authority and shall not be recognised in the billing authority's balance sheet.
- c) Cash collected from NDR taxpayers by billing authorities (net of the cost of collection allowance in Wales) belongs to the government and the amount not yet paid to the government at the balance sheet date shall be included in the balance sheet as a creditor; similarly, if cash paid to the government exceeds the cash collected from NDR taxpayers (net of the billing authority's cost of collection allowance in Wales), the excess shall be included in the balance sheet as a debtor.
- d) Cash collected from NDR taxpayers by a billing authority is collected for the government and is therefore not an operating activity of the billing authority and shall not be included in the billing authority's cash flow statement as a cash inflow except for the cash retained in respect of the cost of collection allowance. Similarly, the billing authority's payment into the NDR national pool is not an operating activity and shall not be included in the billing authority's cash flow statement as a cash outflow. The difference between the cash collected from NDR taxpayers and the amount paid into the NDR national pool shall be included within financing activities in the cash flow statement.
- e) Amounts are sometimes billed to NDR taxpayers over and above the NDR due, usually to recover the billing authority's costs of pursuing unpaid NDR debts. Any amounts charged to NDR taxpayers in respect of amounts that the authority is not required to account for to the government are income of the billing authority.

Non-domestic rates (England)

2.822 Non-domestic rating income included in the comprehensive income and expenditure statement for the year shall be the accrued income for the year. The government's central share and each major preceptor's share of the accrued non-domestic rating income would be available from the information that is required to be produced in order to prepare the collection fund statement (see Section 3.6 of the Code). The allowance for the cost of collection will need to be recognised

in the relevant service revenue account.

- 2.823** Since collection of non-domestic rating income is in substance an agency arrangement, the cash collectable by the billing authority from non-domestic rating income debtors belongs proportionately to the billing authority, central government (by means of its central share) and the major preceptors. There will therefore be a debtor/creditor position between the billing authority, central government and each major preceptor to be recognised since the net cash paid to central government and each major preceptor in the year will not be its share of cash collectable from NDR taxpayers.
- 2.824** If the net cash paid to central government or a major preceptor in the year is more than its proportionate share of net cash collected from non-domestic rating income debtors/creditors in the year, the billing authority shall recognise a debit adjustment for the amount overpaid to central government or the major preceptor in the year. The major preceptor shall recognise a credit adjustment for the (same) amount to the debtor/creditor position between them brought forward from the previous year. If the cash paid to central government or a major preceptor is less than its proportionate share of net cash collected in the year from non-domestic rating income debtors/creditors, the billing authority shall recognise a credit adjustment for the (same) amount underpaid to central government or the major preceptor in the year. The major preceptor shall recognise a debit adjustment for the amount to the debtor/creditor position between them brought forward from the previous year.
- 2.825** The cash flow statement of the billing authority shall include within operating activities only its own share of non-domestic rating income net cash collected from non-domestic rating debtors in the year; and the amount paid shall exclude amounts paid to central government and major preceptors. The difference between the central government and the major preceptors' share of the net cash collected from non-domestic rating debtors and net cash paid to central government and major preceptors as precepts and settlement of the previous year's surplus or deficit on the collection fund for non-domestic rating income shall be included within financing activities in the cash flow statement.
- 2.826** The cash flow statement of a major preceptor shall include within operating activities the net non-domestic rating income cash received from the collection fund in the year (ie the major preceptors' share of non-domestic rating income for the year plus its share of collection fund surplus for the previous year, or less the amount paid to the collection fund in respect of its share of the previous year's collection fund deficit).

Top-ups and tariffs

- 2.827** Top-up income receivable and tariff expenditure payable shall be recognised by the authority in the comprehensive income and expenditure statement on an accruals basis. These transactions shall be recognised in the line item taxation and non-specific grant income and expenditure. An authority will need to determine, based on the materiality of these items, whether they are reported either separately on the face of the comprehensive income and expenditure statement

or in the notes to the financial statements.

Safety net income and levy expenditure

- 2.8.2.8** Safety net income and levy expenditure shall also be recognised in the comprehensive income and expenditure statement on an accruals basis. These transactions will be recognised in the line item taxation and non-specific grant income and expenditure. An authority will need to determine, based on the materiality of these items, whether they are reported either separately on the face of the comprehensive income and expenditure statement or in the notes to the financial statements. Debtors and creditors in respect of these items shall be recognised in the balance sheet.

Pool of authorities for non-domestic rating income

- 2.8.2.9** The Local Government Finance Act 2012 permits the secretary of state to designate two or more relevant authorities as a pool of authorities. Authorities that are party to such a pool will need to recognise their share of the income and expenditure (and debtors and creditors) in accordance with the agreed arrangements for distribution of the pool income and expenditure and the accounting requirements of this section of the Code.

Non-domestic rates – retention of percentage of income growth (England and Scotland)

- 2.8.2.10** In England, where an authority is able to retain any non-domestic rating income growth for the purposes established under rate retention schemes it shall make the transfers required by regulations to the general fund. The authority shall determine whether it is acting as principal or agent for these sums in accordance with the relevant scheme requirements and Section 2.6 of the Code and shall recognise such income for which it is acting as principal.
- 2.8.2.11** In Scotland, where an authority is able to retain an element of its non-domestic rating income growth for the purposes established under a tax incremental financing scheme, it shall determine the extent to which it is acting as principal for these sums in accordance with the scheme requirements and Section 2.6 of the Code and recognise such income for which it is acting as principal.

Non-domestic rates – business rates incentivisation Scheme

- 2.8.2.12** In Scotland, the business rates incentivisation scheme allows authorities that exceed their annual business rates target to retain 50% of any additional income for the revaluation period. As this element of non-domestic rating income is the income of the authority in the pursuit of its own objectives and the authority bears all the risks of non-collection, then this part of the non-domestic rating income of the authority shall be recognised in the comprehensive income and expenditure statement of the authority and disclosed as appropriate in the notes to the financial statements.

Council tax (England)

- 2.8.2.13** Council tax income included in the comprehensive income and expenditure statement for the year shall be the accrued income for the year. Each major preceptor's share of the accrued council tax income would be available from the information that is required to be produced in order to prepare the collection fund statement (see Section 3.6 of the Code).
- 2.8.2.14** Since the collection of council tax is in substance an agency arrangement, the cash collected by the billing authority from council tax debtors belongs proportionately to the billing authority and the major preceptors. There will therefore be a debtor/creditor position between the billing authority and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of cash collectable from council tax payers.
- 2.8.2.15** If the net cash paid to a major preceptor in the year is more than its proportionate share of net cash collected from council tax debtors/creditors in the year, the billing authority shall recognise a debit adjustment for the amount overpaid to the major preceptor in the year and the major preceptor shall recognise a credit adjustment for the same amount to the debtor/creditor position between them brought forward from the previous year. If the cash paid to a major preceptor is less than its proportionate share of net cash collected in the year from council tax debtors/creditors, the billing authority shall recognise a credit adjustment for the amount underpaid to the major preceptor in the year and the major preceptor shall recognise a debit adjustment for the same amount to the debtor/creditor position between them brought forward from the previous year.
- 2.8.2.16** The cash flow statement of the billing authority shall include within operating activities only its own share of council tax net cash collected from council tax debtors in the year – and the amount included for precepts paid shall exclude amounts paid to major preceptors. The difference between the major preceptors' share of the net cash collected from council tax debtors and net cash paid to major preceptors as precepts and settlement of the previous year's surplus or deficit on the collection fund shall be included within financing activities in the cash flow statement.
- 2.8.2.17** The cash flow statement of a major preceptor shall include within operating activities the net council tax cash received from the collection fund in the year (ie the precept for the year plus its share of collection fund surplus for the previous year, or less the amount paid to the collection fund in respect of its share of the previous year's collection fund deficit).

Residual community charge (England)

- 2.8.2.18** Any residual community charge income 'adjustments' (losses or gains) are also required to be included in the collection fund. Such adjustments, which will now often be nil or negligible, are borne wholly by the billing authority and are excluded from the collection fund surplus or deficit in calculating the amount that is shared between the billing authority and major preceptors. The community charge adjustment for the year shall be taken to surplus or deficit on the provision of

services.

Council tax (Scotland)

2.8.2.19 Scotland does not have precepting authorities. The whole council tax income accruing in the year shall be included as council tax income of the authority collecting the tax. Council tax debtors and creditors and the impairment allowance for doubtful debts shall be wholly included in the authority's balance sheet. In the cash flow statement the cash inflow for council tax received shall be included within operating activities and shall be the net cash collected from council tax debtors or creditors.

Council tax (Wales)

2.8.2.20 Billing authorities in Wales do not maintain a collection fund. Under regulation, major preceptors in Wales (in effect police and crime commissioners), like community councils, receive the exact amount of their precept. Major preceptors do not therefore share with the billing authority the risk that actual council tax outturn will be greater or less than assumed when setting council tax requirements.

2.8.2.21 Since the billing authority bears the whole risk of council tax income being higher or lower than estimated, it is acting as a principal rather than an agent in relation to major preceptors. All council tax income is therefore the income of the billing authority and shall be included as council tax income in the billing authority's comprehensive income and expenditure statement. Council tax debtors or creditors and impairment allowance for doubtful debts shall be included wholly in its balance sheet. The major preceptors' precepts shall be included as expenditure in the billing authority's comprehensive income and expenditure statement. The council tax income for the year included in a major preceptor's comprehensive income and expenditure statement shall be its council tax precept for the year.

2.8.2.22 In a billing authority's cash flow statement the amount included within operating activities in respect of council tax receipts shall be the net cash collected from council tax debtors or creditors including amounts arising in respect of the major preceptors' precepts. The amount included in respect of operating activities for precepts paid shall include the amounts paid to major preceptors.

Rates (Northern Ireland)

2.8.2.23 In Northern Ireland rates are levied on both domestic and non-domestic properties at a rate in the pound set by the authority as the proceeds of a penny rate product but are collected by the Department of Finance. The rate income for the year shall be the amount receivable for the year from the Department of Finance ie the income shall be based on the 'actual penny rate product' for the year. Instalments of rates income are received from the Department of Finance during the year based on the 'estimated penny rate product' made when the authority's budget was set. A debtor or creditor for the 'actual penny rate product' adjustment for the year that will be

made by the Department of Finance in the following year shall be included as a debtor or creditor. If the formal notification from the Department of Finance of the amount of the 'actual penny rate product' adjustment for the year is not available from the Department of Finance at the time the accounts are finalised, an estimated amount shall be accrued.

2.8.3 Statutory accounting requirements

Non-domestic rates (England)

- 2.8.3.1** For both the billing authority and major preceptors, the difference between the non-domestic rating income included in the comprehensive income and expenditure statement and the amount required by regulation to be credited to the general fund shall be taken to the collection fund adjustment account and reported in the movement in reserves statement.

Council tax (England)

- 2.8.3.2** For both the billing authority and major preceptors, the difference between the council tax income included in the comprehensive income and expenditure statement and the amount required by regulation to be credited to the general fund shall be taken to the collection fund adjustment account and reported in the movement in reserves statement.

Residual community charge (England)

- 2.8.3.3** The difference between the community charge adjustment included in the comprehensive income and expenditure statement and the amount required by regulation to be taken to the general fund (ie the previous year's community charge adjustment) shall be taken to the collection fund adjustment account.

2.8.4 Disclosure requirements

- 2.8.4.1** Tax income reported in the comprehensive income and expenditure statement shall be disclosed in line with the requirements of the Code set out in Section 3.4 (Presentation of Financial Statements), which include disclosures for council tax (Wales) and rates (Northern Ireland). Disclosures in respect of the collection fund (England), council tax income account (Scotland) and non-domestic rates account (Scotland) are set out in Section 3.6 of the Code.
- 2.8.4.2** In accordance with paragraphs 2.8.2.7 and 2.8.2.8 above, an authority will need to determine whether top-up income/tariff payments and safety net income and levy expenditure will need to be reported separately on the face of the comprehensive income and expenditure statement or in the notes.
- 2.8.4.3** Lead authorities of a designated pool of authorities may need to consider whether a true and fair presentation of its non-domestic rating income arrangements might require that a memorandum account be produced in the financial statements for the pool.

2.8.5 Statutory disclosure requirements

2851 There are no statutory disclosures in relation to the non-domestic rates (England), the collection fund (England), council tax income account (Scotland) and non-domestic rates account (Scotland).

2.8.6 Changes since the 20198/2019 Code

2861 There have been no changes to the Tax Income (Council Tax, Residual Community Charges, Non-domestic Rates (NDR) and Rates) section of the Code since the 20198/2019 Code.

2.9 VALUE ADDED TAX

2.9.1 Introduction

2911 The preparation of the Code follows the memorandum of understanding between the relevant authorities (see paragraph 1.2.6); because there are no IFRS or IPSAS specifically relating to VAT), authorities shall account for VAT in accordance with FRS 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland*, and apply specific rules for the recovery of VAT.

Adaptation for the public sector context

2912 No adaptations of FRS 102 are required for the public sector context; this standard is applied in full.

2.9.2 Accounting requirements

Definitions

2921 Input tax is VAT charged on purchases.

2922 Output tax is VAT charged in sales.

2923 Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth.

2924 VAT is an indirect tax levied on most business transactions and on many goods and some services.

Recognition and measurement

2925 Revenue to be included in an authority's comprehensive income and expenditure statement shall be only the gross inflows of economic benefits or service potential received or receivable by an authority on its own behalf (see Section 2.7 of the Code (Revenue from Contracts with Service Recipients)) and therefore excludes VAT that must be passed on (where output tax exceeds input tax) or repaid (where input tax exceeds output tax) to HMRC.

2.9.2.6 The net amount due to or from HMRC in respect of VAT shall be included as part of creditors or debtors.

2.9.2.7 VAT, whether of a capital or a revenue nature, should be included in the comprehensive income and expenditure statement (or included in the cost of an asset where permitted or required by the Code) only to the extent that it is irrecoverable.

2.9.3 Statutory accounting requirements

2.9.3.1 There are no statutory accounting requirements in relation to VAT.

2.9.4 Disclosure requirements

2.9.4.1 Disclosure of accounting policies in relation to VAT is required, where these accounting policies are significant to the authority's financial statements (see Section 3.4 of the Code).

2.9.4.2 There are no specific disclosure requirements covering VAT. However, transactions may be disclosed as part of the disclosure requirements of trade and other receivables (see Section 5.2 of the Code) and trade and other payables (see Section 8.1 of the Code).

2.9.5 Statutory disclosure requirements

2.9.5.1 There are no statutory disclosures required in relation to VAT.

2.9.6 Changes since the 2019~~8~~/2019 Code

2.9.6.1 There have been no changes to the reporting requirements of the Value Added Tax section of the Code since the 2019~~8~~/2019 Code.

2.10 FAIR VALUE MEASUREMENT

2.10.1 Introduction

2.10.1.1 Local authorities shall measure their assets and liabilities and provide disclosures in accordance with IFRS 13 *Fair Value Measurement* where another section of the Code requires or permits fair value measurement, except where adaptations to fit the public sector are detailed in the Code.

Adaptation and application for the public sector context

2.10.1.2 There is only one adaptation to IFRS 13 for the public sector context (see paragraph 2.10.1.3 below). However, Section 4.1 of this Code adapts IAS 16 to require that items of property, plant and equipment that are operational and therefore providing service potential for the authority are measured for their service potential at existing use value, existing use value – social housing or depreciated replacement cost (see Section 4.1 of the Code), and not at fair value. Surplus assets (property, plant and equipment) are measured at fair value.

2.10.13 This section of the Code adapts IFRS 13 by removing the scope exclusion on the disclosures for retirement benefit plan investments measured at fair value in accordance with Section 6.5 (Accounting and Reporting by Pension Funds).

2.10.2 Accounting requirements

Definitions

2.10.21 **Active market** is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

2.10.22 **Cost approach** is a valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

2.10.23 **Entry price** is the price paid to acquire an asset or received to assume a liability in an exchange transaction.

2.10.24 **Exit price** is the price that would be received to sell an asset or paid to transfer a liability.

2.10.25 **Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

2.10.26 **Income approach** is a valuation technique that converts future amounts (eg cash flows or income and expenses) to a single current (ie discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

2.10.27 **Inputs** are the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk, such as the following:

- a) the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model), and
- b) the risk inherent in the inputs to the valuation technique.

Inputs may be observable or unobservable.

2.10.28 **Market approach** is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (ie similar) assets, liabilities or a group of assets and liabilities, such as a business.

2.10.29 **Market participants** are buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

- a) They are independent of each other, ie they are not related parties as defined in IAS 24, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms.

- b) They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary.
- c) They are able to enter into a transaction for the asset or liability.
- d) They are willing to enter into a transaction for the asset or liability, ie they are motivated but not forced or otherwise compelled to do so.

2.10.2.10 Most advantageous market is the market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.

2.10.2.11 An orderly transaction is a transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (eg a forced liquidation or distress sale).

2.10.2.12 A principal market is the market with the greatest volume and level of activity for the asset or liability.

2.10.2.13 Further definitions are included in IFRS 13.

Scope

2.10.2.14 This section of the Code applies when another section of the Code requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except as specified in paragraphs 2.10.2.15 and 2.10.2.16.

2.10.2.15 The measurement and disclosure requirements of this section of the Code do not apply to the following:

- a) share-based payment transactions within the scope of IFRS 2 *Share-based Payments*
- b) leasing transactions within the scope of Section 4.2 (Lease and Lease Type Transactions) of the Code and [IFRS 16 Leases](#), and
- c) measurements that have some similarities to fair value but are not fair value, such as net realisable value in Section 5.1 (Inventories) or value in use in Section 4.7 (Impairment of Assets) of the Code.

2.10.2.16 The disclosures required by this section of the Code are not required for the following:

- a) plan assets measured at fair value in accordance with sections 6.1 to 6.4 of the Code, and
- b) assets for which recoverable amount is fair value less costs of disposal in accordance with Section 4.7 (Impairment of Assets) of the Code.

2.102.17 The fair value measurement framework described in this section of the Code applies to both initial and subsequent measurement if fair value is required or permitted by other sections of the Code.

Measurement

The asset or liability

2.102.18 A fair value measurement is for a particular asset or liability. Therefore, when measuring fair value an authority shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include, for example, the following:

- a) the condition and location of the asset, and
- b) restrictions, if any, on the sale or use of the asset.

The transaction

2.102.19 A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.

2.102.20 A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

Market participants

2.102.21 An authority shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The price

2.102.22 Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

2.102.23 The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. Transaction costs shall be accounted for in accordance with other sections of the Code. Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to a transaction and will differ depending on how an

authority enters into a transaction for the asset or liability.

Fair value measurement of non-financial assets

2.10.24 A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Application to liabilities

2.10.25 A fair value measurement assumes that a financial or non-financial liability is transferred to a market participant at the measurement date. The transfer of a liability assumes that a liability would remain outstanding and the market participant transferee would be required to fulfil the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date. In order to reflect that price at which the liability would be transferred to market participants, the fair value of the liability, including non-financial liabilities, will also need to reflect the non-performance risk which includes but may not be limited to the authority's own non-performance risk.

Liabilities held by other parties as assets

2.10.26 When a quoted price for the transfer of an identical or a similar liability is not available and the identical item is held by another party as an asset, an authority shall measure the fair value of the liability from the perspective of a market participant that holds the identical item as an asset at the measurement date.

Liabilities not held by other parties as assets

2.10.27 When a quoted price for the transfer of an identical or a similar liability is not available and the identical item is not held by another party as an asset, an authority shall measure the fair value of the liability using a valuation technique from the perspective of a market participant that owes the liability.

Valuation techniques

2.10.28 An authority shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Three widely used valuation techniques are the market approach, the cost approach and the income approach. The main aspects of those approaches are summarised in paragraphs B5 to B11 of IFRS 13. An authority shall use valuation techniques consistent with one or more of those approaches to measure fair value.

2.10.29 Local authorities are required to follow the fair value hierarchy prescribed by paragraphs 76 to 90 of IFRS 13 to increase consistency and comparability in fair value measurements and related

disclosures. This hierarchy categorises into three levels the inputs to valuation techniques used to measure fair value; these include:

- **Level 1 inputs** – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- **Level 2 inputs** – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- **Level 3 inputs** – unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

2.10.3 Statutory accounting requirements

2.103.1 There are no statutory accounting requirements in relation to fair value measurement.

2.10.4 Disclosure requirements

2.104.1 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 fair value measurement for all assets and liabilities measured at fair value in the Code, with the exception of those excluded by paragraphs 2.10.2.15 and 2.10.2.16. For fair value measurement disclosures, authorities should only include those disclosures that are material to their financial statements to ensure that the main messages of the disclosures are not obscured by excessive detail:

- 1) An authority shall disclose information that helps users of its financial statements assess both of the following:
 - a) for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the balance sheet after initial recognition, the valuation techniques and inputs used to develop those measurements
 - b) for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit on the provision of services or other comprehensive income and expenditure for the period.
- 2) To meet the objectives in disclosure requirement 1) above, an authority shall consider all the following:
 - a) the level of detail necessary to satisfy the disclosure requirements
 - b) how much emphasis to place on each of the various requirements
 - c) how much aggregation or disaggregation to undertake, and
 - d) whether users of financial statements need additional information to evaluate the quantitative information disclosed.

- 3) To meet the objectives in disclosure requirement 1) above, an authority shall disclose after initial recognition in the balance sheet, at a minimum,¹⁷ the following information for each class of assets and liabilities (see disclosure requirement 4) below for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this section of the Code):
 - a) for recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and, for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of assets or liabilities are those that other sections of the Code require or permit in the balance sheet at the end of each reporting period. Non-recurring fair value measurements of assets or liabilities are those that other sections of the Code require or permit in the balance sheet in particular circumstances (eg when an authority measures an asset held for sale at fair value less costs to sell in accordance with Section 4.9 (Non-current Assets Held for Sale and Discontinued Operations) of the Code and IFRS 5 because the asset's fair value less costs to sell is lower than its carrying amount)
 - b) for recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3)
 - c) for assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the authority's policy for determining when transfers between levels are deemed to have occurred (see disclosure 5) below). Transfers into each level shall be disclosed and discussed separately from transfers out of each level
 - d) for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (eg changing from a market approach to an income approach or the use of an additional valuation technique), the authority shall disclose that change and the reason(s) for making it. For fair value measurements categorised within Level 3 of the fair value hierarchy, an authority shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An authority is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the authority when measuring fair value. However, when providing this disclosure an authority cannot

¹⁷ Although reference is made to 'at a minimum', materiality judgements still apply to this disclosure.

ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the authority

- e) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
 - i) total gains or losses for the period recognised in the surplus or deficit on the provision of services, and the line item(s) in the surplus or deficit on the provision of services in which those gains or losses are recognised
 - ii) total gains or losses for the period recognised in other comprehensive income and expenditure, and the line item(s) in other comprehensive income and expenditure in which those gains or losses are recognised
 - iii) purchases, sales, issues and settlements (each of those types of changes disclosed separately)
 - iv) the amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers and the authority's policy for determining when transfers between levels are deemed to have occurred (see disclosure requirement 5)). Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3
- f) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in e) i) included in the surplus or deficit on the provision of services that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period, and the line item(s) in the surplus or deficit on the provision of services in which those unrealised gains or losses are recognised
- g) for recurring and non-recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a description of the valuation processes used by the authority (including, for example, how an authority decides its valuation policies and procedures and analyses changes in fair value measurements from period to period)
- h) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy:
 - i) for all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an authority shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative

description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with d)

- ii) for financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an authority shall state that fact and disclose the effect of those changes. The authority shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged with respect to the surplus or deficit on the provision of services, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income and expenditure in reserves
- i) for recurring and non-recurring fair value measurements, if the highest and best use of a non-financial asset differs from its current use, an authority shall disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use.
- 4) An authority shall determine appropriate classes of assets and liabilities on the basis of the following:
 - a) the nature, characteristics and risks of the asset or liability, and
 - b) the level of the fair value hierarchy within which the fair value measurement is categorised.

Determining appropriate classes of assets and liabilities for which disclosures about fair value measurements should be provided requires judgement. A class of assets and liabilities will often require greater disaggregation than the line items presented in the balance sheet. However, an authority shall provide information sufficient to permit reconciliation to the line items presented in the balance sheet. If another section of the Code specifies the class for an asset or a liability, an authority may use that class in providing the disclosures required in this section of the Code if that class meets the requirements in this disclosure.

- 5) It is considered that it will be rare for local authorities to transfer between levels of the fair value hierarchy. Where this does occur, an authority shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred in accordance with paragraph 3) c) and e) iv) above. The policy about the timing of recognising transfers shall be the same for transfers into the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include:
 - a) the date of the event or change in circumstances that caused the transfer
 - b) the beginning of the reporting period
 - c) the end of the reporting period.
- 6) If an authority makes an accounting policy decision to use the exception in paragraph 48 of IFRS 13, ie if the authority manages that group of financial assets and

financial liabilities on the basis of its net exposure to either market risks or credit risk, it shall disclose that fact.

- 7) For each class of assets and liabilities not measured at fair value in the balance sheet but for which the fair value is disclosed, an authority shall disclose the information required by disclosure 3) b), d) and i). However, an authority is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorised within Level 3 of the fair value hierarchy required by paragraph 3) d). For such assets and liabilities, an authority does not need to provide the other disclosures required by this section of the Code.
- 8) For a liability measured at fair value and issued with an inseparable third-party credit enhancement, an issuer shall disclose the existence of that credit enhancement and whether it is reflected in the fair value measurement of the liability.
- 9) An authority shall present the quantitative disclosures required by this section of the Code in a tabular format unless another format is more appropriate.

2.10.5 Statutory disclosure requirements

2.105.1 There are no statutory disclosures required in relation to fair value measurement.

2.10.6 Changes since the 2019/20 Code

2.106.1 There have been no changes to the Fair Value Measurement section [since the 19/20 Code](#). ~~since the 2018/19 Code.~~

2.11 APPRENTICESHIP LEVY

2.11.1 Introduction

2.111.1 The apprenticeship levy is payable by qualifying employers across the UK. The levy provides funding to support apprenticeships. The mechanism and criteria under which employers can apply to use the available funding differs between the different government administrations across the UK.

2.11.2 Accounting requirements

2.112.1 Payment of the apprenticeship levy is considered to be a form of taxation for Office of National Statistics (ONS) purposes. Authorities as qualifying authorities across the UK shall account for the payment as an expense, being a tax based on employee costs.

Local Authorities in England

2.112.2 Payments received in an authority's digital apprenticeship service (DAS) account are considered

to be a government grant for accounting purposes as resources (the training services) are transferred to the authority in return for compliance with certain conditions (providing approved training to its employees). Therefore income in the form of government grant shall be recognised in accordance with Section 2.3 (Government and Non-Government Grants).

2.11.23 The expense for levy funded training is not a cash transaction for the authority. Nevertheless, the expenditure shall be recognised in the financial statements of a local authority when it has been incurred.

2.11.24 The grant will need to be recognised when the authority considers that it has control over the income in accordance with the principles established in Section 2.3. It is anticipated that the income should therefore be recognised when the levy funded training expense is incurred. Again this transaction is not a cash transaction for the authority.

2.11.3 Statutory accounting requirements

2.11.31 There are no statutory accounting requirements in respect of the apprenticeship levy.

2.11.4 Disclosure requirements

2.11.41 Income (government grants), expenses, assets and liabilities in relation to the apprenticeship levy shall be disclosed in accordance with the relevant sections of the Code.

2.11.5 Statutory disclosure requirements

2.11.51 There are no statutory disclosure requirements in relation to the apprenticeship levy.

2.11.6 Changes since the ~~2018/2019~~ Code

2.11.61 ~~Section 2.11 is a new section providing application guidance on the accounting requirements for the apprenticeship levy. There have been no changes to this section of the Code since the 2019/20 Code.~~

Financial statements

3.1 NARRATIVE REPORT

3.1.1 Introduction

- 3.1.1.1** A local authority in England, Northern Ireland and Wales shall publish a narrative report with the financial statements (for the purposes of this section of the Code the 'narrative report' is deemed to have the same meaning as 'narrative statement' in the Accounts and Audit Regulations 2015 for local authorities in England).
- 3.1.1.2** The purpose of the narrative report is to provide information on the authority, its main objectives and strategies and the principal risks that it faces. The narrative report should provide a commentary on how the authority (including the group accounts) has used its resources to achieve its desired outcomes in line with its objectives and strategies.
- 3.1.1.3** The narrative report must provide a fair, balanced and understandable analysis of the authority's performance. The narrative report should highlight and explain the linkages between information presented in the narrative report and the information within the financial statements and information presented must be consistent with the information within the financial statements.
- 3.1.1.4** The structure and presentation of the narrative report should be determined by the authority in order to best meet the needs of the users and reflect the individual characteristics of the authority and the reporting period under review. The narrative report should focus on those elements that are material to an understanding of the financial position and performance of the authority. In developing the narrative report consideration should be given to the following elements:
- a) organisational overview and external environment
 - b) governance
 - c) operational model
 - d) risks and opportunities

- e) strategy and resource allocation
- f) performance
- g) outlook, and
- h) basis of preparation.

3.1.15 It is recommended that the structure and content of the narrative report is reviewed annually to ensure that it continues to meet its objectives in an efficient and effective manner.

Organisational overview and external environment

3.1.16 The narrative report should contain sufficient information to understand the organisation of the authority and its services, its purpose and its key objectives. In order to put the authority's objectives and purpose into context the narrative report should include information on the external environment in which it operates, particularly where there have been changes that impact upon the year under review.

Governance

3.1.17 If there have been significant changes in, or issues around, governance arrangements during the year these should be highlighted in the narrative report. To avoid duplication this may be achieved by cross-reference to the annual governance statement that accompanies the financial statements.

Operational model

3.1.18 The narrative report should include information on inputs, outputs, operational activities of the authority's key services and outcomes and how the authority allocated and consumed resources during the year in order to achieve its objectives.

Risks and opportunities

3.1.19 The narrative report should include any significant future opportunities to develop services along with key risks and uncertainties in relation to future service provision (including financial risks) and risk mitigation measures.

3.1.110 Further details of the future outlook or risks and uncertainties should be included where there is a potential material impact on the authority's operational model or performance (including the performance of its services).

Strategy and resource allocation

3.1.111 The narrative report should provide a description of the agreed medium- and long-term strategies of the authority, including its medium-term financial strategy and plans to address any future resource shortfalls.

Performance

3.1.1.12 The narrative report should provide an analysis of:

- a) the performance of the authority in that financial year and its position at the end of the year to complement the financial statements, where relevant, providing additional explanations, analysed in the context of the authority's strategic/corporate reports for that year; any segmental analysis should be consistent with the authority's segmental analysis provided in accordance with this section and Section 3.4 of this Code, and
- b) any key financial and non-financial performance indicators as relevant to the performance of the authority that the local authority judges as central in assessing progress against its strategic objectives, or monitoring its risks or otherwise used to measure performance in the year.

3.1.1.13 Performance indicators used should, where possible, represent generally accepted measures of performance for local authorities whether on a corporate, financial or service basis and comparatives should be included. Any significant changes from year to year should be explained and, if necessary, appropriate description of the performance indicators should be provided.

3.1.1.14 It is recommended that a local authority cross-refer to the outturn provided in the expenditure and funding analysis required by paragraph 3.4.2.99 and include additional narrative context for the performance presented in the analysis. A local authority may wish to include appropriate budgetary information to provide additional context to the expenditure and funding analysis.

Outlook

3.1.1.15 The narrative report should contain sufficient information to allow the user to assess the future sustainability of the organisation and its impact on service provision including:

- a) cash flows during the year and the factors that may affect future cash flows
- b) information on an authority's key commitments, commentary on significant matters covered in the budget report and any significant assets or liabilities earned or incurred, and
- c) details of known future budget pressures or changes in resources and the authority's plans for dealing with any shortfalls.

Basis of preparation and presentation

3.1.1.16 The narrative report should allow the users to understand how materiality and the group accounts boundary decisions are made in relation to what is included in the financial statements of the authority and the impact on the financial statements.

Management commentary – Scottish local authorities

3.1.1.17 Statutory guidance on the management commentary in Scottish Government Circular 5/2015

'sets aside' the Code requirement for an explanatory foreword. This means the requirements of this section of the Code.

3.1.2 Accounting requirements

3.1.2.1 Information provided in the narrative report shall reflect the accounting requirements of the Code.

3.1.3 Statutory reporting and disclosure requirements

3.1.3.1 There are no statutory disclosure requirements in relation to the narrative report.

Narrative report – English local authorities

3.1.3.2 Local authorities in England are required by the 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.

3.1.3.3 As a part of the requirement to provide a narrative statement, Regulation 8(2) of the Accounts and Audit Regulations 2015 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 the Code meets the requirements of Regulation 8(2).

Narrative report – Welsh and Northern Irish local authorities

3.1.3.4 There are no statutory reporting requirements in relation to the narrative report for Welsh and Northern Irish local authorities.

Management commentary – Scottish local authorities

3.1.3.5 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.

3.1.4 Changes since the ~~2019~~/~~2019~~ Code

3.1.4.1 There have been no changes to the narrative report section of the Code since the ~~2019~~/~~2019~~ Code.

3.2 STATEMENT OF RESPONSIBILITIES

3.2.1 Introduction

3.2.1.1 A local authority shall provide a statement of responsibilities setting out the responsibilities of

the authority and the chief financial officer in respect of the statement of accounts.

3.2.2 Accounting requirements

3.2.2.1 The statement of responsibilities shall confirm that the statement of accounts has been prepared in accordance with the requirements of the Code.

3.2.3 Statutory accounting requirements

3.2.3.1 There are no statutory accounting requirements in respect of the statement of responsibilities.

3.2.4 Disclosure requirements

3.2.4.1 A local authority shall set out the responsibilities of the authority and the chief financial officer in respect of the statement of accounts. The following wording is recommended but not mandatory:

England, Wales and Scotland

The authority's responsibilities

The authority is required to:

make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the chief financial officer

manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets

approve the statement of accounts (England and Wales only).

The chief financial officer's responsibilities

The chief financial officer is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this statement of accounts, the chief financial officer has:

selected suitable accounting policies and then applied them consistently

made judgements and estimates that were reasonable and prudent

complied with the local authority Code.

The chief financial officer has also:

kept proper accounting records which were up to date

taken reasonable steps for the prevention and detection of fraud and other irregularities.

In England and Wales, the chief financial officer should sign and date the statement of accounts, stating that it gives a true and fair view of the financial position of the authority at the reporting date and of its expenditure and income for the year ended 31 March 20XX.

In Scotland, the proper officer is required to submit the unaudited accounts to the authority and appointed auditor by 30 June. The audited financial statements must be laid before a meeting of the authority or a committee of that authority whose remit includes audit or governance functions no later than 30 September.

The Local Authority Accounts (Scotland) Regulations 2014 require that the statement of responsibilities is signed by the leader of the council and the proper officer. The proper officer is required to sign and date the financial statements stating that they give a true and fair view of the financial position of the authority at the reporting date and of the transactions of the authority and where relevant its group for the year ended 31 March 20XX. Scottish Government guidance, issued in Scottish Government Finance Circular 7/2014, provides an illustration of a statement of responsibilities.

Northern Ireland

The council's responsibilities

Under Section 1 of the Local Government Finance Act (Northern Ireland) 2011 the council shall make arrangements for the proper administration of its financial affairs. Under this section the council is required to designate an officer of the council as its chief financial officer.

Arrangements for the proper administration of its financial affairs shall be carried out under the supervision of its chief financial officer.

The council is required to approve the statement of accounts.

The chief financial officer's responsibilities

Under Regulation 8 of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 the chief financial officer is responsible for the preparation of the council's statement of accounts in the form directed by the Department for Communities (NI).

The accounts must give a true and fair view of the expenditure and income and cash flows for the financial year and the financial position as at the end of the financial year.

In preparing this statement of accounts, the chief financial officer is required to:

- observe the accounts direction issued by the Department for Communities (NI) including compliance with the Code of Practice on Local Authority Accounting in the United Kingdom
- follow relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis, and
- make judgements and estimates that are reasonable and prudent.

The chief financial officer is also required to:

- keep proper accounting records which are up to date, and

take reasonable steps for the prevention and detection of fraud and other irregularities.

The chief financial officer should sign and date the statement of accounts, stating that it gives a true and fair view of the financial position of the authority at the reporting date and of its expenditure and income for the year ended 31 March 20XX.

3.2.5 Statutory disclosure requirements

3.2.5.1 There are no statutory disclosure requirements in relation to the statement of responsibilities.

3.2.6 Changes since the 20198/2019 Code

3.2.6.1 The statement of responsibilities section of the Code has not been amended since the 20198/2019 Code.

3.3 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

3.3.1 Introduction

3.3.1.1 Authorities shall select accounting policies, and account for changes in accounting policies, changes in accounting estimates and errors in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except where adaptations to fit the public sector are detailed in the Code. IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* is based on IAS 8, and introduces no additional accounting requirements, although it provides additional guidance for public sector bodies.

3.3.1.2 IAS 8 requires entities to disclose the expected impact of new standards that have been issued but not yet adopted. Future editions of the Code may therefore prescribe retrospective disclosure requirements relating to changes to accounting policies.

3.3.2 Accounting requirements

Definitions

3.3.2.1 **Accounting policies** are the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements.

3.3.2.2 A **change in accounting estimate** is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not correction of errors.

3.3.2.3 **Impracticable.** Applying a requirement is impracticable when the authority cannot apply it after

making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

- a) the effects of the retrospective application or retrospective restatement are not determinable
- b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period, or
- c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:
 - i) provides evidence of circumstances that existed on the date(s) at which those amounts are to be recognised, measured or disclosed, and
 - ii) would have been available when the financial statements for that prior period were authorised for issue from other information.

3.324 Material. ~~the definition and guidance provided in Section 2.1 applies~~ 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.

3.325 Prior period errors are omissions from, and misstatements in, the authority's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue, and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

3.326 Prospective application of a change in accounting policy and of recognising the effect of a change in an accounting estimate, respectively, are:

- a) applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed, and
- b) recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.

3.327 Retrospective application is applying a new accounting policy to transactions, other events and

conditions as if that policy had always been applied.

3.32.8 Retrospective restatement is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

Accounting policies

3.32.9 When the Code specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Code. Those policies need not be applied when the effect of applying them is immaterial. Where the Code does not specifically apply to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:

- a) relevant to the decision-making needs of users, and
- b) reliable, in that the financial statements:
 - i) represent faithfully the financial position, financial performance and cash flows of the authority
 - ii) reflect the economic substance of transactions, other events and conditions and not merely the legal form
 - iii) are neutral, ie free from bias
 - iv) are prudent, and
 - v) are complete in all material respects.

3.32.10 In making the judgement management shall refer to, and consider the applicability of, the Code requirements dealing with similar and related issues; and definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described elsewhere in the Code. Management may also consider the most recent pronouncements of standard-setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these do not conflict with the requirements of the Code.

3.32.11 An authority shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless the Code specifically requires or permits categorisation of items for which different policies may be appropriate. If the Code requires or permits such categorisation (for example different classes of property, plant and equipment), an appropriate accounting policy shall be selected and applied consistently to each category.

3.32.12 An authority shall change an accounting policy only if the change is required by the Code or results in the financial statements providing reliable and more relevant information about the effects of transactions, other events and conditions on the authority's financial position, financial performance or cash flows.

3.32.13 Where an authority changes an accounting policy, it shall apply the changes retrospectively unless the Code specifies transitional provisions that shall be followed. A change in accounting policy shall be applied retrospectively by adjusting the opening balance of each affected

component of net worth for the earliest period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.

Changes in accounting estimates

- 3.3.2.14** As a result of the uncertainties inherent in delivering services, conducting trading or other activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available, reliable information. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.
- 3.3.2.15** An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error. A change in the measurement basis applied is a change in an accounting policy and is not a change in an accounting estimate.
- 3.3.2.16** The effect of a change in an accounting estimate (other than a change to which paragraph 3.3.2.17 applies) shall be recognised prospectively by including it in surplus or deficit in:
- a) the period of the change, if the change affects the period only, or
 - b) the period of the change and future periods, if the change affects both.
- 3.3.2.17** To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net worth, it shall be recognised by adjusting the carrying amount of the related asset, liability or net worth item in the period of change.

Errors

- 3.3.2.18** Except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error, an authority shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:
- a) restating the comparative amounts for prior period(s) presented in which the error occurred, or
 - b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net worth for the earliest prior period presented.
- 3.3.2.19** When it is impracticable to determine the period specific effects of an error on comparative information for one or more prior periods presented, an authority shall restate the opening balances of assets, liabilities and net worth for the earliest period for which retrospective restatement is practicable (which may be the current period).

3.3.3 Statutory accounting requirements

3331 There are no statutory accounting requirements in relation to the selection of accounting policies, or accounting for changes in accounting estimates and errors.

3.3.4 Disclosure requirements

Accounting policies

3341 An authority shall disclose information about its accounting policies as required by Section 3.3 of the Code. Accounting policies that relate to statutory accounting requirements are accounted for in the same manner as other accounting policies.

3342 Where a change of accounting policy is required by the Code, an authority shall disclose the information required by the Code. For other changes in accounting policy, an authority shall disclose:

- a) the nature of the change in accounting policy
- b) the reasons why applying the new accounting policy provides reliable and more relevant information
- c) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected
- d) the amount of the adjustment relating to periods before those presented, to the extent practicable, and
- e) if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

3343 An authority shall disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (ie on or before 1 January 2020 for 2019/20). Disclosure requirements are expected to be included in a subsequent edition of the Code.

Changes in accounting estimates

3344 An authority shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods.

Errors

3345 Where a prior period error is corrected, an authority shall disclose the following:

- a) the nature of the prior period error
- b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected, and
- c) the amount of the correction at the beginning of the earliest prior period presented.

Financial statements of subsequent periods need not repeat these disclosures.

3.3.5 Statutory disclosure requirements

335.1 There are no statutory disclosures required in relation to the selection of accounting policies, or accounting for changes in accounting estimates and errors. Accounting policies that relate to statutory accounting requirements are disclosed in the same manner as other accounting policies.

3.3.6 Changes since the 2018/2019 Code

336.1 The [definition of material has been amended to cross refer to Section 2.1 of the Code](#). ~~re have been no changes to the requirements of the Accounting Policies, Changes in Accounting Estimates and Errors section of the Code since the 2018/19 Code.~~

3.4 PRESENTATION OF FINANCIAL STATEMENTS

3.4.1 Introduction

341.1 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.

341.2 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 and interpretation for the public sector context

341.3 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.

341.4 The Code interprets 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 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, while permitting authorities to include more detail where it is appropriate to do so.

3.415 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

3.421 **Cash** comprises cash on hand and demand deposits.

3.422 **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.

3.423 **Cash flows** are inflows and outflows of cash and cash equivalents.

3.424 **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.

3.425 **Impracticable.** Applying a requirement is impracticable when the authority cannot apply it after making every reasonable effort to do so.

3.426 **Investing activities** are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

3.427 **Material** — ~~the definition and guidance provided in Section 2.1 applies. 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.~~

3.428 **Notes** contain information in addition to that presented in the 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.

3.429 **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. An example of such a transaction is changes in revaluation surplus and remeasurement of the net defined benefit liability (asset).

3.4.2.10 Operating activities are the activities of the authority that are not investing or financing activities.

3.4.2.11 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.

3.4.2.12 Surplus or deficit on the provision of services is the total of income less expenses, excluding the components of other comprehensive income and expenditure.

3.4.2.13 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

3.4.2.14 Cash and cash equivalents shall include bank overdrafts that are an integral part of an authority's cash management.

3.4.2.15 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

3.4.2.16 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.

3.4.2.17 A complete set of financial statements comprises:

- a) 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 significant accounting policies and other explanatory information
- f) comparative information in respect of the preceding period as specified in paragraphs 3.4.2.30 and 38A of IAS 1 ([see also paragraph 3.4.2.27C](#))
- 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 statement of accounts for the period, where relevant to the authority.

3.42.18 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.

3.42.19 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 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.

3.42.20 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.

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

3.42.22 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:

- a) that 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) that 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** Local authorities that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting; that is, the financial statements shall 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 that the financial statements shall be prepared on a going concern basis of accounting. Other bodies that prepare financial statements in accordance with the Code that may be discontinued without statutory prescription shall follow the going concern reporting requirements in IAS 1.
- 3.4.2.24** A local authority shall prepare its financial statements, except for cash flow 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 IFRSs 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 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.

~~3.42.27B~~ When considering whether to add new disclosures to the annual report and accounts the following questions should be considered:

Should the information be published?

- ~~— Is the information required by statute?~~
- ~~— Is there a user need, and who is the user?~~
- ~~— Is the information accurate and reliable?~~
- ~~— Do the benefits of disclosure outweigh the costs and give value for money?~~

How should the information be published?

~~Are the annual accounts and financial statements the right place for it?~~

~~Is this information already available elsewhere, or could it be?~~

~~How will the new disclosure affect the overall balance of the annual accounts and financial statements?~~

~~3.42.27C~~ A local authority makes materiality judgements on the complete set of financial statements, including prior-period information provided in the financial statements (see paragraph 3.4.2.17 (f)¹⁸). To aid an understanding of the current period financial statements this may require less, or more, prior period information than was included in the previous period financial statements. A local authority may summarise non-numerical prior period narrative and descriptive information¹⁹, subject to the need to provide the information necessary for users to understand the current period financial statements.~~local authority may summarise prior period information, subject to the need to retain the information necessary for users to understand the current period financial statements.~~

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

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

3.42.30 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

¹⁸ As indicated in IFRS Practice Statement 2: Making Materiality Judgements (IFRS Foundation, September 2017) paragraph 66, with more explanation in paragraphs 67-71.

¹⁹ The requirements of IAS 1 *Presentation of Financial Statements* paragraph 38 anticipate that, subject to the requirements of IFRS standards an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period.

its circumstances and as appropriate to ensure a true and fair presentation of its financial statements.

3.42.31 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.

3.42.32 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.

3.42.33 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.

3.42.34 A local authority shall present group accounts in addition to its single entity financial statements where required by Chapter 9 of the Code.

Structure and content of financial statements

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

3.42.36 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.

Comprehensive income and expenditure statement

3.42.37 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 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 the expenditure and funding analysis and the movement in reserves statement.

3.42.38 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 of the authority, analysed by service. Authorities shall present the service analysis on the basis of the same segmental structure as the expenditure and funding analysis and shall include costs for those services in accordance with paragraph 3.4.2.39 below. Note that the primary source to meet the reporting requirements of IFRS 8 *Operating Segments* is now the expenditure and funding analysis.
- 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; interest revenue calculated using the effective interest method; 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;²⁰ interest income; income, expenditure, and changes in the fair values of investment properties; gains and losses arising from the derecognition of financial assets measured at amortised cost; gains/losses, dividends and gains/losses on derecognition for financial instruments classified as fair value through profit or loss; impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with Section 7.2.9 of the Code; 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

²⁰ 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 n).

include an appropriate apportionment of the total cost of a service including an appropriate allocation of overheads).

- 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 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 from investments in equity instruments designated at fair value through other comprehensive income.
- m) Surplus or deficit on financial assets measured at fair value through other comprehensive income.
- n) Remeasurements of the net defined benefit liability (asset).
- o) Share of other comprehensive income and expenditure of associates and joint ventures (group accounts only).
- p) Other comprehensive income and expenditure.
- q) Total comprehensive income and expenditure²¹.

3.42.39 The income and expenditure allocated to services should reflect the segmental structure provided by the expenditure and funding analysis. Each service segment shall include the appropriate charges for the use of its non-current assets under sections 2.3, 4.1, 4.5 and 4.7 of the Code eg depreciation, impairment, impairment reversals etc. Each service segment shall also include appropriate employee benefit accrued costs under sections 6.1 to 6.4 of the Code. As the service segments in the comprehensive income and expenditure statement are not intended to cover the reporting requirements for IFRS 8 then transactions between segments are not permitted in the service analysis section of the statement.

3.42.40 The financing and investment income and expenditure line includes the following gains and losses recognised under IFRS 9 *Financial Instruments*:

²¹ The line description used should provide clarity for users regarding the use of positive and negative signage. For example where brackets are used to represent an overall surplus the description "Total Comprehensive (Income) and Expenditure" may be used.

- a) interest revenue calculated using the effective interest method
- b) gains and losses arising from the derecognition of financial assets measured at amortised cost, and
- c) impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with Section 7.2.9 of the Code.

Where these transactions are material they should be disclosed either on the face of the comprehensive income and expenditure statement or in the notes.

3.42.41 The comprehensive income and expenditure statement requirements do not include the line analysis in IAS 1 for hedge accounting transactions or liabilities designated at fair value through profit or loss as these are not regular transactions for local authorities. Where an authority has these transactions it will need to follow IAS 1, paragraph 7. They also do not include the lines required for reclassifications of financial assets per sub-paragraphs ca) and cb) of paragraph 82 of IAS 1 as again this is unlikely to be a frequent transaction for local authorities. Where those transactions occur local authorities should follow IAS 1, paragraph 82.

3.42.42 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.

3.42.43 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.

3.42.44 When an authority presents sub-totals in the comprehensive income and expenditure statement it shall do so in accordance with paragraphs 85 and 85A and B of IAS 1.

3.42.45 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
- m) gain or loss on disposal of non-current assets
- n) surplus or deficit on the provision of services.

3.4.2.46 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

3.4.2.47 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

3.4.2.48 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.

3.4.2.49 Where a local authority is required to recognise amounts in other comprehensive income and expenditure for the period, which include amounts that may be subsequently reclassified in the surplus or deficit on the provision of services, it shall include:

- a) items of other comprehensive income and expenditure (excluding amounts in paragraph 3.4.2.49 b)), classified by nature and grouped into those that, in accordance with other sections of the Code or 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 provision of services when specific conditions are met
- 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 provision of services when specific conditions are met.

3.4.2.50 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 3.4.2.49.

3.4.2.51 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

3.4.2.52 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

3.4.2.53 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.

3.4.2.54 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 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.

3.4.2.55 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 to usable reserves permitted by accounting standards (Scotland only)
- d) adjustments between group accounts and authority accounts (group accounts only)
- e) transfers to or from other statutory reserves (Scotland only)
- f) net increase or decrease before transfers (group accounts only)
- g) adjustments between accounting basis and funding basis under statutory provisions
- h) increase or decrease in year
- i) balance as at the end of the current reporting period.

3.4.2.56 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), d) g) (and for Scottish local authorities item c)) of the statement. For item e) analysis is required as specified in paragraph 3.4.5.1. The analysis of item g) shall include the following transactions where relevant, but these transactions do not have to be individually identified in the analysis (authorities shall refer to paragraph 3.4.2.26 and 3.4.2.27, and legislative requirements where necessary, 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 (In Scotland statutory guidance requires an analysis of the total amount into constituent elements – see paragraph 3.4.5.1).
- 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

regulations (England only)

- [fair value gains and losses of defined pooled investment funds as required or allowed by regulation \(England only\)](#)
- [amounts related to statutory adjustments for equal pay, with an analysis of the amounts into constituent elements according to statutory guidance \(Scotland only – see paragraph 3.4.5.1\)](#)
- [capital receipts transferred to the capital grants and receipts unapplied account, differentiating between amounts to fund equal pay settlements and amounts to support transformation projects \(Scotland only – see paragraph 3.4.5.1\)](#)
- 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.

34257 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 [\(capital grants and receipts unapplied account in Scotland\)](#)
- 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).

- 3.4.2.58 The analysis in paragraph 3.4.2.57 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.
- 3.4.2.59 A local authority shall present in a disclosure note, an analysis of the movements in its earmarked reserves 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

- 3.4.2.60 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 narrative 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'.

- 3.4.2.61 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*
- 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) borrowing*
- p) creditors*
- q) provisions*
- r) liabilities in disposal groups*
- s) current tax liability (group accounts only)
- t) current liabilities (sub-total)
- u) other long-term liabilities (comprising net pensions liability, deferred liabilities and any other long-term liabilities)
- v) Donated assets account*
- w) Grants receipts in advance*
- x) deferred tax liability (group accounts only)
- y) long-term liabilities (sub-total)
- z) net assets (total)
- aa) usable reserves (including group reserves where appropriate)
- ab) unusable reserves (including group reserves where appropriate)
- ac) 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 3.4.2.64 (assets) and 3.4.2.65 (liabilities) of the Code).

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

3.42.63 An authority shall present additional line items (including by disaggregating the line items listed

in paragraph 3.4.2.61) or provide the relevant information in the notes when such presentation is relevant to an understanding of the authority's financial position. For example, an authority shall separately disclose the categories of property, plant and equipment either in the balance sheet or in the notes (see Section 4.1). Appropriate sub-classifications of debtors and creditors shall also be provided in the balance sheet or in the notes (see paragraphs 77 and 78 of IAS 1). When an authority presents sub-totals (in addition to the sub-totals specified in paragraph 3.4.2.61) in the balance sheet it shall do so in accordance with paragraph 55A of IAS 1.

Current assets

3.4.2.64 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

3.4.2.65 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

3.4.2.66 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.

3.42.67 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 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

3.42.68 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 narrative 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.

3.42.69 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

3.42.70 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
- e) cash and cash equivalents at the beginning of the reporting period
- f) cash and cash equivalents at the end of the reporting period.

3.42.71 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)
- 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.

3.4.2.72 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 3.4.2.71) 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.

3.4.2.73 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

3.4.2.74 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
- h) cash and cash equivalents at the beginning of the reporting period
- i) cash and cash equivalents at the end of the reporting period.

3.42.75 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 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.

3.42.76 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 3.4.2.75) 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.

3.42.77 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

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

3.42.79 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.

3.42.80 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 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 accounts.

3.42.81 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.

3.42.82 The impact on the cash flow statement of the accounting requirements in England for council tax and NDR is shown in Section 2.8 of the Code.

Cash flow statement disclosures

3.42.83 An authority (and the group accounts) shall:

- 1) disclose the components of cash and cash equivalents in the cash flow statement or in the notes.
- 2) provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (see paragraphs 44B to C and 44E of IAS 7 for guidance on this disclosure).

Note that one way to fulfil the disclosure requirement in paragraph 3.4.2.83 2) is by providing a reconciliation between the opening and closing balances in the balance sheet for liabilities arising from financing activities, including the changes identified in paragraph 44B of IAS 7. Where an authority discloses such a reconciliation, it shall provide sufficient information to enable users of the financial statements to link items included in the reconciliation to the balance sheet and the cash flow statement.

Notes to the financial statements

3.42.84 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.

3.42.85 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 comprehensive income and expenditure statement, movement in reserves statement, balance

sheet and cash flow statement to any related information in the notes.

3.42.86 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 the comprehensive income and expenditure statement and the balance sheet.

3.42.87 An authority shall disclose 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.

3.42.88 An authority shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 3.4.2.90), 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 (for further guidance see also paragraphs 124 and 125 of IAS 1).

~~3.42.88B An authority shall disclose the basis on which it has assessed materiality for the financial statements, including group financial statements where presented, and the users considered in doing so.~~

3.42.89 Individual sections of this Code set out the accounting policies relevant to local authorities. In deciding whether a particular accounting policy should be disclosed as a significant accounting policy in its financial statements, a local authority considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position. Some sections of the Code or IFRSs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow, and it will often be useful to reflect the choice made by the authority. It is also appropriate to disclose each significant accounting policy that is not specifically required by a section of the Code or IFRSs but the authority selects and applies in accordance with Section 3.3 and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

3.42.90 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.

3.4.2.91 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

3.4.2.92 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.

3.4.2.93 An authority shall present information on reportable segments within the notes. The expenditure and funding analysis (see paragraph 3.4.2.99) shall present a local authority's segmental information. The expenditure and funding analysis shall be given due prominence in the financial statements in accordance with the needs of a local authority's users. Where relevant, a local authority shall also provide segmental information for the group accounts.

3.4.2.94 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 that 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. A local authority shall disclose factors used to identify the authority's reportable segments, including the basis of organisation.

3.4.2.95 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.

3.4.2.96 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.

3.4.2.97 Two or more operating segments may be aggregated into a single operating segment if

aggregation is consistent with the core principle of IFRS 8, the segments have similar economic characteristics, and the segments are similar in each of the following respects:

- a) the nature of the services
- b) the type of service recipient
- c) if applicable, the nature of the regulatory environment.

Where the number of segments that are reportable in accordance with paragraphs 3.4.2.94 to 3.4.2.96 and 13 to 18 of IFRS 8 increases above ten, the authority should consider whether a practical limit has been reached. Normally for local authorities the judgments made by management on aggregation of segments arise as a result of their internal management reporting requirements and therefore disclosure of these judgments should not be onerous. This should be covered by including a description of the aggregation of the operating segments in the financial statements.

Expenditure and funding analysis

3.4.2.98 A local authority shall include a description of the purpose of the expenditure and funding analysis in the financial statements and/or the narrative report. The following description is recommended but not mandatory:

The objective of the expenditure and funding analysis is to demonstrate to council tax [and rent] payers how the funding available to the authority (ie government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The expenditure and funding analysis also shows how this expenditure is allocated for decision making purposes between the council's directorates [services or departments]. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the comprehensive income and expenditure statement.

3.4.2.99 The expenditure and funding analysis note shall include three columns I), II) and III). These three columns shall present:

- I) for income and expenditure chargeable to the general fund the line items that present the following amounts for the period:
 - a) net expenditure chargeable under statutory funding provisions, analysed by segment. A local authority shall present this segmental analysis on the basis of the organisational structure under which it operates (see paragraphs 3.4.2.92 to 3.4.2.97 for provisions on the segmental analysis)
 - b) other income and expenditure not charged to services and chargeable to the general fund (statutory requirements)
 - c) surplus or deficit for the general fund
- 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 are those that add expenditure or income not chargeable to council tax or rents and remove transactions which are only chargeable under statutory provisions and to arrive at the totals in column III) and other adjustments necessary to reconcile column I) with column III), 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 with lines b) to e) aggregated into one line for comparison with the general fund position.

The foot of the expenditure and funding analysis shall show the movement for the period including opening and closing balances on the general fund. Where an authority has a Housing Revenue Account (HRA) these movements shall be split between the general fund and the HRA movements or appropriate cross-reference shall be made to those same balances in the movement in reserves statement. In Scotland where there are transfers to or from other statutory reserves these shall be presented as a separate line item. Additional columns may be added to ensure that local authorities clearly demonstrate the relationship of their segmental analysis, the general fund and the service analysis presented in the comprehensive income and expenditure statement.

3.42.100 The expenditure and funding analysis will provide a reconciliation of the adjustments between the authority's financial performance under the funding position and the surplus or deficit on the provision of services in the comprehensive income and expenditure statement. A local authority shall present a note to the expenditure and funding analysis which describes all material reconciling items in column II):

- The analysis shall include items chargeable to the general fund that are not 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 and that reconcile to the relevant lines in the comprehensive income and expenditure statement).
- A local authority may wish to use the items listed in paragraph 3.4.2.56 as they apply to the expenditure and funding analysis to ensure that it has identified the main statutory reversals. However, all of these items do not need to be listed separately in the analysis and may be aggregated, as appropriate.
- Other items may be included to adjust column I) of the expenditure and funding analysis to Column III). This may include adjustments to usable reserves permitted by accounting standards (see 3.4.2.55 c)).

3.42.101 The expenditure and funding analysis provides a measure of surplus or deficit in accordance with paragraph 23 of IFRS 8. If the expenditure and funding analysis column I) a) includes the following items then they shall be reported on a segmental basis:

- a) revenues from external customers

- b) revenues from transactions with other operating segments of the authority
- c) interest revenue
- d) interest expense
- e) depreciation and amortisation
- f) material items of income and expense disclosed in accordance with paragraph 3.4.2.52
- g) a local authority's interest in the profit or loss of associates and joint ventures accounted for by the equity method
- h) income tax expense or income, and
- i) material non-cash items other than depreciation and amortisation.

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

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 Communities, 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 3.4.2.27 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) For Scottish local authorities only the nature, turnover, and surpluses/deficits of any significant trading operation and 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 Section 75 of the National

Health Service Act 2006, under the Community Care and Health (Scotland) Act 2002 and under Section 33 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) 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 under the Local Audit and Accountability Act 2014 with regard to external audit services carried out by the appointed auditor under the *Code of Audit Practice* prepared by the comptroller and auditor general in accordance with Section 19 of the Local Audit and Accountability Act 2014
 - 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
 - c) fees payable to the auditor general for Wales in respect of statutory inspection
 - d) fees payable to the auditor general for Wales for the certification of grant claims and returns
 - e) fees payable to Audit Scotland in respect of external audit services undertaken in accordance with the *Code of Audit Practice*
 - f) in Northern Ireland, the amount payable to the comptroller and auditor general for Northern Ireland in respect of external audit services
 - g) fees payable in respect of any other services provided by the appointed auditor over and above the duties described in notes 7 a) to f) 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 HRA 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.

3.4.5 Statutory disclosure requirements

345.1 There are no specific 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 2015²² for English authorities and the Accounts and Audit (Wales) Regulations 2014.²³
- 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 than 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 £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)

²² In accordance with Regulation 7(3) and Schedule 1 of the regulations.

²³ In accordance with Regulation 9 of the regulations.

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 and Framework Act 1998 (England).
- 5) In Scotland ~~items transactions~~ in the movements in reserves statement relating to - related to the use of capital receipts initially transferred to held in -the capital grants and receipts unapplied account- which are subsequently used to support transformation projects- or to fund equal pay -will be presented as transfers to/from other statutory usable reserves. They will be analysed as required by statutory guidance to disclose:
 - i) Use of capital receipts to fund qualifying expenditure on service transformation or service redesign projects in the financial year
 - ii) Use of capital receipts to fund qualifying expenditure on service transformation or service redesign projects in any other prior financial year, with the requirement to state which prior year(s).
 - iii) Use of capital receipts to fund equal pay in any other stated financial year
- 6) In Scotland ~~transactions~~ items in the movements in reserves statement related to the financial instruments adjustment account will be analysed as required by statutory guidance to disclose:
 - i) Deferral of premium(s) from the refinancing of debt
 - ii) Deferred discount(s) from the refinancing of debt
 - iii) Annual recharge of deferred premiums (and discounts) from the refinancing of debt
 - iv) Adjustment for interest on loans to third parties at less than commercial interest rates
 - v) Adjustment for interest on stepped interest rate loans
 - vi) The total movement in the financial instrument adjustment account
- 7) In Scotland ~~items transactions~~ in the movements in reserves statement related to use of equal pay statutory guidance will be analysed as required by statutory guidance to disclose:

- i) The deferred charge when there is a relevant increase in an equal pay provision
 - ii) The reversal of the deferred charge when an equal pay provision is derecognized
 - iii) The capital receipts transferred to the capital grants and receipts unapplied account when an asset is sold
- 8) In Scotland the employee statutory adjustment account will be analysed as required by statutory guidance to separately identify balances relating to equal pay and those relating to short term accumulating paid absences.
- 9) In Scotland the capital grants and receipts unapplied account (~~Scotland only~~) will be analysed as required by statutory guidance to identify balances relating to service transformation projects, capital grants for equal pay settlement and capital receipts for equal pay settlement.
- 10) In Scotland the financial instruments adjustment account will be analysed as required by statutory guidance to disclose balances related to:
 - i) Premiums and discounts associated with the refinancing of loans
 - ii) Loans to third parties granted at less than market rates
 - iii) Borrowing where the loan is a stepped interest rate loan

⊕

Remuneration report (Northern Ireland)

- 3.452** Local authorities in Northern Ireland shall produce the statutory remuneration report required by the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015.²⁴

Remuneration report (Scotland)

- 3.453** 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)²⁵ and the guidance issued by the Scottish Government (Scottish Government Finance Circulars 8/2011 and 7/2014).

²⁴ In accordance with Regulation 7 of the regulations.

²⁵ In accordance with Regulation 8 of the regulations.

3.4.6 Changes since the 2019/20 Code

- 3.4.6.1 The 2019/20 Code includes [changes relating to the definition of material and the disclosure of prior period information](#) and ~~amendments to the movement in reserves statement and expenditure and funding analysis to reflect voluntary transfers between the revaluation reserve and the general fund for Scottish local authorities, and Scottish authority legal capacity to undertake transfers between different statutory usable reserves a requirement to disclose the basis of the materiality assessment applied, and the users considered, in presenting the financial statements.~~
- 3.4.6.2 The 2019/20 Code also removes the disclosure for trading operations for English, Northern Irish, and Welsh Authorities.

3.5 HOUSING REVENUE ACCOUNT

3.5.1 Introduction

- 3.5.1.1 The Housing Revenue Account (HRA) reflects a statutory obligation to maintain a revenue account for local authority housing provision in accordance with Part 6 of the Local Government and Housing Act 1989 (England and Wales) or the Housing (Scotland) Act 1987.
- 3.5.1.2 It includes the credit and debit items required to be taken into account in determining the surplus or deficit on the HRA for the year. The amounts included in the HRA differ from the amounts in respect of HRA services included in the comprehensive income and expenditure statement for the authority as a whole, which includes income and expenditure in accordance with the Code rather than that required by statute and non-statutory proper practices. For this reason the HRA statement has two parts:
- Movement on the Housing Revenue Account statement – which shows how the HRA income and expenditure account surplus or deficit for the year reconciles to the movement on the Housing Revenue Account balance for the year, and
 - HRA income and expenditure statement – which shows in more detail the income and expenditure on HRA services included in the whole authority surplus or deficit on the provision of services (comprising as well as the amounts included in the whole authority net cost of services for the HRA, the HRA's share of amounts included in the whole authority net service cost but not allocated to individual services and the HRA's share of operating expenditure and income such as net interest on the net defined benefit liability (asset)).

3.5.2 Accounting requirements

- 3.5.2.1 The HRA income and expenditure statement shall be prepared on the same basis as the whole authority surplus or deficit on the provision of services, following all the provisions of the Code.

However, the HRA income and expenditure statement shall be presented in accordance with the statutory accounting requirements.

3.5.3 Statutory accounting requirements

353.1 A housing authority shall present a HRA income and expenditure statement. The statement shall include a description of the purpose of the statement. The following description is recommended but not mandatory.

The HRA income and expenditure statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis upon which rents are raised, is shown in the movement on the Housing Revenue Account statement.

The statement shall show:

Expenditure (including pension costs in accordance with the Code (IAS 19) basis):

- a) repairs and maintenance
- b) supervision and management (in Wales a management and maintenance item combines items a) and b))
- c) rents, rates, taxes and other charges
- d) (negative) Housing Revenue Account subsidy payable (Wales)²⁶
- e) depreciation and impairments of non-current assets
- f) debt management costs (England and Wales)
- g) sums directed by the secretary of state, Scottish Government or Welsh Government that are expenditure in accordance with the Code
- h) any other expenditure (Scotland)

income:

- i) dwelling rents (gross)
- j) non-dwelling rents (gross)
- k) charges for services and facilities (England and Wales)

²⁶ Section 131 of the Housing (Wales) Act 2014 includes provision for the abolition of the subsidy payable in relation to the Housing Revenue Accounts of local housing authorities. However, Section 131, subparagraph 1 has not been commenced at the time of drafting the 2019/20 Code. This comment also applies to line m). As self-financing for Welsh housing authorities has been in place since 2015/16, it is unlikely that these lines will apply.

- l) contributions towards expenditure (England and Wales)
- m) Housing Revenue Account subsidy receivable (Wales) or Housing Support Grant (Scotland)
- n) sums directed by the secretary of state, Scottish Government or Welsh Government that are income in accordance with the Code
- o) any other income (Scotland)

sub-total: net expenditure or income of HRA services as included in the whole authority comprehensive income and expenditure statement

- p) HRA share of corporate and democratic core, if relevant
- q) HRA share of other amounts included in the whole authority net expenditure of continuing operations but not allocated to specific services

sub-total: net expenditure of HRA services

HRA share of the operating income and expenditure included in the whole authority comprehensive income and expenditure statement:

- r) gain or loss on sale of HRA non-current assets
- s) interest payable and similar charges
- t) HRA interest and investment income
- u) net interest on the net defined benefit liability (asset)
- v) capital grants and contributions

surplus or deficit for the year on HRA services.

3.532 A housing authority shall present a Movement on the Housing Revenue Account statement. The statement shall show:

- a) balance on the HRA as at the end of the previous reporting period
- b) surplus or (deficit) on the HRA income and expenditure statement
- c) adjustments between accounting basis and funding basis under the legislative framework
- d) net increase or decrease before transfers to or from reserves
- e) transfers to or from earmarked reserves
- f) increase or (decrease) in year on the HRA
- g) balance on the HRA as at the end of the current reporting period.

3.533 A housing authority shall present, either in the movement on the Housing Revenue Account statement or in the notes, an analysis of the amounts included in items c) and e), to include the following:

- a) difference between interest payable and similar charges including amortisation of

premiums and discounts determined in accordance with the Code and those determined in accordance with statute (England and Wales)

- b) difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements (if any)
- c) gain or loss on sale of HRA non-current assets
- d) HRA share of contributions to or from the pensions reserve
- e) capital expenditure funded by the Housing Revenue Account
- f) sums directed by the secretary of state, Welsh Government or Scottish Government minister to be debited or credited to the HRA that are not expenditure or income in accordance with the Code
- g) transfer to/from the major repairs reserve (England and Wales)
- h) transfer to/from the capital adjustment account
- i) transfer to/from the housing repairs account (England and Wales)
- j) transfer to/from the council fund (Wales) or general fund (England and Scotland)
- k) transfers from the general fund as directed by the minister (Scotland only).

3.5.4 Disclosure requirements

3541 The Housing Revenue Account is a statutory memorandum account that forms part of a housing authority's general fund. No separate HRA balance sheet is maintained. Generally, disclosure of HRA items separately from other general fund items is not required except for the disclosures and statutory disclosures listed below, and any disclosures required under paragraphs 3.4.2.53 to 3.4.2.58 and 3.4.2.92 to 3.4.2.102 of the Code (movement in reserves statement and segment reporting). Note there is no specification in this Code to provide an expenditure and funding analysis for the HRA.

3542 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, a housing authority shall disclose the following information in the notes to the HRA statements.

England:

- 1) The number and types of dwelling in the authority's housing stock.
- 2) The amount of rent arrears (excluding amounts collectable on behalf of other agencies) and the aggregate balance sheet provision in respect of uncollectable debts.
- 3) Explanation of any sums directed by the secretary of state to be debited or credited to the HRA.

Wales:

- 4) The number and types of dwelling in the authority's housing stock.

- 5) The amount of rent arrears (excluding amounts collectable on behalf of other agencies) and the aggregate balance sheet provision in respect of uncollectable debts.
- 6) A summary of total capital expenditure on land, houses and other property within the authority's HRA during the financial year, broken down according to the following sources of funding:
 - a) borrowing
 - b) the capital receipts reserve
 - c) revenue contributions (ie the debit under Item 2 of Part II of Schedule 4 to the Local Government and Housing Act 1989)
 - d) the major repairs reserve.
- 7) A summary of total capital receipts from disposals of land, houses and other property within the authority's HRA during the financial year.
- 8) The total charge for depreciation for the land, houses and other property within the authority's HRA, and the charges for depreciation for:
 - a) operational assets, comprising:
 - dwellings
 - other land and buildings, and
 - b) non-operational assets.
- 9) The value of, and an explanation of, any impairment charges for the financial year in respect of land, houses and other property within the authority's HRA, calculated in accordance with proper practices.
- 10) The value of, and an explanation of, any charge calculated in accordance with proper practices in respect of revenue expenditure funded from capital under statute attributable to the HRA.
- 11) An explanation of the HRA share of contributions to or from the pensions reserve.

Scotland:

- 12) The number and types of dwelling in the authority's housing stock.
- 13) The amount of rent arrears (excluding amounts collectable on behalf of other agencies) and the provision considered to be necessary in respect of uncollectable debts.

3.5.5 Statutory disclosure requirements

3.5.5.1 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, a housing authority shall disclose the following information in the notes to the HRA statements.

England:

- 1) The total balance sheet value of the land, houses and other property within the authority's HRA as at 1 April in the financial year, and the closing balance sheet value as at 31 March in the financial year of:
 - a) council dwellings
 - b) other land and buildings
 - c) vehicles, plant, furniture and equipment
 - d) infrastructure and community assets
 - e) assets under construction
 - f) surplus assets not held for sale
 - g) investment properties
 - h) assets held for sale.
- 2) The vacant possession value of dwellings within the authority's HRA as at 1 April in the financial year.
- 3) An explanation that the vacant possession value and balance sheet value of dwellings within the HRA show the economic cost of providing council housing at less than market rents.
- 4) The value of, and an explanation of, any charge calculated in accordance with proper practices in respect of revenue expenditure funded from capital under statute attributable to the HRA.
- 5) The value of, and an explanation of, any impairment charges for the financial year in respect of land, houses and other property within the authority's HRA, calculated in accordance with proper practices.
- 6) A summary of total capital expenditure on land, houses and other property within the authority's HRA during the financial year, broken down according to the following sources of funding:
 - a) borrowing
 - b) credit arrangements
 - c) capital receipts
 - d) revenue contributions
 - e) the major repairs reserve.
- 7) A summary of total capital receipts from disposals of land, houses and other property within the authority's HRA during the financial year.
- 8) The total charge for depreciation for the land, houses or other property within the authority's HRA, and the charges for depreciation²⁷ for:

- a) council dwellings
- b) other land and buildings
- c) vehicles, plant, furniture and equipment
- d) infrastructure and community assets
- e) assets under construction
- f) surplus assets not held for sale.

Wales:

- 9) The disclosure of income and expenditure and any balances relating to the Major Repairs Allowance grant in accordance with the requirements of Regulation 8(2) of the Accounts and Audit (Wales) Regulations 2014.

3.5.6 Changes since the 2019/2020 Code

3.5.6.1 There have been no changes to the Housing Revenue Account section of the Code since the 2019/2020 Code.

3.6 COLLECTION FUND (ENGLAND)/COUNCIL TAX INCOME ACCOUNT (SCOTLAND)/NON-DOMESTIC RATE ACCOUNT (SCOTLAND)

3.6.1 Introduction

Collection fund (England)

3.6.1.1 The collection fund statement is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate collection fund in accordance with Section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992).

3.6.1.2 The collection fund shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the government of council tax and non-domestic rates. There is no requirement for a collection fund balance sheet since the assets and liabilities arising from collecting non-domestic rates and council tax belong to the bodies (ie major preceptors, the billing authority and the government) on behalf of which the billing authority collects these taxes.

Council tax income account (Scotland)

3.6.1.3 The council tax income account (Scotland) shows the net income raised from council taxes levied

with the relevant sections of Chapter 4 of the Code.

under the Local Government Finance Act 1992. The net income is transferred to the comprehensive income and expenditure statement of the authority.

Non-domestic rate account (Scotland)

3.6.14 The non-domestic rate income account (Scotland) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate non-domestic rate account that shows the net income from the rates levied under the Local Government (Scotland) Act 1975 as amended by the Local Government Finance Act 1992 on non-domestic property. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool. There is no requirement for a non-domestic rate income account balance sheet since the assets and liabilities arising from collecting non-domestic rates belong to the Scottish Government on behalf of which the billing authority collects non-domestic rates.

3.6.2 Accounting requirements

3.6.21 Taxation debtors and other non-contractual debts are excluded from the scope of IFRS 9. The accounting requirements in the collection fund (England), council tax income account (Scotland) and non-domestic rate account (Scotland) in respect of the write-off of uncollectable debts and allowance for impairment of doubtful debts shall follow the incurred loss model for impairment (see paragraphs 5.2.2.11 to 5.2.2.16 of the Code). However, the statements shall be presented in accordance with the statutory accounting requirements.

3.6.3 Statutory accounting requirements

Collection fund (England)

3.6.31 The statement shall include a description of the purpose of the statement. The following description is recommended but not mandatory.

The collection fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate collection fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the government of council tax and non-domestic rates.

The accounting statement shall show:

Amounts required by statute to be credited to the collection fund

- a) council tax (showing the amount receivable, net of benefits, discounts for prompt payments and transitional relief)
- b) transfers from general fund – council tax:
 - transitional relief
 - discounts for prompt payment
- c) non-domestic rates (showing the amount receivable, net of discretionary and

mandatory reliefs)

- d) transitional protection payments – non-domestic rates, receivable from government, if applicable
- e) income collectable in respect of business rate supplements
- f) contributions:
 - towards previous year's collection fund deficit – council tax
 - towards previous year's collection fund deficit – non-domestic rates
 - adjustment of previous years' community charges

Amounts required by statute to be debited to the collection fund

- g) precepts and demands from major preceptors (specify) and the authority – council tax
- h) shares of non-domestic rating income to major preceptors (specify) and the (billing) authority – non-domestic rates
- i) payment with respect to central share (including allowable deductions) of the non-domestic rating income to be paid to central government by billing authorities
- j) transitional protection payment – payable to government, if applicable
- k) business rate supplements:
 - payments to levying authority's business rate supplement revenue account
 - administrative costs
- l) impairment of debts/appeals for council tax:
 - write-offs of uncollectable amounts
 - allowance for impairment
- m) impairment of debts/appeals for non-domestic rates:
 - write-offs of uncollectable amounts
 - allowance for impairment
- n) charge to general fund for allowable collection costs for non-domestic rates
- o) other transfers to general fund in accordance with non-domestic rates regulations, reported separately where transfers are material, eg for each major scheme
- p) contribution:
 - towards previous year's estimated collection fund surplus – council tax
 - towards previous year's estimated collection fund surplus – non-domestic rates
 - adjustment of previous years' community charges

movements on the collection fund

- q) movement on fund balance (reported separately for council tax, non-domestic rates, business rate supplements and community charges)

- r) opening fund balance (reported separately for council tax, non-domestic rates, business rate supplements and community charges)
- s) closing fund balance (reported separately for council tax, non-domestic rates, business rate supplements and community charges).

Council tax income account (Scotland)

3.632 The statement shall include a description of the purpose of the statement. The following description is recommended but not mandatory.

The council tax income account (Scotland) shows the gross income raised from council taxes levied and deductions made under statute. The resultant net income is transferred to the comprehensive income and expenditure statement of the authority.

The accounting statement shall show:

- a) gross council tax levied and contributions in lieu
- b) council tax reduction scheme
- c) discounts for prompt payment
- d) other discounts and reductions
- e) write-off of uncollectable debts and allowance for impairment
- f) adjustment to previous years' community charge and council tax
- g) transfers to general fund.

Non-domestic rate account (Scotland)

3.633 The statement shall include a description of the purpose of the statement. The following description is recommended but not mandatory.

The non-domestic rate account (Scotland) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate non-domestic rate account. The statement shows the gross income from the rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool.*

** Where an authority recognises income in accordance with line g) below, the statement should be amended to reflect this.*

The accounting statement shall show:

- a) gross rates levied and contributions in lieu
- b) reliefs and other deductions
- c) payment of interest
- d) write-offs of uncollectable debts and allowance for impairment

- e) net non-domestic rate income
- f) adjustment to previous years' national non-domestic rates
- g) non-domestic rates income retained by authority (reported separately by each major scheme, eg business rates incentivisation scheme/tax incremental financing)
- h) contribution to national non-domestic rate pool.

3.6.4 Disclosure requirements

3.6.4.1 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 the collection fund (England), the council tax income account (Scotland) and the non-domestic rate account (Scotland):

Collection fund (England)

- 1) The total non-domestic rateable value at the year end and the national non-domestic rate multiplier for the year.
- 2) 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.

Council tax income account (Scotland)

- 3) The calculation of the council tax base, ie the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) after providing for non-payment, as an equivalent number of band D dwellings and the level of non-payment provided for.
- 4) An explanation of the nature and actual amount of each charge fixed.

Non-domestic rate account (Scotland)

- 5) Analysis of rateable values at the beginning of the year.
- 6) An explanation of the nature and amount of each rate fixed.

3.6.4.2 Disclosure of accounting policies in relation to impairment of debts is required, where these accounting policies are significant to the authority's financial statements (see Section 3.4 of the Code).

3.6.5 Statutory disclosure requirements

3.6.5.1 There are no statutory disclosure requirements in relation to accounting for the collection fund (England), the council tax income account (Scotland) and the non-domestic rate account (Scotland).

3.6.6 Changes since the 20198/2019 Code

- 3.6.6.1 There have been no changes to the Collection Fund (England)/Council Tax Income Account (Scotland)/Non-domestic Rate Account (Scotland) section of the Code since the 20198/2019 Code.

3.7 STATEMENTS REPORTING REVIEWS OF INTERNAL CONTROLS

3.7.1 Introduction

- 3.7.1.1 Regulation 6(1)(a) of the Accounts and Audit Regulations 2015, Regulation 4(2) of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015, Regulation 5(2) of the Local Authority Accounts (Scotland) Regulations 2014 and Regulation 5(2) of the Accounts and Audit (Wales) Regulations 2014 require an authority to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published statement of accounts (England) (as a part of the annual accounts (Scotland)). Regulation 6(1)(b) of the Accounts and Audit Regulations 2015, Regulation 4(4) of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 and Regulation 5(4) of the Local Authority Accounts (Scotland) Regulations 2014 require that for a local authority in England, Northern Ireland and Scotland the statement is an annual governance statement.

3.7.2 Accounting requirements

- 3.7.2.1 The review of internal controls provides assurance that the statement of accounts gives a true and fair view of the authority's financial position at the reporting date and its financial performance during the year.

3.7.3 Statutory accounting requirements

- 3.7.3.1 Authorities are required to undertake and report on a review of internal controls.

3.7.4 Disclosure requirements

- 3.7.4.1 A local authority shall undertake a review of its system of internal control in accordance with best practice. *Delivering Good Governance in Local Government: Framework* (2016), published by CIPFA and SOLACE, recommends that the review be reported in an annual governance statement.
- 3.7.4.2 The preparation and publication of an annual governance statement in accordance with *Delivering Good Governance in Local Government: Framework* (2016) would fulfil the statutory requirements across the UK for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement

reporting on the review with its statement of accounts. In England the Accounts and Audit Regulations 2015 stipulate that the annual governance statement must be “prepared in accordance with proper practices in relation to accounts”. Therefore a local authority in England shall provide this statement in accordance with *Delivering Good Governance in Local Government: Framework* (2016) and this section of the Code.

3.7.43 The statement shall relate to the governance system as it applied during the financial year for the accounts that it accompanies. However, significant events or developments relating to the governance system that occur between the reporting date and the date on which the statement of accounts is signed by the responsible financial officer shall also be reported. Where an authority is in a group relationship with other entities and undertakes significant activities through the group, the review of the effectiveness of the system of internal control shall include its group activities.

3.7.44 The following information shall be included in the annual governance statement:

- a) an acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control)
- b) a reference to and assessment of the effectiveness of key elements of the governance framework, including group activities where the activities are significant, and the role of those responsible for the development and maintenance of the governance environment such as the authority, the executive, the audit committee and others as appropriate
- c) an opinion on the level of assurance that the authority’s governance arrangements can provide
- d) an agreed action plan
- e) a conclusion.

3.7.45 The governance statement shall be approved at a meeting of the authority or delegated committee (in Scotland, the authority or a committee with a remit including audit or governance) and signed by the chief executive and a leading member (in Scotland, by the chief executive and the leader of the council).

3.7.5 Statutory disclosure requirements

3.7.5.1 Statutory disclosure requirements will be met by complying with the disclosure requirements set out above.

3.7.6 Changes since the 2019~~8~~/2019 Code

3.7.6.1 There have been no changes to the Statements Reporting Reviews of Internal Controls section of the Code since the 2019~~8~~/2019 Code.

3.8 EVENTS AFTER THE REPORTING PERIOD

3.8.1 Introduction

3.8.11 Authorities shall account for events after the reporting period in accordance with IAS 10 *Events after the Reporting Period*, except where adaptations to fit the public sector are detailed in the Code. IPSAS 14 *Events after the Reporting Date* is based on IAS 10, and introduces no additional accounting requirements, although it provides additional guidance for public sector bodies.

Adaptation and interpretation for the public sector context

3.8.12 The date the financial statements are authorised for issue is defined in the Code, based on legislative requirements.

3.8.13 Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

3.8.2 Accounting requirements

Definitions

3.8.21 **Events after the reporting period** are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

- a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and
- b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

Authorised for issue

3.8.22 The financial statements of an authority are authorised for issue in accordance with the relevant legislation:

- the Accounts and Audit Regulations 2015
- the Accounts and Audit (Wales) Regulations 2014
- the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015
- the Local Authority Accounts (Scotland) Regulations 2014.

3.8.23 Regulations in England require authorities to prepare a statement of accounts prior to the commencement of the period for exercise of public rights. Regulations require that this period includes the first ten working days of June.

3.8.24 Regulations in Northern Ireland require authorities to prepare a statement of accounts before 30

June following the reporting date. Regulations in Wales require authorities to prepare a statement of accounts before 15 June following the reporting date. Note that for fire and rescue authorities, national park authorities, police and crime commissioners and chief constables in Wales the relevant date is the 31 May following the reporting date.

- 3.8.25** In Scotland, the proper officer is required to submit the unaudited accounts to the appointed auditor by 30 June. The local authority or a committee of that authority whose remit includes audit or governance functions must meet to consider the unaudited annual accounts as submitted to the auditor by 31 August.
- 3.8.26** The responsible financial officer (proper officer in Scotland/chief financial officer in Northern Ireland) shall certify that the accounts give a true and fair view of the authority's financial position and financial performance. The statement of accounts shall reflect events after the reporting period up to the date the accounts were certified by the responsible financial officer, proper officer or chief financial officer.
- 3.8.27** In England, regulations require the statement of accounts to be published by 31 July²⁸ to be approved by a committee or local government body and signed by the chair of the relevant approving committee or body.
- 3.8.28** In Northern Ireland, regulations require an authority to publish its audited statement of accounts by 30 September following the reporting period.
- 3.8.29** Regulations in Scotland require the local authority to aim to approve the annual accounts for signature no later than 30 September and to publish them no later than 31 October.
- 3.8.2.10** In Wales, regulations require the statement of accounts published by 15 September (and any subsequent statement of accounts issued following the conclusion of the audit) to be approved by a committee or local government body and signed by the chair of the relevant approving body. Note that for fire and rescue authorities, national park authorities, police and crime commissioners and chief constables in Wales the relevant date is 31 July.
- 3.8.2.11** The published statements of accounts shall reflect events after the reporting period up to the date the accounts were authorised for issue. The date the accounts were authorised for issue is described in the following list:
- **Unaudited accounts** – the date on which the responsible financial officer (proper officer in Scotland/chief financial officer in Northern Ireland) certifies (or in England confirms) that the accounts give a true and fair view of the authority's financial position and financial performance in advance of approval.
 - **Audited accounts (England)** – the authorised for issue date is the date the responsible financial officer re-confirms the financial statements before the committee,

²⁸ Or as soon as reasonably practicable after the receipt of the auditor's final findings (if later).

authority or body approves the financial statements in accordance with the Accounts and Audit Regulations 2015. The re-confirmation by the responsible officer shall include a statement on the face of the balance sheet regarding the status of the accounts; examples are “These financial statements replace the unaudited financial statements confirmed by [responsible financial officer] on [insert date]”; or “The unaudited accounts were issued on [insert date] and the audited accounts were authorised for issue on [insert date]”.

- **Audited accounts (Northern Ireland)** – the authorised for issue date is the date the chief financial officer re-certifies the financial statements before the committee, authority or body approves the financial statements in accordance with the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015. The re-certification by the responsible officer shall include a statement on the face of the balance sheet regarding the status of the accounts; examples are “These financial statements replace the unaudited financial statements certified by [chief financial officer] on [insert date]”; or “The unaudited accounts were issued on [insert date] and the audited accounts were authorised for issue on [insert date]”.
- **Audited accounts (Wales)** – the authorised for issue date is the date the responsible financial officer re-certifies the financial statements before the committee, authority or body approves the financial statements in accordance with the Accounts and Audit (Wales) Regulations 2014. The re-certification by the responsible officer shall include a statement on the face of the balance sheet regarding the status of the accounts; examples are “These financial statements replace the unaudited financial statements certified by [responsible financial officer] on [insert date]”; or “The unaudited accounts were issued on [insert date] and the audited accounts were authorised for issue on [insert date]”. Re-certification shall take place in accordance with the approval process in the regulations.
- **Audited accounts (Scotland)** – the authorised for issue date is the date on which the proper officer re-certifies the balance sheets after approval by the authority or relevant committee. The re-certification by the Section 95 officer shall include a statement on the face of the balance sheet regarding the status of the accounts; examples are “These financial statements replace the unaudited financial statements certified by [proper officer] on [insert date]”; or “The unaudited accounts were issued on [insert date] and the audited accounts were authorised for issue on [insert date]”.

Events after the reporting period

3.82.12 An authority shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period.

3.82.13 An authority shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period.

Going concern

3.8.2.14 An authority shall prepare its financial statements on a going concern basis unless there is an intention by government that the services provided by the authority will no longer be provided. An intention by government to transfer services from one authority to another (for example, as part of local government reorganisation) does not negate the presumption that the authority is a going concern.

3.8.3 Statutory accounting requirements

3.8.3.1 Financial statements are authorised for issue in accordance with legislative requirements (see paragraph 3.8.2.2).

3.8.4 Disclosure requirements

3.8.4.1 An authority shall disclose the date when the financial statements were authorised for issue and who gave that authorisation. Where the statements may be amended following audit, the authority shall disclose that fact.

3.8.4.2 If an authority receives information after the reporting period, but before the financial statements are authorised for issue, about conditions that existed at the end of the reporting period, the authority shall update disclosures that relate to these conditions, in the light of the new information.

3.8.4.3 If non-adjusting events after the reporting date are material, non-disclosure could influence the decisions of users taken on the basis of the financial statements. Accordingly, an authority shall disclose the following for each material category of non-adjusting event after the reporting date:

- a) the nature of the event, and
- b) an estimate of its financial effect, or a statement that such an estimate cannot be made.

3.8.4.4 Where there is an intention by government to transfer services from the authority to another (for example, as part of local government reorganisation), the authority shall disclose that fact.

3.8.5 Statutory disclosure requirements

3.8.5.1 There are no statutory disclosure requirements in relation to events after the reporting period.

3.8.6 Changes since the 20198/2019 Code

3.8.6.1 There have been no changes to the Events after the Reporting Period section of the Code since the 20198/2019 Code.

3.9 RELATED PARTY DISCLOSURES

3.9.1 Introduction

- 3.9.1.1 Authorities shall identify related party relationships and transactions, identify outstanding balances between the authority and its related parties, and identify the circumstances in which disclosures are required, in accordance with IAS 24 *Related Party Disclosures* except where adaptations to fit the public sector are detailed in the Code.
- 3.9.1.2 IPSAS 20 *Related Party Disclosures* is based on IAS 24, and provides additional guidance for public sector bodies.

Interpretation for the public sector context

- 3.9.1.3 The following interpretation of IAS 24 applies for the public sector context:
- In considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged 'in the surrounding circumstances'. Materiality should thus be judged from the viewpoint of both the authority and the related party.

3.9.2 Accounting requirements

Definitions

- 3.9.2.1 **Close members of the family of a person** are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:
- that person's children and spouse or domestic partner
 - children of that person's spouse or domestic partner, and
 - dependants of that person or that person's spouse or domestic partner.
- 3.9.2.2 **Key management personnel** are all chief officers (or equivalent), elected members, chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.
- 3.9.2.3 **Government** refers to government, government agencies and similar bodies whether local, national or international.
- 3.9.2.4 A **government-related entity** is an entity that is controlled, jointly controlled or significantly influenced by a government.
- 3.9.2.5 **Material.** ~~the definition and guidance provided in Section 2.1 applies~~ ~~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.~~

3.926 Oversight means the supervision of the activities of an authority, with the authority and responsibility to control, or exercise significant influence over, the financial and operating decisions of the authority.

3.927 A related party is a person or entity that is related to the entity that is preparing its financial statements (in this section of the Code referred to as the 'reporting entity').

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - i) has control or joint control over the reporting entity
 - ii) has significant influence over the reporting entity, or
 - iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions apply:
 - i) the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others)
 - ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member)
 - iii) both entities are joint ventures of the same third party
 - iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity
 - v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity
 - vi) the entity is controlled or jointly controlled by a person identified in a)
 - vii) a person identified in a)i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity)
 - viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

3.928 Related party transaction is a transfer of resources or obligations between a reporting entity and a related party, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the authority or the government of which it forms part.

3.929 Remuneration/allowance is any consideration or benefit derived directly or indirectly by key management personnel from the authority for services provided in their capacity as elected

members or otherwise as employees of the authority.

3.92.10 Significant influence (for the purpose of this section of the Code) is the power to participate in the financial and operating policy decisions of an authority, but not control those policies. Significant influence may be exercised in several ways, usually by representation on the board of directors or equivalent governing body but also by, for example, participation in the policy-making process, material transactions between entities within an economic entity, interchange of managerial personnel or dependence on technical information. Significant influence may be gained by an ownership interest, statute or agreement.

3.92.11 The definitions above should be applied to the determination of related parties and hence the associated disclosure requirements.

Related party disclosures

3.92.12 In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

3.92.13 Where two entities have a member of key management personnel in common, it is necessary to consider the possibility, and to assess the likelihood, that this person would be able to affect the policies of both entities in their mutual dealings. However, the fact that there is a member of key management personnel in common or the fact that a member of key management personnel of one entity has significant influence over the other entity does not create a related party relationship.

3.92.14 In the context of this section of the Code, the following are deemed not to be related parties:

- providers of finance
- trade unions
- public utilities
- departments and agencies of a government that does not control, jointly control or significantly influence the reporting entity

in the course of their normal dealings with an authority by virtue only of those dealings, and

- an entity with which the relationship is solely that of an agency.

3.92.15 Related party relationships where control exists should be disclosed irrespective of whether there have been transactions between the related parties.

3.92.16 In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture. Therefore, for example, an associate's subsidiary and the investor that has significant influence over the associate are related to each other.

3.92.17 The disclosure of related party transactions and balances shall have regard to materiality. In considering materiality, regard should be had to the definition of materiality, which requires

materiality to be judged 'in the surrounding circumstances'. Materiality should thus be judged from the viewpoint of both the reporting entity and the related party.

3.9.3 Statutory accounting requirements

3.9.3.1 There are no statutory accounting requirements in relation to related party disclosures.

3.9.4 Disclosure requirements

3.9.4.1 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 related party disclosures:

- 1) Information in respect of transactions with related parties, not disclosed elsewhere, including:
 - a) the description of the nature of the related party relationships
 - b) the amount of transactions that have occurred, and
 - c) the amount of outstanding balances.

Related party relationships where control exists should be disclosed irrespective of whether there have been transactions between the related parties.

3.9.4.2 Amounts incurred by the (reporting) entity for the provision of key management personnel services that are provided by a separate management entity shall be disclosed.

3.9.4.3 Transactions with related parties may be disclosed on an aggregated basis (aggregation of similar transactions by type of related party) unless disclosure of an individual transaction, or connected transactions, is necessary for an understanding of the impact of the transactions on the financial statements of the authority or is required by law.

3.9.4.4 The disclosure requirements of key management personnel under IAS 24 are satisfied by the disclosure requirements for officer remuneration and members' allowances in Section 3.4 of the Code, although authorities may need to consider separately the requirements at paragraph 3.9.4.2.

3.9.4.5 The disclosure requirements of paragraph 3.9.4.1 do not apply to related party transactions with central government departments, government agencies, NHS bodies and other local authorities. Instead, authorities shall disclose:

- 2) The name of the government (ie UK Government, Scottish Government, Welsh Government or Northern Ireland Assembly) and the fact that the government exerts significant influence through legislation and grant funding.
- 3) The following information in sufficient detail to enable users of the reporting entity's financial statements to understand the effect of related party transactions on its financial statements:

- a) the nature and amount of each individually significant transaction, and
- b) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.

3.9.5 Statutory disclosure requirements

- 3.9.5.1 There are statutory disclosure requirements in relation to officer remuneration across the UK. These disclosure requirements are included in Section 3.4 of the Code, Presentation of Financial Statements.
- 3.9.5.2 As stated in paragraph 3.9.4.4 above, the disclosure requirements of key management personnel under IAS 24 are satisfied by the disclosure requirements for officer remuneration and members' allowances in Section 3.4 of the Code.

3.9.6 Changes since the 2019/20 Code

- 3.9.6.1 The definition of material has been cross-referenced to Section 2.1. ~~There have been no changes to the Related Party Disclosures section of the Code since the 2018/19 Code.~~

Non-current assets

4.1 PROPERTY, PLANT AND EQUIPMENT

4.1.1 Introduction

- 4.1.1.1** Authorities shall account for property, plant and equipment in accordance with IAS 16 *Property, Plant and Equipment*, except where adaptations to fit the public sector are detailed in the Code.
- 4.1.1.2** IPSAS 17 *Property, Plant and Equipment* is based on IAS 16, and introduces no additional accounting requirements, although it provides additional guidance for public sector bodies, ie the basis for determining fair value (now described in the Code as current value) and introducing the concept of 'service potential'.
- 4.1.1.3** This section of the Code does not cover property, plant and equipment classified as non-current assets held for sale and discontinued operations in accordance with Section 4.9 of the Code (also see IFRS 5). IAS 16 also refers to other areas where the standard does not apply; however, these areas may not be common, if relevant at all, within authorities, ie exploration for and evaluation of mineral resources. Authorities should refer to IAS 16 for these areas. Tangible heritage assets are accounted for in accordance with this section of the Code subject to the specific requirements of Section 4.10 of the Code.
- 4.1.1.4** Property, plant and equipment classified as finance leases under Section 4.2 of the Code (also see [IFRAS 167](#)) shall follow Section 4.2 in terms of recognition; however, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed in this section. Similarly, property, plant and equipment acquired under service concession arrangement (PFI/PPP) schemes shall follow Section 4.3 of the Code in terms of recognition, but subsequent measurement requirements for property, plant and equipment held under service concession arrangements including depreciation are prescribed in this section.
- 4.1.1.5** This section of the Code does not apply to investment property (including investment property under construction) classified under Section 4.4 of the Code (also see IAS 40).

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 of the Code) 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.
- 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 4²⁹](#) ~~UKVS 1.3~~ of the Royal Institution of Chartered Surveyors (RICS)- [Valuation - Global Standards 2017: UK national supplement³⁰](#). [Valuation – Professional Standards UK](#), January 2014 (as revised April 2015).

Disclosures

- An option is provided to allow, but not require, an alternative reconciliation of property, plant and equipment opening and closing ~~net book value~~ carrying amount, noting that Whole of Government Accounts will continue to require the information specified according to IAS 16 *Property, Plant and Equipment*.

4.1.2 Accounting requirements

Definitions

4.1.21 Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and impairment losses.

4.1.22 Class of property, plant and equipment is a grouping of assets of a similar nature and use in an authority's operations. The following classes of property, plant and equipment are used in the Code:

Operational assets

- Council dwellings (ie dwellings within the Housing Revenue Account).
- Other land and buildings.
- Vehicles, plant, furniture and equipment.
- Infrastructure assets (inalienable assets, expenditure on which is only recoverable by continued use of the asset created, ie there is no prospect of sale or alternative use; examples include highways, structural maintenance of highways, footpaths, bridges, permanent ways, coastal defences, water supply and drainage systems).
- Community assets (ie assets that an authority intends to hold in perpetuity, that have no determinable useful life and which may, in addition, have restrictions on their disposal). The definition of community assets no longer includes items that are now accounted for as heritage assets.

Non-operational assets

- Surplus assets (ie assets that are not being used to deliver services, but which do

²⁹ [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](#)

³⁰ [As issued November 2018, effective from 14 January 2019](#)

not meet the criteria to be classified as either investment properties under Section 4.4 of the Code or non-current assets held for sale under Section 4.9 of the Code).

- Assets under construction.

4.123 Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of acquisition or construction.

4.124 Current value measurements reflect the economic environment prevailing for the service or function the asset is supporting at the reporting date. In this section of the Code, the current value measurement bases include:

- existing use value defined in accordance with [UK VPGA 6 and UK VPGA 4³¹ of the Royal Institution of Chartered Surveyors \(RICS\) Valuation - Global Standards 2017: UK national supplement³²](#) ~~UKVS 1.3 RICS Valuation – Professional Standards UK, January 2014 (as revised April 2015)~~ for assets providing service potential to the authority where an active market exists (see paragraph 4.1.2.9)
- existing use value – social housing (EUV–SH) as defined in ~~the~~ [UK VPGA 7 and UK VPGA 4³³ of the Royal Institution of Chartered Surveyors \(RICS\) Valuation - Global Standards 2017: UK national supplement³⁴](#) ~~RICS Valuation – Professional Standards UK~~ for operational council dwellings (see paragraph 4.1.2.10)
- depreciated replacement cost as defined in paragraph 4.1.2.7 for assets where there is no market and/or the asset is specialised
- fair value as defined in paragraph 4.1.2.11 and in accordance with the Code’s adoption of IFRS 13 (see Section 2.10 of the Code) for surplus assets.

4.125 Depreciable amount is the cost of an asset, or other amount substituted for cost, less residual value.

4.126 Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

4.127 Depreciated replacement cost³⁵ (DRC) is a method of valuation which provides the current cost

³¹ [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](#)

³² [As issued November 2018, effective from 14 January 2019](#)

³³ [UK VPGA 7 Valuation of registered social housing providers’ assets for financial statements; UK VPGA 4 Valuation of local authority assets for accounting purposes](#)

³⁴ [As issued November 2018, effective from 14 January 2019](#)

³⁵ [UK VPGA 1.5 “Valuations based on depreciated replacement cost” of the Royal Institution of Chartered Surveyors \(RICS\) Valuation - Global Standards 2017: UK national supplement; and RICS Guidance Note Depreciated replacement cost method of valuation for financial reporting \(1st edition, November 2018\)](#)

of replacing an asset with its modern equivalent asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation. Where DRC is used as the valuation methodology, authorities should use the 'instant build' approach at the valuation date and the choice of an alternative site will normally hinge on the policy in respect of the locational requirements of the service that is being provided.

4.1.2.8 Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

4.1.2.9 Existing use value³⁶ is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the asset required by the business, and disregarding potential alternative uses and any other characteristics of the asset that would cause its market value to differ from that needed to replace the remaining service potential at least cost.

4.1.2.10 Existing use value – social housing (EUV–SH)³⁷ is the estimated amount for which a property should exchange, on the date of valuation, between a willing buyer and a willing seller, in an arm's-length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion, subject to the following further assumptions that:

- the property will continue to be let by a body and used for social housing
- at the valuation date, any regulatory body, in applying its criteria for approval, would not unreasonably fetter the vendor's ability to dispose of the property to organisations intending to manage their housing stock in accordance with that regulatory body's requirements
- properties temporarily vacant pending re-letting should be valued, if there is a letting demand, on the basis that the prospective purchaser intends to re-let them, rather than with vacant possession
- any subsequent sale would be subject to all of the above assumptions.

The Royal Institution of Chartered Surveyors UKGN 2 Depreciated Replacement Cost Method of Valuation for Financial Reporting [have has](#) more information on this matter.

³⁶ Defined by [UK VPGA 6 of the Royal Institution of Chartered Surveyors \(RICS\) Valuation - Global Standards 2017: UK national supplement](#) ~~[RICS Valuation – Professional Standards](#)~~.

³⁷ Defined [UK VPGA 7 of by the Royal Institution of Chartered Surveyors \(RICS\) Valuation - Global Standards 2017: UK national supplement](#) ~~[RICS Valuation – Professional Standards](#)~~.

- 4.1.2.11 Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Section 2.10).
- 4.1.2.12 Historical cost** is deemed to be the carrying amount of an asset as at 1 April 2007 (ie brought forward from 31 March 2007) or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment (if applicable).
- 4.1.2.13 Property, plant and equipment** are tangible assets (ie assets with physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.
- 4.1.2.14 Qualified valuer** is a person conducting the valuations who holds a recognised and relevant professional qualification and having sufficient current local and national knowledge of the particular market, and the skills and understanding to undertake the valuation competently.
- 4.1.2.15 Residual value** of an asset is the estimated amount that an authority would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
- 4.1.2.16 Useful life** is the period which an asset is expected to be available for use by an authority.
- 4.1.2.17** Further definitions, including definitions of entity-specific value and recoverable amount, are contained in IAS 16.

Recognition

- 4.1.2.18** The cost of an item of property, plant and equipment falling under this section of the Code shall be recognised (and hence capitalised) as an asset on a local authority balance sheet if, and only if:
- it is probable that the future economic benefits or service potential associated with the item will flow to the authority, and
 - the cost of the item can be measured reliably.

An item of property, plant and equipment shall only be recognised if it meets the definition of an asset in paragraph 2.1.2.28.

- 4.1.2.19** Costs that meet the recognition principle in paragraph 4.1.2.18 include initial costs of acquisition and construction, and costs incurred subsequently to add to, replace part of, or service the asset.
- 4.1.2.20** Subsequent costs arising from day-to-day servicing of an asset (ie labour costs and consumables), commonly referred to as 'repairs and maintenance', should not be capitalised as they do not meet the recognition principle in paragraph 4.1.2.18 because the expenditure does not add to the future economic benefits or service potential of the asset. Rather the expenditure maintains the asset's potential to deliver future economic benefits or service potential that it was expected to provide when originally acquired.
- 4.1.2.21** Where a component is replaced, the carrying amount of the old component shall be

derecognised to avoid double counting and the new component reflected in the carrying amount, subject to the recognition principles as set out in paragraph 4.1.2.18 being met. This accounting treatment shall be applicable to subsequent costs meeting the criteria in paragraph 4.1.2.18 incurred from 1 April 2010.

Initial measurement

- 4.1.2.22** An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost and capitalised on an accruals basis.
- 4.1.2.23** Donated assets transferred to an authority shall be measured initially at their fair value as at the date of acquisition (see Section 2.3 of the Code). In this situation the measurement at recognition of an asset, acquired at no or nominal cost, at its fair value, does not constitute a revaluation.
- 4.1.2.24** The measurement of cost comprises:
- purchase price
 - any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and
 - the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.
- 4.1.2.25** The accounting treatment of borrowing costs is set out in Section 4.8 of the Code.
- 4.1.2.26** The cost of an item of property, plant and equipment is the cash price equivalent at the date when the asset is recognised. When payment is deferred beyond normal credit terms, the cost of the asset is the cash equivalent (that is, the discounted amount). The difference between this amount and the total payments is recognised as interest over the period of the credit in surplus or deficit on the provision of services.
- 4.1.2.27** The cost of an item of property, plant and equipment held by a lessee under a [finance](#)-lease is determined in accordance with Section 4.2 of the Code (also see [IFRAS 167](#)).
- 4.1.2.28** Where property, plant and equipment are acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, the cost of the acquired item shall be measured at fair value unless:
- the exchange transaction has no commercial substance, or
 - the fair value of neither the asset received nor the asset given up can be reliably measured.
- 4.1.2.29** The acquired item is measured at fair value even if the authority cannot immediately derecognise the asset given up. The acquired item is measured at the carrying amount of the asset given up if it is not measured at fair value.

Measurement after recognition

- 4.12.30** Infrastructure assets and assets under construction (excluding investment property – see Section 4.4 of the Code) 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.
- 4.12.31** All other classes of asset shall be measured at current value. For operational assets where there is an active market, this shall be existing use value in accordance with the RICS definitions. If there is no market-based evidence of current value because of the specialist nature of the asset and/or the asset is rarely sold, authorities may need to estimate current value using a DRC approach. The current value of council dwellings shall be measured using EUV–SH. EUV–SH and DRC are methods of valuation that are based on current value with additional special assumptions for each of the respective methods. Surplus assets shall be measured at fair value.
- 4.12.32** Authorities may elect to adopt a depreciated historical cost basis as a proxy for current value for non-property assets that have short useful lives or low values (or both). For depreciated historical cost to be considered as a proxy for current value, the useful life must be a realistic reflection of the life of the asset and the depreciation method used must provide a realistic reflection of the consumption of that asset class.
- 4.12.33** Classes of assets whose current value can be measured reliably shall be carried at a revalued amount, being its current value at the date of revaluation less any subsequent accumulated depreciation and accumulated impairment. When an item of property, plant and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. Any accumulated depreciation and impairment at the date of valuation shall be eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Measurement decision for an item of property, plant and equipment

PLEASE INSERT DIAGRAM ON PAGE 1351 of the 20198/2019 CODE

- 4.12.34** Where the carrying amount of property, plant and equipment is increased as a result of a revaluation, the increase shall be recognised in the revaluation reserve, unless the increase is reversing a previous impairment loss charged to surplus or deficit on the provision of services on the same asset (see Section 4.7 of the Code) or reversing a previous revaluation decrease charged to surplus or deficit on the provision of services on the same asset.
- 4.12.35** A revaluation gain shall be used to reverse a previous revaluation decrease recognised in surplus or deficit on the provision of services on the same asset. In the same way as the treatment of a reversal of a previous impairment loss (see Section 4.7 of the Code), the reversal of a revaluation decrease previously recognised in surplus or deficit on the provision of services shall not exceed the increase that would reinstate the carrying amount that would have been determined (net of

amortisation or depreciation) had no revaluation decrease been recognised for the asset in prior years. Any excess above the carrying amount that would have been determined (net of amortisation or depreciation) had no revaluation decrease been recognised for the asset in prior years shall be treated as a revaluation gain and credited to the revaluation reserve.

4.1.2.36 Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation (as opposed to an impairment which is covered in Section 4.7 of the Code), the decrease shall be recognised in the revaluation reserve up to the credit balance existing in respect of the asset (ie up to its depreciated historical cost) and thereafter in surplus or deficit on the provision of services.

4.1.2.37 Where assets are revalued (ie the carrying amount is based on current value), revaluations shall be made with sufficient regularity to ensure 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.

4.1.2.38 The items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. A short period for property, plant and equipment is interpreted to mean that assets are normally measured once every five years for each class of assets, provided that current value meets the requirements of paragraph 4.1.2.37. Valuations shall be carried out at intervals of no more than five years.

4.1.2.39 The current value of land and buildings is usually determined by appraisal of appropriate evidence that is normally undertaken by professionally qualified valuers.

Depreciation

4.1.2.40 Land and buildings are separate assets and shall be accounted for separately, even when they are acquired together. Depreciation applies to all property, plant and equipment, whether held at historical cost or revalued amount, with two exceptions:

- land where it can be demonstrated that the asset has an unlimited useful life (excluding land subject to depletion, ie quarries and landfill sites), and
- heritage and community assets that have an indefinite life.

4.1.2.41 An asset shall not be depreciated until it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of:

- the date that the asset is classified as held for sale in accordance with Section 4.9 of the Code (also see IFRS 5), and
- the date the asset is derecognised.

4.1.2.42 The only other ground for not charging depreciation is when the residual value of an asset is

equal to or greater than the asset's carrying amount. Repairs and maintenance do not remove the need to depreciate an asset.

4.1.2.43 Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Where there is more than one significant part of the same asset which has the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge. In practice this can be achieved by only separately accounting for significant components that have different useful lives and/or depreciation methods. The requirement for componentisation for depreciation purposes shall be applicable to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2010.

4.1.2.44 The depreciation charge shall be based on the depreciable amount allocated over the useful life of the asset, using a depreciation method that reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed.

4.1.2.45 The depreciation charge for each period shall be recognised in surplus or deficit on the provision of services unless it is included in the carrying amount of another asset. General fund service revenue accounts, central support services, departments or directorates, trading accounts and the Housing Revenue Account shall be charged with depreciation.

4.1.2.46 The residual value, useful life and depreciation method shall be reviewed at least at each financial year end and, if expectations differ from previous estimates in relation to residual value and/or useful life and/or there has been a significant change in the pattern of consumption of the future economic benefits or service potential, the changes shall be accounted for as a change in an accounting estimate (as opposed to a change in accounting policy) in accordance with Chapter 3 of the Code (also see IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*). The requirement to review the residual value, useful life and depreciation method at least at each financial year shall be in addition to the valuations at intervals of no more than five years (see paragraphs 4.1.2.37 to 4.1.2.38).

4.1.2.47 To determine whether an item of property, plant and equipment is impaired, local authorities shall refer to Section 4.7 of the Code (also see IAS 36 *Impairment of Assets*).

Revaluation surplus - Scottish local authorities

4.1.2.48 IAS 16 allows some of the revaluation surplus to be transferred to retained earnings as the asset is used by the entity. The amount of the surplus transferred is the difference between depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's historical cost. This option (making the transfer directly to general fund balances) is permitted only for Scottish local authorities. Where this option is applied it will be only the remaining historical cost element of depreciation in the general fund which is subject to transfer to the capital adjustment account.

Derecognition

- 4.1.2.49 The carrying amount of an item of property, plant and equipment shall be derecognised:
- on disposal, or
 - when no future economic benefits or service potential are expected from its use or disposal.
- 4.1.2.50 The gain or loss arising from derecognition of an asset shall be the difference between the net disposal proceeds, if any, and the carrying amount of the asset. The gain or loss arising from derecognition of an asset shall be included in surplus or deficit on the provision of services when the item is derecognised (unless Section 4.2 of the Code requires otherwise on a sale and leaseback – also see IAS 17).
- 4.1.2.51 As set out in paragraph 4.1.2.21, the carrying amount of a replaced or restored part of the asset is derecognised, with the carrying amount of the new component being recognised subject to the recognition principles as set out in paragraph 4.1.2.18 being met. This recognition and derecognition takes place regardless of whether the replaced part had been depreciated separately.
- 4.1.2.52 If it is not practicable to determine the carrying amount of the replaced part, authorities may use the cost of the new part as an indication of what the cost of the replaced part was at the time it was acquired or constructed (adjusted for depreciation and impairment, if required).
- 4.1.2.53 The consideration receivable on disposal of an asset is recognised initially at its fair value. If payment is deferred (ie beyond normal credit terms), the consideration received is recognised initially at the cash price equivalent (that is, the discounted amount). The difference between this amount and the total payments received is recognised as interest revenue in surplus or deficit on the provision of services.
- 4.1.2.54 A deferred credit (ie the balance on the donated assets account) relating to the asset should be recognised in surplus or deficit on the provision of services.
- 4.1.2.55 IAS 16 refers to the derecognition issues arising where in the course of its ordinary activities, an authority routinely sells items of property, plant and equipment that it has held for rental to others. This is not anticipated to be common for authorities. In the event that this is relevant, authorities should refer to IAS 16.

4.1.3 Statutory accounting requirements

General fund – depreciation

- 4.1.3.1 Depreciation charged to surplus or deficit on the provision of services is not a proper charge to the general fund (see part 2 of Appendix B for the legislative basis). Such amounts shall be transferred to the capital adjustment account and reported in the movement in reserves statement.

4.132 On a revalued asset, a transfer between the revaluation reserve and capital adjustment account shall be carried out which represents the difference between depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's historical cost.

Housing Revenue Account – depreciation

4.133 The Housing Revenue Account income and expenditure statement shall be charged with depreciation.

4.134 On a revalued asset, a transfer between the revaluation reserve and capital adjustment account shall be carried out which represents the difference between depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's historical cost. For Scottish authorities this is only where a voluntary transfer permitted by paragraph 4.1.2.48 has not been made.

4.135 **England:** Depreciation is not a proper charge to the general fund. However, for HRA non-dwellings, depreciation charged to the surplus or deficit on the provision of services in the Housing Revenue Account in England shall be charged in accordance with the requirements of *The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2017*.

4.136 To ensure compliance with the Accounts and Audit Regulations and *The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2017* requirements for the major repairs reserve, depreciation for HRA dwellings and other assets charged to the Housing Revenue Account is subject to statutory provisions designed to specify the impact on the HRA (see part 2 of Appendix B for the legislative basis). The following entries are required or permitted in respect of the major repairs reserve:

- The major repairs reserve shall be credited, and Housing Revenue Account balances debited, with an amount equal to the depreciation charged to the HRA in accordance with this Code. This transfer is required to meet the requirements of the Accounts and Audit Regulations 2015 (Regulation 7(5)(a)). In order to neutralise the impact on the HRA of this entry, a corresponding transfer is also required where Housing Revenue Account balances are credited and the capital adjustment account is debited. Both these transfers shall be reported in the movement in reserves statement.
- Where relevant, the HRA shall be debited with an amount equal to that which has been credited to the HRA for decent homes backlog funding and a corresponding credit to the major repairs reserve in accordance with the requirements of *The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2017*.
- Where an authority funds capital expenditure on dwellings from the major repairs reserve, this shall be accounted for by debiting the major repairs reserve and crediting the capital adjustment account, this transfer to be reported in the movement in reserves statement.
- Where repayments of principal of any amounts borrowed, or repayments to meet

any liability in respect of credit arrangements (other than any liability which, in accordance with proper practices, must be charged to a revenue account), are to be funded from the major repairs reserve, this shall be accounted for by debiting the major repairs reserve and crediting the capital adjustment account, this transfer to be reported in the movement in reserves statement.

- An authority is permitted by *The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2017* to make an additional voluntary credit transfer to the major repairs reserve for an amount “in excess of any charge for depreciation to its major repairs reserve”.

4.13.7 Scotland: Depreciation for HRA dwellings and non-dwellings charged to surplus or deficit on the provision of services are not proper charges to the Housing Revenue Account (see part 2 of Appendix B for the legislative basis). The remaining balance of depreciation charges for the year affecting the Housing Revenue Account balance, after any voluntary transfer from the revaluation reserve as permitted by paragraph 4.1.2.48, shall be transferred to the capital adjustment account and reported in the movement in reserves statement and replaced with the HRA statutory repayment of loans fund advances, via a transfer from the capital adjustment account.

4.13.8 Wales: Depreciation for HRA dwellings and non-dwellings charged to surplus or deficit on the provision of services are not proper charges to the Housing Revenue Account (see part 2 of Appendix B for the legislative basis). Such amounts shall be transferred to the capital adjustment account and reported in the movement in reserves statement and replaced with HRA minimum revenue provision, via transfer.

Revaluation gains or losses

4.13.9 The general fund and Housing Revenue Account shall be charged in certain instances with revaluation gains or losses, ie to services in the comprehensive income and expenditure statement, in accordance with this section of the Code.

4.13.10 Revaluation gains or losses charged to surplus or deficit on the provision of services are not proper charges to the general fund (see part 2 of Appendix B for the legislative basis). Such amounts shall be transferred to the capital adjustment account and reported in the movement in reserves statement.

Gains or losses on derecognition

4.13.11 Net gains or losses on derecognition shall be charged to other operating expenditure.

4.13.12 The gain or loss is not a proper charge to the general fund or Housing Revenue Account (see part 2 of Appendix B for the legislative basis). As a result the general fund or Housing Revenue Account should be debited (in the case of a gain) or credited (in the case of a loss) with an amount equal to the gain or loss on disposal of the asset (net of any disposal costs), with the

double entries being:

- a credit to the capital receipts reserve or (in Scotland) a statutory capital fund [or capital grants and receipts unapplied account](#) of an amount equal to the disposal proceeds (subject to paragraph 4.1.2.52)
- a debit to the capital adjustment account of an amount equal to the carrying amount of the fixed asset disposal (less any balance transferred from the donated assets account).

4.13.13 If the asset derecognised was carried at a revalued amount an additional entry is required; the balance on the revaluation reserve in respect of the asset derecognised is written off to the capital adjustment account and reported in the movement in reserves statement.

4.13.14 In England and Wales only, the proportion that is required to be paid over to central government as a 'housing pooled capital receipt' should be charged to surplus or deficit on the provision of services and the same amount appropriated from the capital receipts reserve and credited to the general fund balance and reported in the movement in reserves statement.

Minimum revenue provision and the statutory repayment of loans fund advances

4.13.15 Minimum revenue provision (England, Northern Ireland and Wales) and the statutory repayment of loans fund advances (Scotland) are proper charges to the general fund, but do not appear in the comprehensive income and expenditure statement. Such amounts shall be transferred from the capital adjustment account and reported in the movement in reserves statement. The amounts of minimum revenue provision or the statutory repayment of loans fund advances to be charged to the general fund for the year are set out in the appropriate regulations and statutory guidance (see part 2 of Appendix B for the legislative basis).

4.1.4 Disclosure requirements

4.14.1 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 of the Code).

4.14.2 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 of the Code). 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.

4.14.3 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, and
- e) where the option in f) below is not applied, a reconciliation of the carrying amount at the beginning and end of the period showing:
 - i) additions (including donations)
 - 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.
- f) as an alternative to e) above a reconciliation of the opening and closing carrying amount ~~net book value (carrying value)~~ may be provided³⁸ showing:
 - i) additions (including donations)
 - ii) depreciation charged to the surplus or deficit on the provision of services
 - iii) impairment and revaluation losses charged to surplus or deficit on the provision of services
 - iv) disposals and derecognitions
 - v) reclassifications to/from other balance sheet categories
 - vi) other revaluation reserve changes
 - vii) other changes, including reclassification transfers between asset classes

³⁸ Note that in order to complete the Whole of Government Accounts return requires the information specified in e) requires to be available split between cost/valuation and depreciation/impairment, but it is not necessary to disclose it in the financial statements.

- 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 paragraph 2.1.2.14B2 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 ~~fixed~~ assets, together with the sources of finance and the capital financing requirement.

4.144 Paragraph 4.1.2.2 of the Code sets out the classes of property, plant and equipment used in the Code, ie council dwellings, other land and buildings, vehicles, plant, furniture and equipment, infrastructure assets, community assets, assets under construction and surplus assets (those assets that are surplus to service needs but that do not meet the criteria to be classified as either investment property or assets held for sale). Authorities shall disclose the information set out in paragraph 4.1.4.3 on this basis.

4.145 An authority may elect (but is not required) to make disclosures in respect of community assets in accordance with Section 4.10 of the Code (Heritage Assets) rather than in accordance with this section of the Code. An authority may elect (but is not required) to separately disclose those community assets reported in the balance sheet that it holds in trust. As property, plant and equipment items, the disclosures in paragraphs 4.1.4.1 to 4.1.4.4 apply to surplus assets. However, as surplus assets are measured at fair value, the disclosures in Section 2.10 will apply to surplus assets, where relevant, and subject to the materiality judgements of the authority including the application of paragraph 2.1.2.14B2 to ensure that material information is not

obscured.

4.1.5 Statutory disclosure requirements

4.151 There are no statutory disclosures required in relation to property, plant and equipment.

4.1.6 Changes since the 2019/2020 Code

4.161 Amendments have been made to implement the requirements of IFRS 16 Leases as per Section 4.2 of the Code.

~~The Property, Plant and Equipment section of the Code has been updated to permit Scottish local authorities to make a voluntary transfer, under accounting standards, of an element of the revaluation gain to general fund balances. Where this option is applied it will only be the remaining historical cost element of depreciation in the general fund which is subject to transfer to the capital adjustment account.~~

4.2 LEASES AND LEASE TYPE ARRANGEMENTS

4.2 LEASES

4.2.1 Introduction

4.2.1.1 Authorities shall account for leases in accordance with IFRS 16 *Leases*, except where adaptations to fit the public sector are detailed in the Code. IPSAS 13 *Leases* is based on IAS 17 (and does not adopt IFRS 16) and should only be considered for additional guidance where it does not contradict the provisions of IFRS 16.

~~a) Transport for London are permitted, but not required, to apply the Code requirements relating to IFRS 16 *Leases* implementation for the 2019/20 financial year with a transition date of 1 April 2019. Early application by other bodies is not permitted.~~

4.2.1.2 This section of the Code shall be applied in accounting for all leases except licences of intellectual property granted by a lessor within the scope of section 2.7 and IFRS 15 *Revenue from Contracts with Customers*, service concession arrangements within the scope of section 4.3 of this Code and IFRIC 12 *Service Concession Arrangements*, rights held by a lessee under licensing agreements within the scope of section 4.5 of the Code and IAS 38 *Intangible Assets*. Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources and of biological assets within the scope of IAS 41 *Agriculture* are also excluded from the scope of this section of the Code, however, these are unlikely to apply to local authorities.

4.2.1.3 A lessee may, but is not required to apply this section of the Code, to leases of intangible assets other than those described in paragraph 4.2.1.2.

Adaptation for the public sector context

4.2.1.4 The following adaptations of IFRS 16 apply:

Scope

- The Code adapts IFRS 16 to remove the phrase “in exchange for consideration” from the definition of a lease for lessee arrangements only. -All other IFRS 16 *Leases* requirements for lease identification apply to lessees. For lessors the IFRS 16 *Leases* definition applies without adaptation.

- The Code adapts IFRS 16 *Leases* to remove Housing Revenue Account tenancies from the requirements of IFRS 16 *Leases*.

Recognition

The Code adapts IFRS 16 to require local authorities to apply the recognition exemption to short-term leases (see paragraph 4.2.2.30).

Measurement

The Code adapts IFRS 16 and requires that the subsequent measurement of the right-of-use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code (see paragraph 4.2.2.50). This adaptation includes the use of the cost model in IFRS 16 as a proxy for current value for most right of use assets.

Interpretation for the public sector context

4.2.14B The following interpretations of IFRS 16 apply:

Transition

The Code adapts/interprets IFRS 16 to allow for permit revaluation of pre-existing finance lease assets, which become right-of-use assets, on the transition date and ~~for~~ presentation of the the adjustments as transition adjustments.

4.2.2 Accounting Requirements

Definitions

4.2.21 The commencement date of the lease is the date on which a lessor makes an underlying asset available for use by a lessee.

4.2.22 A contract is an agreement between two or more parties that creates enforceable rights and obligations.

4.2.23 Economic life is either the period over which an asset is expected to be economically usable by one or more users or the number of production or similar units expected to be obtained from an asset by one or more users.

4.2.24 Effective date of the modification is the date when both parties agree to a lease modification.

4.2.25 Fair value - for the purpose of applying the lessor accounting requirements of this section of the Code and IFRS 16, the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

4.2.26 A finance lease (for lessors only) is a lease that transfers substantially all the risks and rewards incidental to ownership of an underlying asset.

- 4.22.7 **Fixed payments** are payments made by a lessee to a lessor for the right to use an underlying asset during the lease term, excluding variable lease payments.
- 4.22.8 The **inception date of the lease** is the earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease.
- 4.22.9 **Initial direct costs** are the incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained, except for such costs incurred by a manufacturer or dealer lessor in connection with a finance lease.
- 4.22.10 The **interest rate implicit in the lease** is the rate of interest that causes the present value of:
- a) the lease payments, and
 - b) the unguaranteed residual value to equal the sum of:
 - i) the fair value of the underlying asset, and
 - ii) any initial direct costs of the lessor.
- 4.22.11 A **lease** is a contract, or part of a contract, that
- For an authority as lessee conveys the right to use an asset (the underlying asset) for a period of time, or
 - For an authority as lessor conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.
-
- 4.22.12 **Lease incentives** are payments made by a lessor to a lessee associated with a lease, or the reimbursement or assumption by a lessor of costs of a lessee.
- 4.22.13 A **lease modification** is a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term).
- 4.22.14 The **lease term** is the non-cancellable period for which a lessee has the right to use an underlying asset, together with both:
- a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option, and
 - b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.
- 4.22.15 A **lessee** is an authority that obtains the right to use an underlying asset for a period of time ~~in~~ exchange for consideration.
- 4.22.16 The **lessee's incremental borrowing rate** is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

4.22.17 A **lessor** is an authority that provides the right to use an underlying asset for a period of time in exchange for consideration.

4.22.17A **Leases for nil consideration** are those which do not include the provision of consideration but which, in all other respects, meet the definition of a lease.

4.22.18 An **operating lease** (for lessors only) is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

4.22.19 **Optional lease payments** are payments to be made by a lessee to a lessor for the right to use an underlying asset during periods covered by an option to extend or terminate a lease that are not included in the lease term.

4.22.20 Leases at **peppercorn or nominal lease payments** are those leases for which consideration is paid but the lease payments are substantially below market lease payments.

4.22.21 **Period of use** is the total period of time that an asset is used to fulfil a contract with a customer (including any non-consecutive periods of time).

4.22.22 **Residual value guarantee** is a guarantee made to a lessor by a party unrelated to the lessor that the value (or part of the value) of an underlying asset at the end of a lease will be at least a specified amount.

4.22.23 The **right-of-use asset** is an asset that represents a lessee's right to use an underlying asset for the lease term.

4.22.24 A **short-term lease** is a lease that, at the commencement date, has a lease term of 12 months or less. A lease that contains a purchase option is not a short-term lease.

4.22.25 An **underlying asset** is an asset that is the subject of a lease, for which the right to use that asset has been provided by a lessor to a lessee.

4.22.26 **Useful life** is the period over which an asset is expected to be available for use by an authority; or the number of production or similar units expected to be obtained from an asset by an authority.

4.22.27 **Variable lease payments** are the portion of payments made by a lessee to a lessor for the right to use an underlying asset during the lease term that varies because of changes in facts or circumstances occurring after the commencement date, other than the passage of time.

4.22.28 Further definitions, including, gross investment in the lease, lease payments, net investment in the lease, sublease, unearned finance income and unguaranteed residual value are contained in IFRS 16.

Removal of Housing Revenue Account Tenancies from the Scope of Lease Accounting

4.2.2.29 For the avoidance of doubt the requirements of IFRS 16 *Leases* and this Section (4.2) of the Code shall not be applied to Housing Revenue Account tenancies. Housing Revenue Account tenancies will be reported in accordance with Section 3.5 and other relevant sections of the Code.

Portfolio Application

4.2.2.29 This section of the Code specifies the accounting for an individual lease. However, as a practical expedient, an authority may apply this section of the Code to a portfolio of leases with similar characteristics if the authority reasonably expects that the effects on the financial statements of applying this section of the Code to the portfolio would not differ materially from applying this section of the Code to the individual leases within that portfolio. If accounting for a portfolio, an authority shall use estimates and assumptions that reflect the size and composition of the portfolio.

Recognition exemptions

4.2.2.30 A lessee shall not apply the requirements in paragraphs 4.2.2.43 to 4.2.2.64 to short term leases.

4.2.2.31 A lessee may elect not to apply the requirements in paragraphs 4.2.2.43 to 4.2.2.64 to leases where the underlying asset is of low value. The following apply to an authority's assessment of low value:

- a) A lessee shall assess the value of an underlying asset based on the value of the asset when it is new, irrespective of the age of the asset being leased.
- b) The assessment of whether an underlying asset is of low value is performed on an absolute basis, (therefore it applies to the individual underlying asset).
- c) Leases of low-value assets qualify as such irrespective of whether those leases are material to the lessee.
- d) The election for leases for which the underlying asset is of low value may be made on a lease-by-lease basis.
- e) The assessment of low value is not affected by the size, nature or circumstances of the lessee.
- f) An underlying asset is permitted to be treated as low value only if:
 - i) the lessee can benefit from use of the underlying asset on its own or together with other resources that are readily available to the lessee, and
 - ii) the underlying asset is not highly dependent on, or highly interrelated with, other assets

~~g—)~~ A lease of an underlying asset does not qualify as a lease of a low-value asset if the nature of the asset is such that, when new, the asset is typically not of low value.

~~h)~~ If a lessee subleases an asset, or expects to sublease an asset, the head lease does not qualify as a lease of a low-value asset.

For further guidance in applying this paragraph (4.2.2.31) aA local authority shall consider paragraphs B3 to B8 of IFRS 16.6 for further guidance on leases for which the underlying asset is of low value. -

4.2.2.32 Where a lessee holds a short-term lease or if a lessee elects not to apply the requirements in paragraphs 4.2.2.43 to 4.2.2.64 to leases for which the underlying asset is of low value, the lessee shall recognise the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis. The lessee shall apply another systematic basis if that basis is more representative of the pattern of the lessee's benefit.

4.2.2.33 Where a lessee holds a short-term lease the lessee shall consider the lease to be a new lease for the purposes of this section of the Code if:

- a) there is a lease modification, or
- b) there is any change in the lease term.

Identifying a lease

4.2.2.34 At inception of a contract, an authority shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time (see paragraphs B9 to B31 of IFRS 16 for guidance on an assessment whether a contract is or contains a lease). Specifically to assess whether a contract is or contains a lease an authority shall consider:

- whether the asset is explicitly or implicitly identified in a contract (see paragraph B13 of IFRS 16)
- if an asset is specified in a contract whether the supplier has a substantive right to substitute (see paragraphs B14 to B19 of IFRS 16)
- whether the asset specified in a contract is physically distinct (see paragraph B20 of IFRS 16)
- whether the customer has the right to obtain substantially all of the economic benefits and service potential from use of the asset throughout the period of use (see paragraph 4.2.2.35 and B21 to B23 of IFRS 16), and
- whether the customer has the right to direct the use of the asset throughout the period of use (B24 to B30 of IFRS 16).

4.2.2.35 To control the use of an identified asset, a customer is required to have the right to obtain substantially all of the economic benefits and service potential from use of the asset throughout

the period of use (for example, by having exclusive use of the asset throughout that period). A customer can obtain economic benefits from use of an asset directly or indirectly in many ways, such as by using, holding or sub-leasing the asset. The economic benefits or service potential from use of an asset include its primary output and by-products (including potential cash flows derived from these items), and other economic benefits from using the asset that could be realised from a commercial transaction with a third party.

4.2.2.36 An authority shall reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

Separating components of a contract

4.2.2.37 For a contract that is, or contains, a lease, an authority shall account for each lease component within the contract as a lease separately from non-lease components of the contract, unless it applies the practical expedient in paragraph 4.2.2.39.

Separating components of a contract - Lessee

4.2.2.38 For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

4.2.2.39 As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

Lease term

4.2.2.40 An authority shall determine the lease term as the non-cancellable period of a lease, together with both:

- a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option, and
- b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

4.2.2.41 An authority shall revise the lease term if there is a change in the non-cancellable period of a lease. For example, the non-cancellable period of a lease will change if:

- a) the lessee exercises an option not previously included in the authority's determination of the lease term
- b) the lessee does not exercise an option previously included in the authority's determination of the lease term
- c) an event occurs that contractually obliges the lessee to exercise an option not previously

- included in the entity's determination of the lease term, or
- d) an event occurs that contractually prohibits the lessee from exercising an option previously included in the authority's determination of the lease term.

Recognition – lessees

4.2.2.42 At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability.

Initial measurement – lessees

Initial measurement of the right-of-use asset

4.2.2.43 At the commencement date, a lessee shall measure the right-of-use asset at cost.

4.2.2.44 The cost of the right-of-use asset shall comprise:

- a) the amount of the initial measurement of the lease liability, as described in paragraph 4.2.2.47
- b) any lease payments made at or before the commencement date, less any lease incentives received
- c) any initial direct costs incurred by the lessee, and
- d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

4.2.2.45 A lessee shall recognise the costs described in 4.2.2.44 d) as part of the cost of the right-of-use asset when it incurs an obligation for those costs. A lessee applies section 5.1 (Inventories) to costs that are incurred during a particular period as a consequence of having used the right-of-use asset to produce inventories during that period. The obligations for such costs accounted for applying this section of the Code or section 5.1 are recognised and measured applying section 8.2 (Provisions, Contingent Liabilities and Contingent Assets).

4.2.2.46 Where a right-of-use asset is acquired at a peppercorn or for nominal lease payments, or for nil consideration, its cost shall be measured at its fair value as at the commencement date. Fair value is measured in these circumstances in accordance with the Code's provisions on donated assets in section 2.3 and the fair value measurement requirements in section 2.10. **Where fair value cannot be obtained at a cost which is commensurate with the benefits to users of the financial statements current value shall be used as a proxy.**

Initial measurement of the lease liability

4.2.2.47 At the commencement date, a lessee shall measure the lease liability at the present value of the

lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

4.2.2.48 At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- a) fixed payments (including in-substance fixed payments as described in paragraph B42 of IFRS 16), less any lease incentives receivable
- b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date (see paragraph 28 of IFRS 16)
- c) amounts expected to be payable by the lessee under residual value guarantees
- d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option (assessed considering the factors described in paragraphs B37 to B40 of IFRS 16), and
- e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

4.2.2.49 Where a lease liability is recognised through a lease where lease payments are at a peppercorn or for nominal lease amounts, or for nil consideration, its cost shall also be recognised in accordance with paragraph 4.2.2.48. The difference (ie gain) between the fair value recognised in accordance with paragraph 4.2.2.46 and the lease liability recognised in accordance with paragraph 4.2.2.48 is recognised in the Surplus or Deficit on the Provision of Services. This treatment follows the treatment for donated assets in accordance with section 2.3 of the Code.

Subsequent measurement

Subsequent measurement of the right-of-use asset

4.2.2.50 After the commencement date a lessee shall measure the right of use asset in accordance with section 4.1 for property, plant and equipment at current value in accordance with the following:

- a) On an asset by asset basis, for right of use assets which are **classified to be** measured at current value per Section 4.1 as a practical expedient the cost model in b) -shall be used as a proxy for current value unless **-inappropriate in which case** paragraph c) applies.
- b) **Where to apply** a cost model **is appropriate**, a lessee shall measure the right-of-use asset at cost as defined in this section of the Code:
 - i) less any accumulated depreciation and any accumulated impairment losses, and
 - ii) adjusted for any remeasurement of the lease liability specified in paragraph 4.2.2.53 c).

Note that the latter adjustment would follow the same accounting treatment (including

the statutory accounting requirements) as subsequent expenditure (ie additions to cost) on owned assets under section 4.1 of the Code.

iii) _____ adjusted for any changes in the estimated costs of dismantling, removal or restoration as specified in paragraph 4.2.2.44 (d) and 4.2.2.45. -

c) for some right of use assets the use of the cost model in b) as a proxy for current value will be inappropriate. This is anticipated, ~~subject to rebuttal,~~ to be the case where both of the following conditions are met:

i. A longer-term lease has no provisions to update lease payments for market conditions (such as rent reviews), or there is a significant period of time between those updates;

and

ii. The fair value or current value in existing use of the underlying asset is likely to fluctuate significantly due to changes in market prices. This is more likely to be the case with property assets.

d) following the transitional arrangements specified in paragraph 4.2.2.98 the lease asset will be transferred at its carrying amount for finance leases which commenced prior to the date of initial application ie 1 April 2020. From that date such right-of-use assets may continue to be measured in accordance with the revaluation provisions in section 4.1.

e) for the avoidance of doubt a local authority with property, plant and equipment right of use assets which are measured using valuation shall apply the requirements of Section 4.1 regarding remeasurement. -

4.2.2.50B Where an authority determines that a previously revalued right-of-use asset meets the criteria permitting use of the cost model as proxy, if the authority applies the cost model as proxy the cost model shall meet the requirements of paragraph 4.2.2.50 b).

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4.2.2.51 Subject to the requirements of IFRS 16 paragraph 32 of IFRS 16 If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise -the lessee shall depreciate the right-of-use asset from the commencement

date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. A lessee shall apply the requirements of section 4.7 to determine whether the right of use asset is impaired.

4.2.252 If a lessee applies the fair value model in section 4.4 of the Code and IAS 40 *Investment Property* to its investment property, the lessee shall also apply that fair value model to right-of-use assets that meet the definition of investment property in section 4.4 of the Code. Note that section 4.4 of the Code anticipates that the fair value model is applied in all but exceptional circumstances (see section 4.4).

Subsequent measurement of the lease liability

4.2.253 After the commencement date, a lessee shall measure the lease liability by:

- a) increasing the carrying amount to reflect interest on the lease liability
- b) reducing the carrying amount to reflect the lease payments made, and
- c) remeasuring the carrying amount to reflect any reassessment or lease modifications specified in paragraphs 4.2.2.56 to 4.2.2.61, and 40 to 43 of IFRS 16 or to reflect revised in-substance fixed lease payments (see paragraph B42 of IFRS 16).

4.2.254 Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. The periodic rate of interest is the discount rate described in paragraph 4.2.2.47, or if applicable the revised discount rate described in paragraph 41 of IFRS 16, paragraph 43 of IFRS 16 or paragraph 4.2.2.60 c).

4.2.255 After the commencement date, a lessee shall recognise in Surplus or Deficit on the provision of Services, unless the costs are included in the carrying amount of another asset applying other sections of the Code both:

- a) interest on the lease liability, and
- b) variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

Reassessment of the lease liability

4.2.256 After the commencement date, a lessee shall apply paragraphs 40 to 43 of IFRS 16 to remeasure the lease liability to reflect changes to the lease payments. A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognise any remaining amount of the remeasurement in the Surplus or Deficit on the Provision of Services.

4.2.257 A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate, if either:

- a) there is a change in the lease term, as described in paragraphs 20 of IFRS 169 and 4.2.2.41. A lessee shall determine the revised lease payments on the basis of the revised lease term, and
- b) there is a change in the assessment of an option to purchase the underlying asset, assessed considering the events and circumstances described in paragraphs in paragraphs 20 of IFRS 169 and 4.2.2.41 in the context of a purchase option. A lessee shall determine the revised lease payments to reflect the change in amounts payable under the purchase option.

In applying this paragraph (4.2.2.57), a lessee shall determine the revised discount rate as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the date of reassessment, if the interest rate implicit in the lease cannot be readily determined.

4.2.2.58 A lessee shall remeasure the lease liability by discounting the revised lease payments, if either:

- a) there is a change in the amounts expected to be payable under a residual value guarantee. A lessee shall determine the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee, and
- b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review. The lessee shall remeasure the lease liability to reflect those revised lease payments only when there is a change in the cash flows (ie when the adjustment to the lease payments takes effect). A lessee shall determine the revised lease payments for the remainder of the lease term based on the revised contractual payments.

In applying this paragraph (4.2.2.58), a lessee shall use an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates. In that case, the lessee shall use a revised discount rate that reflects changes in the interest rate.

Lease modifications

4.2.2.59 A lessee shall account for a lease modification as a separate lease if both:

- a) the modification increases the scope of the lease by adding the right to use one or more underlying assets
- b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

4.2.2.60 For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification a lessee shall:

- a) allocate the consideration in the modified contract applying paragraphs 4.2.2.38 and paragraphs 14 and 16 of IFRS 16

- b) determine the lease term of the modified lease applying paragraphs 4.2.2.40 and paragraph 19 of IFRS 16, and
- c) remeasure the lease liability by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

4.22.61 For a lease modification that is not accounted for as a separate lease, the lessee shall account for the remeasurement of the lease liability by:

- a) decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The lessee shall recognise in Surplus or Deficit on the Provision of Services any gain or loss relating to the partial or full termination of the lease
- b) making a corresponding adjustment to the right-of-use asset for all other lease modifications.

Presentation

4.22.62 A lessee shall either present in the Balance Sheet, or disclose in the notes:

- a) right-of-use assets separately from other assets – if a lessee does not present right-of-use assets separately in the Balance Sheet the lessee shall:
 - i) include right-of-use assets within the same line item as that within which the corresponding underlying assets would be presented if they were owned, and
 - ii) disclose which line items in the Balance Sheet include those right-of-use assets
- b) lease liabilities separately from other liabilities – if the lessee does not present lease liabilities separately in the Balance Sheet, the lessee shall disclose which line items in the Balance Sheet include those liabilities.

4.22.63 The requirement in paragraph 4.2.2.62 a) does not apply to right-of-use assets that meet the definition of investment property, which shall be presented in the Balance Sheet within the investment property line item.

4.22.64 The depreciation charge for the right-of-use asset is recognised in the gross expenditure, gross income and net expenditure of continuing operations. Interest expense on the lease liability shall be recognised in financing and investment income and expenditure in the Comprehensive Income and Expenditure Statement.

4.22.65 In the Cash Flow Statement, a lessee shall classify:

- a) cash payments for the principal portion of the lease liability within financing activities
- b) cash payments for the interest portion of the lease liability applying the requirements in IAS 7 *Statement of Cash Flows* for interest paid, and

- c) short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities.

Classification of leases - Lessors

4.22.66 A lessor shall classify each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

4.22.67 Lease classification is made at the inception date and is reassessed only if there is a lease modification. Changes in estimates (for example, changes in estimates of the economic life or of the residual value of the leased property), or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.

4.22.68 Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- a) the lease transfers ownership of the underlying asset to the lessee by the end of the lease term
- b) the lessee has the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised
- c) the lease term is for the major part of the economic life of the underlying asset even if title is not transferred
- d) at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset, and
- e) the underlying asset is of such a specialised nature that only the lessee can use it without major modifications

Where leases of assets are provided on non-commercial terms, ie for nominal or at peppercorn rents or lease payments, or for nil consideration, authorities will need to consider the substance of the transaction. CIPFA/LASAAC is of the view that it is likely that the situation set out at point d) above will not apply to an authority's analysis of the classification of the lease where lease payments are nominal or at a peppercorn, or there is nil consideration. Note that this exception is only relevant for transactions on non-commercial terms and would not be relevant, for example, where lease arrangements also include a substantial payment (ie a lease premium). As a part of the authority's analysis of the accounting treatment of the non-commercial lease it will need to consider whether there are other transactions or arrangements involving the parties which need to be taken into account to determine the overall substance of the arrangement.

4.22.69 Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:

- a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee
- b) gains or losses from the fluctuation in the fair value of the residual accrue to the lessee
- c) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

4.22.70 In classifying a sublease, an intermediate lessor shall classify the sublease as a finance lease or an operating lease in accordance with paragraph B58 of IFRS 16. This requires that:

- a) if the head lease is a short-term lease that the authority, as a lessee, has accounted for applying paragraphs 4.2.2.30 (short term leases) or 4.2.2.31 (exemption for low underlying asset value), the sublease shall be classified as an operating lease.
- b) otherwise, the sublease shall be classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset (for example, the item of property, plant or equipment that is the subject of the lease).

Separating the components of a contract - lessors

4.22.71 For a contract that contains a lease component and one or more additional lease or non-lease components, a lessor shall allocate the consideration in the contract applying paragraphs 2.7.2.36 to 2.7.2.39 of the Code and 73 to 90 of IFRS 15.

Finance leases - lessors

Recognition

4.22.72 At the commencement date, a lessor shall recognise assets held under a finance lease in its Balance Sheet and present them as a receivable at an amount equal to the net investment in the lease.

Initial Measurement

4.22.73 The lessor shall use the interest rate implicit in the lease to measure the net investment in the lease. In the case of a sublease, if the interest rate implicit in the sublease cannot be readily determined, an intermediate lessor may use the discount rate used for the head lease (adjusted for any initial direct costs associated with the sublease) to measure the net investment in the sublease. Initial direct costs are included in the initial measurement of the net investment in the lease and reduce the amount of income recognised over the lease term.

4.22.74 At the commencement date, the lease payments included in the measurement of the net investment in the lease comprise the following payments for the lessee's right to use the underlying asset during the lease term that are not received at the commencement date:

- a) fixed payments (including in-substance fixed payments as described in paragraph B42 of IFRS 16), less any lease incentives payable

- b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- c) any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee
- d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option (assessed considering the factors described in paragraph B37 of IFRS 16), and
- e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease}.

Subsequent measurement - lessors

4.22.75 A lessor shall recognise finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.

4.22.76 A lessor shall apply the lease payments relating to the period against the gross investment in the lease to reduce both the principal and the unearned finance income. A lessor shall apply the derecognition and impairment requirements in section 7.2.9 of the Code and IFRS 9 to the net investment in the lease. A lessor shall review regularly estimated unguaranteed residual values used in computing the gross investment in the lease. If there has been a reduction in the estimated unguaranteed residual value, the lessor shall revise the income allocation over the lease term and recognise immediately any reduction in respect of amounts accrued.

Lease modifications- lessors

4.22.76A A lessor shall account for a modification to a finance lease as a separate lease if both:

(a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

4.22.76B For a modification to a finance lease that is not accounted for as a separate lease, a lessor shall account for the modification as follows:

(a) if the lease would have been classified as an operating lease had the modification been in effect at the inception date, the lessor shall:

(i) account for the lease modification as a new lease from the effective date of the modification; and

(ii) measure the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification.

(b) otherwise, the lessor shall apply the requirements of IFRS 9.

Operating leases - lessors

Recognition and Measurement

4.22.77 A lessor shall recognise lease payments from operating leases as income on either a straight-line basis or another systematic basis. The lessor shall apply another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished. Costs, including depreciation, incurred in earning the lease income are recognised as an expense.

4.22.78 A lessor shall add initial direct costs incurred in obtaining an operating lease to the carrying amount of the underlying asset and recognise those costs as an expense over the lease term on the same basis as the lease income.

4.22.79 The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets.

Lease Modifications

4.22.80 A lessor shall account for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Sale and leaseback transactions

4.22.81 If an authority (the seller-lessee) transfers an asset to another entity (the buyer-lessor) and leases that asset back from the buyer-lessor, both the seller-lessee and the buyer-lessor shall account for the transfer contract and the lease applying paragraphs 4.2.2.82 to 4.2.2.86.

Assessing whether the transfer of the asset is a sale

4.22.82 An authority shall apply the requirements for determining when a performance obligation is

satisfied in section 2.7 of the Code and IFRS 15 to determine whether the transfer of an asset is accounted for as a sale of that asset.

Transfer of the asset is a sale

4.2.2.83 If the transfer of an asset by the seller-lessee satisfies the requirements of section 2.7 of the Code and IFRS 15 to be accounted for as a sale of the asset:

- a) the seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the seller-lessee shall recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor
- b) the buyer-lessor shall account for the purchase of the asset applying the relevant sections of the Code ie (sections 4.1.,4.2 and 4.3), and for the lease applying the lessor accounting requirements in this section of the Code.

4.2.2.84 If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, an authority shall make the following adjustments to measure the sale proceeds at fair value:

- a) any below-market terms shall be accounted for as a prepayment of lease payments
- b) any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee.

4.2.2.85 The authority shall measure any potential adjustment required by paragraph 4.2.2.84 on the basis of the more readily determinable of:

- a) the difference between the fair value of the consideration for the sale and the fair value of the asset
- b) the difference between the present value of the contractual payments for the lease and the present value of payments for the lease at market rates.

Transfer of the asset is not a sale

4.2.2.86 If the transfer of an asset by the seller-lessee does not satisfy the requirements of section 2.7 and IFRS 15 to be accounted for as a sale of the asset:

- a) the seller-lessee shall continue to recognise the transferred asset and shall recognise a financial liability equal to the transfer proceeds. It shall account for the financial liability applying chapter seven of the Code and IFRS 9
- b) the buyer-lessor shall not recognise the transferred asset and shall recognise a financial asset equal to the transfer proceeds. It shall account for the financial asset applying chapter seven of the Code and IFRS 9.

Transition

4.2.2.87 An authority shall apply this section of the Code and IFRS 16 for annual reporting periods beginning on or after 1 April 2020.

Definition of a Lease

4.2.2.88 As a practical expedient, an authority shall not reassess whether a contract is, or contains, a lease at 1 April 2020 except in relation to leases for nil consideration. Instead, the authority is required:

- a) to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease* as adopted by the 2019/20 Code. The authority shall apply the transition requirements in paragraphs 4.2.2.92 to 4.2.2.105 to those leases.
- b) not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

4.2.2.89 An authority shall disclose the fact that it has applied the practical expedient in paragraph 4.2.2.88 and apply the practical expedient to all of its contracts. This disclosure should only be a brief statement to that effect and should not be onerous. As a result, the authority shall apply the requirements in paragraphs 4.2.2.34 to 4.2.2.36 only to contracts entered into (or changed) on or after 1 April 2020, or those for nil consideration.

Lessees

4.2.2.90 A lessee shall apply IFRS 16 as adopted by this section of the Code to its leases, retrospectively with the cumulative effect of initially applying IFRS 16 recognised at 1 April 2020 in accordance with paragraphs 4.2.2.92 to 4.2.2.100.

4.2.2.91 The lessee shall not restate comparative information. The lessee shall recognise the cumulative effect of initially applying IFRS 16 as adopted by the Code as an adjustment to the opening balance of reserves at 1 April 2020.

Leases for nil consideration not previously recognised as leases

4.2.2.92 The lessee shall:

- a) recognise a right-of-use asset at 1 April 2020 for leases for nil consideration, measuring the right-of-use asset at fair value at the date of initial application. Where fair value cannot be obtained at a cost which is commensurate with the benefits to users of the financial statements current value shall be used as a proxy.
- b) for right-of-use assets for nil consideration a gain on transition shall be recognised as a donated asset in accordance with Section 2.3 of the Code and IPSAS 23 as an adjustment to

- opening balances.
- c) apply section 4.7 to those right-of-use assets at the date of initial application
 - d) apply paragraphs 4.2.2.95 (a) [low value underlying asset exemption] and 4.2.2.97 [treatment where the lease term ends within 12 months].

4.2.2.93 The lessee may apply paragraph 4.2.2.96 [optional practical expedients].

Leases previously classified as operating leases

4.2.2.94 The lessee shall:

- a) recognise a lease liability at 1 April 2020 for leases previously classified as an operating lease applying IAS 17. The lessee shall measure that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application
- b) recognise a right-of-use asset at 1 April 2020 for leases previously classified as an operating lease applying IAS 17, the lessee shall measure the right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Balance Sheet immediately before 1 April 2020. For right-of-use assets for peppercorn or nominal lease payments a right-of-use asset shall be recognised at fair value on 1 April 2020 with any gain, being the difference between that fair value and the lease liability, recognised as a donated asset in accordance with Section 2.3 of the Code and IPSAS 23 as an adjustment to opening balances.
- c) apply section 4.7 to right-of-use assets at the date of initial application, unless the lessee applies the practical expedient in paragraph 4.2.2.95 b).

4.2.2.95 Notwithstanding the requirements in paragraph 4.2.2.94, for leases previously classified as operating leases applying IAS 17, a lessee:

- a) shall not make any adjustments on transition for leases for which the underlying asset is of low value (as described in 4.2.2.31 and paragraphs B3 to B8 of IFRS 16) that will be accounted for applying paragraph 4.2.2.32. The lessee shall account for those leases applying this section of the Code from 1 April 2020.
- b) is not required to make any adjustments on transition for leases previously accounted for as investment property using the fair value model in section 4.4. of the Code and IAS 40 *Investment Property*. The lessee shall account for the right-of-use asset and the lease liability arising from those leases applying section 4.4 of the Code and IFRS 16 from 1 April

2020

- c) shall measure the right-of-use asset at fair value at the date of 1 April 2020 for leases previously accounted for as operating leases applying IAS 17 and that will be accounted for as investment property using the fair value model in section 4.4 and IAS 40 from 1 April 2020. The lessee shall account for the right-of-use asset and the lease liability arising from those leases applying section 4.4 and IAS 40 and IFRS 16 from 1 April 2020.

4.2.2.96 A lessee may use one or more of the following practical expedients when applying this Standard retrospectively to leases previously classified as operating leases applying IAS 17. A lessee is permitted to apply these practical expedients on a lease-by-lease basis:

- a) a lessee may apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment)
- b) a lessee may rely on its assessment of whether leases are onerous applying section 8.2 of the Code and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before 1 April 2020 as an alternative to performing an impairment review. If a lessee chooses this practical expedient, the lessee shall adjust the right-of-use asset at 1 April 2020 by the amount of any provision for onerous leases recognised in Balance Sheet immediately before 1 April 2020
- c) a lessee may use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

4.2.2.97 A lessee shall not apply the requirements in paragraph 4.2.2.94 to leases for which the lease term ends within 12 months of the date of initial application. A lessee shall.

- a) account for those leases in the same way as short-term leases as described in paragraph 4.2.2.32; and
- b) include the cost associated with those leases within the disclosure of short-term lease expense in the annual reporting period that includes the 1 April 2020.

Leases previously classified as finance leases

4.2.2.98 For leases that were classified as finance leases applying IAS 17, the carrying amount of the right-of-use asset and the lease liability at 1 April 2020 shall be the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17³⁹. For those leases, a

³⁹ Additional explanatory note: fFinance lease assets valued at current value during 2019/20 and where the right-of-use asset continues to be carried at current value during 20/21 will carry forward retain the existing revaluation reserve balances applicable and these will be adjusted in future on in the event of a subsequent revaluations of the right-of-use asset either on or after transition. Finance lease assets valued at current value during 2019/20 and where, on transition or at a later date, subsequently the right of use asset is measured at cost as proxy for current value will require any revaluation reserve balance to be written out.

lessee shall account for the right-of-use asset and the lease liability applying IFRS 16 from 1 April 2020.

4.2.2.98 B On transition an authority may voluntarily revalue a right-of-use which was previously recognised under a finance lease or revert to the cost model where the relevant criteria are met. Adjustments arising shall be presented as transition adjustments.

Disclosure

4.2.2.99 The lessee shall disclose the following information about initial application:

- a) the title - IFRS 16 Leases
- b) confirmation that the change in accounting policy is made in accordance with the transitional provisions in the Code for the adoption of IFRS 16
- c) the nature of the change in accounting policy
- d) a description of the transitional provisions
- e) the weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the Balance Sheet at 1 April 2020
- f) an explanation of any difference between:
 - i) operating lease commitments disclosed applying IAS 17 at the end of the annual reporting period immediately preceding 1 April 2020 date of initial application, discounted using the incremental borrowing rate at 1 April 2020 as described in paragraph 4.2.2.94 a)
 - ii) lease liabilities recognised in the Balance Sheet at 1 April 2020.

4.2.2.100 If a lessee uses one or more of the specified practical expedients in paragraphs 4.2.2.96, it shall disclose that fact and shall disclose the practical expedient required by paragraph 4.2.2.97 [treatment where the lease term ends within 12 months].

Lessors

4.2.2.101 Except as described in paragraph 4.2.2.102, a lessor is not required to make any adjustments on transition for leases in which it is a lessor and shall account for those leases applying IFRS 16 as adopted by the Code from 1 April 2020.

4.2.2.102 An intermediate lessor shall:

- a) reassess subleases that were classified as operating leases applying IAS 17 and are ongoing at 1 April 2020, to determine whether each sublease should be classified as an operating lease or a finance lease applying IFRS 16. The intermediate lessor shall perform this assessment at the date of initial application on the basis of the remaining contractual terms and conditions of the head lease and sublease at that date
- b) for subleases that were classified as operating leases applying IAS 17 but finance leases

applying IFRS 16, account for the sublease as a new finance lease entered into at 1 April 2020.

Sale and leaseback transactions before 1 April 2020

4.22.103 An authority shall not reassess sale and leaseback transactions entered into before 1 April 2020 to determine whether the transfer of the underlying asset satisfies the requirements in section 2.7 of the Code and IFRS 15 to be accounted for as a sale.

4.22.104 If a sale and leaseback transaction was accounted for as a sale and a finance lease applying IAS 17, the seller-lessee shall:

- a) account for the leaseback in the same way as it accounts for any other finance lease that exists at 1 April 2020, and
- b) continue to amortise any gain on sale over the lease term.

4.22.105 If a sale and leaseback transaction was accounted for as a sale and operating lease applying IAS 17, the seller-lessee shall

- a) account for the leaseback in the same way as it accounts for any other operating lease that exists at 1 April 2020 and
- b) adjust the leaseback right-of-use asset for any deferred gains or losses that relate to off-market terms recognised in the Balance Sheet immediately before 1 April 2020.

4.2.3 Statutory Accounting Requirements

4.23.1 There are no statutory accounting requirements in respect of operating leases other than those in relation to those leases reclassified on transition to IFRS (see below).

Assets held by an authority (as a lessee) under a lease

4.23.2 Depreciation, impairment and gains or losses on revaluation charged to the Surplus or Deficit on the Provision of Services are not proper charges to the General Fund (see part 2 of Appendix B for the legislative basis). Such amounts shall be transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

4.23.2B **England:** The Housing Revenue Account shall be charged with depreciation. However, for HRA non-dwellings, depreciation charged to the surplus or deficit on the provision of services in the Housing Revenue Account in England shall be charged in accordance with the requirements of *The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2017*.

4.23.3 Minimum Revenue Provision (England, Northern Ireland and Wales) and the repayment of the liability (Scotland) are proper charges to the General Fund, but do not appear in the Comprehensive Income and Expenditure Statement. Such amounts shall be transferred from the Capital Adjustment Account and reported in the Movement in Reserves Statement. The amounts

of Minimum Revenue Provision or repayment of the liability to be charged to the General Fund for the year are set out in the appropriate regulations and statutory guidance (see part 2 of Appendix B for the legislative basis).

4.23.4 Gains and losses on the disposal of an investment property held under a lease are subject to the statutory accounting requirements set out in section 4.4.3 of the Code.

Assets disposed of by means of a finance lease (local authority as lessor)

4.23.5 Gains and losses on the disposal of property, plant or equipment by way of a finance lease are subject to the statutory accounting requirements set out in section 4.1.3 of the Code. The proceeds on disposal are the amount recognised as a receivable.

4.23.6 Gains and losses on the disposal of an intangible asset by way of a finance lease are subject to the statutory accounting requirements set out in section 4.5.3 of the Code. The proceeds on disposal are the amount recognised as a receivable.

4.23.7 Gains and losses on the disposal of an investment property by way of a finance lease are subject to the statutory accounting requirements set out in section 4.4.3 of the Code. The proceeds on disposal are the amount recognised as a receivable.

4.23.8 A sale and leaseback arrangement that results in a finance lease is not a disposal for the purposes of this section of the Code.

4.23.9 Amounts received as part of the repayment of a finance lease that reduce the lessee's obligation are classed as capital receipts (see part 2 of Appendix B for the legislative basis). In Scotland, capital receipts fall to be defined in accordance with proper accounting practice. Authorities shall recognise the capital receipt by debiting the Capital Adjustment Account and crediting the Capital Receipts Reserve or (in Scotland) a statutory capital fund or capital grants and receipts unapplied account.

Leases reclassified on transition to IFRS (authority is lessor)

4.23.10 In England and Wales, income received under a lease that was reclassified on transition to IFRS continues to be treated as either a capital receipt or as revenue income according to its status prior to reclassification (see part 2 of Appendix B for the legislative basis).

4.23.11 Where a lease has been reclassified as a finance lease on transition to IFRS, income received under the lease shall continue to be treated as revenue income. An authority shall transfer the capital receipt to the General Fund and report the transaction in the Movement in Reserves Statement.

4.23.12 Where a lease has been reclassified as an operating lease on transition to IFRS, any income that would, prior to the reclassification, have been treated as a capital receipt shall be transferred from the General Fund to the Capital Receipts Reserve; and the transfer shall be reported in the Movement in Reserves Statement.

4.23.13 In Scotland, no statutory guidance was issued on transition to IFRS so authorities shall account for all income received from leases in line with classification of the leases under the Code.

4.23.14 In Northern Ireland, where an operating lease has been reclassified as a finance lease on transition to IFRS, income received under the lease shall continue to be treated as revenue income. An authority shall transfer the capital receipt to the General Fund and report the transaction in the Movement in Reserves Statement.

Leases with peppercorn or nominal payments, or for nil consideration

4.23.15 The gain recognised in the Comprehensive Income and Expenditure Statement on entry into a lease with peppercorn or nominal lease payments, or for nil consideration, is not a proper charge to the General Fund. In accordance with statutory provisions such amounts shall be transferred to the Capital Adjustment Account.

4.2.4 Disclosure Requirements

4.24.1 Disclosure of accounting policies in relation to leases is required, where these accounting policies are significant to the authority's financial statements (see section 3.4 of the Code).

Lessee disclosures

4.24.2 The objective of the disclosures is for lessees to disclose information in the notes that, together with the information provided in the Balance Sheet, Comprehensive Income and Expenditure Statement and Cash Flow Statement, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee.

4.24.3 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 (acting as lessees and/or lessors) shall disclose information about leases in a single note or a separate section of the financial statements, in addition to meeting the requirements of Financial Instruments: Disclosures (see chapter seven). However a lessee need not duplicate information that is already presented elsewhere in the financial statements provided there is appropriate cross referencing.

4.24.4 A lessee shall disclose the following amounts for the reporting period:

- a) depreciation charge for right-of-use assets by class of underlying asset
- b) interest expense on lease liabilities.
- c) the expense relating to short-term leases accounted for applying paragraph 4.2.2.32. This expense need not include the expense relating to leases with a lease term of one month or less
- d) the expense relating to leases of low-value assets accounted for applying paragraph 4.2.2.32. This expense shall not include the expense relating to short-term leases of low-

- value assets included in paragraph 4.2.4.4.c)
- e) the expense relating to variable lease payments not included in the measurement of lease liabilities
 - f) income from subleasing right-of-use assets;
 - g) total cash outflow for leases
 - h) additions to right-of-use assets;
 - i) gains or losses arising from sale and leaseback transactions, and
 - j) the carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset.
- 4.2.4.5 A lessee shall provide the disclosures specified in paragraph 4.2.4.4 in a tabular format, unless another format is more appropriate. The amounts disclosed shall include costs that a lessee has included in the carrying amount of another asset during the reporting period.
- 4.2.4.6 A lessee shall disclose, **subject to the application of paragraph 2.1.2.14B2 to ensure that material information is not obscured**, the amount of its lease commitments for short-term leases accounted for applying paragraph 4.2.2.32 if the portfolio of short-term leases to which it is committed at the end of the reporting period is dissimilar to the portfolio of short-term leases to which the short-term lease expense disclosed applying paragraph 4.2.4.4.c) relates.
- 4.2.4.7 If the right-of-use assets meet the definition of investment property, a lessee shall apply the disclosure requirements in IAS 40. In that case, a lessee is not required to provide the disclosures in paragraph 4.2.4.4 a), f), h) or j) for those right-of-use assets.
- 4.2.4.8 If a lessee measures right-of-use assets at revalued amounts applying IAS 16, the lessee shall disclose, **subject to the application of paragraph 2.1.2.14B2 to ensure that material information is not obscured**, the information required by paragraph 4.1.4.34 4) for those right-of-use assets.
- 4.2.4.9 A lessee shall disclose a maturity analysis of lease liabilities applying paragraphs 7.3.3.22 and B11 of IFRS 7 *Financial Instruments: Disclosures* separately from the maturity analyses of other financial liabilities.
- 4.2.4.10 In addition to the disclosures required in paragraphs 4.2.4.4 to 4.2.4.9, a lessee shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 4.2.4.2 (as described in paragraph B48 of IFRS 16). This additional information may include, but is not limited to, information that helps users of financial statements to assess:
- a) the nature of the lessee's leasing activities
 - b) future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities. This includes exposure arising from:
 - i) variable lease payments (as described in paragraph B49 of IFRS 16)
 - ii) extension options and termination options (as described in paragraph B50 of IFRS 16)

- iii) residual value guarantees (as described in paragraph B51 of IFRS 16), and
- iv) leases not yet commenced to which the lessee is committed
- c) restrictions or covenants imposed by leases, and
- d) sale and leaseback transactions (as described in paragraph B52 of IFRS 16).

4.24.11 A lessee that accounts for leases of low-value assets applying paragraph 4.2.2.32 shall disclose that fact.

Lessor disclosures

4.24.12 The objective of the disclosures is for lessors to disclose information in the notes that, together with the information provided in the Balance Sheet, Comprehensive Income and Expenditure Statement and Cash Flow Statement, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessor.

4.24.13 A lessor shall disclose the following amounts for the reporting period:

- a) for finance leases:
 - i) selling profit or loss
 - ii) finance income on the net investment in the lease, and
 - iii) income relating to variable lease payments not included in the measurement of the net investment in the lease
- b) for operating leases, lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate.

4.24.14 A lessor shall provide the disclosures specified in paragraph 4.2.4.13 in a tabular format, unless another format is more appropriate.

4.24.15 A lessor shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 4.2.4.12. This additional information includes, but is not limited to, information that helps users of financial statements to assess:

- a) the nature of the lessor's leasing activities, and:
- b) how the lessor manages the risk associated with any rights it retains in underlying assets. In particular, a lessor shall disclose its risk management strategy for the rights it retains in underlying assets, including any means by which the lessor reduces that risk. Such means may include, for example, buy-back agreements, residual value guarantees or variable lease payments for use in excess of specified limits.

Finance Leases

4.24.16 A lessor shall provide a qualitative and quantitative explanation of the significant changes in the

carrying amount of the net investment in finance leases.

4.24.17 A lessor shall disclose a maturity analysis of the lease payments receivable, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. A lessor shall reconcile the undiscounted lease payments to the net investment in the lease. The reconciliation shall identify the unearned finance income relating to the lease payments receivable and any discounted unguaranteed residual value.

Operating Leases

4.24.18 For items of property, plant and equipment subject to an operating lease, a lessor shall apply the disclosure requirements of section 4.1. In applying the disclosure requirements in section 4.1, a lessor shall disaggregate each class of property, plant and equipment into assets subject to operating leases and assets not subject to operating leases. Accordingly, a lessor shall provide the disclosures required by IAS 16 for assets subject to an operating lease (by class of underlying asset) separately from owned assets held and used by the lessor

4.24.19 A lessor shall apply the disclosure requirements in section 4.4 [investment property]; section 4.5 [intangible assets] and section 4.7 [impairment of assets] for assets subject to operating leases.

4.24.20 A lessor shall disclose a maturity analysis of lease payments, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.

4.2.5 Statutory Disclosure Requirements

4.25.1 There are no statutory disclosures required in relation to leases.

4.2.6 Changes since the 2019/20 Code

4.26.1 The Leases section of the 2020/21 Code has been fully revised to adopt the provisions of IFRS 16.

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4.3 SERVICE CONCESSION ARRANGEMENTS: LOCAL AUTHORITY AS GRANTOR

4.3.1 Introduction

- 43.1.1** Private finance initiatives (PFI), public–private partnerships (PPPs) and similar schemes shall be accounted for in a manner that is consistent with the adaptation of IFRIC 12 *Service Concession Arrangements* contained in the government’s *Financial Reporting Manual (FRM)*. Additional disclosure requirements are specified in SIC 29 *Service Concession Arrangements: Disclosures*. Additional provisions are included in this Section from IPSAS 32 *Service Concession Arrangements: Grantor*. These provisions use the criteria in IFRIC 12 for determining whether the operator controls the asset used in a service concession arrangement to assess whether the grantor (local authority) controls the asset.
- 43.1.2** Arrangements within the scope of this section of the Code involve the operator providing public services related to the service concession asset on behalf of the local authority (grantor). Service concession (PPP and PFI) arrangements typically involve a private sector entity (the operator) constructing or upgrading (adding to) assets used in the provision of a public service, and operating and maintaining those assets for a specified period of time. The operator is paid for its services over the period of the arrangement.

Scope

- 43.1.3** Service concession (PPP and PFI) arrangements involve the operator undertaking an obligation to provide assets (and related services) that are used to provide services to the public (irrespective of who provides those services to the public). Arrangements outside the scope of this section of the Code are those that do not involve the delivery of public services and arrangements that involve service and management components where the asset is not controlled by the grantor (local authority) (eg outsourcing, service contracts or privatisation). It is not anticipated that there will be many occasions where a local authority will act as an operator as defined under IFRIC 12 *Service Concession Arrangements* and this section of the Code does not specify the accounting treatment for operators. If a local authority is required to account for an arrangement as an operator it should refer directly to the IFRIC for the appropriate accounting treatment.
- 43.1.4** Other features of typical service concession arrangements, commonly known as PPP and PFI arrangements, are:

- the entity granting the service arrangement (the grantor) is a public sector entity, ie in the Code, a local authority
- the operator is responsible for at least some of the management of the service concession assets and related services and does not merely act as an agent of the local authority (grantor)
- the contract sets initial prices levied by the operator and regulates price revisions over the period of the service arrangement, and
- the operator is obliged to hand over the service concession asset to the local authority (grantor) in a specified condition at the end of the period of the arrangement, for little or no incremental consideration, irrespective of which party initially financed it.

4.3.2 Accounting arrangements

Definitions

- 4321** A **grantor**, for the purposes of this section of the Code, is the authority that grants the right to use the service concession asset to the operator. For the purposes of the Code the grantor is referred to as the local authority.
- 4322** An **operator**, for the purposes of this section of the Code, is the entity that uses the service concession asset to provide public services subject to the local authority's control of the asset.
- 4323** A **service concession arrangement** is a contractual arrangement (or other arrangement that confers similar rights) between a local authority and an operator in which:
- a) the operator uses the service concession asset to provide a public service on behalf of the local authority for a specified period of time, and
 - b) the operator is compensated for its services over the period of the service concession arrangement.
- 4324** A **service concession asset** is an asset used to provide public services in a service concession arrangement that:
- a) is provided by the operator which:
 - i) the operator constructs, develops, or acquires from a third party, or
 - ii) is an existing asset of the operator, or
 - b) is provided by the local authority which:
 - i) is an existing asset of the local authority, or
 - ii) is an upgrade to an existing asset of the local authority.

Service concession assets include providing assets (and related services) for the direct use of a public sector entity where these services contribute to the provision of services to the public (eg office and administrative buildings). Note where the service concession arrangement is an

upgrade to assets already recognised in the balance sheet of the local authority, the local authority shall only recognise this as an addition to the carrying value of the service concession asset where the recognition criteria of IAS 16 are met (see paragraphs 4.1.2.18 to 4.1.2.21 of the Code).

Recognition and measurement of a service concession asset

- 4.3.25 The local authority shall recognise an asset provided by the operator and an upgrade to an existing asset of the local authority as a service concession asset if:
- a) the local authority controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and where
 - b) the local authority controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the term of the arrangement.
- 4.3.26 This section of the Code applies to an asset used in a service concession arrangement for its entire useful life (a ‘whole-of-life’ asset) if the conditions in paragraph 4.3.2.5 a) are met.
- 4.3.27 Where the control tests described in paragraphs 4.3.2.5 and 4.3.2.6 above are not both met, this section of the Code does not apply as the transactions are outside its scope. The annex to this section of the Code sets out the accounting arrangements in these cases.
- 4.3.28 The local authority shall initially measure the service concession asset recognised in accordance with paragraph 4.3.2.5 (or paragraph 4.3.2.6 for a whole-of-life asset) at its fair value, except as noted in paragraph 4.3.2.10. Where a constructed or developed asset meets the conditions in paragraph 4.3.2.5 (or paragraph 4.3.2.6 for a whole-of-life asset), the local authority shall recognise and measure the asset in accordance with this section of the Code (see paragraphs 4.3.2.11 to 4.3.2.15 (and also refer to 4.3.2.20 to 4.3.2.21)). In accordance with sections 4.1 Property, Plant and Equipment and 4.5 Intangible Assets of the Code, assets should be recognised when:
- a) it is probable that future economic benefits or service potential associated with the item will flow to the authority, and
 - b) the cost or fair value of the item can be measured reliably.
- 4.3.29 The criteria in the preceding paragraph, together with the specific terms and conditions of the contractual arrangement (or other arrangement that confers similar rights and obligations), need to be considered in determining whether to recognise the service concession asset during the period in which the asset is constructed or developed. For both property, plant, and equipment and intangible assets, the recognition criteria may be met during the construction or development period, and, if so, the local authority will normally recognise the service concession asset during that period. Similar to an asset the local authority constructs or develops for its own use, the local authority would assess, at the time the costs of construction or development are incurred, the terms of the contractual arrangements (or other arrangement that confers similar

rights and obligations) to determine whether the economic benefits and/or service potential of the service concession asset would flow to the local authority at that time.

4.3.2.10 Where an existing asset of the local authority meets both the conditions specified in paragraph 4.3.2.5 (or paragraph 4.3.2.6 for a whole-of-life asset), the local authority shall reclassify the existing asset as a service concession asset.

Measurement of the service concession assets

4.3.2.11 The type of compensation exchanged between the local authority and the operator affects how the fair value of the service concession asset is determined on initial recognition:

- a) Where payments are made by the local authority to the operator, the fair value on initial recognition of the asset represents the portion of the payments paid to the operator for the asset (see also paragraphs 4.3.2.20 and 4.3.2.21).
- b) Where the local authority does not make payments to the operator for the asset, the asset is accounted for in the same way as an exchange of non-monetary assets in Section 4.1 of the Code and IAS 38.

4.3.2.12 Where the local authority compensates the operator for the service concession asset by making payments to the operator, the asset and service components of the payments may be separable (eg the contractual or other arrangement that confers similar rights specifies the amount of the predetermined series of payments to be allocated to the service concession asset) or inseparable.

Separable payments

4.3.2.13 A service concession arrangement may be separable in a variety of circumstances, including, but not limited to, the following:

- a) part of a payment stream that varies according to the availability of the service concession asset itself and another part that varies according to usage or performance of certain services are identified
- b) different components of the service concession arrangement run for different periods or can be terminated separately (eg an individual service component can be terminated without affecting the continuation of the rest of the arrangement), or
- c) different components of the service concession arrangement can be renegotiated separately (eg a service component is market tested and some or all of the cost increases or reductions are passed on to the local authority in such a way that the part of the payment by the local authority that relates specifically to that service can be identified).

Inseparable payments

4.3.2.14 Where the asset and service component of payments by the local authority to the operator are

not separable, the fair value in paragraph 4.3.2.8 is determined using estimation techniques.

4.3.2.15 For the purpose of applying the requirements of this section of the Code, payments and other consideration required by the arrangement are allocated at the inception of the arrangement or upon a reassessment of the arrangement into those for the service concession asset and those for other components of the service concession arrangement (eg maintenance and operation services) on the basis of their relative fair values. The fair value of the service concession asset includes only amounts related to the asset and excludes amounts for other components of the service concession arrangement. In some cases, allocating the payments for the asset from payments for other components of the service concession arrangement will require the local authority to use an estimation technique.

Recognition of liabilities

4.3.2.16 Where the local authority recognises a service concession asset in accordance with paragraph 4.3.2.5 (or paragraph 4.3.2.6 for a whole-of-life asset), the local authority shall also recognise a liability. The local authority shall not recognise a liability when an existing asset of the local authority is reclassified as a service concession asset in accordance with paragraph 4.3.2.10, except in circumstances where additional consideration is provided by the operator, as noted in paragraph 4.3.2.17.

4.3.2.17 The liability recognised in accordance with paragraph 4.3.2.16 shall be initially measured at the same amount as the service concession asset measured in accordance with paragraph 4.3.2.8 adjusted by the amount of any other consideration (eg cash) from the local authority to the operator, or from the operator to the local authority.

4.3.2.18 The nature of the liability recognised is based on the nature of the consideration exchanged between the local authority and the operator. The nature of the consideration given by the local authority to the operator is determined by reference to the terms of the contractual arrangement (or other arrangement that confers similar rights and obligations) and, when relevant, contract law.

4.3.2.19 In exchange for the service concession asset, the local authority may compensate the operator for the service concession asset by any combination of:

- a) making payments to the operator (see paragraphs 4.3.2.11 to 4.3.2.15)
- b) compensating the operator by other means such as:
 - i) granting the operator the right to earn revenue from third party users of the service concession asset, or
 - ii) granting the operator access to another revenue-generating asset for the operator's use (eg a private parking facility adjacent to a local authority property).

In the case of the items under b) above the authority will need to account for the benefits that the authority is deemed to receive over the life of the contract through its control of the services

to be provided through use of the property, plant or equipment in accordance with the relevant provisions of the Code, ie Section 2.7 or Chapter 8 of the Code.

Measurement of the liability

- 4.3.2.20 Where a service concession arrangement can be separated into a service element and a construction element, the service element shall be expensed as incurred, and the construction element accounted for as if it were a finance lease. A contract may be separable in a variety of circumstances; see paragraph 4.3.2.13.
- 4.3.2.21 Subsequent to initial recognition, the service concession arrangement liability shall be measured following the principles set out in Section 4.2 of the Code and IFRS 16AS 17 (ie for the measurement of the lease liability following the arrangements for assets acquired under a finance lease). The liability shall be reported as a financial liability but shall be measured under Section 4.2 of the Code (Leases), not Chapter 7 of the Code (Financial Instruments).
- 4.3.2.22 Where a service concession (PPP or PFI) arrangement cannot be separated into a service element and a construction element, the service concession asset and related liability shall be measured initially at the fair value of the asset.
- 4.3.2.23 Scheduled payments under the arrangement shall be allocated between a) operating costs to reflect the service element of the arrangement, b) repayment of the liability, and c) an imputed finance charge (based on the interest rate implicit in the contract). Where it is not possible to determine the rate implicit in the contract, the authority shall use its cost of capital rate (including inflation). It is expected that this situation would be rare. The liability shall be measured as a financial instrument based on elements b) and c) of the scheduled payments above, using the same actuarial method measurement requirements as for the lease liability used for finance leases under Section 4.2 of the Code and IFRSAS 176.
- 4.3.2.24 The finance charge and charges for services provided by the operator are expenses that shall be charged to the surplus or deficit on the provision of services as incurred and presented in accordance with the presentation requirements of Section 3.4 of the Code.

Payments

- 4.3.2.25 By definition, where a PPP or PFI arrangement can be separated into construction and service elements, the payments for each element will be readily identifiable. The service element shall be charged as expenditure as incurred. The construction element shall be allocated into an element relating to the repayment of the liability and an interest element in accordance with the arrangements for a right of use asset liability arrangements for a finance lease (see Section 4.2 of the Code and IFRAS 167). The interest element shall be charged to the surplus or deficit on the provision of services as incurred, with the balance of the payment used to reduce-adjust the outstanding liability on the balance sheet.
- 4.3.2.26 Where the PPP or PFI arrangement cannot be separated into construction and service elements,

payments by the local authority to an operator shall be separated into three elements – the service charge, repayment of the liability, and interest.

4.3.2.27 The service element of the payments shall be estimated, which could be achieved by obtaining information from the operator or by estimating the fair value of the services. The fair value of the service concession asset (the cost to purchase the asset) determines the amount to be recognised as an asset with an offsetting liability. The total unitary payment is then divided into three: the service charge element, repayment of the liability and the interest element (using the interest rate implicit in the contract). Where it is not possible to determine the rate implicit in the contract, the authority shall use its cost of capital rate (including inflation). It is expected that this situation would be rare.

Other liabilities, commitments, contingent liabilities and contingent assets

4.3.2.28 Local authorities shall account for other liabilities, commitments, contingent liabilities, and contingent assets arising from a service concession arrangement in accordance with Section 8.2 (Provisions, Contingent Liabilities and Contingent Assets) of the Code and, where relevant, Chapter 7 of the Code.

Other revenues

4.3.2.29 Local authorities shall account for revenues from a service concession arrangement in accordance with Section 2.7 (Revenue Recognition). For example, a local authority shall recognise any income received as a result of a revenue-sharing clause within the service concession (PPP or PFI) arrangement as it is earned.

4.3.2.30 A local authority shall also recognise any income due from the operator under the service concession (PPP or PFI) arrangement as it is earned over the life of the agreement. Income will normally be earned as a result of providing assets to the operator; until the assets are provided to the operator, any income will not have been earned and any payments received shall be accounted for as prepayments.

Local authority assets

4.3.2.31 A service concession arrangement may make use of the existing assets of a local authority. A local authority shall recognise upgrades/additions to those assets and any additional assets provided by the operator in accordance with paragraphs 4.3.2.8 to 4.3.2.10 of the Code.

4.3.2.32 A local authority may provide the operator with access to existing assets of the authority that are not to be used in the service concession arrangement in exchange for reduced or eliminated payments. This may involve a permanent transfer of the assets to the operator, or may allow the operator access for a specified period (which may or may not be the same as the period of the service concession arrangement).

4.3.2.33 Where the arrangement involves a permanent transfer of an asset to the operator, the local

authority shall derecognise the asset in accordance with paragraphs 4.1.2.48 to 4.1.2.54 of the Code and IAS 16. The authority shall also recognise on the balance sheet the consideration received for the asset transferred to the operator. Depending on the circumstances of the arrangement, this may be the reduction or elimination of an existing liability; a prepayment; or assets provided by the operator. Any difference between the carrying value of the asset given up and the consideration received from the operator shall be recognised in the surplus or deficit on the provision of services.

4.3.234 Where the arrangement does not involve a permanent transfer of the assets to the operator, a local authority shall account for the arrangement as a lease under Section 4.2 of the Code and [IFRAS 167](#). Where the asset provided by the authority is provided in the form of an operating lease, there is not a disposal of the asset, which remains on the authority's balance sheet. The granting of the operating lease is one element of the consideration provided to the operator for the provision of the asset and services.

4.3.235 Over the period of the operating lease, the authority shall recognise income from the operating lease in surplus or deficit on the provision of services. At the point that the income is recognised, the authority shall recognise a corresponding expense in surplus or deficit on the provision of services in respect of a reduction in the liability to pay for the infrastructure.

4.3.236 Where the asset provided by the authority is provided in the form of a finance lease, the local authority shall derecognise the asset in accordance with Section 4.2 of the Code and [IFRAS 167](#). The authority shall also recognise on the balance sheet the consideration received from the operator. Depending on the circumstances of the arrangement, this may be the reduction or elimination of an existing liability, a prepayment, or asset provided by the operator. Any difference between the carrying value of the asset given up and the consideration received from the operator shall be recognised in surplus or deficit on the provision of services.

4.3.237 Where the arrangement involves either a finance lease or an operating lease, any payments to be made by the operator for use of the asset are to be taken into account when measuring the assets and liabilities to be recognised on the balance sheet.

Prepayments and capital contributions

4.3.238 Service concession arrangements may be structured to require payments to be made (either as part of a unitary payment or as a lump sum contribution) before the related service concession asset is recognised on the balance sheet. Such payments shall be recognised as prepayments.

4.3.239 At the point that the service concession asset is recognised, the related liability shall also be recognised, in accordance with paragraphs 4.3.2.17 to 4.3.2.19 of the Code. The prepayments shall be applied to reduce the outstanding liability.

4.3.240 Any prepayments and contributions shall be taken into account when estimating the fair value of the asset and liability and the separation of payments into the liability, interest and service charge elements.

Depreciation, revaluations and impairment

- 4.3.2.41** Assets recognised under a service concession arrangement shall be depreciated, revalued and reviewed for impairment in accordance with paragraphs 4.1.2.30 to 4.1.2.47 and 4.7.2.9 of the Code. In assessing the economic life of the asset, consideration shall be given to the terms of the arrangement, for example where the arrangement requires assets to be replaced at specific points during the arrangement.
- 4.3.2.42** Where there is evidence that an asset recognised under a service concession arrangement may have been impaired, an impairment review shall be carried out in accordance with Section 4.7 of the Code. Where an asset has been impaired, an authority shall account for the impairment in accordance with Section 4.7 of the Code.

Guarantees

- 4.3.2.43** A local authority may give financial guarantees as part of a service concession arrangement. Such guarantees should be recognised and measured in accordance with Section 7.2.7 of the Code and IFRS 9.

4.3.3 Statutory accounting requirements

- 4.3.3.1** Regulations in England, Northern Ireland and Wales permit capital receipts to be used to repay borrowing (see part 2 of Appendix B for the legislative basis). Capital receipts may therefore be applied in these administrative areas to make capital contributions that reduce the liability.
- 4.3.3.2** Depreciation, impairment, and gains and losses on revaluation charged to surplus or deficit on the provision of services are not proper charges to the general fund (see part 2 of Appendix B for the legislative basis). Such amounts shall be transferred to the capital adjustment account and reported in the movement in reserves statement.
- 4.3.3.3** Minimum revenue provision (England, Northern Ireland and Wales) and the statutory charge for the repayment of debt (Scotland) are proper charges to the general fund, but do not appear in surplus or deficit on the provision of services. Such amounts shall be transferred from the capital adjustment account and reported in the movement in reserves statement. The amounts of minimum revenue provision or repayment of the liability to be charged to the general fund for the year are set out in the appropriate regulations and statutory guidance (see part 2 of Appendix B for the legislative basis).

4.3.4 Disclosure requirements

- 4.3.4.1** Disclosure of accounting policies in relation to service concession arrangements is required, where these accounting policies are significant to the authority's financial statements (see Section 3.4 of the Code).
- 4.3.4.2** 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, in addition to meeting the requirements of Financial Instruments: Disclosures (see Chapter 7), disclose the following notes in relation to service concession arrangements:

- 1) the value of assets held under service concession arrangements at each balance sheet date, and an analysis of the movement in those values
- 2) the value of liabilities resulting from service concession arrangements at each balance sheet date, and an analysis of the movement in those values
- 3) details of the payments due to be made under service concession arrangements (separated into repayments of liability, interest and service charges):
 - a) within one year
 - b) within two to five years
 - c) within six to ten years, and
 - d) in each additional five-year period.

4.3.4.3 The following disclosures shall be provided individually for each arrangement or in aggregate for each class of arrangements:

- 1) a description of the arrangement
- 2) significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows (eg the period of the arrangement, re-pricing dates and the basis upon which re-pricing or renegotiation is determined)
- 3) the nature and extent (eg quantity, time period or amount as appropriate), where significant, of:
 - a) rights to use specified assets
 - b) rights to expect the operator to provide specified services in relation to the service concession arrangement
 - c) service concession assets recognised as assets during the reporting period, including existing assets of the local authority reclassified as service concession assets
 - d) rights to receive specified assets at the end of the service concession arrangement
 - e) renewal and termination options
 - f) other rights and obligations (eg major overhauls), and
 - g) obligations to provide the operator with access to service concession assets or other revenue-generating assets
- 4) changes in the arrangement occurring during the period.

4.3.4.4 The disclosures required in accordance with paragraph 4.3.4.3 are provided individually for each material service concession arrangement or in aggregate for each class of service concession arrangements. A class is a grouping of service concession arrangements involving services of a similar nature.

4.3.5 Statutory disclosure requirements

4351 There are no statutory disclosures required in relation to service concession arrangements.

4.3.6 Changes since the 2018/2019 Code

4361 ~~There have been no changes to t~~The Service Concession Arrangements: Local Authority as Grantor section of the Code ~~has been updated to specify that the service concession arrangement liability is measured in accordance with the measurement requirements, including the transition arrangements, for lease liabilities under IFRS 16 and Section 4.2 of the Code, since the 2018/19 Code.~~

ANNEX TO SECTION 4.3: ASSETS INVOLVED IN PFI/PPP ARRANGEMENTS OUTSIDE THE SCOPE OF SECTION 4.3

- A1 Where neither of the tests in paragraph 4.3.2.5 is met, a local authority shall recognise expenditure as it is incurred.
- A2 Where test a) of paragraph 4.3.2.5 is met but test b) is not, the authority shall consider whether the arrangement meets the definition of a lease under Section 4.2 of the Code, IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. Where the arrangement meets the definition of a lease, it shall be accounted for under Section 4.2 of the Code.
- A3 Where test b) of paragraph 4.3.2.5 is met but test a) is not, the authority shall recognise as an asset the excess of the expected fair value of the asset at the end of the arrangement over the amount it will be required to pay the operator upon reversion. This asset shall be built up from payments made by the authority to the operator over the life of the PPP or PFI arrangement.

4.4 INVESTMENT PROPERTY

4.4.1 Introduction

4411 Authorities shall account for investment property in accordance with IAS 40 *Investment Property*, except where adaptations to fit the public sector are detailed in the Code. IPSAS 16 *Investment Property* is based on IAS 40, and provides additional guidance for public sector bodies. Recent changes to IAS 40 have yet to be reflected in IPSAS 16, and in these cases the Code requires authorities to follow IAS 40 rather than IPSAS 16.

Interpretation for the public sector context

4412 IPSAS 16 includes a public sector interpretation of the definition of investment property. Under this definition, an investment property is one that is used solely to earn rentals or for capital

appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property under IPSAS 16, and is accounted for as property, plant and equipment. The Code adopts this definition of investment property.

4.4.13 The Code requires investment property to be accounted for under the fair value model. The option under IAS 40 and IPSAS 16 to use the cost model is not permitted, except in the specific circumstances outlined at paragraph 4.4.2.13.

4.4.2 Accounting requirements

~~4.4.21 This section of the Code applies to the measurement of investment property interests held under a lease and to investment property provided to a lessee under an operating lease. Other aspects of lease accounting are covered by IAS 17 Leases and Section 4.2 of the Code. These include:~~

- ~~• classification of leases as finance leases or operating leases~~
- ~~• recognition of lease income from investment properties~~
- ~~• measurement in a lessor's financial statements of its net investment in a finance lease.~~

~~Property provided to a lessee under a finance lease is outside the scope of this section of the Code and shall be accounted for in accordance with Section 4.2 of the Code and IAS 17.~~

Definitions

4.4.22 **Carrying amount** is the amount at which an asset is recognised in the balance sheet.

4.4.23 **Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Section 2.10). The fair value of investment property held under a lease is the lease interest fair value of the right of use asset.

4.4.24 **Investment property** is property (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation or both, rather than for:

- a) use in the production or supply of goods or services or for administrative purposes, or
- b) sale in the ordinary course of operations.

If earning rentals were an outcome of a regeneration policy, for example, the properties concerned would be accounted for as property, plant and equipment rather than investment property. Social housing is delivering a service and shall be accounted for as property, plant and equipment.

4.4.25 **Owner-occupied property** is property held (by the owner or by the lessee as a right of use asset under a finance lease) for use in the delivery of services or production of goods or for

administrative purposes.

Classification

- ~~4.426~~ ~~Property held by a lessee under an operating lease may be accounted for as an investment property if, and only if, the property would otherwise meet the definition of an investment property. This classification is available on a property-by-property basis. The lease shall be accounted for as if it were a finance lease.~~
- 4.427 Owned Owner-occupied property shall be accounted for as property, plant and equipment (see Section 4.1 of the Code and IAS 16 *Property, Plant and Equipment*). IFRS 16 applies to owner-occupied property held by a lessee as a right of use asset. Investment property that subsequently meets the criteria within Section 4.9 of the Code to be classified as held for sale shall continue to be accounted for as investment property, but may be reported separately as investment property held for sale.
- 4.428 Where an authority leases property to a subsidiary, the property is accounted for as an investment property in the authority's accounts if it meets the definition in paragraph 4.4.2.4. The property is not accounted for as an investment property in the group accounts, because from the group perspective the property is owner-occupied.

Recognition and measurement

- 4.429 An owned investment property shall be recognised as an asset when, and only when:
- a) it is probable that the future economic benefits that are associated with the investment property will flow to the authority, and
 - b) the cost or fair value of the investment property can be measured reliably.
- ~~4.429B10~~ An investment property held by a lessee as a right of use asset shall be recognised in accordance with IFRS 16.
- 4.42.10 An authority shall evaluate the costs of an investment property when they are incurred. The costs include acquisition costs and costs incurred subsequently to add to, replace part of or service an investment property, but do not include day-to-day repairs and maintenance. Where part of an investment property is replaced, an authority shall recognise in the carrying value of the investment property the cost of the replacement; the carrying amount of those parts that are replaced is derecognised.
- 4.42.11 Investment property shall be measured initially at cost. The cost of an investment property includes its purchase price, transaction costs and directly attributable expenditure. Where an investment property is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition. The initial cost of a lease interest classified as an investment property shall be as prescribed for a finance lease (see Section 4.2 of the Code). Where an investment property is acquired in exchange for a non-monetary asset, the cost of the investment property is its fair value at the time of the exchange, or, where this cannot be

reliably determined, the carrying amount of the asset given up.

4.42.11B An investment property held by a lessee as a right of use asset shall be measured initially at its cost in accordance with IFRS 16.

4.42.12 After initial recognition, investment property shall be measured at fair value. The use of the cost model allowed under IAS 40 is not permitted, except where paragraph 4.4.2.13 applies. A gain or loss arising from a change in the fair value of investment property shall be recognised in surplus or deficit on the provision of services for the period in which it arises. The fair value of investment property shall reflect market conditions at the end of the reporting period. An investment property under construction shall be measured at fair value once an authority is able to measure reliably the fair value of the investment property, and at cost before that date. Investment properties held at fair value are not depreciated.

4.42.12B When a lessee uses the fair value model to measure an investment property that is held as a right-of-use asset, it shall measure the right-of-use asset, and not the underlying property, at fair value.

4.42.13 Exceptionally, there may be evidence when an authority first acquires an investment property (or the property first becomes an investment property following a change of use) that the fair value of the investment property is not reliably measurable on a continuing basis. In such cases, an authority shall account for that property using the cost model in IAS 16 and Section 4.1 of the Code (ie the investment property is depreciated over its useful life). The residual value of the investment property shall be assumed to be zero.

Transfers

4.42.14 IAS 40 details the accounting arrangements that apply where assets are reclassified as investment property or are reclassified from investment property. Where such reclassifications take place, authorities shall follow the accounting arrangements set out in paragraphs 57 to 65 of IAS 40.

Disposals

4.42.15 An investment property shall be derecognised on disposal (by sale or by entering into a finance lease) or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property shall be recognised in surplus or deficit on the provision of services (unless IFRS 16⁷ and Section 4.2 of the Code requires otherwise on a sale and leaseback) in the period of the retirement or disposal.

4.42.16 Compensation from third parties for investment property that becomes impaired, lost or is given up is recognised in surplus or deficit on the provision of services when it becomes receivable.

4.4.3 Statutory accounting requirements

- 4431 Statute and proper practice restrict the use of capital receipts, and prescribe the charges that can be made to the general fund (see part 2 of Appendix B for the legislative basis). To comply with these restrictions, the gain or loss on derecognition of an investment property shall be reversed out of the general fund. The general fund shall be debited (in the case of a gain) or credited (in the case of a loss) with an amount equal to the gain or loss on derecognition of the investment property (excluding any costs of disposal which are a proper charge to the general fund). The double entries are a credit to the capital receipts reserve or (in Scotland) a statutory capital fund [or capital grants and receipts unapplied account](#) of an amount equal to the disposal proceeds and a debit to the capital adjustment account equal to the carrying amount of the investment property.
- 4432 These entries will be reflected in the movement in reserves statement.
- 4433 Gains or losses on fair value debited or credited to surplus or deficit on the provision of services are not proper charges to the general fund (see part 2 of Appendix B for the legislative basis). Such amounts shall be transferred to the capital adjustment account and reported in the movement in reserves statement.
- 4434 Minimum revenue provision (England, Northern Ireland and Wales) and the statutory repayment of loans fund advances (Scotland) are proper charges to the general fund, but do not appear in surplus or deficit on the provision of services. Such amounts shall be transferred from the capital adjustment account and reported in the movement in reserves statement. The amounts of minimum revenue provision or the statutory repayment of loans fund advances to be charged to the general fund for the year are set out in the appropriate regulations and statutory guidance (see part 2 of Appendix B for the legislative basis).

4.4.4 Disclosure requirements

- 4441 Disclosure of accounting policies in relation to investment property is required, where these accounting policies are significant to the authority's financial statements (see Section 3.4 of the Code).
- 4442 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 investment property:
- ~~1) whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property~~
 - 12) the amounts recognised in the comprehensive income and expenditure statement for:
 - a) rental income from investment property
 - b) direct operating expenses (including repairs and maintenance) arising from

investment property

where these amounts are not disclosed on the face of the comprehensive income and expenditure statement

- ~~23~~) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal
- ~~34~~) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements
- ~~45~~) a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:
 - a) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised in the carrying amount of an asset
 - b) 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
 - c) net gains or losses from fair value adjustments
 - d) transfers to and from inventories and owner-occupied property, and
 - e) other changes.

Investment property that meets the criteria to be classified as held for sale under IFRS 5 may be reported separately as investment property held for sale, usually within current assets. In addition, the disclosures required by Section 4.9 of the Code are also required in respect of investment property that meets the criteria to be classified as held for sale.

444.2B As investment property is measured at fair value, the disclosures in Section 2.10 will apply to investment property, where relevant, and are subject to the materiality judgements of the authority including the application of paragraph 2.1.2.14B2 to ensure that material information is not obscured.

444.3 The disclosures above apply in addition to those applicable to leases (see Section 4.2 of the Code). In accordance with the Code's provisions on leases (see Section 4.2 of the Code) the owner of an investment property shall provide lessors' disclosures about leases into which it has entered. An authority that holds an investment property under a finance or operating lease shall provide lessees' disclosures for finance leases and lessors' disclosures for any operating leases into which it has entered.

4.4.5 Statutory disclosure requirements

445.1 There are no statutory disclosures required in relation to investment property.

4.4.6 Changes since the 2019/20 Code

4.4.6.1 ~~There have been no changes to the~~ Investment Property section of the Code [has been amended to reflect the adoption of IFRS 16 Leases. since the 2019/20 Code.](#)

4.5 INTANGIBLE ASSETS

4.5.1 Introduction

- 4.5.1.1 Authorities shall account for intangible assets in accordance with IAS 38 *Intangible Assets*, except where adaptations to fit the public sector are detailed in the Code. IPSAS 31 provides additional guidance for the public sector.
- 4.5.1.2 Intangible assets may be contained in or on a physical substance (eg a compact disc for software). Authorities will need to use judgement to determine whether an asset that incorporates both intangible and tangible elements is accounted for as an intangible asset or as property, plant and equipment.
- 4.5.1.3 This section of the Code does not cover financial assets (see Chapter 7), intangible assets held for sale in the ordinary course of business (see Chapter 5), leases within the scope of [IFRS 16](#) and Section 4.2 of the Code (however, this section of the Code applies to leased intangible assets after initial recognition), non-current assets classified as held for sale (see Section 4.9 of the Code), assets arising from employee benefits (see Chapter 6) or contract assets (in accordance with Section 2.7 of the Code). Intangible heritage assets are accounted for in accordance with this section of the Code subject to the specific requirements of Section 4.10 of the Code.

4.5.2 Accounting requirements

Definitions

- 4.5.2.1 An intangible asset is an *identifiable* non-monetary asset without physical substance. It must be *controlled* by the authority as a result of past events, and *future economic benefits or service potential* must be expected to flow from the intangible asset to the authority. The most common class of intangible asset in local authorities is computer software. If an item does not meet the definition of an intangible asset (identifiability, control and future economic benefits), expenditure to acquire it or generate it internally is recognised as an expense when it is incurred.
- 4.5.2.2 Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Section 2.10).

Recognition and measurement

- 4.5.2.3 An intangible asset shall be recognised if it is probable that the expected future benefits attributable to the asset will flow to the authority, and the cost of the asset can be measured

reliably. An intangible asset shall be measured initially at cost.

4.524 Expenditure incurred on an intangible asset after it has been recognised will normally be charged to surplus or deficit on the provision of services as incurred. Only rarely will subsequent expenditure meet the recognition criteria in the Code. Where this occurs, an authority shall recognise the expenditure in the carrying amount of the intangible asset. Further details can be found in IAS 38 (see paragraphs 18 to 68).

4.525 Paragraphs 33 to 41 of IAS 38 deal with the acquisition of intangible fixed assets as part of a business combination. These paragraphs do not apply to the single entity financial statements of local authorities, as local authorities are deemed to be under common control and therefore outside the scope of IFRS 3 *Business Combinations*. Where authorities are reorganised, intangible assets are accounted for using the merger accounting approach rather than the IFRS 3 approach. Paragraphs 33 to 41 of IAS 38 may be relevant to an authority's group accounts where acquisitions take place.

Government grants

4.526 An intangible asset may be acquired (either in full or in part) by way of a government grant or other contribution. Where an authority acquires an intangible asset in this way, both the asset and the grant or contribution shall be recognised initially at fair value. The option within IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* to recognise the asset at nominal value is not allowed by the Code.

Internally generated assets

4.527 IAS 38 requires strict criteria to be met before an internally generated intangible asset may be recognised. These criteria are met where an authority can demonstrate:

- the technical feasibility of completing the asset so it will be available for use or sale
- its intention to complete the asset
- its ability to use or sell the asset
- how the asset will generate future economic benefits or deliver service potential (either by demonstrating a market for the asset or the usefulness of the asset)
- the availability of adequate resources to complete the asset, and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Provided these criteria are met, an authority shall recognise an internally generated intangible asset. The generation of the asset is classified into a research phase and a development phase. The cost of an internally generated intangible asset is the sum of expenditure incurred in the development phase of the project, only after it has become probable that the expected future benefits attributable to the asset will flow to the authority. Further details can be found in IAS

38.

Development of websites

- 4.5.2.8** SIC 32 *Intangible Assets – Web Site Costs* applies to the development of websites. The development of a website for internal or external use creates an intangible asset where the recognition criteria for internally generated intangible assets are met (see 4.5.2.7).
- 4.5.2.9** To qualify as an internally generated intangible asset, an economic or service benefit must arise from the operation of the website. SIC 32 states that this cannot be demonstrated for a website that is solely or primarily intended to promote or advertise an entity's goods or services. For local authorities, a website whose primary purpose is to provide information about services and objectives does not provide an economic or service benefit. Expenditure on such a website shall not be recognised as an intangible asset, but shall be charged to surplus or deficit on the provision of services as it arises.
- 4.5.2.10** The planning of a website is equivalent to the research phase in 4.5.2.7, and expenditure incurred in planning a website is expensed as incurred. The development of a website is equivalent to the development phase in 4.5.2.7, and expenditure incurred in the development of a website shall be included in the cost of a website recognised as an intangible asset. Further details can be found in SIC 32.

Past expenses not to be recognised as an asset

- 4.5.2.11** Expenditure on an intangible item that was initially recognised (ie in a prior year) as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

Measurement after recognition

- 4.5.2.12** IAS 38 allows an intangible asset to be carried at a revalued amount only where its fair value can be measured by reference to an active market. This is unlikely to apply to the single entity financial statements of local authorities, and an intangible asset will therefore normally be carried at its cost less any accumulated amortisation and any accumulated impairment loss.
- 4.5.2.13** Where an active market for an intangible asset exists, an authority shall carry that intangible asset at fair value (less any accumulated amortisation and impairment). Where an intangible asset is carried at fair value, all assets in that class shall be carried at fair value unless there is no active market for an asset. Further details can be found in IAS 38.

Useful life

- 4.5.2.14** An authority shall assess whether the useful life of an intangible asset is finite or indefinite, and, if finite, the length of that life. The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of these rights (unless they can be renewed, when the useful life shall include the renewal period only if there is evidence to support renewal

by the authority).

Amortisation

- 4.5.2.15 An intangible asset with a finite useful life is amortised; an intangible asset with an indefinite useful life is not.
- 4.5.2.16 The depreciable amount of an intangible asset with a finite useful life shall be amortised on a systematic basis over its useful life, beginning when the intangible asset is available for use. The amortisation method used shall reflect the expected pattern of use of the economic benefits. If the pattern cannot be determined reliably, the straight-line method shall be used. The amortisation period and method shall be reviewed at least at each financial year end, and the amortisation amended where required.
- 4.5.2.17 The depreciable amount of an intangible asset with a finite life is determined after deducting its residual value; in the single entity financial statements of a local authority this residual value will normally be zero.
- 4.5.2.18 An intangible asset with an indefinite life shall not be amortised, but shall be tested for impairment annually, and whenever there is an indication the asset may be impaired. The useful life of the asset shall be reviewed annually. A change to a finite useful life may be an indication that the asset has been impaired.
- 4.5.2.19 General fund service revenue accounts, central support services, trading accounts and the Housing Revenue Account shall be charged with a provision for amortisation and, where required, any related impairment loss (in excess of any balance on the revaluation reserve in relation to an intangible asset), for all intangible assets used in the provision of the service.
- 4.5.2.20 The reversal of an impairment loss on an intangible asset is only permitted to be recognised in the limited circumstance that the increase in value is attributable to the unexpected reversal of the external event that caused the original impairment to be recognised (see paragraph 4.7.2.18).

Retirements and disposals

- 4.5.2.21 An asset shall be derecognised on disposal or when no future economic benefits or service potential are expected from the asset. The gain or loss arising from the derecognition of an intangible asset is the difference between the net disposal proceeds (if any) and the carrying amount of the asset; this gain or loss shall be recognised in surplus or deficit on the provision of services when the asset is derecognised.

4.5.3 Statutory accounting requirements

- 4.5.3.1 Statute and proper practice restrict the use of capital receipts, and prescribe the charges that can be made to the general fund and Housing Revenue Account (see part 2 of Appendix B for the legislative basis). To comply with these restrictions, the gain or loss on the derecognition of an

intangible fixed asset shall be reversed out of the general fund or Housing Revenue Account. The general fund or Housing Revenue Account shall be debited (in the case of a gain) or credited (in the case of a loss) with an amount equal to the gain or loss on derecognition of the intangible asset. The gain or loss that is reversed out of the general fund or Housing Revenue Account excludes any costs of disposal which either cannot be capitalised under regulation or statutory guidance or which the authority has chosen not to capitalise. The double entries are a credit to the capital receipts reserve or (in Scotland) a statutory capital fund [or a capital grants and receipts unapplied account](#) of an amount equal to the disposal proceeds and a debit to the capital adjustment account equal to the carrying amount of the intangible asset.

4.532 In addition, where the intangible asset was carried at fair value, any balance on the revaluation reserve in relation to the intangible asset will need to be transferred to the capital adjustment account. The entries required are debit revaluation reserve, credit capital adjustment account.

4.533 These entries will be reflected in the movement in reserves statement.

4.534 Amortisation and impairment charged to surplus or deficit on the provision of services are not proper charges to the general fund or Housing Revenue Account (see part 2 of Appendix B for the legislative basis). Such amounts shall be transferred to the capital adjustment account and reported in the movement in reserves statement.

4.535 Minimum revenue provision (England, Northern Ireland and Wales) and the statutory repayment of loans fund advances (Scotland) are proper charges to the general fund, but do not appear in surplus or deficit on the provision of services. Such amounts shall be transferred from the capital adjustment account and reported in the movement in reserves statement. The amounts of minimum revenue provision or the statutory repayment of loans fund advances to be charged to the general fund for the year are set out in the appropriate regulations and statutory guidance (see part 2 of Appendix B for the legislative basis).

4.5.4 Disclosure requirements

4.541 Disclosure of accounting policies in relation to intangible assets is required, where these accounting policies are significant to the authority's financial statements (see Section 3.4 of the Code).

4.542 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 intangible assets:

- 1) An authority shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:
 - a) whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used
 - b) the amortisation methods used for intangible assets with finite useful lives

- c) the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period
- d) the line item(s) of the comprehensive income and expenditure statement in which any amortisation of intangible assets is included
- e) a reconciliation of the carrying amount at the beginning and end of the period showing:
 - i) additions, indicating separately those from internal development, those acquired separately, and those acquired through business combinations
 - 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 during the period resulting from revaluations in accordance with Section 4.5 of the Code and from impairment losses recognised in or reversed in other comprehensive income and expenditure and taken to the revaluation reserve in accordance with Section 4.7 of the Code (if any)
 - iv) impairment losses recognised in surplus or deficit on the provision of services during the period in accordance with Section 4.7 of the Code (if any)
 - v) impairment losses reversed in surplus or deficit on the provision of services during the period in accordance with Section 4.7 of the Code (if any)
 - vi) any amortisation recognised during the period, and
 - vii) other changes.
- 2) 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 intangible assets, such disclosure may arise from changes in estimates with respect to:
 - a) residual values
 - b) an assessment of an intangible asset's useful life, and
 - c) amortisation methods.
- 3) For an intangible asset assessed as having an indefinite useful life an authority shall disclose the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the authority shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life.
- 4) An authority shall disclose a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the authority's financial statements.
- 5) An authority shall disclose the amount of contractual commitments for the acquisition of intangible assets.

- 6) If intangible assets are accounted for at revalued amounts, an authority shall disclose the following:
 - a) by class of intangible assets:
 - i) the effective date of the revaluation
 - ii) the carrying amount of revalued intangible assets, and
 - iii) the carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model, and
 - b) the amount of the revaluation surplus that relates to intangible assets at the beginning and end of the period, indicating the changes during the period and (in the group accounts only) any restrictions on the distribution of the balance to shareholders.
- 7) An authority shall disclose for intangible assets acquired by way of a government grant and initially recognised at fair value:
 - a) the fair value initially recognised for these assets
 - b) their carrying amount, and
 - c) whether they are measured after recognition under the cost model or the revaluation model.

4.5.5 Statutory disclosure requirements

4.5.5.1 There are no statutory disclosures required in relation to intangible assets.

4.5.6 Changes since the 20198/2019 Code

4.5.6.1 There have been no changes to the Intangible Assets section of the Code since the 20198/2019 Code.

4.6 REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

4.6.1 Introduction

4.6.1.1 Legislation allows some items to be funded from capital resources that under IFRS and normal accounting practice would be charged to surplus or deficit on the provision of services. This section of the Code defines the accounting arrangements for these items.

4.6.2 Accounting requirements

4.6.2.1 Revenue expenditure funded from capital under statute shall be accounted for in accordance with proper practice under the rest of the Code, and effect shall be given to the statutory

requirements by making the adjustments set out in 4.6.3 below. No IFRS or IAS deals with these ~~items~~ [statutory impact of these items on the reserves](#) as they are a statutory departure from normal accounting practice.

4.6.3 Statutory accounting requirements

- 4.6.3.1 Legislation in England, Northern Ireland and Wales (see part 2 of Appendix B) allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the balance sheet as a non-current asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the general fund and impact on that year's council tax or district rates in Northern Ireland. These items are generally grants and expenditure on property not owned by the authority, amounts directed under Section 16(2) of Part 1 of the Local Government Act 2003 and amounts directed under sections 19(2) and 19(3) of Part 1 of the Local Government Finance Act (Northern Ireland) 2011.
- 4.6.3.2 Legislation in Scotland results in some expenditure being treated as capital for statutory purposes. Regulation 2 of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 permits a Scottish local authority to borrow to provide a grant to a third party or to finance certain capital expenditure on a (tangible) non-current asset not owned by the authority. The conditions of Scottish Government or other central government grant may permit the grant to be used for similar purposes. Scottish ministers ~~have~~ also agreed that, for a limited time, and in compliance with certain conditions, equal pay settlements ~~and severance costs~~ may be funded from capital receipts [recognised before 1 April 2020](#) (see Scottish Government Finance Circular [1/20194/2015](#)). [Additionally for Scotland, transformation or service redesign projects may be funded from capital receipts \(applies up to 31 March 2022, see Scottish Government Finance Circular 4/2019\)](#). Scottish ministers' consent to borrow is required for lending to third parties where these third parties are not included in the list of bodies set out in Part 3 of the 2016 Regulations and to grant aid to a third party where the test of capital expenditure is not met.
- 4.6.3.3 Such expenditure shall be charged to surplus or deficit on the provision of services in accordance with the general provisions of the Code. Any statutory provision that allows capital resources to meet the expenditure shall be accounted for by debiting the capital adjustment account and crediting the general fund balance and showing as a reconciling item in the movement in reserves statement.

4.6.4 Disclosure requirements

- 4.6.4.1 Disclosure of items charged to surplus or deficit on the provision of services shall follow the general provisions of the Code.
- 4.6.4.2 Disclosure of accounting policies in relation to revenue expenditure funded from capital under statute is required, where these accounting policies are significant to the authority's financial statements (see Section 3.4 of the Code).

4.6.4.3 Revenue expenditure funded from capital under statute shall be included in the note on capital expenditure and financing (see paragraph 4.1.4.3 note 5).

4.6.5 Statutory disclosure requirements

4.6.5.1 There are no statutory disclosures required in relation to revenue expenditure funded from capital under statute.

4.6.6 Changes since the 20198/2019 Code

4.6.6.1 A minor amendment [has been made to clarify that there are no accounting standards which specify the treatment of revenue expenditure funded from capital under statute REFCUS adjustments to reserves.](#) ~~There have been no changes to the Revenue Expenditure Funded from Capital under Statute section of the Code since the 2018/19 Code.~~

4.7 IMPAIRMENT OF ASSETS

4.7.1 Introduction

4.7.1.1 Authorities shall account for impairments in accordance with IAS 36 *Impairment of Assets*, except where adaptations to fit the public sector are detailed in the Code. The objective of the standard is to ensure that assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the standard requires the recognition of an impairment loss. Downward revaluations resulting from changes in market value do not necessarily result in impairment (see Section 4.1 of the Code in relation to revaluation losses).

4.7.1.2 IPSAS 21 *Impairment of Non-cash-generating Assets* and IPSAS 26 *Impairment of Cash-generating Assets* are based on IAS 36, and introduce no additional accounting requirements, although they provide additional guidance for public sector bodies. Assets falling under the definition of cash-generating assets (ie assets held for the primary objectives of generating a commercial return) may not be common within local authorities. Where authorities deem they have assets under this definition they should refer to IAS 36 and IPSAS 26 in relation to impairment.

4.7.1.3 This section of the Code does not cover impairment of assets in relation to employee benefits (see Chapter 6), financial instruments (see Chapter 7), investment property (see Section 4.4 of the Code), insurance contracts (see Appendix A, paragraph A.1.7), non-current assets classified as held for sale (see Section 4.9 of the Code), inventories (see Section 5.1 of the Code) and contract assets (in accordance with Section 2.7 of the Code). Impairment of heritage assets is accounted for in accordance with this section of the Code subject to the specific requirements of Section 4.10 of the Code.

4.7.14 IAS 36 *Impairment of Assets* applies to financial assets classified as subsidiaries, associates and joint ventures (see Chapter 9).

Interpretation for the public sector context

4.7.15 The following interpretation of IAS 36 (as defined in IPSAS 21) for the public sector context applies.

Recognition and measurement

- Where an asset is not held for the purpose of generating cash flows, *value in use* is assumed to equal the cost of replacing the service potential provided by the asset, unless there has been a reduction in service potential.

4.7.2 Accounting requirements

Definitions

4.7.21 **Impairment loss** is the amount by which the carrying amount of an asset exceeds its recoverable amount.

4.7.22 **Carrying amount** is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

4.7.23 **Recoverable amount** of an asset is the higher of fair value less costs of disposal (ie net selling price) and its value in use.

4.7.24 **Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Section 2.10).

4.7.25 **Historical cost** is deemed to be the carrying amount of an asset as at 1 April 2007 (ie brought forward from 31 March 2007) or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment (if applicable).

4.7.26 **Value in use** of a non-cash-generating asset is the present value of the asset's remaining service potential. Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset.

4.7.27 Further definitions, including definitions of cost of disposal and useful life, are contained in IAS 36, IPSAS 21 and IPSAS 26.

4.7.28 IAS 36 refers to cash-generating units; this definition may not be relevant to local authorities in the majority of cases. Where authorities deem they have assets under this definition they should refer to IAS 36 and IPSAS 26.

When to assess for impairment

4.7.29 At the end of each reporting period an assessment shall take place as to whether there is any indication that an asset may be impaired. If any indication exists, the recoverable amount shall

be estimated having regard to the application of the concept of materiality in identifying whether the recoverable amount of an asset needs to be estimated. If no indication of an impairment loss is present, the Code does not require a formal estimate of recoverable amount, with the exception of intangible assets.

4.72.10 An intangible asset with an indefinite useful life or not yet available for use shall be assessed annually at any time during the year, irrespective of whether there is any indication that it may be impaired.

Examples of impairments

4.72.11 Examples of events and changes in circumstances that indicate an impairment may have occurred include (this list is not intended to be exhaustive):

- a significant decline (ie more than expected as a result of the passage of time or normal use) in an asset's carrying amount during the period, that is specific to the asset
- evidence of obsolescence or physical damage of an asset
- a commitment by the authority to undertake a significant reorganisation, and
- a significant adverse change in the statutory or other regulatory environment in which the authority operates.

4.72.12 If there is an indication that an asset may be impaired, this could indicate that the useful life, the depreciation method or the residual value need to be reviewed, even if no impairment loss is recognised.

Recognition of impairment

4.72.13 Impairment shall be recognised on assets carried at a revalued amount and historical cost.

4.72.14 An impairment loss on a revalued asset shall be recognised in the revaluation reserve to the extent that the impairment does not exceed the amount in the revaluation reserve for the same asset (ie up to the historical cost of the asset) and thereafter in surplus or deficit on the provision of services.

4.72.15 An impairment loss on a non-revalued asset (ie an asset with a carrying value based on historical cost) shall be recognised in surplus or deficit on the provision of services.

Reversing an impairment

4.72.16 At the end of each reporting period an assessment shall take place as to whether there is any indication that an impairment loss recognised in earlier periods for an asset may no longer exist or have decreased. If any such indication exists, authorities shall estimate the recoverable amount of that asset.

4.72.17 The reversal of an impairment loss of an asset (previously recognised in surplus or deficit on the provision of services) is only permitted to be recognised if there has been a change in the

estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Indications of the potential decrease of an impairment loss mainly mirror (but are not limited to) the indications of a potential impairment loss set out in paragraph 4.7.2.11.

4.7.2.18 If there is an indication that the impairment loss recognised for an asset may no longer exist or may have decreased, this may indicate that the useful life, the depreciation method or the residual value need to be reviewed, even if no impairment loss is reversed for the asset.

4.7.2.19 The reversal of an impairment loss previously recognised in surplus or deficit on the provision of services shall not exceed the increase that would reinstate the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. Any excess above the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years shall be treated as a revaluation gain and charged to the revaluation reserve.

4.7.2.20 The Code does not allow the reversal of an impairment loss for goodwill. Goodwill may not be relevant to local authorities in the majority of cases. Where authorities conclude they have assets under this definition they shall refer to IAS 36.

Recognition and reversal of impairment in the surplus or deficit on the provision of services

4.7.2.21 General fund service revenue accounts, central support services, trading accounts and the Housing Revenue Account shall be charged with an impairment loss (in excess of any balance on the revaluation reserve) and credited with a reversal of an impairment loss (net of amortisation or depreciation).

4.7.3 Statutory accounting requirements

4.7.3.1 Impairment loss and reversal of impairment loss charged to surplus or deficit on the provision of services are not proper charges to the general fund (see part 2 of Appendix B for the legislative basis). Such amounts shall be transferred to the capital adjustment account and reported in the movement in reserves statement.

4.7.4 Disclosure requirements

4.7.4.1 Disclosure of accounting policies in relation to impairments of assets is required, where these accounting policies are significant to the authority's financial statements (see Section 3.4 of the Code).

4.7.4.2 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 impairment of assets:

- 1) An authority shall disclose the following for each class of assets:
- a) the amount of impairment losses recognised in surplus or deficit on the provision of

services, during the period in which those impairment losses are included

- b) the amount of reversals of impairment losses recognised in surplus or deficit on the provision of services, during the period in which those impairment losses are reversed
- c) the amount of impairment losses on revalued assets recognised in other comprehensive income and expenditure and taken to the revaluation reserve during the period
- d) the amount of reversals of impairment losses on revalued assets recognised in other comprehensive income and expenditure and taken to the revaluation reserve during the period.
- 2) An authority shall disclose the following for each material impairment loss recognised or reversed during the period for an individual asset:
 - a) the events and circumstances that led to the recognition or reversal of the impairment loss
 - b) the amount of the impairment loss recognised or reversed
 - c) for an individual asset:
 - i) the nature of the asset, and
 - ii) the reportable segment to which the asset belongs, in line with the format of segmental reporting in Section 3.4 of the Code
 - d) whether the recoverable amount of the asset is its fair value less costs of disposal or its value in use
 - e) if the recoverable amount is fair value less costs of disposal, the authority shall disclose the following information:
 - i) the level of the fair value hierarchy (see Section 2.10) within which the fair value measurement of the asset is categorised in its entirety (without taking into account whether the 'costs of disposal' are observable)
 - ii) for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) used to measure fair value less costs of disposal. If there has been a change in valuation technique, the authority shall disclose that change and the reason(s) for making it, and
 - iii) for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, each key assumption on which management has based its determination of fair value less costs of disposal. Key assumptions are those to which the asset's recoverable amount is most sensitive. The authority shall also disclose the discount rate(s) used in the current measurement and the previous measurement if fair value less costs of disposal is measured using a present value technique
 - f) if the recoverable service amount is value in use, the approach used to determine

value in use.

- 3) Cash-generating units containing goodwill or intangible assets with indefinite useful lives may not be relevant to authorities in the majority of cases. Where authorities deem they have assets under this definition they should refer to IAS 36 for disclosures.

4.7.5 Statutory disclosure requirements

4.7.5.1 There are no statutory disclosures required in relation to impairments.

4.7.6 Changes since the 2019~~8~~/2019 Code

4.7.6.1 There have been no changes to the Impairment of Assets section of the Code since the 2019~~8~~/2019 Code.

4.8 BORROWING COSTS

4.8.1 Introduction

4.8.1.1 Authorities shall account for borrowing costs in accordance with IAS 23 *Borrowing Costs*, except where adaptations to fit the public sector are detailed in the Code. IPSAS 5 *Borrowing Costs* is based on the previous version of IAS 23. Whilst the Code does not follow IPSAS 5, the accounting treatment in the Code is consistent with the requirements of IPSAS 5.

Adaptation for the public sector context

4.8.1.2 IAS 23 requires borrowing costs in respect of qualifying assets to be capitalised. The Code permits (but does not require) authorities to select an accounting policy of expensing these costs.

4.8.2 Accounting requirements

4.8.2.1 Where an authority has an accounting policy of capitalising borrowing costs, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense. Where an authority has a policy of expensing borrowing costs, all borrowing costs are recognised as an expense as they are incurred.

4.8.2.2 Borrowing costs in respect of a qualifying asset measured at current (under Section 4.1) or fair value or inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis are not covered by this section of the Code and shall be recognised as an expense.

Definitions

4.8.23 The following terms are used with the meanings specified:

- **Borrowing costs** are interest and other costs that an authority incurs in connection with the borrowing of funds.
- A **qualifying asset** is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

4.8.24 Borrowing costs may include:

- interest expense calculated using the effective interest method, and
- [finance interest](#) charges in respect of [finance lease liabilities recognised or measured in accordance with Section 4.2s](#).

4.8.25 Financial assets, and inventories that are manufactured, or otherwise produced, over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

4.8.26 Paragraphs 4.8.2.7 to 4.8.2.12 apply to authorities which have adopted an accounting policy of capitalising borrowing costs in relation to qualifying assets. Paragraph 4.8.2.13 applies to authorities which have adopted an accounting policy of expensing borrowing costs.

Recognition (capitalisation policy)

4.8.27 A local authority shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset, when it is probable that they will result in future economic benefits or service potential to the authority and the costs can be measured reliably. A local authority shall recognise other borrowing costs as an expense in the period in which it incurs them.

4.8.28 To the extent that a local authority borrows funds specifically for the purpose of obtaining a qualifying asset, the authority shall determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

4.8.29 To the extent that an authority borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the authority shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that an authority capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

Capitalisation

4.8.210 A local authority shall begin capitalising borrowing costs as part of the cost of a qualifying asset

on the commencement date. The commencement date for capitalisation is the date when the authority first meets all of the following conditions:

- it incurs expenditures for the asset
- it incurs borrowing costs, and
- it undertakes activities that are necessary to prepare the asset for its intended use or sale.

4.8.2.11 An authority shall suspend capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset.

4.8.2.12 An authority shall cease capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. When an authority completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the authority shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

Recognition (expense policy)

4.8.2.13 Borrowing costs shall be recognised as an expense in the period in which they are incurred. Borrowing costs are interest and other costs that an authority incurs in connection with the borrowing of funds.

4.8.3 Statutory accounting requirements

4.8.3.1 There are no statutory accounting requirements in relation to borrowing costs.

4.8.4 Disclosure requirements

4.8.4.1 Disclosure of accounting policies in relation to borrowing costs is required, where these accounting policies are significant to the authority's financial statements (see Section 3.4 of the Code).

4.8.4.2 Where an authority has adopted an accounting policy of capitalising borrowing costs in relation to a qualifying asset, and 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 borrowing costs:

- the amount of borrowing costs capitalised during the period, and
- the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation.

4.8.4.3 Where an authority has adopted an accounting policy of expensing borrowing costs, borrowing costs expensed will be disclosed within interest payable.

4.8.5 Statutory disclosure requirements

4.8.5.1 There are no statutory disclosures required in relation to borrowing costs.

4.8.6 Changes since the 2018/2019 Code

4.8.6.1 ~~There have been no~~ Changes to the Borrowing Costs section of the Code [recognize the implementation of IFRS 16 Leases. since the 2018/19 Code](#) The Code also incorporates [amendments to IAS 23 Borrowing Costs in relation to 'Borrowing Costs Eligible for Capitalisation' \(See Appendices C and D\).](#)

4.9 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

4.9.1 Introduction

4.9.1.1 Authorities shall account for assets held for sale and present and disclose discontinued operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, except where adaptations to fit the public sector are detailed in the Code. The standard specifies that:

- assets held for sale are measured at the lower of carrying amount and fair value less costs to sell, and depreciation on those assets should cease, and
- assets held for sale are presented separately, on the face of the balance sheet, and the results of discontinued operations are presented separately in surplus or deficit on the provision of services and balance sheet.

4.9.1.2 The classification and presentation requirements of this section of the Code (also see IFRS 5) apply to all recognised non-current assets and to all disposal groups of an authority that are to be sold and such assets are excluded from the scope of Section 4.1 (also see IAS 16) and Section 4.5 (also see IAS 38) of the Code.

4.9.1.3 This section of the Code does not cover the measurement of assets in relation to employee benefits (see Chapter 6), financial instruments (see Chapter 7), investment property (see Section 4.4) and insurance contracts (see Appendix A, paragraph A.1.7). IFRS 5 also refers to other areas where the standard does not apply in terms of measurement; however, these areas may not be common, if relevant at all within authorities, ie deferred tax assets and agriculture. Authorities should refer to IFRS 5 for these areas.

4.9.1.4 The requirements of paragraphs 4.9.2.12 to 4.9.2.14 must be met for a non-current asset to be classified as held for sale. Non-current assets that meet these requirements to be classified as held for sale shall be presented as either current assets or non-current assets in line with Section 3.4 of the Code.

Interpretation for the public sector context

4.9.15 The following interpretations of IFRS 5 for the public sector context apply.

Recognition and measurement

- 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.
- In order to qualify as 'discontinued operations', the activities must cease completely; that is, responsibilities transferred from one part of the public sector to another (such as combinations of public sector bodies – see Section 2.5 of the Code) are not discontinued operations.

Definition

- The Code interprets the fair value for social housing being disposed of under right to buy (RTB) legislation as the discounted RTB value.

4.9.2 Accounting requirements

Definitions

- 4.9.21 **Carrying amount** is the amount at which an asset is recognised after deducting any accumulated depreciation and impairment losses.
- 4.9.22 **Costs to sell** are the incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs.
- 4.9.23 **Current asset** is an asset that is intended to be sold within the normal operating cycle; the asset is held primarily for the purpose of trading or the authority expects to realise the asset within 12 months after the reporting date.
- 4.9.24 **Discontinued operation** is an activity of an authority that must cease completely; that is, responsibilities transferred from one part of the public sector to another are not discontinued operations.
- 4.9.25 **Disposal group** is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.
- 4.9.26 **Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Section 2.10). Fair value for social housing being disposed of under RTB legislation is the discounted RTB value.
- 4.9.27 **Historical cost** is deemed to be the carrying amount of an asset as at 1 April 2007 (ie brought forward from 31 March 2007) or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment (if applicable).

- 4.9.28 Non-current asset** is an asset that does not meet the definition of a current asset.
- 4.9.29 Recoverable amount** of an asset is the higher of fair value less costs to sell (ie net selling price) and its value in use.
- 4.9.210 Value in use** of a non-cash-generating asset is the present value of the asset's remaining service potential. Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset.
- 4.9.211** Further definitions, including the definition of firm purchase commitment, are contained in IFRS 5.

Classification of non-current assets (or disposal groups) as held for sale

- 4.9.212** An authority shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continued use.
- 4.9.213** For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.
- 4.9.214** For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by paragraph 9 of IFRS 5,⁴⁰ and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.
- 4.9.215** If the asset does not meet the requirements for classification as a non-current asset held for sale in paragraphs 4.9.2.12 to 4.9.2.14, it shall continue to be accounted for in accordance with the relevant section of the Code, ie Section 4.1 and Section 4.4.
- 4.9.216** Sale transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance in accordance with Section 4.1 of the Code (also see IAS 16 *Property, Plant and Equipment*).
- 4.9.217** If after the reporting period but before authorising of the financial statements (see Section 3.8 of

⁴⁰ Events or circumstances may extend the period to complete the sale beyond one year, for example the delay in the completion of the sale is beyond the authority's control and there is sufficient evidence that the authority remains committed to the plan to sell the asset (or disposal group). Further information regarding the 'extension of the period required to complete the sale' is given in Appendix B of IFRS 5.

the Code), the criteria for recognition are met, as set out in paragraph 4.9.2.13, authorities shall disclose the information within the notes to the accounts, as set out in sub-section 4.9.4.

- 4.9.2.18 Assets that are to be abandoned or scrapped shall not be classified under this section of the Code. This is because the carrying amount of such assets will not be recovered from 'sale' but from continued use up to the point of being scrapped or abandoned.

Measurement of non-current assets (excluding disposal groups) classified as held for sale

- 4.9.2.19 Authorities shall measure a non-current asset classified as held for sale at the lower of its carrying value and fair value less costs to sell at initial reclassification and at the end of each reporting date (ie 31 March), subject to recognising any gains as detailed in paragraph 4.9.2.22.
- 4.9.2.20 When the sale is expected to occur beyond one year, authorities shall measure the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time represents the unwinding of the discounting and shall be presented in surplus or deficit on the provision of services as a financing cost.
- 4.9.2.21 Immediately before the initial classification of an asset as held for sale, the carrying amount of the asset shall be measured in accordance with the relevant section of the Code.
- 4.9.2.22 Authorities shall recognise a revaluation gain for any initial or subsequent increase in fair value less costs to sell an asset following reclassification, but not in excess of the cumulative impairment loss or revaluation loss (adjusted for depreciation) that has been recognised in the surplus or deficit on the provision of services under this section of the Code or previously in accordance with Section 4.7 or Section 4.1 of the Code. In practice this will mean using a gain to reverse previous impairment or revaluation losses that have been recognised in the surplus or deficit on the provision of services (adjusted for depreciation that would have been charged had the impairment losses or revaluation losses not occurred).
- 4.9.2.23 Authorities shall recognise an impairment loss or revaluation loss for any initial or subsequent decrease to fair value less costs to sell following reclassification, in the surplus or deficit on the provision of services (even where there is balance on the asset's revaluation reserve).
- 4.9.2.24 An authority that is committed to a sale plan involving loss of control of a subsidiary (see Chapter 9) shall classify all the assets and liabilities of that subsidiary as held for sale when the requirements for classification as a non-current asset held for sale in paragraphs 4.9.2.12 to 4.9.2.14 are met, regardless of whether the authority will retain a minority interest in its former subsidiary after the sale.

Measurement of disposal groups classified as held for sale

- 4.9.2.25 Where authorities deem they have a disposal group they should refer to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Depreciation

- 4.9.2.26 A non-current asset (or disposal group) classified as held for sale shall not be depreciated (or amortised in relation to intangible assets).

Derecognition

- 4.9.2.27 A revaluation gain or loss not previously recognised in the carrying amount of a non-current asset (in accordance with paragraphs 4.9.2.22 and 4.9.2.23) (or disposal group) by the date of sale shall be recognised in surplus or deficit on the provision of services as part of the gain or loss on disposal at the date of derecognition. The requirements relating to derecognition including accounting for gains or losses on disposal are set out in Section 4.1 of the Code in relation to property, plant and equipment and Section 4.5 of the Code in relation to intangible assets.

Changes to a plan of sale

- 4.9.2.28 If the requirements for classification as a non-current asset held for sale in paragraphs 4.9.2.12 to 4.9.2.14 are no longer met, the authority shall cease to classify the asset (or disposal group) as held for sale and shall value the asset at the lower of:
- its carrying amount before the asset (or disposal group) was classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and
 - its recoverable amount at the date of the decision not to sell.
- 4.9.2.29 For an asset previously carried at historical cost (in accordance with Section 4.1 of the Code – Property, Plant and Equipment and Section 4.5 of the Code – Intangible Assets) before classification as held for sale, any adjustment to the carrying amount arising from paragraph 4.9.2.28 above shall be recognised in surplus or deficit on the provision of services, in the period that the criteria are no longer met.
- 4.9.2.30 For an asset previously carried at a revalued amount (in accordance with Section 4.1 and Section 4.5 of the Code) before classification as held for sale, any adjustment to the carrying amount arising from paragraph 4.9.2.28 shall be treated as a revaluation increase or decrease and recognised in the revaluation reserve in the period that the criteria are no longer met (note: a revaluation decrease is recognised up to the balance on the revaluation reserve and thereafter in the surplus or deficit on the provision of services).
- 4.9.2.31 The measurement of a disposal group where an individual asset or liability is removed is not expected to be common for authorities. Where authorities deem they have this occurrence they should refer to IFRS 5.
- 4.9.2.32 Where an asset no longer meets the requirements for classification as a non-current asset held for sale in paragraphs 4.9.2.12 to 4.9.2.14, the authority will need to consider reclassifying the asset to property, plant and equipment or investment property having regard to the respective definitions in Section 4.1 and Section 4.4 of the Code respectively.

Presentation of discontinued operations

- 4.9.2.33** Where an authority deems it has a transaction(s) that meets the definition of a discontinued operation, it shall present this transaction(s) separately on the face of the comprehensive income and expenditure statement and balance sheet.
- 4.9.2.34** Prior periods presented in the financial statements shall be restated for discontinued operations, so that the presentation and disclosures in respect of the current and prior periods relate to all operations that have been discontinued by the end of the reporting period being presented. Where an authority ceases to classify a transaction as a discontinued operation, the transaction, including prior periods, shall be reclassified as continued operations.

4.9.3 Statutory accounting requirements

Derecognition

- 4.9.3.1** The statutory accounting requirements in relation to the treatment of gains or losses on disposal are set out in Section 4.1 of the Code in relation to property, plant and equipment and Section 4.5 of the Code in relation to intangible assets.

Remeasurement of carrying amounts

- 4.9.3.2** Adjustments to the carrying amount of an asset that have been charged to surplus or deficit on the provision of services are not proper charges to the general fund (see part 2 of Appendix B for the legislative basis). Such amounts shall be transferred to the capital adjustment account and reported in the movement in reserves statement.

4.9.4 Disclosure requirements

- 4.9.4.1** Disclosure of accounting policies in relation to non-current assets held for sale and discontinued operations is required, where these accounting policies are significant to the authority's financial statements (see Section 3.4 of the Code).
- 4.9.4.2** An authority shall present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).
- 4.9.4.3** 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 non-current assets held for sale:
- 1) the breakdown of any revaluation gain or loss recognised in accordance with paragraphs 4.9.2.22 and 4.9.2.23.

4.9.5 Statutory disclosure requirements

- 4.9.5.1** There are no statutory disclosures required in relation to non-current assets held for sale and

discontinued operations.

4.9.6 Changes since the 2019~~8~~/2019 Code

- 4.9.6.1 There have been no changes to the Non-current Assets Held for Sale and Discontinued Operations section of the Code since the 2019~~8~~/2019 Code.

4.10 HERITAGE ASSETS

4.10.1 Introduction

- 4.10.1.1 There is no IFRS that deals with tangible heritage assets, and paragraphs 9 to 12 of IPSAS 17 *Property, Plant and Equipment* provide only limited guidance. Authorities shall therefore account for tangible heritage assets in accordance with FRS 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland*, Section 34, except where adaptations to fit the public sector are detailed in the Code.
- 4.10.1.2 Authorities shall account for intangible heritage assets in accordance with IPSAS 31 *Intangible Assets*, except where adaptations to fit the public sector are detailed in the Code.

Interpretations for the public sector context

- 4.10.1.3 IPSAS 31 encourages but does not require entities to recognise intangible heritage assets in the balance sheet. The Code requires authorities to recognise intangible heritage assets where the authority has information on the cost or value of an intangible heritage asset.
- 4.10.1.4 For the avoidance of doubt, FRS 102 shall be interpreted by this section of the Code to permit valuations by any method that is appropriate and relevant which do not have to be carried out by external valuers (see paragraph 4.10.2.9). Depreciation is also not required for assets which have indefinite lives (see paragraph 4.10.2.10).

4.10.2 Accounting requirements

Definitions

- 4.10.2.1 A **tangible heritage asset** is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.
- 4.10.2.2 An **intangible heritage asset** is an intangible asset with cultural, environmental or historical significance. Examples of intangible heritage assets include recordings of significant historical events.
- 4.10.2.3 The term '*heritage asset*' is used in this section of the Code to refer to both tangible heritage assets and intangible heritage assets.

4.10.24 *Heritage assets* are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the reporting authority in pursuit of its overall objectives in relation to the maintenance of heritage. Heritage assets include historical buildings, archaeological sites, military and scientific equipment of historical importance, historic motor vehicles, civic regalia, orders and decorations (medals), museum and gallery collections and works of art. Community assets (including parks (excluding archaeological sites); cemeteries and crematoria (land only); and allotments where there are restrictions on alternative uses) are not heritage assets, but are accounted for as property, plant and equipment (see paragraph 4.1.2.2 of the Code). Heritage assets located within a community asset (for example, an historic building within a park) shall be accounted for separately from the community asset.

Recognition and measurement

4.10.25 Where an authority has information on the cost or value of a heritage asset, the authority shall recognise the asset in accordance with Section 4.1 of the Code (in respect of tangible heritage assets) or Section 4.5 of the Code (in respect of intangible heritage assets).

4.10.26 Where assets have previously been capitalised or are recently purchased, information on their cost or value will be available. Where this information is not available, and cannot be obtained at a cost which is commensurate with the benefits to users of the financial statements, the assets will not be recognised in the balance sheet. Disclosure shall be made in respect of heritage assets not recognised in the balance sheet in accordance with Section 4.10.4 of the Code.

4.10.27 Operational heritage assets (ie those that, in addition to being held for their heritage characteristics, are also used by the authority for other activities or to provide other services) shall be accounted for as operational assets, ie property, plant and equipment, and shall be valued in the same way as other assets of that general type (buildings, for example). Such assets do not fall within the scope of this section of the Code but fall within the scope of Section 4.1. However, authorities that use historical buildings and similar assets may wish to consider whether it might be appropriate to apply the disclosures required by this section of the Code.

4.10.28 Heritage assets (other than operational heritage assets) shall normally be measured at valuation in accordance with FRS 102 (see also paragraph 4.10.2.9 below). Where it is not practicable to obtain a valuation at a cost which is commensurate with the benefits to users of the financial statements, heritage assets shall be measured at historical cost (less any accumulated depreciation, amortisation and impairment losses).

4.10.29 Valuations may be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations. However, where heritage assets are measured at valuation, the carrying amount shall be reviewed with sufficient frequency to ensure the valuations remain current.

Depreciation, amortisation and impairment

4.10.2.10 Depreciation or amortisation is not required on heritage assets which have indefinite lives.

4.10.2.11 The carrying amount of an asset shall be reviewed where there is evidence of impairment; for example, where it has suffered physical deterioration or breakage or new doubts arise as to its authenticity. Any impairment recognised shall be dealt with under the recognition and measurement requirements of Section 4.7 of the Code.

Donations

4.10.2.12 The receipt of donations of heritage assets shall be accounted for in line with the requirements for donated assets in Section 2.3 of the Code. Where, exceptionally, it is not practicable to obtain a valuation for a donated heritage asset, the disclosures required by paragraph 4.10.4.5 apply.

4.10.3 Statutory accounting requirements

4.10.3.1 The statutory accounting requirements set out in sections 2.3, 4.1, 4.5 and 4.7 of the Code apply equally to heritage assets as to other assets.

4.10.4 Disclosure requirements

4.10.4.1 The following disclosures apply to all heritage assets:

- a) An authority's financial statements shall contain an indication of the nature and scale of heritage assets held by the authority.
- b) The financial statements shall set out the authority's policy for the acquisition, preservation, management and disposal of heritage assets. This shall include a description of the records maintained by the authority of its collection of heritage assets and information on the extent to which access to the assets is permitted. The information required by this paragraph may alternatively be provided in a document that is cross-referenced from the financial statements.
- c) The accounting policies adopted for an authority's holding of heritage assets shall be stated, where these accounting policies are significant to the authority's financial statements, including details of the measurement bases used.
- d) For heritage assets that are not recognised in the balance sheet, the notes to the financial statements shall:
 - i) explain the reasons why
 - ii) describe the significance and nature of those assets, and
 - iii) disclose information that is helpful in assessing the value of those heritage assets.
- e) The disclosures relating to assets that are not reported in the balance sheet shall aim to ensure that, when read in the context of information about capitalised assets, the financial statements provide useful and relevant information about the authority's

overall holding of heritage assets.

4.10.4.2 Where heritage assets are recognised in the balance sheet, the following shall be disclosed:

- a) a reconciliation of the carrying amount of heritage assets (showing separately tangible heritage assets and intangible heritage assets) at the beginning of the reporting period and at the reporting date, including an analysis between those classes or groups of heritage assets that are reported at cost and those that are reported at valuation, showing:
 - i) additions
 - ii) disposals
 - iii) increases or decreases resulting from revaluations under Section 4.1 of the Code (as amended by Section 4.10) 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 (as amended by Section 4.10) 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 (where an asset does not have an indefinite life), and
 - vii) other changes
- b) where assets are recognised at valuation, sufficient information to assist in an understanding of the valuations being reported and their significance, including:
 - i) the date of the valuation
 - ii) the methods used to produce the valuation
 - iii) whether the valuation was carried out by external valuers and, where this is the case, the professional qualification, if any, and
 - iv) any significant limitations on the valuation.

4.10.4.3 An example of a limitation to be disclosed under paragraph 4.10.4.2 b) iv) would be where an asset has a particular provenance, the effect of which is not fully captured by valuation.

4.10.4.4 The financial statements shall contain a summary of transactions relating to heritage assets disclosing, for the reporting period and the preceding period:

- a) the cost of acquisitions of heritage assets
- b) the value of heritage assets acquired by donation
- c) the carrying amount of heritage assets disposed of in the reporting period and the proceeds received, and
- d) any impairment recognised in the reporting period.

This summary shall show separately transactions in assets that are recognised in the balance sheet and those that are not.

4.10.4.5 Where, exceptionally, it is not practicable to obtain a valuation of heritage assets acquired by donation, the reasons why shall be stated in the notes to the financial statements.

4.10.4.6 The disclosures required by paragraphs 4.10.4.1 to 4.10.4.5 may be presented in aggregate for groups or classes of heritage assets provided this aggregation does not obscure significant information. Separate disclosures shall be provided for those assets reported at cost and those reported at valuation, and for tangible and intangible heritage assets.

4.10.4.7 The disclosures set out in sections 4.1, 4.5 and 4.7 of the Code are not required in respect of heritage assets.

4.10.5 Statutory disclosure requirements

4.10.5.1 There are no statutory disclosure requirements in respect of heritage assets.

4.10.6 Changes since the ~~2018~~/2019 Code

4.10.6.1 There have been no changes to the Heritage Assets section of the Code since the 2019~~8~~/2019 Code.

CHAPTER 5

Current assets

5.1 INVENTORIES

5.1.1 Introduction

- 5.1.1.1** Authorities shall account for inventories (see paragraph 5.1.2.4 for definition) in accordance with IAS 2 *Inventories*, except where adaptations to fit the public sector are detailed in the Code.
- 5.1.1.2** IPSAS 12 *Inventories* is based on IAS 2, and provides additional guidance for public sector bodies.
- 5.1.1.3** This section of the Code applies to all inventories except for:
- instruments in accordance with Section 7.1 of the Code (also see IFRS 9)
 - biological assets in accordance with Appendix A, paragraph A.1.5 (also see IAS 41).
- 5.1.1.4** This section of the Code does not apply to the measurement of inventories held by authorities who produce agricultural and forest products, agricultural produce after harvest, and minerals and mineral products. Such assets are not expected to be common in local authorities. Where authorities have such assets, they shall measure for them in accordance with Appendix A, paragraph A.1.5 (also see IAS 41 and IFRS 6).

Interpretation for the public sector context

- 5.1.1.5** IPSAS 12 includes a number of public sector interpretations which the Code has adopted. The interpretations for the Code are as follows:

Measurement

- Inventories shall be measured at the lower of cost and net realisable value, except where inventories are acquired through a non-exchange transaction in which case their cost is deemed to be their fair value as at the date of acquisition.
- Inventories shall be measured at the lower of cost and current replacement cost where they are held for distribution at no charge or for a nominal charge; or consumption in the production process of goods to be distributed at no charge or for a nominal charge.

5.1.2 Accounting requirements

Definitions

- 5.1.21 Current replacement cost** is the cost the authority would incur to acquire the asset on the reporting date.
- 5.1.22 Exchange transactions** are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.
- 5.1.23 Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Section 2.10).
- 5.1.24 Inventories** are assets:
- a) in the form of materials or supplies to be consumed in the production process
 - b) in the form of materials or supplies to be consumed or distributed in the rendering of services
 - c) held for sale or distribution in the ordinary course of operations, or
 - d) in the process of production for sale or distribution.
- 5.1.25 Net realisable value** is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.
- 5.1.26 Non-exchange transactions** are transactions that are not exchange transactions. In a non-exchange transaction, an authority either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Measurement

- 5.1.27** Inventories shall be measured at the lower of cost and net realisable value, except where paragraph 5.1.2.8 or 5.1.2.9 applies.
- 5.1.28** Where inventories are acquired through a non-exchange transaction, their cost is deemed to be their fair value as at the date of acquisition. Where inventories have been acquired for less than fair value (ie a non-exchange transaction), the difference between the fair value of the inventories and the consideration paid shall be recognised in surplus or deficit on the provision of services, as income when the inventories are sold, or in the event that the inventories have not been sold, recognised in the donated inventories account until such time as the inventory has been sold (see paragraph 5.1.2.18).
- 5.1.29** Inventories shall be measured at the lower of cost and current replacement cost where they are held for distribution at no charge or for a nominal charge; or consumption in the production

process of goods to be distributed at no charge or for a nominal charge.

- 5.12.10** The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.
- 5.12.11** An authority may purchase inventories on deferred settlement terms. The difference between the purchase price for normal credit terms and the amount paid (ie the arrangement effectively contains a financing element) is recognised as interest over the period of the credit in surplus or deficit on the provision of services.
- 5.12.12** Much of the output of authorities is in the form of services rather than goods. Costs incurred to fulfil a contract with a service recipient that do not give rise to inventories or assets within the scope of another section of this Code shall be accounted for in accordance with Section 2.7 (Revenue from Contracts with Service Recipients).
- 5.12.13** The standard cost method or retail methods are techniques to measure the cost of inventories where approximate costs are used for convenience as opposed to actual costs. Where authorities deem that these techniques are relevant they should refer to IAS 2.
- 5.12.14** The cost of inventories shall be attributed to identified items of inventory. Where this is not possible the cost of inventories shall be assigned using the first-in, first-out (FIFO) or weighted average cost formula. The Code does not allow the use of the last-in, first-out (LIFO) cost formula. An authority shall use the same cost formula for all inventories having a similar nature and use to the authority. For inventories with a different nature or use, different cost formulas may be justified.
- 5.12.15** Inventories should not be carried in excess of amounts expected to be realised from their sale or use. Where inventories are damaged or become wholly or partially obsolete, or if their selling prices have declined, this may indicate that the cost of inventories is not recoverable, in which case their cost shall be written down to net realisable value (see paragraph 5.1.2.7) or current replacement cost (see paragraph 5.1.2.9).
- 5.12.16** When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value or current replacement cost because of a change in economic circumstances, the amount of the write-down is reversed so the new carrying amount is the lower of cost and the revised net realisable value (see paragraph 5.1.2.7) or is the lower of cost and the revised current replacement cost (see paragraph 5.1.2.9). Any reversal is limited to the amount of the original write-down.
- 5.12.17** An authority may hold inventories whose future economic benefits or service potential are not directly related to their ability to generate net cash inflows. These types of inventories may arise when an authority has determined to distribute certain goods at no charge or for a nominal amount. In these cases, the future economic benefits or service potential of the inventory for financial reporting purposes is reflected by the lower of cost or the amount the authority would need to pay to acquire the economic benefits or service potential if this was necessary to achieve the objectives of the authority. Where the economic benefits or service potential cannot

be acquired in the market, an estimate of replacement cost will need to be made. If the purpose for which the inventory is held changes, then the inventory is valued using the provisions of paragraph 5.1.2.7.

Recognition as an expense

- 5.1.2.18** When inventories are sold, exchanged or distributed, the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expense is recognised when the goods are distributed or related service is rendered. The amount of any write-down of inventories (ie to net realisable value or current replacement costs – see paragraphs 5.1.2.7 and 5.1.2.9 respectively) and all losses of inventories shall be recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.
- 5.1.2.19** For a service provider, the point when inventories are recognised as expenses normally occurs when services are rendered, or upon billing for chargeable services.

5.1.3 Statutory accounting requirements

- 5.1.3.1** There are no statutory accounting requirements in relation to inventories.

5.1.4 Disclosure requirements

- 5.1.4.1** Disclosure of accounting policies in relation to inventories is required, where these accounting policies are significant to the authority's financial statements (see Section 3.4 of the Code).
- 5.1.4.2** 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 inventories:
- 1) The financial statements shall disclose:
 - a) the total carrying amount of inventories and the carrying amount in classifications appropriate to the authority
 - b) the amount of inventories recognised as an expense during the period
 - c) the amount of any write-down of inventories recognised as an expense in the period in accordance with this section of the Code
 - d) the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period in accordance with this section of the Code, and
 - e) the circumstances or events that led to the reversal of a write-down of inventories in accordance with this section of the Code.

5.1.5 Statutory disclosure requirements

5.151 There are no statutory disclosures required in relation to inventories.

5.1.6 Changes since the 201~~98~~/201~~9~~ Code

5.161 There have been no changes to the Inventories section of the Code since the 201~~98~~/201~~9~~ Code.

5.2 DEBTORS

5.2.1 Introduction

5.211 Authorities shall account for debtors in accordance with IFRS 15 *Revenue from Contracts with Customers*, IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* and IFRS 9 *Financial Instruments*, except where adaptations to fit the public sector are detailed in the Code.

5.212 IPSAS 9 *Revenue from Exchange Transactions* is based on IAS 18, and provides additional guidance for public sector bodies. IPSAS 9 has not been updated for the introduction of IFRS 15 and therefore IPSAS 9 should only be followed when instructed by this Code or where it remains consistent with the provisions of IFRS 15.

5.213 This section of the Code must be read in conjunction with Section 2.7 (Revenue from Contracts with Service Recipients) and Section 7.2 (Subsequent Measurement of Financial Assets and Financial Liabilities) of the Code as it applies to financial assets.

Adaptation and interpretation for the public sector context

5.214 No adaptations of IFRS 15 and IPSAS 23 are required for the public sector context; these standards are applied in full in relation to the recognition and measurement of debtors.

5.215 IPSAS 9 includes a public sector adaptation which the Code has adopted. The adaptation is as follows:

Definitions

- The definition of revenue excludes the reference to 'ordinary activities'.

5.216 The Code includes an interpretation of IFRS 9, for the avoidance of doubt, as follows:

Recognition and measurement

- Assets relating to such things as council tax, general rates, etc shall be measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

5.2.2 Accounting requirements

Definitions

- 5.221 Exchange transactions** are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.
- 5.222 Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Section 2.10).
- 5.223 Non-exchange transactions** are transactions that are not exchange transactions. In a non-exchange transaction, an authority either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.
- 5.224 Revenue** is income arising as a result of an authority's normal operating activities (see also Section 2.7 for the definition of income).
- 5.225 Debtors** are financial assets (but see the adaptation set out in paragraph 5.2.1.6 relating to non-contractual debtors such as council tax, general rates etc) not traded in an active market with fixed or determinable payments that are contractual rights to receive cash or cash equivalents. See also paragraphs 2.7.2.42 and 2.7.2.44 to 2.7.2.45 for reference to the presentation of contract assets.

Recognition and measurement

- 5.226** Debtors are not recognised when an authority becomes committed to supply the goods or services but when the ordered goods or services have been delivered or rendered.
- 5.227** Debtors shall be recognised and measured at the fair value of the consideration receivable when revenue has been recognised under Section 2.7 of the Code, except for a financial asset that is measured under Chapter 7 of the Code.
- 5.228** In most cases, the consideration receivable is in the form of cash and cash equivalents and the amount of revenue is the amount of cash and cash equivalents receivable. However, if payment is on deferred terms (ie beyond normal credit terms), the consideration receivable is recognised initially at the cash price equivalent (that is the discounted amount). The difference between this amount and the total payments received is recognised as interest revenue in surplus or deficit on the provision of services. Short duration receivables with no stated interest rate may be measured at original invoice amount if the effect of discounting is immaterial (see Chapter 7 of the Code).
- 5.229** There is no difference between the delivery and payment dates for non-contractual, non-exchange transactions, ie revenue relating to council tax and general rates, and therefore these transactions shall be measured at their full amount receivable (see Chapter 7).

5.22.10 In the event that consideration has been paid in advance of the receipt of goods or services or other benefit, an authority shall recognise a debtor (ie payment in advance) in respect of that outflow of resources (see paragraph 2.7.2.44).

Impairment of non-contractual debts

5.22.11 Non-contractual debts are excluded from the scope of IFRS 9. These particularly include taxation debtors such as council tax, non-domestic rates and district rates.

5.22.12 Non-contractual debtors are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of a past event that occurred subsequent to the initial recognition of the debtor. Expected losses as a result of future events, no matter how likely, shall not be recognised. Events that provide objective evidence of impairment include the following:

- a) significant financial difficulty of the debtor
- b) a breach of contract, such as a default or delinquency in interest or principal payments
- c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider
- d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation
- e) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of debtor balances since the initial recognition of those debtors, although the decrease cannot yet be identified with the individual debtor balances in the group, including:
 - i) adverse changes in the payment status of borrowers in the group (eg an increased number of delayed payments), or
 - ii) national or local economic conditions that correlate with defaults on the assets in the group (eg a significant increase in the unemployment rate in the authority area).

5.22.13 At each reporting date an assessment shall be made of whether there is objective evidence that a debtor balance or a group of debtor balances for non-contractual debts may be impaired. An assessment shall first be made of whether evidence of impairment exists individually for debtor balances that are individually significant. Then an assessment of impairment shall be made individually or collectively for debtor balances that are not individually significant.

Collective evaluation of impairment

5.22.14 If it is determined that no objective evidence of impairment exists for an individually assessed debtor balance, the debtor balance shall be included in a group of debtor balances for non-contractual debts with similar credit risks that are individually assessed for impairment. Debtor

balances that are individually assessed for impairment and for which an impairment loss is or continues to be recognised shall not be included in a collective assessment of impairment. When information becomes available that specifically identifies losses on individually impaired debtor balances in a group, those assets shall be removed from the group.

5.2.2.15 For the purposes of a collective evaluation of impairment, non-contractual debtor balances shall be grouped on the basis of similar credit risk characteristics. Those characteristics shall be relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the terms of the debtor balances being evaluated. Relevant characteristics would normally include debtor type and past-due status (eg age analysis of debtor balance).

5.2.2.16 Future cash flows in a group of non-contractual debtor balances that are collectively evaluated for impairment shall be estimated on the basis of the cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Where current information indicates that the historical loss experience does not properly reflect current conditions, the historical loss experience shall be adjusted appropriately.

5.2.3 Statutory accounting requirements

5.2.3.1 There are no statutory accounting requirements in relation to debtors.

5.2.4 Disclosure requirements

5.2.4.1 Disclosure of accounting policies in relation to debtors is required, where these accounting policies are significant to the authority's financial statements (see Section 3.4 of the Code).

5.2.4.2 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 debtors:

- 1) disclosures required by paragraph 3.4.2.63
- 2) disclosures as set out in the Financial Instruments section (see Chapter 7), where payment is on deferred settlement terms
- 3) disclosures by class of debtor for assets that are either past due or impaired in relation to non-financial assets eg council tax and non-domestic rate debtors:
 - a) an analysis of the age of the assets that are past due as at the reporting date but not impaired, and
 - b) an analysis of the assets that are individually determined to be impaired as at the reporting date, including the factors the authority considered in determining that they are impaired.

5.2.5 Statutory disclosure requirements

5.25.1 There are no statutory disclosures required in relation to debtors.

5.2.6 Changes since the 201~~98~~/~~2019~~ Code

5.26.1 There have been no changes to the Debtors section of the Code since the 201~~89~~/~~2019~~ Code.

DRAFT

Employee benefits

6.1 INTRODUCTION AND DEFINITIONS

6.1.1 Introduction

6.1.1 There are four Code sections related to employee benefits. These are:

- Section 6.2 – Benefits Payable during Employment
- Section 6.3 – Termination Benefits
- Section 6.4 – Post-employment Benefits
- Section 6.5 – Accounting and Reporting by Pension Funds.

Sections 6.2 to 6.4 are based on IAS 19 *Employee Benefits*, which covers all types of employee benefits except share-based payment (which is based on IFRS 2). Section 6.5 is based on IAS 26 *Accounting and Reporting by Retirement Benefit Plans*. IPSAS 39 *Employee Benefits* is based on IAS 19 and provides additional guidance to public sector bodies. Note that for the rate used to discount post-employment benefit obligations IPSAS 39 requires that entities apply a rate that reflects the time value of money. This Code requires reference to market yields at the end of the reporting period on high quality corporate bonds. There is no IPSAS standard based on IAS 26.

6.1.2 **Benefits payable during employment** covers:

- a) short-term employee benefits, such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (eg cars) for current employees
- b) benefits earned by current employees but not expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service such as long-service leave or jubilee payments and long-term disability benefits.

6.1.3 **Termination benefits** are payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits. They are often lump-sum payments, but also include enhancement of retirement benefits and salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the authority.

6.1.14 **Post-employment benefits** cover not only pensions but also other benefits payable post-employment such as life insurance and medical care.

6.1.15 **Pension fund accounts** covers accounting and reporting by pension funds to all fund participants as a group rather than being concerned with determination of the cost of retirement benefits in the financial statements of employers.

6.1.2 Definitions

6.1.21 A number of definitions are common to all the IAS 19 based sections of the Code. The following terms are used in the Code with meaning below:

Definitions of employee benefits

Employee benefits are all forms of consideration given by an authority in exchange for service rendered by employees or for the termination of employment.

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service.

Post-employment benefits are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.

Other long-term employee benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either:

- a) an authority's decision to terminate an employee's employment before the normal retirement date, or
- b) an employee's decision to accept an offer of benefits in exchange for the termination of employment.

Definitions relating to classification of plans

Post-employment benefit plans are formal or informal arrangements under which an authority provides post-employment benefits for one or more employees.

Defined contribution plans are post-employment benefit plans under which an authority pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Multi-employer plans are defined contribution plans (other than state plans) or defined benefit

plans (other than state plans) that:

- a) pool the assets contributed by various entities that are not under common control, and
- b) use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.

Definitions relating to the net defined benefit liability (asset)

The **net defined benefit liability (asset)** is the deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

The **deficit or surplus** is:

- a) the present value of the defined benefit obligation less
- b) the fair value of plan assets (if any).

The **asset ceiling** is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The **present value of a defined benefit obligation** is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Plan assets comprise:

- a) assets held by a long-term employee benefit fund, and
- b) qualifying insurance policies.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting authority) that are either:

- a) held by a fund that is separated within the reporting authority in accordance with Local Government Pension Scheme requirements and exists solely to pay or fund employee benefits, or
- b) held by an entity (a fund) that is legally separate from the reporting authority and exists solely to pay or fund employee benefits, and
- c) are available to be used only to pay or fund employee benefits, are not available to the reporting authority's own creditors (even in bankruptcy), and cannot be returned to the reporting authority, unless either:
 - i) the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting authority, or
 - ii) the assets are returned to the reporting authority to reimburse it for employee benefits already paid.

A **qualifying insurance policy** is an insurance policy⁴¹ issued by an insurer that is not a related party (as defined in IAS 24 *Related Party Disclosures*) of the reporting authority, if the proceeds of the policy:

- a) can be used only to pay or fund employee benefits under a defined benefit plan, and
- b) are not available to the reporting authority's own creditors (even in bankruptcy) and cannot be paid to the reporting authority, unless either:
 - i) the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations, or
 - ii) the proceeds are returned to the reporting authority to reimburse it for employee benefits already paid.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Section 2.10).

Definitions relating to defined benefit cost

Service cost comprises:

- a) **current service cost**, which is the increase in the present value of a defined benefit obligation resulting from employee service in the current period
- b) **past service cost**, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the authority in the number of employees covered by a plan), and
- c) any gain or loss on settlement.

Net interest on the net defined benefit liability (asset) is the change during the period in the net defined benefit liability (asset) that arises from the passage of time.

Remeasurements of the net defined benefit liability (asset) comprise:

- a) actuarial gains and losses
- b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset), and
- c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

⁴¹ A qualifying insurance policy is not necessarily an insurance contract, as defined in IFRS 4 *Insurance Contracts*.

Actuarial gains and losses are changes in the present value of the defined benefit obligation resulting from:

- a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), and
- b) the effects of changes in actuarial assumptions.

The **return on plan assets** is interest, dividends and other income derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less:

- a) any costs of managing plan assets, and
- b) any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.

A **settlement** is a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

6.2 BENEFITS PAYABLE DURING EMPLOYMENT

6.2.1 Introduction

6.2.1.1 Authorities shall account for benefits payable during employment in accordance with IAS 19 *Employee Benefits*, except where adaptations to fit the public sector are detailed in the Code. IPSAS 39 *Employee Benefits* is based on IAS 19, and provides additional guidance for public sector bodies.

6.2.1.2 Benefits payable during employment include:

- a) short-term employee benefits, and
- b) other long-term employee benefits.

6.2.1.3 Short-term employee benefits are those benefits expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related services. Other long-term benefits are those benefits not falling wholly before 12 months after the end of the annual reporting period. The approach to accounting for other long-term benefits payable during employment is fundamentally different from short-term employee benefits. With certain exceptions other long-term benefits are accounted for in the same way as defined benefit post-employment benefits.

Interpretation for the public sector context

6.2.1.4 IAS 19 requires long-term disability benefit to be accounted for as 'other long-term benefit'. An IPSAS 39 interpretation of IAS 19 requires that in certain circumstances an authority should

consider whether some or all long-term disability payments should be accounted for in the same way as defined benefit post-employment benefits rather than as 'other long-term benefit'. The IPSAS 39 interpretation has been adopted by the Code.

6.2.2 Short-term employee benefits

Introduction

6221 Short-term employee benefits are employee benefits (other than termination benefits) expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related services. Short-term employee benefits include:

- a) wages, salaries and social security contributions
- b) short-term paid⁴² absences – paid annual leave and paid sick leave
- c) bonuses and similar payments
- d) non-monetary benefits.

Accounting requirements

Wages, salaries and social security contributions

6222 A liability (accrued expense) shall be recognised as an expense (unless the Code requires or permits inclusion in the cost of an asset). If the amount paid in the accounting period exceeds the accrued expense, an asset (prepaid expense) shall be recognised to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

Short-term paid absences

6223 Paid absences are periods during which an employee does not provide services to the employer, but benefits continue to be paid. Paid absences may be accumulating or non-accumulating. The distinction is important as it determines the timing of recognising an expense.

6224 Accumulating absences are those that are carried forward and can be used in future periods if the current period entitlement is not used in full. In local authorities, annual leave, flexi-time and time in lieu would usually be accumulating. Accumulating absences may be either vesting or non-vesting. Where vesting, employees who leave are entitled to a cash payment in respect of any unused entitlement; where non-vesting, benefits lapse if an employee leaves before the vesting date.

⁴² Section 6.2 of the Code now refers to paid instead of compensated absences. The statutory accounting requirements for these costs refer to compensated absences (see Appendix B for legislative sources). The Code Board is of the view that in accounting terms 'paid absences' has the same meaning as 'compensated absences'.

6.225 Short-term accumulating paid absences shall be:

- a) recognised when employees render service that increases their entitlement to future paid absences
- b) measured as the additional amount that the authority expects to pay as a result of unused entitlement that has accumulated at the reporting date including associated employer's national insurance and pension contributions, where appropriate.

The obligation is recognised even if the paid absences have not yet vested at the reporting date. The possibility that employees may leave before they use an accumulating non-vesting entitlement and their entitlement lost shall be taken into account in measuring the obligation.

6.226 Non-accumulating absences are those that cannot be carried forward for use in future periods if the current period entitlement is not used in full. Sick leave, maternity leave, paternity leave and jury service will usually be non-accumulating. Non-accumulating paid absences shall be recognised when the absence occurs.

Bonuses and similar payments

6.227 Additional remuneration – a bonus – may be paid where some measure of performance, whether of the individual, work group or organisation, is achieved. In local authorities such arrangements can take a number of forms including arrangements similar to profit sharing in the private sector. The expected cost of bonuses shall be recognised when, and only when:

- a) the authority has a present legal or constructive obligation to make such payments as a result of past events, and
- b) a reliable estimate of the obligation can be made.

6.228 A present obligation exists when, and only when, the authority has no realistic alternative but to make the payments. An authority can make a reliable estimate of its legal or constructive obligation under a bonus plan when, and only when:

- a) the formal terms of the plan contain a formula for determining the amount of the benefit
- b) the authority determines the amounts to be paid before the financial statements are authorised for issue, or
- c) past practice gives clear evidence of the amount of the authority's constructive obligation.

6.229 Under some arrangements, employees receive their bonus only if they remain employed for a specified period (ie there is a vesting period). Such plans create a constructive obligation as employees render service that increases the amount to be paid if they remain in service until the end of the vesting period. The measurement of such constructive obligations shall reflect the possibility that some employees may leave without receiving bonus payments.

Non-monetary benefits

6.22.10 The cost of providing non-monetary benefits (ie benefits in kind), including housing, cars and free or subsidised goods or services, shall be recognised according to the same principles as benefits payable in cash. The amount recognised as a liability and an expense shall be the cost to the employer of providing the benefit.

6.2.3 Other long-term employee benefits

Introduction

6.23.1 Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) not expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service. They would often not be significant at local authorities either because they rarely occur or because the sums involved are insignificant; although long-term disability benefit may be significant at some authorities. Other long-term employee benefits, if they are not expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, include:

- a) long-term paid absences such as long service or sabbatical leave
- b) jubilee or other long-service benefits
- c) long-term disability benefits
- d) bonuses
- e) deferred remuneration.

Accounting requirements

6.23.2 Other long-term employee benefits are accounted for on similar principles to post-retirement benefits but their measurement is not subject to the same degree of uncertainty as the measurement of post-employment benefits, and therefore a simplified method of accounting is used. Unlike the accounting required for post-employment benefits, this method does not recognise remeasurements in other comprehensive income and expenditure.

6.23.3 In recognising and measuring the surplus or deficit in an 'other long-term employee benefit' plan, an authority shall apply paragraphs 6.4.3.3 to 6.4.3.11 of the Code. An authority shall apply paragraph 6.4.3.9 of the Code in recognising and measuring any reimbursement right.

6.23.4 For other long-term employee benefits, an authority shall recognise the net total of the following amounts in surplus or deficit on the provision of services (unless the Code requires or permits inclusion in the cost of an asset):

- a) service cost comprising: current service cost, past service cost and any gain and loss on settlement (see paragraphs 6.4.3.3 to 6.4.3.7, [6.4.3.28B](#) and 6.4.3.15 to 6.4.3.23)

- b) net interest on the net defined benefit liability (asset) (see paragraphs 6.4.3.29 to 6.4.3.32), and
- c) remeasurements of the net defined benefit liability (asset) (see paragraphs 6.4.3.33 to 6.4.3.37).

Long-term disability benefit

6.2.3.5 Under the Code long-term disability benefits are usually accounted for as an 'other long-term benefit' since in accordance with IAS 19 they are presumed not to be subject to the same degree of uncertainty as the measurement of post-employment benefits. However, in accordance with IPSAS 39 this is a rebuttable presumption under the Code; and where this presumption is rebutted an authority shall consider whether some or all long-term disability payments should be accounted for in the same way as defined benefit post-employment benefits. The interpretation of IAS 19 was introduced by IPSAS 25 (it is also included in IPSAS 39) because disability benefits related to certain areas of service provision, such as the military, may be financially highly significant and related gains and losses highly volatile. This has been adopted by the Code since similar considerations may apply to certain local authority services such as police forces and fire and rescue services, where long-term disability benefit may be both material and volatile.

6.2.3.6 If the level of long-term disability benefit depends on the length of service, an obligation arises when the service is rendered. Measurement of that obligation reflects the probability that payment will be required and the length of time for which payment is expected to be made. If the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognised when an event occurs that causes a long-term disability.

6.2.4 Disclosure

6.2.4.1 Although this section of the Code does not require specific disclosures about short or long-term employee benefits, other sections of the Code may require disclosures; for example, paragraph 3.4.2.45 requires disclosure of employee benefits. Paragraph 3.4.2.52 of the Code requires disclosure when items of income and expense are material.

6.2.5 Statutory accounting and disclosure requirements

6.2.5.1 Regulations in England and Wales, the accounts direction in Northern Ireland and statutory guidance in Scotland require that the general fund is not charged with amounts in respect of short-term accumulating compensated absences until the liability in respect of that absence ceases or is discharged (see part 2 of Appendix B for the legislative basis). Where the surplus or deficit on the provision of services includes a charge in respect of short-term accumulating compensated absences for which a liability exists on the balance sheet, authorities shall credit the general fund and debit the accumulated absences account (employee statutory adjustment

account in Scotland, accumulated absences reserve in Northern Ireland) with an equivalent amount; this transfer shall be reported in the movement in reserves statement. Once the liability is removed from the balance sheet, the transfer shall be reversed and reported in the movement in reserves statement.

6.2.5.2 Regulations in England and Wales require that the general fund is only charged with amounts in respect of other long-term employee benefits when payments are made. This treatment matches that for post-employment (pension) benefits, and authorities shall apply the statutory accounting requirements in respect of pension benefits (see paragraphs 6.4.3.38 to 6.4.3.41) to other long-term employee benefits.

6.2.6 Changes since the 20198/2019 Code

6.2.6.1 There have been no changes to the Benefits Payable During Employment section of the Code since the 20198/2019 Code.

6.3 TERMINATION BENEFITS

6.3.1 Introduction

6.3.1.1 Authorities shall account for termination benefits in accordance with IAS 19 *Employee Benefits*, except where adaptations to fit the public sector are detailed in the Code. IPSAS 39 *Employee Benefits* is based on IAS 19, and provides additional guidance for public sector bodies.

Termination benefits are dealt with separately from other employee benefits because the event which gives rise to an obligation is the termination rather than employee service.

6.3.1.2 Voluntary early retirement under scheme rules is not a termination benefit since such benefit is a right of all scheme members. They are post-employment benefits rather than termination benefits and shall be accounted for as post-employment benefits.

6.3.1.3 Termination benefits do not include employee benefits resulting from termination of employment at the request of the employee without an authority's offer, or as a result of mandatory retirement requirements, because those benefits are post-employment benefits.

6.3.1.4 The form of the employee benefit does not determine whether it is provided in exchange for service or in exchange for termination of the employee's employment. Termination benefits are often lump-sum payments, but sometimes also include:

- a) enhancement of post-employment benefits, either indirectly through an employee benefit plan or directly, and
- b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the authority.

Adaptation and interpretation for the public sector context

6.3.15 There are no adaptations or interpretations for the public sector context.

6.3.2 Accounting requirements

Recognition

6.3.21 An authority shall recognise a liability and expense for termination benefits at the earlier of the following dates:

- a) when the authority can no longer withdraw the offer of those benefits, and
- b) when the authority recognises costs for a restructuring that is within the scope of Section 8.2 of the Code and IAS 37 and involves the payment of termination benefits.

6.3.22 For termination benefits payable as a result of an employee's decision to accept an offer of benefits in exchange for the termination of employment, the time when an authority can no longer withdraw the offer of termination benefits is the earlier of:

- a) when the employee accepts the offer, and
- b) when a restriction (eg a legal, regulatory or contractual requirement or other restriction) on the authority's ability to withdraw the offer takes effect. This would be when the offer is made, if the restriction existed at the time of the offer.

6.3.23 For termination benefits payable as a result of an authority's decision to terminate an employee's employment, the authority can no longer withdraw the offer when the authority has communicated to the affected employees a plan of termination meeting all of the following criteria:

- a) Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made.
- b) The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date.
- c) The plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

6.3.24 When an authority recognises termination benefits, the authority may also have to account for a plan amendment or a curtailment of other employee benefits.

Measurement

6.3.25 An authority shall measure termination benefits on initial recognition, and shall measure and recognise subsequent changes, in accordance with the nature of the employee benefit, provided that if the termination benefits are an enhancement to post-employment benefits, the authority

shall apply the requirements for post-employment benefits. Otherwise:

- a) If the termination benefits are expected to be settled wholly before 12 months after the end of the annual reporting period in which the termination benefit is recognised, the authority shall apply the requirements for short-term employee benefits.
- b) If the termination benefits are not expected to be settled wholly before 12 months after the end of the annual reporting period, the authority shall apply the requirements for other long-term employee benefits.

6326 As termination benefits are not provided in exchange for service, paragraph 6.4.3.3 relating to the attribution of the benefit to periods of service is not relevant.

6.3.3 Disclosure

6331 Although this section of the Code does not require specific disclosures about termination benefits, other sections of the Code may require disclosures; for example, paragraph 3.4.2.45 requires disclosure of employee benefits. Paragraph 3.4.2.52 of the Code requires disclosure when items of income and expense are material.

6.3.4 Statutory accounting and disclosure requirements

6341 There are no explicit statutory accounting requirements or disclosure requirements relating to termination benefits. There are, however, statutory reporting requirements across the UK for compensation for loss of office. Where termination benefits are in the form of pension enhancements (usually in the form of added years), they shall be treated as pension costs for the purposes of the statutory transfer between the pensions reserve and the general fund of the amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations.

6.3.5 Changes since the 2019/2020 Code

6351 There have been no changes to the Termination Benefits section of the Code since the 2019/2020 Code.

6.4 POST-EMPLOYMENT BENEFITS

6.4.1 Introduction

6411 Authorities shall account for post-employment benefits in accordance with IAS 19 *Employee Benefits*, except where adaptations to fit the public sector are detailed in the Code. IPSAS 39 *Employee Benefits* is based on IAS 19 and provides additional guidance to public sector bodies. Note that for the rate used to discount post-employment benefit obligations IPSAS 39 requires

that entities apply a rate that reflects the time value of money. This Code requires reference to market yields at the end of the reporting period on high quality corporate bonds. Post-employment benefits include not only pensions but also other benefits such as life insurance and medical care that is provided post-employment. The pension plans in which local authority employees participate in effect provide post-employment life insurance in the form of guaranteeing that a minimum of, say, five years' pension will be paid if the pensioner dies before the end of the guaranteed period. Such minimum payment guarantees do not result in any different accounting requirements from other pension benefits.

6.4.12 The pension plans in which local authority employees participate do not provide medical benefits or free-standing post-employment life insurance, so the matter is not covered in detail by the Code. Where such non-pension post-employment benefits are provided, the relevant requirements of IAS 19 apply.

6.4.13 Post-employment benefit plans are classified as either:

- a) defined contribution plans, or
- b) defined benefit plans.

If a pension plan does not meet the definition of a defined contribution plan it shall be classified as a defined benefit plan.

6.4.14 Under defined contribution plans the employer's obligation is limited to the amount that it has agreed to contribute to the fund. In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee. Under defined benefit plans the employer bears at least some of the actuarial and investment risks associated with the plan and often bears substantially all of the risk.

Classification of schemes

6.4.15 Authorities' pension costs arising from the following schemes shall be accounted for in accordance with the Code's requirements for defined benefit pension plans:

- a) the Local Government Pension Scheme (in England and Wales), except as allowed for in paragraph 6.4.1.8 b)
- b) the Local Government Pension Scheme (in Scotland), except as allowed in paragraph 6.4.1.8 b)
- c) the Northern Ireland Local Government Officers Superannuation Scheme
- d) the Police and Firefighters' Pension Schemes.

Termination benefits paid in the form of an enhancement of pension benefits shall be accounted for in accordance with Section 6.3 of the Code – Termination Benefits.

6.4.16 Where the authority participates in any other material defined benefit pension plans they shall be accounted for in accordance with the Code's requirements for defined benefit pension plans.

6.4.1.7 In certain circumstances an authority whose pension plan provides defined benefit pension benefits to its employees is required to account for the pension plan as if it were a defined contribution plan. The circumstances are where:

- a) the authority's only obligation is to pay contributions as they fall due and the authority has no obligation to pay future benefits
- b) an authority is not able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:
 - i) the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan, or
 - ii) the authority does not have access to information about the plan that satisfies the above requirement.

6.4.1.8 Defined benefit schemes that meet the criteria in paragraph 6.4.1.7 include:

- a) the Teachers' Pension Scheme administered by the Department for Education (DfE) for England and Wales and by the Scottish Government for Scotland
- b) the Local Government Pension Scheme (LGPS) in relation to the participation of minor non-principal authorities (such as joint committees, port health authorities and conservation boards and other bodies per Appendix A of DCLG Circular 03/2006 as updated) that prepare their accounts in accordance with the Code, unless contributions are set on the basis of the authority's specific circumstances.

Determining the net defined benefit liability (asset) with sufficient regularity

6.4.1.9 The IAS 19 requirement that the net defined benefit liability (asset) shall be determined with 'sufficient regularity' has been adapted by the Code to mean "between the formal actuarial valuations every three years (and four years for police and firefighters' pension funds), there shall be approximate assessments in intervening years. Acceptable approximations shall include adjusting full valuation results using latest membership data" (see paragraph 6.4.3.26).

6.4.2 Defined contribution plans (and defined benefit plans required to be accounted for as if they were defined contribution plans – see paragraphs 6.4.1.7 and 6.4.1.8)

Accounting requirement

6.4.2.1 When an employee has rendered service to an authority during a period, the authority shall recognise the contribution payable in exchange for that service:

- a) as a liability (accrued expense). If the contribution already paid exceeds the contribution due for service before the balance sheet date, an authority shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund, and
- b) as an expense, unless the Code requires or permits the inclusion of the contribution in the cost of an asset.

An asset or liability is recognised in the period-end balance sheet only to the extent that there are prepaid or outstanding contributions at the balance sheet date.

Statutory accounting requirements

6.4.2.2 There are no statutory accounting requirements for defined contribution plans and defined benefit plans required to be accounted for as if they were defined contribution plans.

Disclosure

6.4.2.3 An authority shall disclose the amount recognised as an expense for defined contribution plans.

6.4.2.4 Where a pension plan which provides defined benefits to employees is required by the Code to be accounted for by an employer as if it were a defined contribution plan the authority shall disclose information required by paragraph 6.4.3.42 14).

Statutory disclosure requirements

6.4.2.5 There are no statutory disclosures required for defined contribution plans and defined benefit plans required to be accounted for as if they were defined contribution plans.

6.4.3 Defined benefit plans

Accounting requirements

Accounting for the constructive obligation

6.4.3.1 An authority shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the authority's informal practices. Informal practices give rise to a constructive obligation where the authority has no realistic alternative but to pay employee benefits.

Recognition and measurement

6.4.3.2 Accounting by an authority for defined benefit plans involves the following steps:

- a) Determining the deficit or surplus; this involves:
 - i) using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the authority of the benefit that employees have

earned in return for their service in the current and prior periods

- ii) discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost, and
- iii) deducting the fair value of any plan assets from the present value of the defined benefit obligation.
- b) Determining the amount of the net defined benefit liability (asset) as the amount of the deficit or surplus determined in a), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (see paragraph 64 of IAS 19).
- c) Determining amounts to be recognised in the surplus or deficit on the provision of services, ie:
 - i) current service cost
 - ii) any past service cost and gain or loss on settlement, and
 - iii) net interest on the net defined benefit liability (asset).
- d) Determining the remeasurements of the net defined benefit liability (asset), to be recognised in other comprehensive income and expenditure, comprising:
 - i) actuarial gains and losses
 - ii) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset), and
 - iii) any change in the effect of the asset ceiling (see paragraph 64 of IAS 19), excluding amounts included in net interest on the net defined benefit liability (asset).

Estimating the cost to the authority of the benefit that employees have earned in return for their service in the current and prior periods

6433 Actuarial techniques are used to:

- a) Make a reliable estimate of the ultimate cost to the authority of the benefit that employees have earned in return for their service in the current and prior periods. This requires an authority to determine how much benefit is attributable to the current and prior periods (see b) below) and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover, expected early retirement where the employee has the right under the plan rules and mortality) and financial variables (such as future increases in salaries) that will affect the cost of the benefit.
- b) Determine how much benefit is attributable to the current and prior periods. Benefits shall be attributed to periods of service in accordance with a plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, benefit shall be attributed on a straight-line basis until the date when further service by the employee will lead to no material amount of further benefits.

6.4.3.4 Actuarial assumptions shall be unbiased and mutually compatible. They are unbiased if they are neither imprudent nor excessively conservative. Financial assumptions shall normally be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.

6.4.3.4B Where, however, a plan amendment, curtailment or settlement occurs during the reporting period the amended assumptions, as used for the remeasurement of the net defined benefit liability (asset), will be applied in relation to the benefits for the remainder of the reporting period only where the treatment is material for the users of the accounts. The quantitative materiality of a plan amendment, curtailment or settlement during the reporting period should be initially assessed on a proxy basis by considering:

- The proportion of active scheme members currently employed by the authority affected by the change
- and
- The extent to which the actuarial assumptions required are different from those which would apply if the assumptions were not amended

6.4.3.5 Where a benefit does not vest immediately (eg because of a qualifying period of service), the probability that some employees may not satisfy the vesting conditions and not become entitled to the benefit shall be taken into account in measuring the pension obligation.

Discounting the benefit to determine the present value of the defined benefit obligation and current service cost

6.4.3.6 The projected unit credit method shall be used to determine the present value of an authority's defined benefit obligation and the related current service cost and, where applicable, past service cost. This method views each period of service as giving rise to an additional unit of benefit entitlement, with each unit being measured separately to build up the obligation.

6.4.3.7 The rate used to discount post-employment benefit obligations shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds, unless paragraph 6.4.3.4B applies. The currency and term of the corporate bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.

Deducting the fair value of any plan assets from the present value of the defined benefit obligation

6.4.3.8 The fair value of any plan assets is deducted in determining the defined benefit liability. Plan assets exclude unpaid contributions due from the reporting authority to the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, trade and other payables and liabilities resulting from derivative financial instruments.

Reimbursements

6439 Sometimes, an authority is able to look to another party, such as an insurer, to reimburse some of the expenditure required to settle a defined benefit obligation. Qualifying insurance policies as defined in paragraph 6.1.2.1 are plan assets and are accounted for as other plan assets. Other reimbursement (such as non-qualifying insurance policies and the pension top-up grants received by local policing bodies⁴³ and fire and rescue service authorities from their sponsoring departments) are not included in plan assets but rather recognised as a separate asset. The reimbursement right shall be recognised when, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation. When, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, an authority shall:

- a) Recognise its right to reimbursement as a separate asset. The authority shall measure the asset at fair value.
- b) Disaggregate and recognise changes in the fair value of its right to reimbursement in the same way as for changes in the fair value of plan assets. The components of defined benefit cost may be recognised net of amounts relating to changes in the carrying amount of the right to reimbursement.

64310 The pension top-up grant received from their sponsoring government departments by local policing bodies⁴⁴ and fire and rescue service authorities can sometimes be a negative amount because of the way the formula operates. In such a case the obligation to make a payment to the sponsoring department shall be recognised as a separate liability rather than included as an addition in determining the defined benefit liability.

64311 Where the right to reimbursement which arises under an insurance policy or a legally binding agreement exactly matches the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations.

Past service cost and gains and losses on settlement

64312 An authority need not distinguish between past service cost resulting from a plan amendment, past service cost resulting from a curtailment and a gain or loss on settlement if these transactions occur together.

⁴³ As defined in Section 96 of the Police Reform and Social Responsibility Act 2011.

⁴⁴ As defined in Section 96 of the Police Reform and Social Responsibility Act 2011.

6.4.3.13 ~~Before~~ When determining past service cost, or a gain or loss on settlement, an authority shall remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions, ~~including current market interest rates and other current market prices,~~ reflecting:

~~a) the benefits offered under the plan~~ and the plan assets before the plan amendment, curtailment or settlement; ~~and~~

b) the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement.

6.4.3.14 A settlement occurs together with a plan amendment and curtailment if a plan is terminated with the result that the obligation is settled and the plan ceases to exist. However, the termination of a plan is not a settlement if the plan is replaced by a new plan that offers benefits that are, in substance, the same.

~~6.4.3.14B When a plan amendment, curtailment or settlement occurs, an authority shall recognise and measure any past service cost, or a gain or loss on settlement, in accordance with paragraphs 6.4.3.12 - 6.4.3.14 and paragraphs 6.4.3.15 – 6.4.3.23. In doing so, an authority shall not consider the effect of the asset ceiling. An entity shall then determine the effect of the asset ceiling after the plan amendment, curtailment or settlement and shall recognise any change in that effect in accordance with paragraph 6.4.3.2 d). In measuring past service cost, or a gain or loss on settlement, as a result of a plan amendment, curtailment or settlement an authority shall not consider the effect of the asset ceiling. An authority shall determine the effect of the asset ceiling after the plan amendment, curtailment or settlement.~~

Past service cost

6.4.3.15 Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment.

6.4.3.16 An authority shall recognise past service cost as an expense at the earlier of the following dates:

- a) when the plan amendment or curtailment occurs, and
- b) when the authority recognises related restructuring costs (see Section 8.2 of the Code and IAS 37) or termination benefits (see Section 6.3 of the Code and paragraph 165 of IAS 19).

6.4.3.17 A plan amendment occurs when an authority introduces, or withdraws, a defined benefit plan or changes the benefits payable under an existing defined benefit plan.

- 6.4.3.18 A curtailment occurs when an authority significantly reduces the number of employees covered by a plan. A curtailment may arise from an isolated event, such as the closing of a part of an authority, discontinuance of an operation or termination or suspension of a plan.
- 6.4.3.19 Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when benefits are withdrawn or changed so that the present value of the defined benefit obligation decreases).
- 6.4.3.20 Where a defined benefit plan's benefits payable are reduced at the same time as the benefits payable are increased under the plan for the same employees, the authority shall treat the change as a single net change.

Gains and losses on settlement

- 6.4.3.21 An authority shall recognise a gain or loss on the settlement of a defined benefit plan when the settlement occurs.
- 6.4.3.22 The gain or loss on a settlement is the difference between:
- a) the present value of the defined benefit obligation being settled, as determined on the date of settlement, and
 - b) the settlement price, including any plan assets transferred and any payments made directly by the authority in connection with the settlement.
- 6.4.3.23 A settlement occurs when an authority enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan (other than a payment of benefits to, or on behalf of, employees in accordance with the terms of the plan and included in the actuarial assumptions).

Balance sheet

- 6.4.3.24 An authority shall recognise the net defined benefit liability (asset) in the balance sheet.
- 6.4.3.25 The defined benefit liability determined under paragraph 6.4.3.24 may be negative (ie an asset). Where this is the case there is a limit on the amount that can be recognised on the balance sheet as an asset. Any minimum funding requirement of the pension plan may also affect the amount that can be recognised as an asset. Where paragraph 6.4.3.24 indicates a negative liability (ie an asset), the amount to be recognised on the balance sheet shall be determined in accordance with IAS 19 paragraph 64 and IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.
- 6.4.3.26 An authority shall determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period. This shall be interpreted to mean that between the formal actuarial valuations every three years (and four years for police and firefighters' pension funds), there shall be approximate assessments in intervening

years. Acceptable approximations shall include adjusting full valuation results using the latest available membership data.

Components of defined benefit cost

6.4.3.27 An authority shall recognise the components of defined benefit cost, except to the extent that the Code requires or permits their inclusion in the cost of an asset, as follows:

- a) service cost comprising:
 - i) current service cost (6.4.3.3 to 6.4.3.7 and 6.4.3.28B)
 - ii) past service cost (6.4.3.12 to 6.4.3.20)
 - iii) any gain or losses on settlement (6.4.3.21 to 6.4.3.23)

in the surplus or deficit on the provision of services

- b) net interest on the net defined benefit liability (asset) in the surplus or deficit on the provision of services (6.4.3.29 to 6.4.3.32), and
- c) remeasurements of the net defined benefit liability (asset) in other comprehensive income and expenditure (6.4.3.33 to 6.4.3.37).

6.4.3.28 Remeasurements of the net defined benefit liability (asset) recognised in other comprehensive income and expenditure shall not be reclassified to the surplus or deficit on the provision of services in a subsequent period.

Current service cost

6.4.3.28B An authority shall determine current service cost using actuarial assumptions determined at the start of the annual reporting period. However, if an authority remeasures the net defined benefit liability (asset) in accordance with 6.4.3.13 (b), it shall determine current service cost for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) in accordance with paragraph 6.4.3.13 (b).

Net interest on the net defined benefit liability (asset)

6.4.3.29 An authority shall determine nNet interest on the net defined benefit liability (asset) ~~shall be determined~~ by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph 6.4.3.7, both as determined at the start of the annual reporting period, ~~taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.~~ If, however, an authority has remeasured the net defined benefit liability (asset) as required by paragraph 6.4.3.13 it shall, in relation to the remainder of the reporting period:

- a) use the net defined benefit liability (asset) determined in accordance with ~~applying~~ paragraph 6.4.3.13

b) use the discount rate used to remeasure the net defined liability (asset) in ~~applying accordance~~ with paragraph 6.4.3.13.

The authority shall also take account of any changes in the net defined benefit liability (asset) during the period as a result of contributions ~~or and~~ benefit payments.

643.30 Net interest on the net defined benefit liability (asset) can be viewed as comprising interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling referred to in paragraph 64 of IAS 19.

643.31 Interest income on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate specified in paragraph 6.4.3. ~~297, both as determined at the start of the annual reporting period. An authority shall determine the fair value of the plan assets at the start of the annual reporting period. However, if an authority remeasures the net defined benefit liability (asset) in accordance with paragraph 6.4.3.14, the authority shall determine interest income for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the plan assets used to remeasure the net defined benefit liability (asset) in accordance with paragraph 6.4.3.13 b). In applying this ~~his~~ paragraph (6.4.3.31) the authority shall also take into account any changes in the plan assets held during the period resulting from contributions or benefit payments, taking account of any changes in the plan assets held during the period as a result of contributions and benefit payments.~~ The difference between the interest income on plan assets and the return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

643.32 Where plan assets and liabilities are subject to an asset ceiling, interest on the effect of the asset ceiling should be determined in accordance with the requirements of paragraph 126 of IAS 19.

Remeasurements of the net defined benefit liability (asset)

643.33 Remeasurements of the net defined benefit liability (asset) comprise:

- a) actuarial gains and losses
- b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset), and
- c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

643.34 Actuarial gains and losses result from increases or decreases in the present value of the defined benefit obligation because of changes in actuarial assumptions and experience adjustments.

Causes of actuarial gains and losses include, for example:

- a) unexpectedly high or low rates of employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs
- b) the effect of changes to assumptions concerning benefit payment options
- c) the effect of changes in estimates of future employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs, and
- d) the effect of changes in the discount rate.

643.35 Actuarial gains and losses do not include changes in the present value of the defined benefit obligation because of the introduction, amendment, curtailment or settlement of the defined benefit plan, or changes to the benefits payable under the defined benefit plan. Such changes result in past service cost or gains or losses on settlement.

643.36 In determining the return on plan assets, an authority is required to deduct the costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation. Other administration costs are not deducted from the return on plan assets.

643.37 The movement in remeasurements of the net defined liability (asset) for the reporting period shall be recognised in the pensions reserve.

Statutory accounting requirements

Pensions reserve

643.38 Local authorities in England, Scotland, Wales and Northern Ireland are required not to charge to revenue expenditure in respect of liabilities for retirement benefits and to maintain a pensions reserve to which the pensions liabilities are charged (see part 2 of Appendix B for the legislative basis). Under local government finance legislation, 'revenue' means the general fund (or general fund equivalent such as the police fund), or the Housing Revenue Account.

643.39 The amount that shall be charged to the general fund for providing pensions for employees is the amount payable for the year in accordance with the statutory requirements governing the particular pension schemes or funds in which the authority participates. Where this amount does not match the amount charged to surplus or deficit on the provision of services for the year under the Code, the difference shall be taken to the pensions reserve.

643.40 The amount that shall be charged to the Housing Revenue Account for providing pensions for employees is the amount payable for the year in accordance with the statutory requirements governing the particular pension schemes or funds in which the authority participates. Where

the amount payable for the year in accordance with the scheme requirements does not match the amount included in the HRA income and expenditure statement for the year, the recognised cost of pensions borne by the HRA will not match the amount required by statute. This should be dealt with by showing the difference as a reconciling item in the statement of movement on the HRA balance.

6.43.41 Where the pension costs charged to surplus or deficit on the provision of services or HRA income and expenditure statement under the Code are:

- larger than the amount payable for the year in accordance with the scheme requirements, the general fund balance or HRA Reserve as appropriate should be credited and the pensions reserve debited with the difference
- smaller than the amount payable for the year in accordance with the scheme requirements, the general fund balance or HRA Reserve as appropriate should be debited and the pensions reserve credited with the difference.

Disclosures

6.43.42 The following disclosures shall be made for defined benefit plans:

- 1) An authority shall disclose information that:
 - a) explains the characteristics of its defined benefit plans and risks associated with them (see 5) below)
 - b) identifies and explains the amounts in its financial statements arising from its defined benefit plans (see 6)–10) below), and
 - c) describes how its defined benefit plans may affect the amount, timing and uncertainty of the authority's future cash flows (see 11)–13) below).
- 2) To meet the objectives in 1) above, an authority shall consider all the following:
 - a) the level of detail necessary to satisfy the disclosure requirements
 - b) how much emphasis to place on each of the various requirements
 - c) how much aggregation or disaggregation to undertake, and
 - d) whether users of financial statements need additional information to evaluate the quantitative information disclosed.
- 3) If the disclosures provided in accordance with the requirements in this and other sections of the Code are insufficient to meet the objectives in 1) above, an authority shall disclose additional information necessary to meet those objectives. For example, an authority may present an analysis of the present value of the defined benefit obligation that distinguishes the nature, characteristics and risks of the obligation. Such a disclosure could distinguish:
 - a) between amounts owing to active members, deferred members, and pensioners

- b) between vested benefits and accrued but not vested benefits
- c) between conditional benefits, amounts attributable to future salary increases and other benefits.
- 4) An authority shall assess whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks. For example, an authority may disaggregate disclosure about plans showing one or more of the following features:
 - a) different characteristics such as flat salary pension plans, or other benefit structures
 - b) different funding arrangements, or
 - c) different regulatory requirements.

Characteristics of defined benefit plans and risks associated with them

- 5) An authority shall disclose:
 - a) information about the characteristics of its defined benefit plans, including:
 - i) the nature of the benefits provided by the plan
 - ii) a description of the regulatory framework in which the plan operates
 - iii) a description of any other authority's responsibilities for the governance of the plan; for example, responsibilities of trustees or of board members of the plan
 - b) a description of the risks to which the plan exposes the authority, focused on any unusual, authority-specific or plan-specific risks, and of any significant concentrations of risk, eg if plan assets are invested primarily in one class of investments; the risks of the membership of a scheme as a result of the incidence of particular demographic factors
 - c) a description of any plan amendments, curtailments and settlements.

Explanation of amounts in the financial statements

- 6) An authority shall provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable:
 - a) the net defined benefit liability (asset), showing separate reconciliations for:
 - i) plan assets
 - ii) the present value of the defined benefit obligation
 - iii) the effect of the asset ceiling
 - b) any reimbursement rights; an authority shall also describe the relationship between any reimbursement right and the related obligation.

- 7) Each reconciliation listed in 6) above shall show each of the following, if applicable:
 - a) current service cost
 - b) interest income or expense
 - c) remeasurements of the net defined benefit liability (asset), showing separately:
 - i) the return on plan assets, excluding amounts included in interest in b)
 - ii) actuarial gains and losses arising from changes in demographic assumptions
 - iii) actuarial gains and losses arising from changes in financial assumptions
 - iv) changes in the effect of limiting a net defined benefit asset to the asset ceiling, excluding amounts included in interest in b). An authority shall also disclose how it determined the maximum economic benefit available, ie whether those benefits would be in the form of refunds, reductions in future contributions or a combination of both
 - d) past service cost and gains and losses arising from settlements; as permitted by paragraph 6.4.3.12 of the Code, past service cost and gains and losses arising from settlements need not be distinguished if they occur together
 - e) the effect of changes in foreign exchange rates
 - f) contributions to the plan, showing separately those by the employer and by plan participants
 - g) payments from the plan, showing separately the amount paid in respect of any settlements
 - h) the effects of business combinations and disposals.
- 8) Subject to the application of paragraph 2.1.2.14B2 to ensure that material information is not obscured⁴⁵, An authority shall disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active market (as defined in IFRS 13 *Fair Value Measurement*) and those that do not; for example, and considering the level of disclosure discussed in 2) above, an authority could distinguish between:
 - a) cash and cash equivalents
 - b) equity instruments (segregated by industry type, company size, geography, etc)
 - c) debt instruments (segregated by type of issuer, credit quality, geography, etc)
 - d) real estate (segregated by geography, etc)
 - e) derivatives (segregated by type of underlying risk in the contract; for example,

⁴⁵ Note that in order to complete the Whole of Government Accounts returns currently requires an analysis showing the proportion of assets in equities, bonds and other assets is required.

interest rate contracts, foreign exchange contracts, equity contracts, credit contracts, longevity swaps, etc)

- f) investment funds (segregated by type of fund)
- g) asset-backed securities, and
- h) structured debt.

- 9) Subject to the application of paragraph 2.1.2.14B2 to ensure that material information is not obscured, Aan authority shall disclose the fair value of the authority's own transferable financial instruments held as plan assets, and the fair value of plan assets that are property occupied by, or other assets used by, the authority.
- 10) Subject to the application of paragraph 2.1.2.14B2 to ensure that material information is not obscured⁴⁶, Aan authority shall disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation. Such disclosure shall be in absolute terms (eg as an absolute percentage, and not just as a margin between different percentages and other variables). When an authority provides disclosures in total for a grouping of plans, it shall provide such disclosures in the form of weighted averages or relatively narrow ranges.

Amount, timing and uncertainty of future cash flows

- 11) Subject to the application of paragraph 2.1.2.14B2 to ensure that material information is not obscured, Aan authority shall disclose:
 - a) a sensitivity analysis for each significant actuarial assumption (as disclosed under 10)) as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date
 - b) the methods and assumptions used in preparing the sensitivity analyses required by a) and the limitations of those methods
 - c) changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.
- 12) Subject to the application of paragraph 2.1.2.14B2 to ensure that material information is not obscured, Aan authority shall disclose a description of any asset-liability matching strategies used by the plan or the authority, including the use of

⁴⁶ Note that in order to complete the Whole of Government Accounts returns currently require information on assumptions relating to the rate of increase in salaries, the rate of increases in pensions in payment, the discount rate (nominal) and inflation is required.

annuities and other techniques, such as longevity swaps, to manage risk.

- 13) To provide an indication of the effect of the defined benefit plan on the authority's future cash flows, an authority shall disclose:
 - a) a description of any funding arrangements and funding policy that affect future contributions
 - b) the expected contributions to the plan for the next annual reporting period
 - c) information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.
- 14) Local authorities participating in a multi-employer defined benefit plan (the CIPFA/LASAAC Code Board considers that this might be the case where employers in the same LGPS fund are pooled for the purposes of calculating the common contribution rate for the pool) including those plans that are also accounted for as defined contribution plans in accordance with paragraphs 6.4.1.7 and 6.4.1.8 shall disclose:
 - a) a description of the funding arrangements, including the method used to determine the authority's rate of contributions and any minimum funding requirements (NB the authority may wish to amalgamate the disclosure requirements of paragraph 13 a) with this requirement)
 - b) a description of the extent to which the authority can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan
 - c) a description of any agreed allocation of a deficit or surplus on the authority's withdrawal from the plan
 - d) if the authority accounts for that plan as if it were a defined contribution plan in accordance with paragraphs 6.4.1.7 and 6.4.1.8, it shall disclose the following, in addition to the information required by a)–c) and instead of the information required by disclosures 5 to 13 above:
 - i) the fact that the plan is a defined benefit plan
 - ii) the reason why sufficient information is not available to enable the authority to account for the plan as a defined benefit plan
 - iii) the expected contributions to the plan for the next annual reporting period
 - iv) information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the authority
 - v) an indication of the level of participation of the authority in the plan compared with other participating entities. Examples of measures that might provide such an indication include the authority's proportion of the total contributions to the

plan or the authority's proportion of the total number of active members, retired members, and former members entitled to benefits, if that information is available.

Statutory disclosure requirements

6.4.3.43 There are no statutory disclosure requirements for defined benefit plans.

6.4.4 Changes since the 2019/20 Code

6.4.4.1 The [post-employment benefits section of the Code has been updated for the amendments to IAS 19: Plan Amendment, Curtailment or Settlement](#). ~~There have been no changes to the Post-employment Benefits section of the Code since the 2018/19 Code.~~

6.5 ACCOUNTING AND REPORTING BY PENSION FUNDS

6.5.1 Introduction

6.5.1.1 The objective of IAS 26 *Retirement Benefit Plans* is to provide guidance on the form and content of the financial statements prepared by retirement benefit plans. However, IAS 26 does not require retirement benefit plan statements to be prepared; rather it requires IAS 26 to be applied "where such statements are prepared". It complements IAS 19 *Employee Benefits*, which deals with the determination of the cost of retirement benefits in the financial statements of employers. Authorities shall account for retirement benefit plans in accordance with IAS 26, except where adaptations to fit the public sector are detailed in the Code.

6.5.1.2 IAS 26 (unlike the Pension SORP⁴⁷ under UK GAAP) does not set out to comprehensively specify the requirements for preparing financial statements for a retirement benefit plan; and other relevant provisions of IFRS apply to the extent that they are not superseded by specific IAS 26 requirements. So, for example, to the extent that they are not superseded by specific IAS 26 requirements:

- the IFRS financial instruments standards (IFRS 9, IAS 32 and IFRS 7 (as adapted by the Code)) govern the recognition, measurement, presentation and disclosure of financial instruments as specified in Section 7.3 of the Code (although many requirements are inapplicable since all material financial instruments are carried at fair value through profit or loss)
- the section of IAS 19 (as adapted by the Code) on post-employment benefits governs the measurement of a plan's obligation to provide pension benefits, and

⁴⁷ The current SORP is the *Financial Reports of Pension Schemes – A Statement of Recommended Practice* (2015).

- the IFRS 13 scope exclusion for fair value investment disclosures for IAS 26 has been removed and IFRS 13 has been adapted in Section 2.10 of the Code, therefore IFRS 13 *Fair Value Measurement* disclosures apply to those investments.

65.13 Similarly, this section of the Code does not by itself specify all the requirements for preparing retirement benefit plan financial statements; other relevant provisions of the Code apply to the extent they are not superseded by this section of the Code. However, to facilitate preparation of retirement benefit plan statements, this Code includes some requirements drawn from other parts of IFRS and legislation where these are clearly applicable (eg because a plan holds financial instruments) in addition to specific IAS 26 based requirements.

65.14 Under IAS 26 and the Code, a retirement benefit plan is a reporting entity separate from the employers of the participants in the fund for financial reporting purposes. This was congruent with the 2009 SORP, which required authorities that administer pension funds (administering authorities) to include pension fund accounts in their statements of accounts. Retirement benefit plans are more commonly referred to in the UK as pension funds and ‘pension fund’ is the terminology adopted by the Code.

Pension fund annual reports

65.15 Under the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Scotland) Regulations 2018, administering authorities of LGPS funds are required to prepare a pension fund annual report. The annual report is not required to be included in the administering authority’s main statement of accounts, but is required to be published separately. Regulations⁴⁸ require pension fund annual reports to include a “fund account and net assets statement with supporting notes and disclosures prepared in accordance with proper practices”.

65.16 The proper practices for the preparation of both the pension fund accounts included in an administering authority’s statement of accounts and those required to be included in the pension fund annual report are contained in the Code.

65.17 After consulting with key stakeholders on the matter, CIPFA/LASAAC has concluded that the statutory requirement for administering authorities to prepare pension fund annual reports does not change the requirement for them to include pension fund accounts in their statements of accounts. CIPFA/LASAAC has raised with key stakeholders the issue of whether, for the future, legislation should be amended to allow administering authorities that publish an annual pension fund report containing pension fund accounts prepared in accordance with proper practices not to include pension fund accounts in their main statement of accounts, but rather to disclose how the pension fund annual report can be accessed or obtained.

⁴⁸ Regulation 57 of the Local Government Pension Scheme Regulations 2013 (for England and Wales) or Regulation 55 (1) (f) of the Local Government Pension Scheme (Scotland) Regulations 2018.

- 6.5.18 The Scottish Government has specified in Finance Circular 1/2018 that Scottish authorities administering local government pension schemes should publish separate financial statements for these schemes. The statutory guidance stipulates the minimum disclosure requirements within the administering authority's financial statements. These disclosures are set out in paragraph 6.5.5.4. The guidance that accompanies the statutory guidance confirms that the Code will continue to be regarded as proper accounting practices to be observed in the preparation and publication of Scottish local authority pension fund accounts.
- 6.5.19 Amendments to the Accounts and Audit (Wales) Regulations 2014 remove the requirement for the pension fund financial statements to be included in the statement of accounts for Welsh local authorities.

6.5.2 Adaptation and interpretation for the public sector context

Requirement to prepare pension fund accounts

- 6.5.21 IAS 26 does not require pension fund accounts to be prepared or indicate the circumstances that it would be appropriate to prepare pension fund accounts. Local policing bodies (local policing bodies in this section of the Code are those bodies defined in Section 96 of the Police Reform and Social Responsibility Act 2011) and fire and rescue service pension funds are single employer and unfunded and therefore the benefit of preparing IAS 26 compliant pension fund accounts is reduced since the police or fire and rescue services main statement of accounts will contain much of the relevant information. The Code does not require local policing bodies and fire and rescue service authorities to prepare IAS 26-based pension fund accounts. However, each individual local policing body and fire and rescue service authority (FRSA) in England and Wales is required by legislation to operate a pension fund and include pension fund accounts in its statement of accounts. This requirement was introduced in 2007/08 in England and Wales, when the funding arrangement changed from one where the police or FRSA met pension benefits directly, to one where the employer was required to pay an employer's contribution at a specified percentage rate and operate a pension fund.
- 6.5.22 For pension funds participating in the following pension schemes, pension fund accounts in accordance with paragraphs 6.5.3.1 to 6.5.5.1 of the Code shall be prepared by the local authority that administers the pension fund:
- a) the Local Government Pension Scheme (in England and Wales)
 - b) the Local Government Pension Scheme (in Scotland).

For pension funds participating in the following pension schemes, pension fund accounts in accordance with paragraphs 6.5.6.1 to 6.5.6.7 shall be prepared:

- a) the Firefighters' Pension Scheme for England
- b) the Firefighters' Pension Scheme for Wales
- c) the Police Pension Scheme in England and Wales.

- 6.523 The Code includes an interpretation of the disclosure on pension investment assets concentration in IAS 26 which aligns the Code with the *Financial Reports of Pension Schemes – A Statement of Recommended Practice (2015) (2015 Pension SORP)*⁴⁹.

Valuation of financial instruments

- 6.524 IAS 26 is a very old standard dating back to 1988 and one of its provisions is incompatible with the much more recently issued IAS 19. IAS 26 includes an option to carry securities that have a fixed redemption value and that have been acquired to match the obligations of the plan, or specific part thereof “at amounts based on their ultimate redemption value assuming a constant rate to maturity”. IAS 19 does not permit this and the option shall not be used under the Code.
- 6.525 IAS 26 requires marketable securities to be carried at market value; the Code clarifies that the market value that shall be used is the bid price in accordance with the provisions of IFRS 9 *Financial Instruments* for determining the fair value of financial instruments.

Analysis of investment assets and income

- 6.526 Paragraph 35 of IAS 26 requires the net assets available for benefit at the end of the period to be “suitably classified”. In order to ensure comparability between different local authority pension fund disclosures in this key area, requirements based on the *Financial Reports of Pension Schemes – A Statement of Recommended Practice (2015) (2015 Pension SORP)* have been included. For similar reasons, an analysis of investment income based on the Pension SORP has been adopted by the Code to ensure authorities also disclose comparable information in this area.

Additional voluntary contributions

- 6.527 The matter of additional voluntary contributions (AVCs) paid by members and separately invested outside the pension fund is not covered by IAS 26. The Code requires note disclosure of such AVC transactions. The Code note is based on the similar 2015 Pension SORP disclosure.

Actuarial present value of promised retirement benefits

- 6.528 IAS 26 requires the “actuarial present value of promised retirement benefits” to be disclosed, which is the IAS 26 terminology for what IAS 19 refers to as the “defined benefit obligation”. IAS 26 permits the valuation to be based on either current salary levels or projected salary levels. IAS 19 (and the Code) requires projected salary levels to be used when measuring the defined benefit obligation of an employer. Therefore, for consistency between what the employers participating in a pension fund disclose in their statements of accounts, and what the pension

⁴⁹ Note that the *Financial Reports of Pension Schemes – A Statement of Recommended Practice (2018) (2018 Pension SORP)* has been issued following CIPFA/LASAAC’s development processes for the 2019/20 Code. Updates to the Code for the issue of the 2018 Pension SORP will take place as a part of the development of the 2019/20 Code.

fund discloses as the 'defined benefit obligation' for the pension fund accounts as a whole, the option to use current salary levels is not permitted when measuring the actuarial present value of promised retirement benefits of a pension fund.

6529 IAS 26 requires the actuarial present value of promised retirement benefits to be disclosed. However, it gives three options for disclosure:

- **Option A** – in the net assets statement, in which case it requires the statement to disclose the resulting surplus or deficit
- **Option B** – in the notes to the accounts
- **Option C** – by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS 26 requires the most recent valuation (which should be based on IAS 19, not the pension fund's funding assumptions) to be used as a base and the date of the valuation disclosed. The Code Board is of the view that the options B and C outlined above do not require the assets and liabilities in the pension fund to represent the position at the end of the reporting period. The Code Board's preferred approach is option A in order that the assets and liabilities in the pension fund are disclosed at the end of the reporting period. However, the Code permits the use of options B and C.

65210 In the Code Board's view, it would be unhelpful to present as a surplus or deficit on the pension fund an amount derived by comparing the pension fund's assets at the balance sheet date with its pension liabilities at an earlier date. Option A may only be used where the actuarial present value of promised retirement benefits being disclosed is at the end of the reporting period. However, option A does not require a full actuarial valuation to be undertaken every year; the same actuarial techniques for rolling forward the last full triennial actuarial revaluation used to estimate individual employers' IAS 19 pension liabilities between triennial revaluations may be used.

Financial instruments

65211 There is a general requirement under IFRS to disclose matters that are material to an understanding of the financial position and financial performance of an entity, as well as specific requirements in IFRS 7 to report on the risks to which financial instruments expose the entity. With regard to this, investments in non-sterling securities are subject to extra risk in the form of exchange rate risk; and stock lending is in the nature of a trading activity rather than an investing activity, and entails counter-party default risks. Note disclosures concerning these have been included in the Code.

6.5.3 Accounting requirements (excluding police and fire and rescue service pension funds)

6531 Pension funds may be either defined contribution funds or defined benefit funds. Defined

contribution funds, if they occur at all, are rare in local authorities: all the pension schemes in which significant numbers of local authority employees participate provide pension benefits on a defined benefit basis. Defined contribution pension funds are not covered in detail by the Code; should they occur the requirements of IAS 26 shall be followed.

Scottish administering authorities

6.5.3.2 Scottish authorities administering local government pension schemes are required to publish separate financial statements. Scottish local authorities shall therefore provide separate financial statements under the reporting requirements of this Code (and specifically this section of the Code). Statutory guidance for the reporting requirements of the separate financial statements is provided under Scottish Local Government Finance Circular 1/2018.

Valuation of plan assets for all plans

6.5.3.3 Pension fund investments shall be carried at fair value. In the case of marketable securities, fair value shall be market value and the current bid price shall be used.

Defined benefit pension funds

6.5.3.4 The objective of reporting by a defined benefit pension fund is periodically to provide information about the financial resources and activities of the pension fund that is useful in assessing the relationships between its benefit obligations and the accumulation of resources available to meet those benefit obligations over time.

6.5.3.5 The financial statements of a defined benefit pension fund shall contain:

- a) A **fund account** disclosing changes in net assets available for benefits (see paragraphs 6.5.3.6 and 6.5.6.6). Where presentation option A (see paragraph 6.5.2.9) is followed the change in the actuarial present value of promised retirement benefits for the period and the resulting surplus or deficit for the period is also shown.
- b) A **net assets statement** showing the assets available for benefits at the year end (see paragraphs 6.5.3.6 and 6.5.6.6). Where presentation option A (see paragraph 6.5.2.9) is followed, the actuarial present value of promised retirement benefits and the net pension liability or asset at the period end is also shown.
- c) **Notes to the accounts** (see paragraphs 6.5.5.1 and 6.5.6.7).

Defined benefit pension funds (excluding police and fire and rescue services pension funds)

6.5.3.6 The presentation and disclosure requirements for defined benefit pension funds (excluding police and fire and rescue services pension funds) are shown below.

a) Fund account

Note: the major categories are indicated in bold. The unbolded items shall be analysed in the

notes to the accounts, if not shown on the face of the fund account or net assets statement.

Contributions

- employer contributions
- member contributions.

Transfers in from other pension funds

- group transfers from other schemes or funds
- individual transfers from other schemes or funds.

Other income

Benefits

- pensions
- commutation of pensions and lump sum retirement benefits
- purchased annuities
- lump sum death benefits.

Payments to and on account of leavers

- refunds to members leaving scheme or fund
- payments for members joining state scheme or fund
- group transfers to other schemes or funds
- individual transfers to other schemes or funds.

Other payments

Sub-total: Net additions/(withdrawals) from dealings with members (*Net amount of income or expenditure represented by the items above.*)

Management expenses^{50, 51}

Sub-total: Net additions/(withdrawals) including fund management expenses (*Net amount of income or expenditure represented by the items above.*)

Investment income

⁵⁰ The Code uses the term management expenses as this is a better description of the costs incurred by pension funds; however, this has the same meaning as administrative expenses in IAS 26.

⁵¹ CIPFA has issued guidance, *Accounting for Local Government Pension Scheme Management Expenses* (CIPFA, 2016). This guidance does not change the accounting requirements for administrative expenses in IAS 26 but describes them instead as 'management expenses'. It does, however, suggest additional disclosure requirements. CIPFA/LASAAC recommends that local authorities have due regard to this guidance.

- dividends from equities
- income from bonds
- rents from properties
- income from pooled investment vehicles
- income from derivatives
- interest on cash deposits
- share of profit/losses from associates and joint ventures
- other investment income.

Profit and losses on disposal of investments and changes in value of investments

Taxes on income

Sub-total: Net return on investments

Net increase (decrease) in the net assets available for benefits during the year

Note: only where presentation Option A has been adopted (see paragraph 6.5.2.9) also show the following.

Change in actuarial present value of promised retirement benefits

- vested benefits
- non-vested benefits.

Surplus/(deficit) on the pension fund for the year

b) Net assets statement

Investment assets

- equities (including convertible shares)
- bonds
- pooled investment vehicles (analysed between equities, bonds, -property, hedge funds, diversified growth funds, private equity funds, infrastructure funds and other) ~~unit trusts, unitised insurance policies and other managed funds (including open-ended investment trusts, open ended investment companies, and assets held in limited liability partnerships), showing separately those funds invested in property~~)
- derivative contracts (including futures, options, forward foreign exchange contracts and swaps)
- property
- insurance policies (unit linked policies, annuities and with-profits policies) ~~contracts, unitised with-profits contracts and annuity and deferred annuity contracts~~)
- loans

- other investments (such as works of art)
- cash deposits (including fixed term deposits, certificates of deposit, floating rate notes and other cash instruments)
- other investment balances (such as debtors in respect of investment transactions where these form part of the net assets available for investment within the investment portfolio; and other assets and liabilities directly connected with investment transactions, accrued dividend entitlements and recoverable withholding tax, suitably analysed where material).

Investment liabilities

- derivative contracts (including futures, options, forward foreign exchange contracts and swaps)
- other investment balances (such as creditors in respect of investment transactions and other liabilities directly connected with investment transactions).

Borrowings

- sterling
- foreign currency.

Current assets

- contributions due from employers
- other current assets
- cash balances (not forming part of the investment assets).

Current liabilities

- unpaid benefits
- other current liabilities (such as accrued expenses, other than liabilities to pay pensions and other benefits in the future).

Net assets of the scheme available to fund benefits at the reporting period end

Note: only where presentation option A has been adopted (see paragraph 6.5.2.9) also show the following:

- actuarial present value of promised retirement benefits
- vested benefits
- non-vested benefits.

Net pension liability or asset at the reporting period end

6.5.4 Statutory accounting requirements for defined benefit pension funds (excluding police and fire and rescue services pension funds)

6.5.4.1 There are no statutory accounting requirements for defined benefit pension funds (excluding

police and fire and rescue services pension funds).

6.5.5 Disclosures for defined benefit pension funds (excluding police and fire and rescue services pension funds)

6.5.5.1 The financial statements of a defined benefit retirement benefit fund (excluding police and fire and rescue services pension funds) shall contain the following information, if applicable and if not disclosed on the face of the financial statements:

- a) A description of the fund and the effect of any changes in the fund during the period.
- b) The significant accounting policies for the pension fund.
- c) Assets at the end of the period suitably classified (see paragraph 6.5.3.6 for the minimum requirements).
- d) The basis of valuation of assets for each significant class of asset.
- e) Disclosures of retirement benefit plan investments measured at fair value in accordance with Section 2.10 of the Code.
- f) Where investments are held for which an estimate of fair value is not possible, the reason why fair value is not used.
- g) A reconciliation between the opening and closing value of investments analysed into meaningful categories such as by major asset class, named investment managers or investment strategy. For investments that have purchase costs or sale proceeds, the total amount of sales and purchases should be disclosed. For derivatives, the nature of the amounts included in purchases and sales should be explained.
- h) The market value (current bid price for quoted securities and unitised securities) of the assets (at the balance sheet date) which were under the management of fund managers and the proportion managed by each manager. Where a market value is not available, assets should be valued at fair value in accordance with the valuation basis specified by the Code – see Section 2.10 and IFRS 13.
- ~~i) An analysis of investment assets between 'UK' and 'overseas' and between 'quoted' and 'unquoted'.~~
- ~~ji)~~ The amount of sales and purchases of investment assets including the market value of futures and options at the end of the reporting period (if any).
- ~~jk)~~ A breakdown of derivative contracts by their main types including futures, options, forward foreign exchange contracts and swaps. A summary of the key terms and notional amount of the derivative contracts held at the year end. An explanation of the objectives and policies for holding derivatives and the strategies for achieving those objectives that have been followed during the period.
- ~~kl)~~ The effective date of revaluation of property assets and whether an independent

valuer was used. Reference should be made to Section 2.10 for fair value disclosure requirements for investment properties. This would include but is not limited to:

- the methods and significant assumptions applied in estimating the fair value
- the extent to which the items' fair values were determined directly by reference to observable prices in an active market in an orderly transaction or were estimated using other valuation techniques (see Section 2.10 and IFRS 13 for the valuation techniques and the levels within the fair value hierarchy which apply to the measurement of the fair value for investment properties).
- ~~lm~~) Details of any single investment exceeding 5% of the net assets available for benefits.
- ~~m~~) Liabilities other than the actuarial present value of promised retirement benefits.
- ~~ne~~) A description of the funding policy, ie the basis upon which the contribution rate has been set for both the administering and the scheduled body.
- ~~op~~) An indication of the actuarial position of the fund, including the relationship between the actuarial present value of promised retirement benefits and the net assets available for benefits, and the policy for funding the promised benefits.
- ~~p~~) A description of the significant actuarial assumptions made and the method used to calculate the actuarial present value of promised retirement benefits.
- ~~q~~) The total contributions receivable and benefits payable analysed between the administering authority, scheduled bodies and admitted bodies and split by members' contributions, employers' normal contributions, employers' deficit recovery contributions and employers' augmentation contributions.
- ~~r~~) Information in respect of material transactions with related parties, not disclosed elsewhere, including investments and loans made at any time during the period.
- ~~s~~) The total amount of stock released to a third party under a stock lending arrangement within a regulated market at the period end, together with a description of the related collateral.
- ~~t~~) The amount and nature of any material contingent assets, liabilities and contractual commitments of the scheme at the period end. Details of any material non-adjusting events occurring subsequent to the period end.
- ~~u~~) The amount of additional voluntary contributions paid by members during the year and the value at the balance sheet date of separately invested additional voluntary contributions. It should be disclosed that these amounts are not included in the pension fund accounts in accordance with Regulation 4(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

- **VW** The total amount of transaction costs^{52, 53} of all major asset classes (eg the meaningful asset classes referred to in g) above), including an explanation to enable users to understand the nature of the transaction costs and how they arise for different types of investment.

Administering authorities in Scotland – management commentary and annual governance statement in the abstract of accounts

- 6.5.5.2** Section 3.1 of the Code sets out the requirements in accordance with the Local Authority Accounts (Scotland) Regulations 2014 to provide a management commentary. The Local Government Pension Scheme (Scotland) Regulations 2018 require Scottish local authorities to include a report about the management and financial performance during the year of each of the pension funds maintained by the authority. Guidance issued by the Scottish Government, Scottish Government Finance Circular 1/2018 on the Local Authority Accounts (Scotland) Regulations 2014, recommends that one report is published in the pension fund annual report and annual accounts which satisfies the legislative requirements of both sets of regulations. Reporting requirements for administering authorities in Scotland are now provided under Scottish Government Finance Circular 1/2018.
- 6.5.5.3** Section 3.7 of the Code sets out the requirements in accordance with the Local Authority Accounts (Scotland) Regulations 2014 to provide an annual governance statement. Scottish local government pension fund financial statements are required by the administration regulations to include a governance compliance statement. Scottish Government guidance, issued in Scottish Government Finance Circular 1/2018, recommends that one report is published in the pension fund annual report and annual accounts which satisfies the legislative requirements of both sets of regulations. Reporting requirements for administering authorities in Scotland are now provided under Scottish Government Finance Circular 1/2018.

Statutory disclosures for administering authorities in Scotland in the local authority financial statements

- 6.5.5.4** Administering authorities in Scotland are required by statutory guidance (Scottish Government Finance Circular 1/2018 *Accounting for Local Authority Pensions*) to disclose the following in the notes to the local authority financial statements:
- a) a statement to the effect that the local authority is an administering authority for

⁵² Transaction costs for financial assets are those costs defined in accordance with Section 7.1 of the Code (paragraph 7.1.2.23) and IFRS 9 *Financial Instruments*.

⁵³ Transaction costs for investment properties, where relevant, are those costs that are defined in accordance with Section 4.4 of the Code and IAS 40 *Investment Property*.

the Local Government Pension Scheme

- b) a statement listing the pension funds it is responsible for together with a general description of each fund and its membership
- c) a statement setting out the statutory requirements for the publication of a separate pension fund annual report, and the contents of that report
- d) a note setting out how the pension fund annual report can be accessed or obtained.

6.5.6 The police Pension Scheme in England and Wales, the Firefighters' Pension Scheme in England, and the Firefighters' Pension Scheme in Wales

6.5.6.1 The Police Pension Scheme in England and Wales, the Firefighters' Pension Scheme in England and the Firefighters' Pension Scheme in Wales are unfunded but authorities do not meet the pension outgo directly: rather they pay an employer's pension contribution based on a percentage of pay into the pension fund.

6.5.6.2 Subject to scrutiny and approval by the secretary of state/minister and Parliament/Welsh Government, central government pays pension top-up grant for the year up to the amount by which the amount payable from the pension fund/account for the year exceeded the amount receivable. The current expectation is that top-up grant of 100% of the deficit will be paid. Where the amounts receivable by the pension fund/account for the year exceed the amounts payable, the surplus on the pension fund/account is payable to central government.

6.5.6.3 While the funding arrangements for the various pension schemes are similar, the regulations are not uniform with regard to the way the surplus or deficit on the pension fund/account for the year is funded.

Police Pension Scheme (England and Wales)

6.5.6.4 The funding arrangements for police pension funds are contained in the Police Pension Fund Regulations 2007 (SI 2007/1932). The regulations require that if the pension fund does not have enough funds to meet the cost of pensions in any year, ie the amount receivable by the pension fund for the year is less than the amount payable, the amount required to meet the deficit must be transferred from the local policing bodies to the pension fund. Subject to Parliamentary scrutiny and approval, up to 100% of this amount is then recouped by the local policing body in the form of a top-up grant paid by central government (the current expectation is that 100% grant will be paid). Conversely, if the police pension fund is in surplus for the year, the surplus is required to be transferred from the pension fund to the local policing body, which in turn is required to pay the amount to central government.

Firefighters' Pension Scheme (England and Wales)

6.5.6.5 The funding arrangements for the Firefighters' Pension Scheme for England are contained in the

Firefighters' Pension Scheme (Amendment) (England) Order 2006 (SI 2006/1810). The funding arrangements for the Firefighters' Pension Scheme for Wales are contained in Part 13 of the Firefighters' Pension Scheme (Wales) Order 2007 (WSI 2007/1072). These orders require that every amount paid or repaid to or by an authority shall be credited or, as the case may be, debited, to their firefighters' pension fund. Therefore where the pension shows a deficit for the year, the top-up grant is payable to the pension fund. Conversely, if the fund is in surplus for the year, an amount equal to the surplus is payable by the pension fund to central government. If the pension fund account is not balanced to nil by pension top-up grant receivable or by the amount payable to central government, the pension fund should be balanced to nil by a supplementary contribution from the authority to the pension fund or by the pension fund returning contribution to the authority.

6.5.6.6 The presentation and disclosure requirements for police pension funds/accounts and firefighters' pension funds/accounts are shown below.

Information to be included in the pension fund (England and Wales) accounting statements of local policing bodies and fire and rescue service authorities

(The amounts that must be debited and credited to the pension fund/account are specified by regulation. There are separate regulations for the Police Pension Scheme for England and Wales, the Firefighters' Pension Scheme for England, and the Firefighters' Pension Scheme for Wales. The underlying principles are broadly the same for all the schemes but the details of the way the amounts are determined may vary and the amounts should be determined in accordance with the relevant regulations in force for the financial year.)

a) Fund account (England and Wales)

Contributions receivable

From employer

- normal
- early retirements
- other (specify, eg reimbursement of unabated pensions of '30+' police officers).

From members

Transfers in

- individual transfers in from other schemes
- other (specify).

Benefits payable

- pensions
- commutations and lump sum retirement benefits
- lump sum death benefits
- other (specify).

Payments to and on account of leavers

- refunds of contributions
- individual transfers out to other schemes
- other (specify).

(For Firefighters' Pension Schemes in England and Wales) Sub-total: deficit/surplus for the year before top-up grant receivable/amount payable to central government

(For Firefighters' Pension Schemes in England and Wales) Top-up grant receivable/amount payable to central government

(For Police Pension Schemes) Additional funding payable by the local policing body/police operating account to meet deficit/amount payable to the local policing body/police operating account in respect of the surplus for the year

Net amount payable/receivable for the year

b) Net assets statement (England and Wales only)

Current assets

- contributions due from employer
- (for Firefighters' Pension Scheme) pension top-up grant receivable from central government
- (for Police Pension Scheme) funding to meet deficit receivable from local policing body
- other current assets.

Current liabilities

- unpaid pension benefits
- (for Firefighters' Pension Scheme) amount payable to central government
- (for Police Pension Scheme) surplus for year payable to local policing body
- other current liabilities (other than liabilities to pay pensions and other benefits in the future).

Information to be disclosed in notes to the pension fund accounts of local policing bodies and fire and rescue service authorities

6.5.6.7 The following information shall be disclosed in the notes to the pension fund accounts of local policing bodies and fire and rescue service authorities:

- a) (For firefighters' pension funds in England and Wales) A general description of the fund's operations including the fact that there are no investment assets and that the fund is balanced to nil each year by receipt of pension top-up grant from central government if there is a deficit or by paying over the surplus to central government, together with an explanation of how the fund is administered and managed.

- b) (For police pension funds in England and Wales) A general description of the fund's operations including the fact that there are no investment assets and that if there is a deficit for the year the fund is balanced to nil by the local policing body transferring an amount equal to the deficit to the pension fund, which it recoups from central government, or if there is a surplus for the year by transferring the surplus from the pension fund to the local policing body, which it pays over to central government, together with an explanation of how the fund is administered and managed.
- c) The accounting policies followed in dealing with items which are judged material in accounting for, or reporting on, the transactions and net assets of the fund/account together with the estimation techniques adopted that are significant.
- d) An explanation that the fund's/account's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. Information on where details of the authority's long-term pension obligations can be found in the main statements shall be disclosed.

6.5.7 Changes since the 2018/19 Code

6.5.7.1 The Accounting and Reporting by Pension Funds section of the Code has been updated to [improve alignment with the Financial Reports of Pension Schemes SORP 2018](#). ~~reflect the removal of the requirement to include pension fund accounts in the Welsh local authority statements of account Wales and for new legislative references for Scottish pension funds...~~

ANNEX TO SECTION 6.5

Table: Overview of application of other sections of the code to pension fund statements

A6.5.1 This table is intended to assist local authorities in preparing their pension fund statements by identifying the other sections of the Code which apply to them. Local authorities should ensure that they are content that they have identified all the material transactions that might occur and consider the relevant sections of the Code that apply to them. Local authorities should also refer to each Section to ensure that they comply with the specific requirements of that section.

Section or chapter of the Code**Commentary on the substantial areas of application for local authority pension funds****Chapter 1: Introduction**

The Code applies to administering authorities for the Local Government Pension Scheme and other pension funds in the UK. Application to local authorities will be by means of the relevant accounts or accounts and audit regulations in England, Scotland. For Wales the requirements for the preparation and audit of the pension fund accounts emanate from Section 13 of the Public Audit Wales Act 2004. The Welsh Government has confirmed that the Code provides proper practices for the accounts. Welsh Government has also confirmed that Regulation 57 of the Local Government Pension Scheme Regulations 2013 requires administering bodies to publish an annual report on the pension fund account by 1 December each year local authorities and that administering bodies should agree a timetable for the audit of local government pension fund accounts to ensure the audit is completed prior to the publication of the annual report. Further details on the application of the requirements of the Code are also found in Section 6.5 of the Code.

Section 2.1: Concepts

The Concepts section of the Code applies fully to the pension fund accounts, insofar as there are relevant transactions in the pension fund. It is unlikely, for example, that consideration of service potential in the definition of an asset or a liability will have substantial application to pension funds. In relation to the objectives of the financial statements the focus will be on members, prospective members, deferred pensioners and other beneficiaries. Materiality considerations in the Code apply equally to pension fund financial statements.

Section 2.3: Government and Non-government Grants

This section of the Code will apply to Section 6.5 where government grants are paid into pension funds, though the statutory accounting requirements are unlikely to apply to the pension fund itself.

Section 2.5: Local Government Reorganisation and Other Combinations

This section of the Code is unlikely to apply to pension funds. However, the principles might apply under any reorganisation of pension funds. It should be noted that any policy announcements on reorganisation of pension funds in England and Wales might

Section or chapter of the Code	Commentary on the substantial areas of application for local authority pension funds
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require specific provisions in the Code.

Section 2.7: Revenue from Contracts with Service Recipients	Income recognised in the pension fund would be recognised in accordance with this section of the Code.
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Section 2.8: Tax Income (Council Tax, Residual Community Charges, Non-Domestic Rates (NDR) and Rates)	Does not directly apply to pension funds.
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Section 2.9: Value Added Tax	Value added tax may apply to pension fund transactions, for example, to purchases of services needed to support the fund.
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Section 2.10: Fair Value Measurement	This section of the Code applies to pension fund financial statements. This section has been specifically adapted in the Code to remove the scope exclusion for retirement benefit plan investments.
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Section 3.1: Narrative report	<p>This section of the Code applies to local authority financial statements and therefore applies to pension funds within the local authority statements. Administering authorities in England may wish to add additional brief commentary on the pension fund though this is likely to be met by the description of the fund in paragraph 6.5.5.1 a).</p> <p>Scottish local authorities are required to provide a separate management commentary in the pension fund abstract of accounts – see Scottish Local Government Finance Circular 6/2015.</p> <p>Local authorities in Wales will wish to ensure that the annual report includes appropriate comment on performance following the requirements of Section 3.1.</p>
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Section 3.2: Statement of responsibilities	<p>This section of the Code should be covered by the statement of responsibilities for the authority's main financial statements.</p> <p>Local authorities in Scotland are likely to need a separate statement of responsibilities for the pension fund abstract of accounts.</p>
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Section 3.3: Accounting Policies,	This section of the Code applies in full to local authority pension
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Section or chapter of the Code	Commentary on the substantial areas of application for local authority pension funds
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Changes in Accounting Estimates and Errors	
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funds.

This includes the reporting requirements for:

- changes in accounting policies (paragraph 3.3.4.2)
- impact of accounting changes required by new standards that have been issued, but not yet adopted (paragraph 3.3.4.3)
- estimates (paragraph 3.3.4.4), and
- errors (paragraph 3.3.4.5).

Section 3.4: Presentation of Financial Statements	
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This section of the Code applies to local authority pension fund statements. However, the main financial statements are specified in Section 6.5 of the Code ie paragraphs 6.5.3.6 and 6.5.6.6 (the latter for local policing bodies and fire and rescue service authorities in England and Wales).

Section 6.5 also includes specific pension fund statement disclosures at paragraph 6.5.5.1 (this paragraph does not apply to local policing bodies or fire and rescue service authorities – the disclosures for these bodies are included under paragraph 6.5.6.7).

Items that are particularly important include reporting requirements for:

- fair presentation (paragraphs 3.4.2.19 to 3.4.2.22 and 3.4.2.25)
 - going concern (paragraph 3.4.2.23 and Section 2.1)
 - accruals accounting (paragraph 3.4.2.24 and Section 2.1)
 - materiality (paragraphs 3.4.2.26 to 3.4.2.27 and Section 2.1)
 - comparative information (paragraph 3.4.2.30)
 - offsetting (paragraph 3.4.2.28 and also see Section 7.3.5)
 - reclassification (paragraphs 3.4.2.31 to 3.4.2.32)
 - consistent presentation (paragraph 3.4.2.33 and Section 2.1)
 - notes and their presentation (paragraphs 3.4.2.84 to 3.4.2.86)
 - basis of preparation (paragraphs 3.4.2.87 to 3.4.2.88)
 - significant accounting policies (paragraphs 3.4.2.87 and 3.4.2.89 and 6.5.5.1 b))
 - critical judgements (paragraph 3.4.2.88)
 - information about the assumptions an administering authority makes about the future, and other major sources of estimation uncertainty at the end of the reporting period
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(paragraph 3.4.2.90).

Section 3.7: Statement Reporting Reviews of Internal Controls	<p>For pension funds for administering authorities in England and Wales this should be covered by the statement reporting reviews of internal controls in a local authority's main statement of accounts.</p> <p>Scottish local authority pension fund financial statements are required by the administration regulations to include a governance compliance statement. Scottish Government guidance issued in Scottish Government Finance Circular 6/2015 recommends that an administering authority includes either:</p> <ul style="list-style-type: none">a single governance statement with two sections, with the first being the annual governance statement, and the second the governance compliance statement, ortwo separate statements, with the annual governance statement followed immediately by the governance compliance statement.
Section 3.8: Events after the Reporting Period	<p>Applies fully to pension fund statements.</p>
Section 3.9: Related Party Disclosures	<p>This section of the Code applies to pension fund financial statements in full.</p> <p>Administering local authorities in England and Wales are able to rely in part on cross-referencing to the main financial statements. Particular related parties for the pension fund would need to be reported separately – see also paragraph 6.5.5.1 s).</p> <p>Scottish pension fund abstract of accounts would need to apply Section 3.9 in full and also report under paragraph 6.5.5.1 s).</p>
Section 4.1: Property, Plant and Equipment	<p>It is unlikely that this section of the Code will apply substantially to pension funds as they will normally only hold property for investment purposes.</p>
Section 4.2: Leases and Lease Type Arrangements	<p>This section of the Code will apply where the pension fund accounts for transactions as a lessor and may apply where the pension fund uses lease arrangements to support the work of the fund.</p>

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Section 4.4: Investment Property	This section of the Code is likely to have a substantial application for pension funds. It therefore applies in full and is also likely to require cross-reference to the fair value measurement requirements of Section 2.10 of the Code and any relevant requirements under paragraph 6.5.5.1.
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Section 4.5: Intangible Assets	It is unlikely that this section of the Code will apply substantially to local authority pension funds.
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Section 4.7: Impairment of Assets	This section will apply where relevant circumstances exist.
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Section 4.8: Borrowing Costs	It is considered unlikely that this section of the Code will apply to local authority pension funds.
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Section 4.9: Non-current Assets Held for Sale and Discontinued Operations	This section will apply where relevant transactions or circumstances exist.
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Section 4.10: Heritage Assets	It is unlikely that this section of the Code will apply substantially to pension funds as they will normally only hold property for investment purposes and not for historical, artistic, technological or environmental purposes.
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Section 5.1: Current Assets: Inventories	This section of the Code will apply to pension funds where relevant transactions or circumstances exist. It is unlikely that this will have a specific application to local authority pension funds.
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Section 5.2: Debtors	This section of the Code will apply to pension funds.
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Section 6.1: Employee Benefits: Introduction and Definitions	The definitions and provisions in this section of the Code apply where relevant transactions or circumstances exist.
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Section 6.2: Benefits Payable during Employment	This section might apply where relevant employee benefits (staff costs) are directly attributable to the pension fund. It is noted that this is unlikely to be the case for local authority pension funds.
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Section 6.3: Termination Benefits	This section might apply where relevant employee benefits (staff costs) are directly attributable to the pension fund. It is noted that this is unlikely to be the case for local authority pension funds.
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Section 6.4: Post-employment Benefits	Paragraph 6.5.1.2 notes that Chapter 7 of the Code governs the measurement of a plan's obligation to provide pension benefits. This section might apply where relevant employee benefits (staff costs) are directly attributable to the pension fund. It is noted that this is unlikely to be the case for local authority pension funds.
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Section 6.5: Accounting and Reporting by Pension Funds	This section of the Code is wholly applicable to pension funds.
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Section 7.1: Financial Instruments: Introduction etc	Chapter seven applies fully to pension funds where relevant transactions exist. Paragraph 6.5.1.2 stipulates that the financial instruments standards (IFRS 9, IAS 32 and IFRS 7) govern the recognition of financial instruments (although it notes that many requirements are inapplicable since all material financial instruments are carried at fair value through profit or loss). Note that the relevant fair value measurement disclosures apply.
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Section 7.2: Subsequent Measurement of Financial Assets and Financial Liabilities	See comments for Section 7.1 and the requirements of paragraph 6.5.2.5 on the measurement of financial instruments.
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Section 7.3: Financial Instruments – Disclosure and Presentation Requirements	See comments for Section 7.1 and the requirements of paragraph 6.5.2.5 on the measurement of financial instruments.
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Section 8.1: Liabilities: Creditors	Applies in full where the relevant transactions exist.
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Section 8.2: Liabilities: Provisions, Contingent Liabilities and Contingent Assets	Applies in full where the relevant transactions exist (see also paragraph 6.5.5.1 u)).
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Chapter Nine: group accounts	It is possible that group accounts may be produced for pension fund financial statements. The pension fund account statement also
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allows for the possibility that income from associates and joint ventures may be recognised in the financial statements.

Appendix A: IFRSs with Limited Application to Local Authorities
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IAS 12 <i>Income Taxes</i> (as amended 2016), SIC 25 <i>Income Taxes – Changes in the Tax Status of an Entity or its Shareholders</i> and IFRIC 23 <i>Uncertainty over Income Tax Treatments</i> relate to taxes on an entity's income (for example, corporation tax) and may apply to pension funds.

IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i> and IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i> relate to accounting for exchange rates and exchange rate movements and will to apply to pension funds.
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DRAFT

Financial instruments

7.1 INTRODUCTION, SCOPE, DEFINITIONS, RECOGNITION, DERECOGNITION, CLASSIFICATION, INITIAL MEASUREMENT, DERIVATIVES AND EMBEDDED DERIVATIVES AND HEDGE ACCOUNTING

7.1.1 Introduction

7.1.1 Authorities shall account for financial instruments in accordance with IFRS 9 *Financial Instruments*, IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Financial Instruments: Disclosures*, except where adaptations to fit the public sector are detailed in the Code. IPSAS 28 *Financial Instruments: Presentation*, IPSAS 29 *Financial Instruments: Recognition and Measurement* and IPSAS 30 *Financial Instruments: Disclosures* provide additional guidance for the public sector. None of the IPSAS financial instruments standards have been updated for the introduction of IFRS 9 and therefore particularly where IPSAS 29 and IPSAS 30 are considered these standards should only be followed where they remain consistent with the provisions of IFRS 9. However, this is with the exception of where IPSAS 29 is used for the basis of the provisions in relation to soft loans received and receivable.

7.1.2 The 2007 *Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice* (the SORP) adopted FRS 26 *Financial Instruments: Recognition and Measurement*, FRS 25 *Financial Instruments: Presentation* and the predecessor of FRS 29 *Financial Instruments: Disclosures*. Where they continue to be relevant the transitional provisions of the UK standards adopted by the 2007 SORP remain. In particular, recognition and derecognition decisions prior to 1 April 2006 need not be reconsidered.

Adaptations and interpretations for the public sector context

7.1.3 The following adaptations and interpretations have been adopted by the Code:

- a) Soft loans advanced by an authority – ‘prevailing interest rate’

The Code interprets IFRS 9 by providing guidance on estimating the ‘prevailing interest rate’ at which a borrower to whom a local authority has advanced a ‘soft loan’ could have

borrowed in an arm's-length transaction (see paragraph 7.1.6.6 for the detailed requirements).

- b) Soft loans received by an authority – 'prevailing interest rate'

For the purposes of calculating the fair value on initial recognition of a soft loan received by a local authority, the Code provides an interpretation of how the 'prevailing interest rate' at which it could have borrowed in an arm's-length transaction shall be determined (see paragraph 7.1.6.8).

- c) Loan contracts with lender option borrower option (LOBO) clauses

The Code interprets IFRS 9 and requires:

- the options that characterise clauses within a LOBO contract ie those that allow the lender to increase the interest charge by any amount chosen at specified option exercise dates embedded in a LOBO shall not be separately accounted for. This interpretation only applies where the specified derivative elements are separable. It does not apply to a compound embedded derivative if where separation of the exempted derivative is not possible permitted by IFRS 9.
- the contractual life and contractual cash flows shall be used as the expected life of a LOBO when calculating the effective interest rate on initial recognition, unless on considering the contractual terms of the instrument the authority concludes it is able to estimate reliably the expected cash flows or expected life (see paragraph 7.2.5.6).
- The interpretations relating to loan contracts with LOBO clauses are limited to the two outlined in the bullets above.
- d) Accounting for immaterial transaction costs on initial recognition

The Code interprets IFRS 9 by providing an option to write off immediately to surplus or deficit on the provision of services transaction costs that the Code would usually require to be applied to adjust a financial instrument's initial carrying amount, where they are immaterial.

- e) Exchanges of debt instruments

The Code (and IFRS 9) requires, where the terms of loan debt exchanged, for example as part of loan restructuring, are not substantially different or the modification of the terms of an existing liability is not substantial, the loan debt or financial liability is not accounted for as an extinguishment under defined circumstances, the gain or loss on an exchange of debt instruments between an existing borrower and lender to be used to adjust the carrying amount, rather than be recognised immediately in surplus or deficit on the provision of services. The Code has interpreted this as requiring the exchange of loan instruments and associated settlement of any fees or costs incurred to take place on the same day and as not requiring net settlement as long as any payments between the lender and the borrower are made on the same day. Overwhelmingly the main lender to local authorities is the Public Works Loan Board (PWLb), which is not permitted to settle these amounts net but

must receive payment of the agreed settlement amount of the original loan.

- f) Hedge accounting

The Code adapts IFRS 9 to remove the accounting policy choice to apply the hedge accounting requirements of IAS 39 when an entity first applies IFRS 9.

- g) Impairment loss allowances for financial assets where the counterparty is central government or a local authority

The Code interprets IFRS 9 to require local authorities not to recognise a loss allowance for expected credit losses on a financial asset where the counterparty is central government or where it is a local authority (see paragraph 7.2.9.1).

What the sections and chapter cover

7.1.14 This first section of Chapter 7 on financial instruments covers:

- a) definitions
- b) scope of the financial instruments standards and this Code chapter
- c) initial recognition
- d) derecognition of financial instruments
- e) classification of financial instruments
- f) initial measurement of financial instruments
- g) derivatives and embedded derivatives
- h) hedge accounting
- i) statutory accounting requirements for financial instruments.

7.1.15 Chapter 7 contains three further sections covering:

- Section 2 – subsequent measurement of financial assets and financial liabilities
- Section 3 – presentation and disclosures
- Section 4 – transitional requirements.

7.1.2 Accounting requirements

Definitions

7.1.21 **12-month expected credit losses** is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

7.1.22 **Amortised cost** of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference

between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

- 7.1.23 Credit loss** is the difference between all contractual cash flows that are due to an authority in accordance with the contract and all the cash flows that the authority expects to receive (ie all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). An authority shall estimate cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. The cash flows that are considered shall include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. There is a presumption that the expected life of a financial instrument can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the authority shall use the remaining contractual term of the financial instrument.
- 7.1.24 Credit-adjusted effective interest rate** is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit-impaired financial asset. When calculating the credit-adjusted effective interest rate, an authority shall estimate the expected cash flows by considering all contractual terms of the financial asset (for example, prepayment, extension, call and similar options) and expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see paragraphs B5.4.1 to B5.4.3 of IFRS 9), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the remaining life of a financial instrument (or group of financial instruments), the authority shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).
- 7.1.25 Credit risk rating grades** are the rating of credit risk based on the risk of a default occurring on the financial instrument.
- 7.1.26 Derecognition** is the removal of a previously recognised financial asset or financial liability from an authority's balance sheet.
- 7.1.27 The effective interest method** is the method that is used in the calculation of the amortised cost of a financial asset or a financial liability and in the allocation and recognition of the interest revenue or interest expense in surplus or deficit on the provision of services over the relevant period.
- 7.1.28 The effective interest rate** is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. When calculating the

effective interest rate, an authority shall estimate the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but shall not consider the expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see paragraphs B5.4.1 to B5.4.3 of IFRS 9), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the authority shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

7.1.2.9 An **equity instrument** is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The definition is limited by paragraph 16 of IAS 32 *Financial Instruments: Presentation*, which states that an instrument is an equity instrument only if two conditions are both met:

- the instrument includes no contractual obligations to:
 - deliver cash or another financial asset to another entity, or
 - exchange financial instruments with another entity under conditions that are potentially unfavourable to the issuer
- if the instrument will or may be settled in the issuer's own equity instruments, it is either:
 - a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments, or
 - a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These exclusionary provisions will probably be most relevant to local authority investments in relation to puttable instruments. These are investments where the holder has a right to require the issuer to repurchase or redeem the instrument for cash or another financial asset. Consequently, even if they have the characteristic of giving an authority a residual interest in the assets of the issuer, this is superseded by the repurchase or redemption rights.

7.1.2.10 **Expected credit losses** are defined as the weighted average of credit losses with the respective risks of a default occurring as the weights.

7.1.2.11 **Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Section 2.10).

7.1.2.12 A **financial asset** is any asset that is:

- a) cash
- b) an equity instrument of another entity
- c) a contractual right:

- i) to receive cash or another financial asset from another entity, or
- ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the authority
- d) a contract that will or may be settled in the entity's own equity instruments and is:
 - i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments, or
 - ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Note: in practice d) is not applicable to local authorities as they do not issue equity instruments. However, it may apply to an authority's group accounts.

7.1.2.13 A **financial guarantee contract** is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

7.1.2.14 A **financial liability** is any liability that is:

- a) a contractual obligation:
 - i) to deliver cash or another financial asset to another entity, or
 - ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the authority
- b) a contract that will or may be settled in the entity's own equity instruments and is:
 - i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments, or
 - ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

7.1.2.15 A **financial liability at fair value through profit or loss** is a financial liability that meets one of the following conditions:

- a) it meets the definition of held for trading
- b) upon initial recognition it is designated by the authority as at fair value through profit or loss in accordance with paragraph 7.1.5.8 or paragraph 4.3.5 of IFRS 9
- c) it is designated either upon initial recognition or subsequently as at fair value through profit or loss in accordance with paragraph 6.7.1 of IFRS 9.

- 7.1.2.16 The **gross carrying amount of a financial asset** is the amortised cost of a financial asset, before adjusting for any loss allowance.
- 7.1.2.17 **Held for trading** is a financial asset or financial liability that:
- a) is acquired or incurred principally for the purpose of selling or repurchasing it in the near term
 - b) on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or
 - c) is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).
- 7.1.2.18 **Lifetime expected credit losses** are the expected credit losses that result from all possible default events over the expected life of a financial instrument.
- 7.1.2.19 The **loss allowance** is the allowance for expected credit losses on financial assets measured in accordance with paragraph 7.1.5.2, lease receivables and contract assets, the accumulated impairment amount for financial assets measured in accordance with paragraph 7.1.5.3 and the provision for expected credit losses on loan commitments and financial guarantee contracts.
- 7.1.2.20 **The modification gain or loss⁵⁴** is the amount arising from adjusting the gross carrying amount of a financial asset to reflect the renegotiated or modified contractual cash flows. The authority recalculates the gross carrying amount of a financial asset as the present value of the estimated future cash payments or receipts through the expected life of the renegotiated or modified financial asset that are discounted at the financial asset's original effective interest rate (or the original credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets) or, when applicable, the revised effective interest rate calculated in accordance with paragraph 6.5.10 of IFRS 9. When estimating the expected cash flows of a financial asset, an authority shall consider all contractual terms of the financial asset (for example, prepayment, call and similar options) but shall not consider the expected credit losses, unless the financial asset is a purchased or originated credit-impaired financial asset, in which case an authority shall also consider the initial expected credit losses that were considered when calculating the original credit-adjusted effective interest rate.
- 7.1.2.21 A financial asset is **past due** when a counterparty has failed to make a payment when that payment was contractually due.
- 7.1.2.22 The **reclassification date** is the first day of the first reporting period following the change in business model that results in an authority reclassifying financial assets.

⁵⁴ In accordance with IFRS 9 Basis for Conclusions BC4.252-3, the adjustment of a financial liability modification (or exchange) which does not result in derecognition is expected to be consistent with the adjustment of the gross carrying value of a financial asset when the financial asset modification does not result in derecognition

7.1.2.23 Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability (see IFRS 9 paragraph B5.4.8). An incremental cost is one that would not have been incurred if the authority had not acquired, issued or disposed of the financial instrument.

Types of financial instruments covered by the chapter

7.1.2.24 A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The term 'financial instrument' covers both financial assets and financial liabilities and includes both the most straightforward financial assets and liabilities such as trade receivables and trade payables and the most complex ones such as derivatives and embedded derivatives. Typical financial instruments are:

Liabilities

- trade payables and other payables
- borrowings
- financial guarantees.

Assets

- bank deposits
- trade receivables
- loans receivable
- other receivables and advances
- investments.

Derivatives

- swaps
- forwards
- options.

Embedded derivatives

- debt instruments with embedded swaps
- debt instruments with embedded options.

Scope exclusions

7.1.2.25 Some types of financial instrument covered by IFRS 9 are not covered in detail by the Code because they are not relevant to entities that do not issue equity instruments. The applicable IFRS shall be followed if circumstances were such that the provisions concerning equity instruments became relevant, for example, in group accounts (see Code Chapter 9 – Group Accounts). This Code chapter does not cover the following types of financial instrument since

they are within the scope of other accounting standards rather than IFRS 9 and are dealt with elsewhere in the Code. These are:

- a) Interests in subsidiaries, associates and joint ventures, which are covered by Code Chapter 9 – Group Accounts. However, in some cases, IFRS 10, IAS 27 or IAS 28 require or permit an authority to account for an interest in a subsidiary, associate or joint venture in accordance with some or all of the requirements of IFRS 9.
- b) In respect of the recognition and measurement provisions of this chapter of the Code, rights and obligations under leases and PFI, PPP and similar schemes, which are covered by sections 4.2 and 4.3 of the Code, except for lessors' lease receivables with respect to the derecognition and impairment provisions of this chapter; lessees' lease payables with respect to the derecognition provisions; payables under PFI, PPP and similar schemes with respect to the derecognition provisions; and derivatives that are embedded in leases and PFI, PPP and similar schemes. The disclosure requirements of this chapter of the Code apply in full to these transactions and balances.
- c) Employers' rights and obligations under employee benefit plans, which are covered by Code Chapter 6 (Employee Benefits).
- d) Loan commitments, unless they can be settled net in cash or there is a past practice of selling the resulting loans shortly after origination or the commitment is to provide at below market interest rate. However, an issuer of loan commitments shall apply the impairment requirements of IFRS 9 to loan commitments that are not otherwise within the scope of IFRS 9. Also, all loan commitments are subject to the derecognition requirements of IFRS 9. Loan commitments are also subject to the disclosure requirements of IFRS 7.
- e) Contracts to buy or sell non-financial items (for example, commodity futures contracts) unless they can be settled net in cash and are not entered into and held for the purposes of the receipt or delivery of a non-financial item in accordance with the authority's expected purchase, sale or usage requirements.
- f) Financial instrument contracts and obligations under share-based transactions to which Code Appendix A, paragraph A.1.6 applies, except for contracts within the scope of paragraphs 2.4 to 2.7 of IFRS 9.
- g) Rights and obligations arising under an insurance contract as defined in IFRS 4 *Insurance Contracts* other than a financial guarantee contract that meets the definition of a financial guarantee contract under paragraphs 7.2.7.1 to 7.2.7.4 of this chapter of the Code.
- h) Rights to receive reimbursement of expenditure required to be made to settle a liability recognised as a provision in accordance with Section 8.2 of the Code, or for which in an earlier period, was recognised as a provision.
- i) Any forward contract between an acquirer and a selling shareholder to buy or sell

an acquiree that will result in a business combination within the scope of IFRS 3 *Business Combinations* at a future acquisition date. The term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction.

- j) Rights and obligations within the scope of Section 2.7 and IFRS 15 *Revenue from Contracts with Customers* that are financial instruments, except for those that Section 2.7 and IFRS 15 specifies are accounted for in accordance with this section of the Code and IFRS 9.

7.1.2.6 Special considerations apply in respect of receivables and payables arising from non-exchange transactions such as council tax (see sections 5.2 and 8.1 of the Code).

7.1.3 Initial recognition of a financial instrument

7.1.3.1 A financial asset or a financial liability shall be recognised in the balance sheet when, and only when, an authority becomes a party to the contractual provisions of the instrument. When an authority first recognises a financial asset, it shall classify it in accordance with paragraphs 7.1.5.1 to 7.1.5.6 and measure it in accordance with paragraphs 7.1.6.1 to 7.1.6.3 (and 7.1.6.4 for soft loans advanced). When an authority first recognises a financial liability, it shall classify it in accordance with paragraphs 7.1.5.7 and 7.1.5.8 and measure it in accordance with paragraph 7.1.6.1 (and 7.1.6.8 for soft loans receivable).

7.1.3.2 Trade receivables are not recognised when an authority becomes committed to supply the goods or services but when the ordered goods or services have been delivered or rendered (see Section 5.2 of the Code for further details). Similarly a trade payable is recognised when the ordered goods or services have been received (see Section 8.1 of the Code for further details).

7.1.3.3 In the case of a financial liability an authority does not become a party to the contractual provisions of a financial liability unless one of the parties has performed. For example, a loan debt contract is recognised by the borrower when the cash lent is received rather than when the authority became committed to the loan agreement.

7.1.3.4 For the vast majority of financial instruments, the recognition point will be obvious. However, in the case of complex instruments where the amounts receivable or payable are conditional, it may require careful analysis to determine when the holder became a party to the contractual provisions, and in such cases the recognition point shall be determined in accordance with IFRS 9. Refer to paragraphs B3.1.1 and B3.1.2 of IFRS 9.

7.1.4 Derecognition of a financial instrument

Derecognition of a financial asset

7.1.4.1 For local authorities establishing when a financial asset is derecognised is straightforward in most cases. However, IFRS 9 requires that an entity first establish whether derecognition should

be applied to a part of a financial asset (or a part of a group of similar financial assets), if the three conditions in paragraph 3.2.2 a) of IFRS 9 are met, or a financial asset (or a group of similar financial assets).

7.142 An authority shall derecognise a financial asset when, and only when:

- a) the contractual rights to the cash flows from the financial asset expire, or
- b) it transfers the financial asset as set out in paragraphs 3.2.4 and 3.2.5 of IFRS 9 and the transfer qualifies for derecognition in accordance with paragraph 3.2.6 of IFRS 9.

7.143 On derecognition of a financial asset in its entirety, the difference between:

- a) the carrying amount (measured at the date of derecognition), and
- b) the consideration received,

shall be recognised in surplus or deficit on the provision of services.

Derecognition of a financial liability

7.144 An authority shall derecognise a financial liability (or a part of a financial liability) when, and only when, it is extinguished – ie when the obligation specified in the contract is discharged or cancelled or expires. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid including any non-cash assets transferred or liabilities assumed shall be recognised in surplus or deficit on the provision of services.

Exchange between an existing borrower and lender

7.145 An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in surplus or deficit on the provision of services.

7.1.4.6 Where the terms of the loan debt exchanged are not substantially different or the modification of the terms of an existing liability is not 'substantial', the loan debt or financial liability is not accounted for as an extinguishment. Any costs or fees paid or received adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability. The exchange of loan instruments and associated settlement of any fees or costs incurred shall be simultaneous (ie take place on the same day). However, net settlement is not required as long as any payments between the lender and borrower are made on the same day.

7.1.47 The terms of a loan exchange between an existing borrower and lender or the modification of the terms of a financial liability are ‘substantially different’ or ‘substantially modified’ if the present value of the net cash flows under the new terms, including any fees paid net of any fees received, is at least 10% different from the discounted present value of the remaining cash flows under the original loan debt or original terms of the financial liability. In calculating the present value of these cash flows, the original effective interest rate of the old loan debt or unmodified financial liability shall be used.

7.1.5 Classification of financial instruments

Classification of financial assets

7.1.51 An authority shall classify financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

- a) the authority’s business model for managing the financial assets, and
- b) the contractual cash flow characteristics of the financial asset.

7.1.52 A financial asset shall be measured at amortised cost if both of the following conditions are met:

- a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

See paragraphs B4.1.1 to B4.1.26 of IFRS 9 for guidance on how to apply these conditions.

7.1.53 A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

See paragraphs B4.1.1 to B4.1.26 of IFRS 9 for guidance on how to apply these conditions.

7.1.54 For the purpose of applying paragraphs 7.1.5.2 b) and 7.1.5.3 b):

- a) Principal is the fair value of the financial asset at initial recognition. Paragraph B4.1.7B of IFRS 9 provides additional guidance on the meaning of principal.
- b) Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. Paragraphs B4.1.7A and B4.1.9A to B4.1.9E of IFRS 9 provide additional guidance on the meaning of interest,

including the meaning of the time value of money.

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement. In a basic lending arrangement, consideration for the time value of money (see paragraphs B4.1.9A–B4.1.9E) and credit risk are typically the most significant elements of interest. However, contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

7.1.5.5 A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost in accordance with paragraph 7.1.5.2 or at fair value through other comprehensive income in accordance with paragraph 7.1.5.3. However, an authority may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income (see paragraph 7.1.5.9 and paragraph 7.2.6.4).

Option to designate a financial asset at fair value through profit or loss

7.1.5.6 The criterion for designating a financial asset at fair value through profit or loss (ie a measurement or recognition inconsistency referred to in IFRS 9) is unlikely to occur for the majority of local authorities. Where such inconsistencies do occur and a local authority considers that it is necessary to designate a financial asset at fair value through profit or loss it should refer to IFRS 9 paragraph 4.1.5.

Classification of financial liabilities

7.1.5.7 An authority shall classify all financial liabilities as subsequently measured at amortised cost, except for:

- a) Financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.
- b) Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies. Paragraphs 3.2.15 and 3.2.17 of IFRS 9 apply to the measurement of such financial liabilities.
- c) Financial guarantee contracts where the fair value can be reliably measured. After initial recognition, an issuer of such a contract shall (unless paragraph 7.1.5.7 a) or b) applies) subsequently measure it at the higher of:
 - i) the amount of the loss allowance determined in accordance with Section 7.2.9, and
 - ii) the amount initially recognised (see paragraph 7.1.6.1) less, when appropriate, the cumulative amount of income recognised in accordance with the principles of

IFRS 15.

- d) Contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies. Such contingent consideration shall subsequently be measured at fair value with changes recognised in the surplus or deficit on the provision of services.

Option to designate a financial liability at fair value through profit or loss

7.15.8 The criteria for designating a financial liability at fair value through profit or loss referred to in IFRS 9 paragraph 4.2.2 – ie i) a measurement or recognition inconsistency or ii) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy – are unlikely to occur for the majority of local authorities. Where such inconsistencies or circumstances do occur and a local authority considers that it is necessary to designate a financial liability at fair value through profit or loss it should refer to IFRS 9 paragraph 4.2.2.

~~Transitional reporting requirements amendments to IFRS 9 – Prepayment Features with Negative Compensation⁵⁵~~

~~7.15.10~~ As noted in paragraphs 7.1.5.6 and 7.1.5.8 above it is unlikely that an authority has previously designated a financial asset or a financial liability at fair value through profit or loss. In the extremely rare circumstances that this has taken place the authority shall revoke a previous designation of a financial asset or financial liability at fair value through profit or loss where the criteria in paragraph 7.2.32 a) in the case of a financial asset or 7.2.32 c) in the case of a financial liability of IFRS 9 are met. An authority may designate a financial asset or a financial liability at fair value through profit or loss where the criteria in paragraph 7.2.32 b) for a financial asset or 7.2.32 d) for a financial liability of IFRS 9 are met. Where such a change in designation is made the transition arrangements and disclosures specified in IFRS 9 paragraphs 7.2.29 to 7.2.34 shall be applied.

~~7.15.11~~ The amendments to IFRS 9 in relation to prepayment features with negative compensation may be adopted as of 1 April 2018.

Investments in equity instruments

7.15.9 At initial recognition, an authority may make an irrevocable election to present in other comprehensive income and expenditure subsequent changes in the fair value of an investment in an equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent

⁵⁵ See IFRS 9 paragraphs 7.1.7 and 7.2.29 to 7.2.34 for the transitional provisions on the application of the IFRS 9 amendments. For the application guidance in relation to the treatment of financial assets with prepayment features see paragraphs B4.1.10 to B4.1.12A.

consideration recognised by an acquirer in a business combination to which IFRS 3 applies. These equity instruments shall be described as being designated to fair value through other comprehensive income.

7.1.6 Initial measurement of financial instruments

7.1.6.1 At initial recognition, an authority shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

7.1.6.2 The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (ie the fair value of the consideration given or received, see also Section 2.10 and IFRS 13). If an authority determines that the fair value at initial recognition differs from the transaction price the authority shall account for that instrument at that date in accordance with paragraph B5.1.2A of IFRS 9. Note that the fair value measurement of soft loans is prescribed in paragraphs 7.1.6.4 to 7.1.6.9 below.

7.1.6.3 At initial recognition, an authority shall measure trade receivables that do not have a significant financing component (determined in accordance with IFRS 15) at their transaction price (as defined in IFRS 15).

Soft loans advanced

7.1.6.4 The fair value of a loan advanced at ~~nil interest rate⁵⁶ or~~ below the prevailing market rate shall be estimated as the present value of all future cash receipts discounted using the prevailing market rate of interest for a similar instrument and for an organisation with a similar credit rating. The sum by which the amount lent exceeds the fair value of the loan shall be charged to surplus or deficit on the provision of services as grant expenditure.

7.1.6.5 In subsequent accounting the loan's effective interest rate (ie the interest used to determine the net present value of the soft loan) shall be used to determine the amortised cost of the loan. This will result over the term of the loan in the carrying amount of the loan being written up to the amount it would have been immediately before repayment if it had not been accounted for as a soft loan, and interest income being credited to surplus or deficit on the provision of services over the term of the loan in excess of the contractual interest equal to the write-down of the soft loan on initial recognition.

7.1.6.6 It may be difficult to identify the prevailing rate of interest appropriate to the borrower in some cases. An acceptable approach to determining the prevailing interest rate would be to base it on the authority's borrowing cost plus an allowance for the risk that the loan will not be fully repaid

⁵⁶ — ~~Note that a nil interest rate may not be below the prevailing market rate.~~

(ie the credit risk). Authorities may use other reasonable approaches to determining the prevailing interest rate.

Soft loans made to a subsidiary

- 7.1.67 Local authorities may sometimes make soft loans to subsidiary bodies consolidated into their group accounts. As with other soft loans the fair value shall be estimated as the present value of all future cash receipts discounted using the prevailing market rate of interest for a similar instrument and for an organisation with a similar credit rating. However, the write-down to fair value shall not be taken to surplus or deficit on the provision of services as in substance this is an additional investment by the local authority into its subsidiary. The difference between the loan amount and the fair value of the loan shall be accounted for as an investment in an authority's single entity financial statements.

Soft loans receivable

- 7.1.68 The fair value of the loan shall be determined as the net present value of the future cash payments discounted using the prevailing market rate of interest at which the authority could borrow for a loan with similar terms. The PWLB interest rate for a loan with similar terms shall be used to estimate the prevailing market rate of interest except where the authority can provide reliable evidence that it would be able to borrow at a lower rate of interest from another lender in an orderly transaction between market participants. This will result in a lower figure for the fair value of the liability than the loan received; the difference shall be taken to surplus or deficit on the provision of services as grant receivable in accordance with Section 2.3 of the Code.
- 7.1.69 Subsequent accounting will require the loan's effective interest rate to be used, which will be the same as the interest rate used to determine the net present value of the loan. This will result over the term of the loan in the carrying amount of the loan being written up to the amount it would have been if it had not been accounted for as a soft loan and interest expense over and above the contractual interest payable. The amount in excess of the contractual interest payable would be equal to the write-down of the carrying amount of the soft loan to fair value on initial recognition.

7.1.7 Derivatives and embedded derivatives

Derivatives

- 7.1.71 All derivatives not accounted for under hedge accounting shall be classified as at fair value through profit or loss and changes in fair value shall be recognised in surplus or deficit on the provision of services. Derivatives that are part of an effective cash flow or net investment hedging relationship are not covered in detail by the Code and shall be accounted for in accordance with the hedge accounting requirements of IFRS 9.

7.1.72 A derivative is a financial instrument or other contract under the scope of IFRS 9 with all three of the following characteristics:

- a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying')
- b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and
- c) it is settled at a future date.

7.1.73 Typical examples of derivatives are futures and forwards, swap and option contracts. Many derivatives are settled net rather than by delivery of the underlying financial instrument but derivatives include contracts that are settled gross by delivery of the underlying financial instrument such as a forward contract to purchase a security. The application guidance contained in paragraphs BA.1 to BA.5 of IFRS 9 shall be applied when considering whether a financial instrument is a derivative.

Embedded derivatives

7.1.74 Under IFRS 9, the concept of embedded derivatives has been eliminated for financial assets, with the contractual cash flows being taken into account when classifying the entire financial instrument (see IFRS 9 paragraph 4.3.2). However, embedded derivatives are required to be identified and separated as appropriate for non-financial assets and for liabilities.

7.1.75 Some financial instruments are hybrid, in that for accounting purposes they are considered to comprise a non-derivative host contract that contains an embedded derivative. An embedded derivative causes some or all of the cash flows that would otherwise be required by the contract to be modified in a similar way to a stand-alone derivative. Some embedded derivatives are required to be separated from the host contract and accounted for as derivatives. Other embedded derivatives are not required to be separated from the host contract and the instrument should be accounted for as a single financial instrument. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

7.1.76 An embedded derivative shall be separated from the host contract and accounted for as a derivative under the Code if, and only if:

- a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract (see paragraphs B4.3.5 and B4.3.8 of IFRS 9)

- b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and
- c) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in surplus or deficit on the provision of services (ie a derivative that is embedded in a financial liability at fair value through profit or loss is not separated).

If an embedded derivative is separated the host contract shall be accounted for in accordance with other appropriate chapters of the Code.

7.1.7 An authority shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when it first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required (see also IFRS 9, paragraphs B4.3.11 to B4.3.12).

7.1.8 Hedge accounting

7.1.81 The objective of hedge accounting in IFRS 9 is to represent, in the financial statements, the effect of an entity's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss or other comprehensive income. These activities commonly consist of entering into a derivative contract with a counterparty to eliminate or limit risk. The term *hedging* is commonly understood to be a risk management strategy, while hedge accounting refers to the accounting methods entities may choose to reflect hedging activities in their financial statements.

7.1.82 The accepted view is that currently local authorities seldom use such hedging techniques. Under IFRS 9 the application of hedge accounting is not mandatory and can be chosen on an instrument by instrument basis. If an authority adopts hedge accounting it shall do so in accordance with IFRS 9. However, IFRS 9 also states that "an entity may choose as its accounting policy to continue to apply the hedge accounting requirements in IAS 39 instead of the requirements in Chapter 6" of IFRS 9. This is not permitted by the Code. Hedging instruments shall also be presented and disclosed in accordance with the requirements of IAS 32 and IFRS 7.

7.1.9 Statutory accounting requirements

Regulations/statutory guidance on premiums and discounts

7.1.91 Premiums and discounts incurred on the early repayment of loan debt are covered by regulations or statutory guidance (see part 2 of Appendix B for the legislative basis). There are no regulations for Northern Ireland. The various regulations/statutory guidance of England, Wales and Scotland allow (or in the case of discounts, require) any premiums and discounts arising from 1 April 2007 that are required under the 2007 SORP to be taken immediately to surplus or deficit on the provision of services to be amortised to 'revenue' (ie the general fund) over the various periods specified in the regulations/statutory guidance or in the case of

premiums such shorter period as the authority may choose.

7.192 The surplus or deficit on the provision of services shall reflect the Code requirements. The effect of applying the regulations/statutory guidance shall be accounted for through the movement in reserves statement. The difference between the amount charged or credited in the year to surplus or deficit on the provision of services in accordance with the Code and the amount charged or credited to the general fund in accordance with regulations/statutory guidance should be debited or credited to the general fund balance with the double entry going to the financial instruments adjustment account such that the general fund is charged or credited with the amount that accords with the applicable regulations/statutory guidance.

Regulations/statutory guidance on acquisition and disposal of share and loan capital

7.193 In England and Wales the acquisition and disposal of 'share capital' (the term used in legislation) is within the scope of the capital controls framework (see part 2 of Appendix B for the legislative basis). In Northern Ireland and Wales the acquisition and disposal of 'share and loan capital' (the term used in legislation) is within the scope of the capital controls framework. For example, the acquisition of shares will be required to be incorporated into the statutory capital financing arrangements, with revenue or capital receipts being set aside, or the payment being added to the capital financing requirement to generate minimum revenue provision (MRP). Authorities will need to determine whether any acquisitions or disposals of financial assets are share or loan capital within the meaning of the legislation and account for the statutory requirements. Like property, plant and equipment, movements in the fair value of investments that meet the definition of capital expenditure under statute are not proper charges to the general fund.

Regulations on fair value gains and losses of pooled investment funds

7.193B In England the recognition in reserves of fair value gains and losses of pooled investment funds is affected by legislation (see part 2 of Appendix B for the legislative basis), unless the authority is acting in its capacity of administering a pension fund. The regulations exclude impairment losses and sales or other disposals. The effect of applying the regulations/statutory guidance shall be accounted for through the movement in reserves statement. The difference between the amount charged or credited in the year to surplus or deficit on the provision of services in accordance with the Code and the amount charged or credited to the general fund in accordance with regulations/statutory guidance should be debited or credited to the general fund balance with the double entry going to the pooled investment funds adjustment account such that the general fund is charged or credited with the amount that accords with the applicable regulations/statutory guidance.

Regulation/statutory guidance on soft loans advanced by an authority

- 7.1.94** Soft loans advanced by a local authority are covered by regulations or statutory guidance (see part 2 of Appendix B for the legislative basis). Northern Ireland has not regulated on the matter. The regulations for England and Wales cover both soft loans on an authority's balance sheet on 31 March 2007 and soft loans advanced after 31 March 2007. The statutory guidance for Scotland covers only soft loans on an authority's balance sheet on 31 March 2007. The regulations for England and Wales provide that the amount taken to the general fund in respect of all soft loans should be the contractual interest receivable. This is also the case in Scotland for loans that were on the balance sheet at 31 March 2007 but not for soft loans originated after 31 March 2007.
- 7.1.95** The difference between the amount charged or credited to surplus or deficit on the provision of services in accordance with the Code and the interest income (if any) required under the England, Wales and Scotland regulations/statutory guidance to be credited to the general fund shall be debited or credited to the general fund balance with the double entry going to the financial instruments adjustment account such that the general fund records the amount required by the applicable regulations or statutory guidance.
- 7.1.96** Reference is made in paragraphs 7.1.9.4 and 7.1.9.5 above and elsewhere in this chapter to amounts required to be taken to the general fund balance. For clarity reference to general fund balance includes the Housing Revenue Account (HRA) balance and requires the amount to be apportioned appropriately between the general fund and HRA, if an HRA is maintained.

7.1.10 Disclosure requirements

- 7.1.10.1** The disclosure requirements for financial instruments are included in Section 7.3 of the Code.

7.1.11 Statutory disclosure requirements

- 7.1.11.1** There are no statutory disclosure requirements for financial instruments.

7.1.12 Changes since the 2019~~8~~/2019 Code

- 7.1.12.1** Changes reflect statutory requirements in England for the recognition in reserves of fair value gains and losses of pooled investment funds, and transition requirements in 2019/20 for the treatment of instruments with negative compensation features have been removed from Section 7.1 Financial Instruments Introduction etc. ~~has been updated to reflect the prepayment features with negative compensation amendments to IFRS 9 (specifically including the transitional arrangements).~~
- ~~**7.1.12.2** Section 7.1 Financial Instruments Introduction etc includes the clarification to one of the interpretations for contracts with lender option borrower option clauses.~~

7.2 SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

7.2.1 Introduction

7.2.1.1 This section of the Code covers:

- a) subsequent measurement of the balance sheet carrying amount of financial assets
- b) subsequent measurement of the balance sheet carrying amount of financial liabilities
- c) determination of the income or expenditure to be recognised in the comprehensive income and expenditure statement for the reporting period
- d) reclassifications of financial assets
- e) financial guarantee contracts, and
- f) impairment of financial assets.

7.2.2 Subsequent measurement of financial assets

7.2.2.1 The accounting treatment of a financial asset after initial recognition (ie how subsequent carrying value is measured and gains and losses recognised) depends on its classification on initial recognition. After initial recognition, an authority shall measure financial assets in accordance with their classifications at paragraphs 7.1.5.1 to 7.1.5.6 and therefore as appropriate at:

- a) amortised cost
- b) fair value through other comprehensive income, or
- c) fair value through profit or loss.

7.2.2.2 An authority shall apply the impairment requirements in Section 7.2.9 to financial assets that are measured at amortised cost in accordance with paragraph 7.1.5.2 and to financial assets that are measured at fair value through other comprehensive income in accordance with paragraph 7.1.5.3.

7.2.3 Subsequent measurement of financial liabilities

7.2.3.1 After initial recognition, an authority shall measure a financial liability in accordance with paragraph 7.1.5.7 and, if relevant, paragraph 7.1.5.8.

7.2.4 Amortised cost measurement

7.2.4.1 Interest revenue shall be calculated by using the effective interest method (see Section 7.2.5 and paragraph 7.1.2.7; see also paragraphs B5.4.1 to B5.4.7 of IFRS 9) and shall be recognised in surplus or deficit on the provision of services. This shall be calculated by applying the effective

interest rate to the gross carrying amount of a financial asset except for:

- a) purchased or originated credit-impaired financial assets
- b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets.

7.2.42 When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with Section 7.1 of the Code and IFRS 9, an authority shall recalculate the gross carrying amount of the financial asset and shall recognise a modification gain or loss in surplus or deficit on the provision of services. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Write-off

7.2.43 An authority shall directly reduce the gross carrying amount of a financial asset when it has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event.

7.2.5 Subsequent accounting of financial assets and financial liabilities carried at amortised cost

Amortised cost using the effective interest method

7.2.51 Amortised cost using the effective interest rate can apply to both financial assets and financial liabilities. The following three paragraphs apply to both financial assets and financial liabilities carried at amortised cost (see also paragraphs B5.4.1 to B5.4.3 of IFRS 9).

7.2.52 The effective interest method is defined in paragraph 7.1.2.7 and is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

7.2.53 The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability instrument or, when appropriate, a shorter period to the gross carrying amount of a financial asset or the amortised cost of a financial liability (net carrying amount). When calculating the effective interest rate, an authority shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

7.25.4 For most loan debts and investments there will be transaction costs and the Code requires that these are applied to adjust the financial instrument's initial carrying amount with the result that they are amortised to surplus or deficit on the provision of services over the life of the financial instrument. However, where judged immaterial transaction costs may be charged immediately to surplus or deficit on the provision of services.

Expected life and cash flows of a financial instrument

7.25.5 The effective interest rate used to determine the finance costs or income receivable of a financial instrument carried at amortised cost and its carrying amount subsequent to initial recognition is based on discounting the estimated cash flows and estimated life of the instrument rather than on its contractual cash flows and contractual life. There is a presumption that the cash flows and expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments) shall be used.

7.25.6 A lender option borrower option (LOBO) loan would normally be such a *rare case* since at origination of the loan it would not usually be possible to estimate reliably the instrument's expected cash flows or expected life. The contractual life and contractual cash flows shall be used as the expected life of a LOBO when calculating the effective interest rate on initial recognition, unless on considering the contractual terms of the instrument the authority concludes it is able to estimate reliably the expected cash flows and expected life.

Revision of expected life and cash flows of a financial instrument

7.25.7 If an authority revises its estimates of payments or receipts, it shall adjust the gross carrying amount of the financial asset (or group of financial instruments) or amortised cost of a financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The authority recalculates the gross carrying amount of a financial asset or the amortised cost of the financial liability by computing the present value of estimated future cash flows that are discounted at the financial instrument's original effective interest rate. The adjustment is recognised as income or expense in surplus or deficit on the provision of services. However, it should be noted that where the instrument is accounted for under the hedging accounting requirements, the revised effective interest rate is used in accordance with paragraph 6.5.10 of IFRS 9.

7.2.6 Recognition of gains or losses on financial assets or financial liabilities

7.26.1 A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be recognised in surplus or deficit on the provision of services when the

financial asset is derecognised, reclassified in accordance with paragraph 5.6.2 of IFRS 9, through the amortisation process or in order to recognise impairment gains or losses. An authority shall apply paragraphs 5.6.2 and 5.6.4 of IFRS 9 if it reclassifies financial assets out of the amortised cost measurement category. A gain or loss on a financial liability that is measured at amortised cost and is not part of a hedging relationship shall be recognised in the surplus or deficit on the provision of services when the financial liability is derecognised and through the amortisation process.

7.2.62 A gain or loss on a financial asset or financial liability that is measured at fair value shall be recognised in surplus or deficit on the provision of services unless:

- a) it is part of a hedging relationship
- b) it is an investment in an equity instrument and the authority has elected to present gains and losses on that investment in other comprehensive income in accordance with paragraph 7.1.5.9, or
- c) it is a financial asset measured at fair value through other comprehensive income in accordance with paragraph 7.1.5.3 and the authority is required to recognise some changes in fair value in other comprehensive income in accordance with paragraph 7.2.6.5.

7.2.63 Dividends are recognised in surplus or deficit on the provision of services only when:

- a) the authority's right to receive payment of the dividend is established
- b) it is probable that the economic benefits associated with the dividend will flow to the authority, and
- c) the amount of the dividend can be measured reliably.

7.2.64 If an authority makes the election in paragraph 7.1.5.9, it shall recognise in surplus or deficit on the provision of services dividends from that investment in accordance with paragraph 7.2.6.3.

Assets measured at fair value through other comprehensive income

7.2.65 A gain or loss on a financial asset measured at fair value through other comprehensive income in accordance with paragraph 7.1.5.3 shall be recognised in other comprehensive income and expenditure (and taken to the financial instruments revaluation reserve), except for impairment gains or losses, until the financial asset is derecognised or reclassified. When the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified from reserves to surplus or deficit on the provision of services as a reclassification adjustment (see Section 3.4 and IAS 1). If the financial asset is reclassified out of the fair value through other comprehensive income measurement category, the authority shall account for the cumulative gain or loss that was previously recognised in other comprehensive income and expenditure in accordance with paragraphs 5.6.5 and 5.6.7 of IFRS 9. Interest calculated using the effective interest method is recognised in the surplus or deficit on the provision of services.

7.2.6.6 If a financial asset is measured at fair value through other comprehensive income in accordance with paragraph 7.1.5.3, the amounts that are recognised in surplus or deficit on the provision of services are the same as the amounts that would have been recognised in the surplus or deficit on the provision of services if the financial asset had been measured at amortised cost.

7.2.7 Financial guarantee contracts

7.2.7.1 Local authorities sometimes give financial guarantees that require them to make specified payments to reimburse the holder of a debt if the debtor fails to make payment when due in accordance with the terms of the contract. Commercial organisations may charge a fee for accepting the risk involved in giving such financial guarantees but local authorities normally enter into such arrangements for policy rather than commercial reasons and do not usually receive a fee.

7.2.7.2 The financial guarantee contract shall be initially recognised at fair value. If the financial guarantee contract was issued to an unrelated party in a stand-alone arm's length transaction, its fair value at inception is likely to equal the premium received, unless there is evidence to the contrary.

7.2.7.3 Subsequently, the issuer authority shall measure the financial guarantee at the higher of the amount determined in accordance with Section 7.2.9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

7.2.7.4 The entries on initial recognition would be to recognise the liability by crediting financial guarantee liabilities and to charge the loss allowance to surplus or deficit on the provision of services.

7.2.8 Reclassification

7.2.8.1 When, and only when, an authority changes its business model for managing financial assets, it shall reclassify all affected financial assets in accordance with paragraphs 7.1.5.1 to 7.1.5.5. Such changes are expected to be very rare, and will occur only when an authority either begins or ceases to carry out an activity that is significant to its operations. See paragraphs B4.4.1 to B4.4.3 of IFRS 9 for further application guidance.

7.2.8.2 An authority shall not reclassify any financial liability.

7.2.8.3 If an authority reclassifies financial assets in accordance with paragraph 7.2.8.1, it shall apply the reclassification prospectively from the reclassification date. The authority shall not restate any previously recognised gains, losses (including impairment gains or losses) or interest. Paragraphs 5.6.2 to 5.6.7 of IFRS 9 set out the requirements for reclassifications.

7.2.9 Impairment

Recognition of expected credit losses

General approach

- 7.291 An authority shall recognise a loss allowance for expected credit losses on a financial asset that is measured in accordance with paragraphs 7.1.5.2 or 7.1.5.3 and a lease receivable, a contract asset or a loan commitment and a financial guarantee contract to which the impairment requirements apply in accordance with paragraphs 7.1.2.25 d) and 7.1.5.7 c). Local authorities shall not recognise a loss allowance for expected credit losses on a financial asset where the counterparty for a financial asset is central government or a local authority for which relevant statutory provisions⁵⁷ prevent default. The exemption does not apply to credit-impaired assets.
- 7.292 At each reporting date, an authority shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. This is subject to the simplified approach for trade receivables, contract assets and lease receivables and the approach required for any purchased or originated credit-impaired financial assets.
- 7.293 The objective of the impairment requirements is to recognise lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition, whether assessed on an individual or collective basis, considering all reasonable and supportable information, including that which is forward-looking.
- 7.294 If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an authority shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. This is subject to the simplified approach for trade receivables, contract assets and lease receivables and the approach required for any purchased or originated credit-impaired financial assets.
- 7.295 For loan commitments and financial guarantee contracts, the date that the authority becomes a party to the irrevocable commitment shall be considered to be the date of initial recognition for the purposes of applying the impairment requirements.

⁵⁷ Central government includes core central government departments (including their executive agencies), the Government's Exchequer Funds [being the National Loans Fund; all Consolidated Funds; the Contingencies Fund; the Exchange Equalisation Account; the Debt Management Account; the Public Works Loan Board; and Commissioners for the Reduction of the National Debt]; and the Bank of England. Government Arm's Length Bodies (ALBs) are excluded from the exemption unless they are explicitly covered by guarantee given by their parent department. The relevant statutory provisions for local authorities are those under the Local Government Act 2003 for England and Wales, the Local Government Finance Act (Northern Ireland) 2011, and the Local Government in Scotland Act 2003.

- 7.29.6** If an authority has measured the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that paragraph 7.2.9.2 is no longer met, the authority shall measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.
- 7.29.7** An authority shall recognise in surplus or deficit on the provision of services, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with this section of the Code and IFRS 9.

Determining significant increases in credit risk

- 7.29.8** At each reporting date, an authority shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, an authority shall use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, an authority shall compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.
- 7.29.9** An authority may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date (see paragraphs B5.5.22 to B5.5.24 of IFRS 9).
- 7.29.10** When determining whether credit risk has increased significantly since initial recognition an authority cannot rely solely on past due information if reasonable and supportable forward-looking information is available without undue cost or effort. However, when information that is more forward-looking than past due status (on either an individual or a collective basis) is not available without undue cost or effort, an authority may use past due information to determine whether there have been significant increases in credit risk since initial recognition.
- 7.29.11** Regardless of the way in which an authority assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. An authority may rebut this presumption if it has reasonable and supportable information that is available without undue cost or effort, that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due. When an authority determines that there have been significant increases in credit risk before contractual payments are more than 30 days past due, the rebuttable presumption does not apply.

Collective and individual assessment basis

- 7.29.12** In order to meet the objective of recognising lifetime expected credit losses for significant increases in credit risk since initial recognition, it may be necessary to perform the assessment of significant increases in credit risk on a collective basis by considering information that is indicative of significant increases in credit risk on, for example, a group or sub-group of financial instruments. This is to ensure that an authority meets the objective of recognising lifetime expected credit losses when there are significant increases in credit risk, even if evidence of such significant increases in credit risk at the individual instrument level is not yet available. For further information see IFRS 9 paragraphs B5.5.1 to B5.5.6.
- 7.29.13** For the purpose of determining significant increases in credit risk and recognising a loss allowance on a collective basis, an authority can group financial instruments on the basis of shared credit risk characteristics with the objective of facilitating an analysis that is designed to enable significant increases in credit risk to be identified on a timely basis. The authority should not obscure this information by grouping financial instruments with different risk characteristics. Examples of shared credit risk characteristics may include, but are not limited to, the:
- a) instrument type
 - b) credit risk ratings
 - c) date of initial recognition
 - d) remaining term to maturity, and
 - e) industry.

Modified financial assets

- 7.29.14** If the contractual cash flows on a financial asset have been renegotiated or modified and the financial asset was not derecognised, an authority shall assess whether there has been a significant increase in the credit risk of the financial instrument in accordance with paragraph 7.2.9.2 by comparing:
- a) the risk of a default occurring at the reporting date (based on the modified contractual terms), and
 - b) the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

Purchased or originated credit-impaired financial assets

- 7.29.15** At the reporting date, an authority shall only recognise the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets.
- 7.29.16** At each reporting date, an authority shall recognise in surplus or deficit on the provision of services the amount of the change in lifetime expected credit losses as an impairment gain or

loss. An authority shall recognise favourable changes in lifetime expected credit losses as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.

Simplified approach for trade receivables, contract assets and lease receivables

7.29.17 An authority shall measure the loss allowance at an amount equal to lifetime expected credit losses for:

- a) trade receivables or contract assets that result from transactions that are within the scope of IFRS 15, and that:
 - i) do not contain a significant financing component (or when the authority applies the practical expedient for contracts that are one year or less) in accordance with IFRS 15, or
 - ii) contain a significant financing component in accordance with IFRS 15, if the authority chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. That accounting policy shall be applied to all such trade receivables or contract assets but may be applied separately to trade receivables and contract assets.
- b) lease receivables that result from transactions that are within the scope of Section 4.2 and [IFRS 16 Leases](#). If the authority chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses that accounting policy shall be applied to all lease receivables but may be applied separately to finance and operating lease receivables.

7.29.18 An authority may select its accounting policy for trade receivables, lease receivables and contract assets independently of each other.

Measurement of expected credit losses

7.29.19 An authority shall measure expected credit losses of a financial instrument in a way that reflects:

- a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
- b) the time value of money, and
- c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

7.29.20 When measuring expected credit losses, an authority need not necessarily identify every possible scenario. However, it shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

7.2.9.21 The maximum period to consider when measuring expected credit losses is the maximum contractual period (including extension options) over which the authority is exposed to credit risk and not a longer period, even if that longer period is consistent with business practice.

7.2.10 Statutory accounting requirements

7.2.10.1 Where an investment or a debtor balance (which is a financial instrument) meets the definition of capital expenditure under statutory provisions, impairment losses are not proper charges to the general fund (see Appendix B for the legislative basis).

7.2.10.2 The remaining statutory accounting requirements for financial instruments are included in Section 7.1 of the Code.

7.2.11 Disclosure requirements

7.2.11.1 The disclosure requirements for financial instruments are included in Section 7.3 of the Code.

7.2.12 Statutory disclosure requirements

7.2.12.1 There are no statutory disclosure requirements for financial instruments.

7.2.13 Changes since the 2019/2020 Code

7.2.13.1 ~~There have been no~~ Changes to the subsequent measurement of financial assets and financial liabilities section of the Code ~~relate to the adoption of IFRS 16 Leases since the 2018/19 Code.~~

7.3 FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION REQUIREMENTS

7.3.1 Introduction

7.3.1.1 This section of Chapter 7 sets out the required disclosures and presentation of financial instruments. Hedge accounting disclosures are not covered. Hedge accounting, while permitted by the Code, would seldom be used by a local authority. Where an authority uses hedge accounting it shall include the presentation and disclosures required by IAS 32 and IFRS 7. Those disclosures applicable only to entities that issue equity instruments are not covered in detail in the Code. In the very unlikely circumstance that a local authority issued a financial instrument which IFRS required to be accounted for as an equity instrument, the presentation and disclosures required by IAS 32 and IFRS 7 shall apply.

7.3.1.2 Part 1 of the section sets out the required disclosures of financial instruments.

7.3.1.3 The extent of disclosure required depends on the extent of the authority's use of financial instruments and of its exposure to risk. To the extent that required information is presented on the face of the financial statements, it is unnecessary to repeat it in the notes. Disclosures

include a combination of narrative descriptions and quantified data, as appropriate to the nature of the instruments and their relative significance to the authority.

7.3.14 Determining the level of detail to be disclosed about particular financial instruments requires the exercise of judgement taking into account the relative significance of those instruments. It is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users and obscuring important information as a result of too much aggregation. For example, when an authority is party to a large number of financial instruments with similar characteristics and no single contract is individually material, a summary by classes of instruments is appropriate. Consideration of paragraphs 3.4.2.26 and 3.4.2.27, that is, the paragraphs relating to the need to only include information material to the financial statements, will be particularly important where it relates to the disclosures of financial instruments.

7.3.15 It is considered highly unlikely that authorities will pledge collateral, as all securities created by a local authority rank equally without any priority in accordance with Section 13 of the Local Government Act 2003 (in England and Wales) or Regulation 7 of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016. If, exceptionally, an authority has pledged collateral, it shall provide the disclosures required by IFRS 7.

7.3.16 The accounting standard underlying the Code's financial instruments presentation requirements is IAS 32. However, much of the standard covers matters that are of relevance only to entities that issue equity instruments; and the Code therefore does not cover in detail paragraphs 15 to 41 of IAS 32, which deal with:

- a) classifying financial instruments issued as liabilities or equity (paragraphs 15 to 27)
- b) compound financial instruments issued (ie financial instruments that contain both a liability and an equity component) (paragraphs 28 to 32)
- c) 'treasury shares' (ie the reacquisition of its own equity instruments by an entity) (paragraphs 33 and 34)
- d) interest, dividends, losses and gains, which deals with distinguishing dividend type distribution to equity holders (which shall be debited to equity) from interest payments to holders of an entity's liability instruments, which shall be recognised in profit or loss (paragraphs 35 to 41).

7.3.17 If the above matters were to become relevant to accounting statements prepared under this Code, the matter shall be accounted for in accordance with IAS 32.

PART 1 – DISCLOSURES

7.3.2 Significance of financial instruments for financial position and performance

7.3.2.1 An authority shall disclose information that enables users of its financial statements to evaluate

the significance of financial instruments for its financial position and performance and the nature and extent of risks arising from financial instruments to which the authority is exposed during the period and at the end of the reporting period, and how it manages those risks. The disclosures required are listed in paragraphs 7.3.2.2 to 7.3.4.1.

Balance sheet disclosures

Categories of financial assets and financial liabilities

7.3.22 The carrying amounts of each of the following categories shall be disclosed either in the balance sheet or in the notes to the accounts⁵⁸:

- a) financial assets measured at fair value through profit or loss
- b) financial liabilities at fair value through profit or loss, if any
- c) financial assets measured at amortised cost; where material, the carrying amount of soft loans granted by the authority shall be disclosed separately
- d) financial liabilities measured at amortised cost
- e) financial assets measured at fair value through other comprehensive income, showing separately:
 - i) financial assets that are measured at fair value through other comprehensive income in accordance with paragraph 7.1.5.3, and
 - ii) investments in equity instruments designated as such upon initial recognition in accordance with paragraph 7.1.5.9.

Soft loans granted to other bodies

7.3.23 ~~WW~~ Where an authority separately discloses the carrying amount of soft loans granted by the authority, subject to the application of paragraph 2.1.2.14B2 to ensure that material information is not obscured it shall also disclose:

- a) a reconciliation between the opening and closing carrying amounts of the soft loans, including:
 - i) nominal value of new loans granted during the period
 - ii) the fair value adjustment on initial recognition
 - iii) loans repaid during the period
 - iv) impairment losses recognised

⁵⁸ In the unusual circumstances where an authority designates a financial asset or financial liability at fair value through profit or loss or where it undertakes hedging transactions the carrying amounts of those financial instruments will need to be disclosed separately in accordance with paragraph 8 of IFRS 7.

- v) any increase during the period in the discounted amount arising from the passage of time, and
- vi) other changes
- b) nominal value of the loans at the end of the period
- c) the purpose and terms of the various types of loans, and
- d) valuation assumptions.

Financial assets or financial liabilities (designated) at fair value through profit or loss

7.324 In the unusual circumstance where an authority designates a financial asset or a financial liability at fair value through profit or loss it shall provide the disclosures at paragraphs 9, 10, 10A and 11 of IFRS 7 where relevant.

Investments in equity instruments designated at fair value through other comprehensive income

7.325 If an authority has designated investments in equity instruments to be measured at fair value through other comprehensive income, as permitted by paragraph 7.1.5.9, it shall disclose:

- a) which investments in equity instruments have been designated to be measured at fair value through other comprehensive income
- b) the reasons for using this presentation alternative
- c) the fair value of each such investment at the end of the reporting period
- d) dividends recognised during the period, showing separately those related to investments derecognised during the reporting period and those related to investments held at the end of the reporting period
- e) any transfers of the cumulative gain or loss within reserves during the period including the reason for such transfers.

7.326 If an authority derecognised investments in equity instruments measured at fair value through other comprehensive income during the reporting period, it shall disclose:

- a) the reasons for disposing of the investments
- b) the fair value of the investments at the date of derecognition
- c) the cumulative gain or loss on disposal.

Reclassification

7.327 An authority shall provide the relevant disclosures in paragraphs 12B to 12D of IFRS 7 if it has reclassified any financial assets in accordance with paragraph 7.2.8.1.

Offsetting financial assets and financial liabilities

7.3.28 The disclosures in paragraphs 1) to 4) below supplement the other disclosure requirements of this section of the Code and are required for all recognised financial instruments that are set off in accordance with paragraph 7.3.5.1. These disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with paragraph 7.3.5.1:

- 1) An authority shall disclose information to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on the authority's financial position. This includes the effect or potential effect of rights of set-off associated with the authority's recognised financial assets and recognised financial liabilities that are within the scope of paragraph 7.3.2.8 above.
- 2) To meet the objective in paragraph 1) above, an authority shall disclose, at the end of the reporting period, the following quantitative information separately for recognised financial assets and recognised financial liabilities that are within the scope of paragraph 7.3.2.8 above:
 - a) the gross amounts of those recognised financial assets and recognised financial liabilities
 - b) the amounts that are set off in accordance with the criteria in paragraph 7.3.5.1 when determining the net amounts presented in the balance sheet
 - c) the net amounts presented in the balance sheet
 - d) the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph b), including:
 - i) amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria in paragraph 7.3.5.1, and
 - ii) amounts related to financial collateral (including cash collateral), and
 - e) the net amount after deducting the amounts in d) from the amounts in c) above.

The information required by this disclosure shall be presented in a tabular format, separately for financial assets and financial liabilities, unless another format is more appropriate.

- 3) The total amount disclosed in accordance with paragraph 2 d) for an instrument shall be limited to the amount in disclosure 2 c) for that instrument.
- 4) An authority shall include a description in the disclosures of the rights of set-off associated with the authority's recognised financial assets and recognised financial liabilities subject to enforceable master netting arrangements and similar agreements that are disclosed in accordance with paragraph 2 d), including the nature of those rights.

If the information required by paragraphs 1) to 4) is disclosed in more than one note to the

financial statements, an authority shall cross-refer between those notes.

Collateral

7.3.2.9 When an authority holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose:

- a) the fair value of the collateral held
- b) the fair value of any such collateral sold or repledged, and whether the authority has an obligation to return it, and
- c) the terms and conditions associated with its use of the collateral.

It is considered highly unlikely that authorities will pledge collateral, as all securities created by a local authority rank equally without any priority in accordance with Section 13 of the Local Government Act 2003 (in England and Wales) or Regulation 7 of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016. If, exceptionally, an authority has pledged collateral, it shall provide the disclosures required by IFRS 7.

Allowance account for credit losses

7.3.2.10 The carrying amount of financial assets measured at fair value through other comprehensive income in accordance with paragraph 7.1.5.3 is not reduced by a loss allowance and an authority shall not present the loss allowance separately in the balance sheet as a reduction of the carrying amount of the financial asset. However, an authority shall disclose the loss allowance in the notes to the financial statements.

Defaults and breaches

7.3.2.11 ~~For~~ For loans payable recognised at the end of the reporting period, subject to the application of paragraph 2.1.2.14B2 to ensure that material information is not obscured an authority shall disclose:

- a) details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable
- b) the carrying amount of the loans payable in default at the reporting date, and
- c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.

7.3.2.12 ~~If~~ If, during the period, there were breaches of loan agreement terms other than those described in paragraph 7.3.2.11, subject to the application of paragraph 2.1.2.14B2 to ensure that material information is not obscured an authority shall disclose the same information as required by paragraph 7.3.2.11 if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the reporting date).

Comprehensive income and expenditure statement disclosures

Items of income, expense, gains or losses

7.32.13 An authority shall disclose the following items of income, expense, gains or losses either on the face of the financial statements or in the notes⁵⁹:

- a) net gains or net losses on:
 - i) financial assets or financial liabilities at fair value through profit or loss
 - ii) financial liabilities measured at amortised cost
 - iii) financial assets measured at amortised cost
 - iv) investments in equity instruments designated at fair value through other comprehensive income in accordance with paragraph 7.1.5.9
 - v) financial assets measured at fair value through other comprehensive income in accordance with paragraph 7.1.5.3, showing separately the amount of gain or loss recognised in other comprehensive income and expenditure during the period and the amount reclassified upon derecognition from accumulated other comprehensive income and expenditure to surplus or deficit on the provision of services for the period
- b) total interest revenue and total interest expense (calculated using the effective interest method) for financial assets that are measured at amortised cost or that are measured at fair value through other comprehensive income in accordance with paragraph 7.1.5.3 (showing these amounts separately); or financial liabilities that are not measured at fair value through profit or loss
- c) fee income and expense (other than amounts included in determining the effective interest rate) arising from:
 - i) financial assets or financial liabilities that are not at fair value through profit or loss, and
 - ii) trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions.

7.32.14 An authority shall disclose an analysis of the gain or loss recognised in the comprehensive income and expenditure statement arising from the derecognition of financial assets measured at amortised cost, showing separately gains and losses arising from derecognition of those financial assets. This disclosure shall include the reasons for derecognising those financial assets.

⁵⁹ In the unusual circumstances where an authority designates a financial asset or financial liability at fair value through profit or loss or where it undertakes hedging transactions the net gains or losses on those financial instruments will need to be disclosed separately in accordance with paragraph 20 of IFRS 7.

Other disclosures

Accounting policies

7.32.15 An authority shall disclose, in its significant accounting policies, the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.

Fair value

7.32.16 For each class of financial assets and financial liabilities an authority shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount.

7.32.17 In disclosing fair values, an authority shall group financial assets and financial liabilities into classes, but shall offset them only to the extent that their carrying amounts are offset in the balance sheet.

7.32.18 An authority shall disclose the methods and, when a valuation technique is used, the assumptions applied in measuring fair values in accordance with the requirements of Section 2.10 of the Code.

7.32.19 In some cases, an authority does not recognise a gain or loss on initial recognition of a financial asset or financial liability because the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (ie a Level 1 input) nor based on a valuation technique that uses only data from observable markets (see paragraph B5.1.2A of IFRS 9). In such cases, the authority shall disclose by class of financial asset or financial liability:

- a) its accounting policy for recognising that difference in the surplus or deficit on the provision of services between the fair value at initial recognition and the transaction price to reflect a change in factors (including time) that market participants take into account when pricing the asset or liability (see paragraph B5.1.2A(b) of IFRS 9)
- b) the aggregate difference yet to be recognised in the surplus or deficit on the provision of services at the beginning and end of the period and a reconciliation of changes in the balance of this difference, and
- c) why the authority concluded that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value.

7.32.20 Disclosures of fair value are not required:

- a) when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables, or
- b) for a contract containing a discretionary participation feature (as described in IFRS 4 Insurance Contracts) if the fair value of that feature cannot be measured reliably.
- c) for lease liabilities

7.3.2.21 In the case described in 7.3.2.20 b), an authority shall disclose information to help users of the financial statements make their own judgements about the extent of possible differences between the carrying amount of those financial assets or financial liabilities and their fair value, including:

- a) the fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably
- b) a description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably
- c) information about the market for the instruments
- d) information about whether and how the authority intends to dispose of the financial instruments, and
- e) if financial instruments whose fair value previously could not be reliably measured are derecognised, that fact, their carrying amounts at the time of derecognition, and the amount of gain or loss recognised.

7.3.3 Nature and extent of risks arising from financial instruments

7.3.3.1 An authority shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the authority is exposed at the end of the reporting period and how they have been managed. These risks typically include, but are not limited to, credit risk, liquidity risk and market risk.

7.3.3.2 Providing qualitative disclosures in the context of quantitative disclosures enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments. The interaction between qualitative and quantitative disclosures contributes to disclosure of information in a way that better enables users to evaluate an authority's exposure to risks.

Qualitative disclosures

7.3.3.3 For each type of risk arising from financial instruments, an authority shall disclose:

- a) its exposures to risk and how they arise
- b) its objectives, policies and processes for managing the risk and the methods used to measure the risk, and
- c) any changes in a) or b) from the previous period.

Quantitative disclosures

7.3.3.4 For each type of risk arising from financial instruments, an authority shall disclose:

- a) summary quantitative data about its exposure to that risk at the reporting date. This disclosure shall be based on the information provided internally to key

management personnel of the authority, for example, the authority's finance committee or chief executive officer, and

- b) the disclosures required by paragraphs 7.3.3.6 to 7.3.3.23, to the extent not provided in accordance with a).

7.3.3.5 If the quantitative data disclosed as at the end of the reporting period are unrepresentative of an authority's exposure to risk during the period, an authority shall provide further information that is representative.

Credit risk

Scope and objectives

7.3.3.6 An authority shall apply the disclosure requirements in paragraphs 7.3.3.11 to 7.3.3.18 to financial instruments to which the impairment requirements in Section 7.2.9 and IFRS 9 are applied.

7.3.3.7 The credit risk disclosures made in accordance with paragraphs 7.3.3.11 to 7.3.3.18 shall enable users of financial statements to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows. To achieve this objective, credit risk disclosures shall provide:

- a) information about an authority's credit risk management practices and how they relate to the recognition and measurement of expected credit losses, including the methods, assumptions and information used to measure expected credit losses
- b) quantitative and qualitative information that allows users of financial statements to evaluate the amounts in the financial statements arising from expected credit losses, including changes in the amount of expected credit losses and the reasons for those changes, and
- c) information about an authority's credit risk exposure (ie the credit risk inherent in an authority's financial assets and commitments to extend credit) including significant credit risk concentrations.

7.3.3.8 An authority need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to other statements, such as the narrative report or risk report that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

7.3.3.9 To meet the objectives in paragraph 7.3.3.7 an authority shall (except as otherwise specified) consider how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate the quantitative information disclosed.

7.3.3.10 If the disclosures provided in accordance with paragraphs 7.3.3.11 to 7.3.3.18 are insufficient to

meet the objectives in paragraph 7.3.3.7 an authority shall disclose additional information that is necessary to meet those objectives.

The credit risk management practices

7.3.3.11 An authority shall explain its credit risk management practices and how they relate to the recognition and measurement of expected credit losses. To meet this objective an authority shall disclose information that enables users of financial statements to understand and evaluate:

- a) how an authority determined whether the credit risk of financial instruments has increased significantly since initial recognition, including, if and how:
 - i) financial instruments are considered to have low credit risk in accordance with paragraph 7.2.9.9, including the classes of financial instruments to which it applies, and
 - ii) the presumption in paragraph 7.2.9.11, that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has been rebutted
- b) an authority's definitions of default, including the reasons for selecting those definitions
- c) how the instruments were grouped if expected credit losses were measured on a collective basis
- d) how an authority determined that financial assets are credit-impaired financial assets
- e) an authority's write-off policy, including the indicators that there is no reasonable expectation of recovery and information about the policy for financial assets that are written off but are still subject to enforcement activity
- f) how the requirements in paragraph 7.2.9.14 for the modification of contractual cash flows of financial assets have been applied, including how an authority:
 - i) determines whether the credit risk on a financial asset that has been modified while the loss allowance was measured at an amount equal to lifetime expected credit losses, has improved to the extent that the loss allowance reverts to being measured at an amount equal to 12-month expected credit losses in accordance with paragraph 7.2.9.4, and
 - ii) monitors the extent to which the loss allowance on financial assets meeting the criteria in (i) is subsequently remeasured at an amount equal to lifetime expected credit losses in accordance with paragraph 7.2.9.2.

7.3.3.12 An authority shall explain the inputs, assumptions and estimation techniques used to apply the requirements in Section 7.2.9. For this purpose an authority shall disclose:

- a) the basis of inputs and assumptions and the estimation techniques used to:
 - i) measure the 12-month and lifetime expected credit losses

- ii) determine whether the credit risk of financial instruments has increased significantly since initial recognition, and
- iii) determine whether a financial asset is a credit-impaired financial asset
- b) how forward-looking information has been incorporated into the determination of expected credit losses, including the use of macroeconomic information, and
- c) changes in the estimation techniques or significant assumptions made during the reporting period and the reasons for those changes.

Quantitative and qualitative information about amounts arising from expected credit losses

7.3.3.13 To explain the changes in the loss allowance and the reasons for those changes, an authority shall provide, by class of financial instrument, a reconciliation from the opening balance to the closing balance of the loss allowance, in a table, showing separately the changes during the period for:

- a) the loss allowance measured at an amount equal to 12-month expected credit losses
- b) the loss allowance measured at an amount equal to lifetime expected credit losses for:
 - i) financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets
 - ii) financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired), and
 - iii) trade receivables, contract assets or lease receivables for which the loss allowances are measured in accordance with paragraph 7.2.9.17
- c) financial assets that are purchased or originated credit-impaired.

In addition to the reconciliation, an authority shall disclose the total amount of undiscounted expected credit losses at initial recognition on financial assets initially recognised during the reporting period.

7.3.3.14 To enable users of financial statements to understand the changes in the loss allowance disclosed in accordance with paragraph 7.3.3.13, an authority shall provide an explanation of how significant changes in the gross carrying amount of financial instruments during the period contributed to changes in the loss allowance. The information shall be provided separately for financial instruments that represent the loss allowance as listed in paragraph 7.3.3.13 a) to c) and shall include relevant qualitative and quantitative information. Examples of changes in the gross carrying amount of financial instruments that contributed to the changes in the loss allowance may include:

- a) changes because of financial instruments originated or acquired during the

reporting period

- b) the modification of contractual cash flows on financial assets that do not result in a derecognition of those financial assets in accordance with IFRS 9
- c) changes because of financial instruments that were derecognised (including those that were written off) during the reporting period, and
- d) changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime expected credit losses.

7.33.15 To enable users of financial statements to understand the nature and effect of modifications of contractual cash flows on financial assets that have not resulted in derecognition and the effect of such modifications on the measurement of expected credit losses, an authority shall disclose:

- a) the amortised cost before the modification and the net modification gain or loss recognised for financial assets for which the contractual cash flows have been modified during the reporting period while they had a loss allowance measured at an amount equal to lifetime expected credit losses, and
- b) the gross carrying amount at the end of the reporting period of financial assets that have been modified since initial recognition at a time when the loss allowance was measured at an amount equal to lifetime expected credit losses and for which the loss allowance has changed during the reporting period to an amount equal to 12-month expected credit losses.

7.33.16 An authority shall disclose the contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity.

Credit risk exposure

7.33.17 To enable users of financial statements to assess an authority's credit risk exposure and understand its significant credit risk concentrations, an authority shall disclose, by credit risk rating grades, the gross carrying amount of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts. This information shall be provided separately for financial instruments:

- a) for which the loss allowance is measured at an amount equal to 12-month expected credit losses
- b) for which the loss allowance is measured at an amount equal to lifetime expected credit losses and that are:
 - i) financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets
 - ii) financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired), and
 - iii) trade receivables, contract assets or lease receivables for which the loss allowances

are measured in accordance with paragraph 7.2.9.17

- c) that are purchased or originated credit-impaired financial assets.

7.3.3.18 For trade receivables, contract assets and lease receivables to which an authority applies paragraph 7.2.9.17, the information provided in accordance with paragraph 7.3.3.17 may be based on a provision matrix (see paragraph B5.5.35 of IFRS 9).

7.3.3.19 For all financial instruments within the scope of this chapter of the Code and IFRS 7, but to which the impairment requirements in Section 7.2.9 and IFRS 9 are not applied, an authority shall disclose by class of financial instrument:

- a) the amount that best represents its maximum exposure to credit risk at the reporting date without taking account of any other credit enhancements. This disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk.
- b) a description of collateral held as security and other credit enhancements, and their financial effect (eg quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk (whether disclosed in accordance with (a) or represented by the carrying amount of a financial instrument).

Collateral and other credit enhancements obtained

7.3.3.20 When an authority obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or by calling on other credit enhancements (for example, guarantees), and such assets meet the Code's criteria for recognition, an authority shall disclose for such assets held at the reporting date:

- a) the nature and carrying amount of the assets, and
- b) when the assets are not readily convertible into cash, its policies for disposing of such assets or using them in its operations.

Liquidity risk

7.3.3.21 An authority shall disclose:

- a) a maturity analysis for financial liabilities that shows the remaining contractual maturities, and
- b) ~~a~~-description of how it manages the liquidity risk inherent in a), subject to the application of paragraph 2.1.2.14B2 to ensure that material information is not obscured.-

Market risk

7.3.3.22 An authority shall disclose:

- a) a sensitivity analysis for each type of market risk to which the authority is exposed at the reporting date, showing how the surplus or deficit on the provision of services and other comprehensive income and expenditure would have been affected by changes in the relevant risk variable that were reasonably possible at that date
- b) the methods and assumptions used in preparing the sensitivity analysis, subject to the application of paragraph 2.1.2.14B2 to ensure that material information is not obscured, and
- c) changes from the previous period in the methods and assumptions used, and the reasons for such changes, subject to the application of paragraph 2.1.2.14B2 to ensure that material information is not obscured.

7.3.4 Transfers of financial assets

7.3.4.1 An authority shall provide the required disclosures for all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset (this may include financial assets that are derecognised in their entirety but in which an authority has continuing involvement) existing at the reporting date, irrespective of when the related transfer transaction occurred. An authority shall present the disclosures required by paragraphs 42B to 42H of IFRS 7 in a single note to its financial statements. For the purposes of applying the disclosure requirements in those paragraphs, an authority transfers all or a part of a financial asset (the transferred financial asset) if, and only if, it either:

- a) transfers the contractual rights to receive the cash flows of that financial asset, or
- b) retains the contractual rights to receive the cash flows of that financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

PART 2 – PRESENTATION REQUIREMENTS

7.3.5 Offsetting a financial asset and financial liability

7.3.5.1 A financial asset and a financial liability shall be offset and the net amount presented in the balance sheet when, and only when, an authority:

- a) currently has a legally enforceable right to set off the recognised amounts (when applying this criterion authorities shall also refer to IAS 32 as amended in 2011 (see paragraphs AG38A to AG38D)), and
- b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously (when applying this criterion authorities shall also refer to IAS 32 as amended in 2011 (see paragraphs AG38E to AG38F)).

7.3.5.2 In accounting for the transfer of a financial asset that does not qualify for derecognition an

authority shall not offset the transferred asset and the associated liability (see IFRS 9, paragraph 3.2.22).

7.3.6 Current financial liabilities

7.3.6.1 An authority shall classify a financial liability as current when:

- a) it expects to settle the liability in its normal operating cycle
- 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 the settlement of the liability for at least 12 months after the reporting period.

An authority shall classify all other liabilities as long-term liabilities.

7.3.6.2 An authority shall regard its financial liabilities as due to be settled within 12 months after the end of the reporting period, and classify them as current, even if:

- a) the original term was for a period longer than 12 months, and
- b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the end of the reporting period and before the financial statements are authorised for issue.

Examples are bank overdrafts, the portion of long-term financial liabilities due to be settled within 12 months after the end of the reporting period including accrued interest, dividends payable, trade creditors and other creditors due to be settled within 12 months after the balance sheet date. The portion of long-term liabilities due to be settled within 12 months after the balance sheet date including accrued interest shall be disclosed separately from other current creditors in the notes to the accounts where not presented separately on the balance sheet.

7.3.6.3 When an undertaking under a long-term loan agreement is breached on or before the end of the reporting period with the effect that the liability becomes payable on demand, the liability is classified as current.

7.3.6.4 If an authority expects, and has the discretion, to refinance or roll over an obligation for at least 12 months after the reporting period under an existing loan facility, it classifies the obligation as long term, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the authority (for example, there is no agreement to refinance), the potential to refinance is not considered and the obligation is classified as current.

7.3.7 Current financial assets

7.3.7.1 An authority shall classify a financial asset as current when:

- a) it expects to realise or sell it, in its normal operating cycle

- b) it holds the financial 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 (as defined in IAS 7).

An authority shall classify all other financial assets as long-term financial assets.

7.3.7.2 Current financial assets include trade receivables that are realised as part of the normal operating cycle even if they are not expected to be realised within 12 months after the reporting period. Current assets also include some financial assets held primarily for the purpose of trading in accordance with IFRS 9 and the current portion of non-current financial assets and the portion of long-term financial assets due to be realised within 12 months after the end of the reporting period (including accrued interest, dividends receivable, trade debtors and other debtors due to be settled within 12 months after the end of the reporting period). The portion of long-term financial assets due to be realised within 12 months after the end of the reporting period including accrued interest shall be disclosed separately from other current debtors in the notes to the accounts where not presented separately on the balance sheet.

7.3.8 Statutory disclosure requirements

7.3.8.1 In Scotland statutory guidance (see Part 2 of Appendix B for the legislative basis) requires that balances held in, and movements in reserves affecting, the financial instruments adjustment account are analysed into specified constituent elements (see paragraph 3.4.5.1).

~~a) There are no statutory disclosure requirements for financial instruments.~~

7.3.9 Changes since the 2019/20 Code

7.3.9.1 There have been no changes to the financial instruments – disclosure and presentation requirements section of the Code relate to the adoption of IFRS 16 Leases. - to focus disclosure determination on the needs of primary users since the 2018/19 Code.

CHAPTER 8

Liabilities

8.1 CREDITORS

8.1.1 Introduction

- 8.1.1.1** Authorities shall account for creditors in accordance with the principles of expenditure recognition, IFRS 15 *Revenue from Contracts with Customers*, IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* and IFRS 9 *Financial Instruments*, except where adaptations to fit the public sector are detailed in the Code.
- 8.1.1.2** IPSAS 9 *Revenue from Exchange Transactions* is based on IAS 18, and provides additional guidance for public sector bodies. IPSAS 9 has not been updated for the introduction of IFRS 15 and therefore IPSAS 9 should only be followed when instructed by this Code or where it remains consistent with the provisions of IFRS 15.
- 8.1.1.3** This section of the Code must be read in conjunction with Section 2.7 (Revenue from Contracts with Service Recipients) and Section 7.2 (Subsequent Measurement of Financial Assets and Financial Liabilities) of the Code as it applies to financial liabilities.

Adaptation and interpretation for the public sector context

- 8.1.1.4** No adaptations of IFRS 15 and IPSAS 23 are required for the public sector context; these standards are applied in full in relation to the recognition and measurement of creditors.
- 8.1.1.5** IPSAS 9 includes a public sector adaptation which the Code has adopted. The adaptation is as follows:

Definitions

- The definition of revenue excludes the reference to 'ordinary activities'.

- 8.1.1.6** The Code includes an interpretation of IFRS 9, for the avoidance of doubt, as follows:

Recognition and measurement

- Liabilities relating to such things as council tax, general rates, etc shall be measured at the full amount payable as they are non-contractual, non-exchange transactions and

there can be no difference between the delivery and payment dates.

8.1.2 Accounting requirements

Definitions

- 8.121 Exchange transactions** are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.
- 8.122 Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Section 2.10).
- 8.123 Non-exchange transactions** are transactions that are not exchange transactions. In a non-exchange transaction, an authority either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.
- 8.124 Revenue** is income arising as a result of an authority's normal operating activities (see also Section 2.7 for the definition of income).
- 8.125 Creditors** are financial liabilities (but see the adaptation set out in paragraph 8.1.1.6 relating to non-contractual creditors such as those relating to council tax, general rates etc) arising from the contractual obligation to pay cash in the future for goods or services or other benefits that have been received or supplied and have been invoiced or formally agreed with the supplier. See also paragraphs 2.7.2.42 to 2.7.2.43 for reference to the presentation of contract liabilities.

Recognition and measurement

- 8.126** Creditors are not recognised when an authority becomes committed to purchase the goods or services but when the ordered goods or services have been delivered or rendered.
- 8.127** Creditors shall be recognised and measured at the fair value of the consideration payable except for a financial liability that is measured under Chapter 7 of the Code.
- 8.128** In most cases, the consideration payable is in the form of cash and cash equivalents and the amount of expense is the amount of cash and cash equivalents payable. However, if payment is on deferred terms see Section 2.7 of the Code.
- 8.129** There is no difference between the delivery and payment dates for non-contractual, non-exchange transactions, ie expense relating to council tax and general rates, and therefore these transactions shall be measured at their full amount payable.

8.1.3 Statutory accounting requirements

- 8.131** There are no statutory accounting requirements in relation to creditors.

8.1.4 Disclosure requirements

- 8.1.4.1 Disclosure of accounting policies in relation to creditors is required, where these accounting policies are significant to the authority's financial statements (see Section 3.4 of the Code).
- 8.1.4.2 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 creditors:
- 1) disclosures required by paragraph 3.4.2.63
 - 2) disclosures as set out in the Financial Instruments section (see Chapter 7), where payment is on deferred settlement terms.

8.1.5 Statutory disclosure requirements

- 8.1.5.1 There are no statutory disclosures required in relation to creditors.

8.1.6 Changes since the 2019~~8~~/2019 Code

- 8.1.6.1 There have been no changes to the Creditors section of the Code since the 2019~~8~~/2019 Code.

8.2 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

8.2.1 Introduction

- 8.2.1.1 Authorities shall account for provisions, contingent liabilities and contingent assets in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, IFRIC 5 *Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*, IFRIC 6 *Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* and IFRIC 21 *Levies*, except where adaptations to fit the public sector are detailed in the Code.
- 8.2.1.2 IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* is based on IAS 37, and provides additional guidance for public sector bodies.
- 8.2.1.3 This section of the Code does not cover provisions, contingent liabilities and contingent assets in relation to:
- those provisions and contingent liabilities arising from social benefits provided by an authority for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits (other than through the normal accruals process)

- financial instruments (including financial guarantees) that are within the scope of Chapter 7
- those resulting from executory contracts, other than where the contract is onerous subject to other provisions of this paragraph, and
- where another section of the Code deals with a specific type of provision, contingent liability or contingent asset, instead an authority applies that section of the Code instead of this Section; for example, income taxes (Appendix A, paragraph A.1.2), leases (Section 4.2), employee benefits (Chapter 6), insurance contracts (Appendix A, paragraph A.1.7) and contingent consideration of an acquirer in a business combination (see IFRS 3 *Business Combinations*).

8.2.14 This section of the Code applies to provisions for restructuring (including discontinuing operations). In some cases, a restructuring may meet the definition of a discontinuing operation (see Section 4.9 of the Code).

8.2.15 Provisions shall be classified as either current liabilities or non-current liabilities in line with Section 3.4 of the Code.

Adaptation, interpretation and application for the public sector context

8.2.16 No adaptations or interpretations of IAS 37 and IPSAS 19 are required for the public sector context; these standards are applied in full in relation to the recognition and measurement of provisions, contingent liabilities and contingent assets.

8.2.17 IFRIC 1 provides guidance on how to account for the effect of changes in the measurement of existing decommissioning, restoration and similar liabilities recognised as a liability, in accordance with this section of the Code. Where an authority considers it has relevant transactions, it shall refer to IFRIC 1.

8.2.18 IFRIC 5 provides guidance on the accounting in the financial statements of a contributor for interests arising from decommissioning funds, which have certain specific features. It also includes that the contributor shall determine whether it has control, joint control or significant influence over the fund by reference to IFRS 10, IAS 28 and IFRS 11. If it does, the contributor shall account for its interest in the fund in accordance with those standards. In applying IFRIC 5, authorities shall comply with the group accounts section of the Code (see Chapter 9). It is not expected that these transactions will be common for authorities. Where an authority considers it has relevant transactions, it shall refer to IFRIC 5.

8.2.19 IFRIC 6 provides guidance on the recognition in the financial statements of producers of liabilities for waste management under the EU Directive on Waste Electrical and Electronic Equipment (WE&EE). It is not expected that these transactions will be common for authorities. Where an authority considers it has relevant transactions, it shall refer to IFRIC 6.

8.2.1.10 IFRIC 21 provides guidance on levies imposed by governments⁶⁰ in the financial statements of entities paying the levy. The IFRIC relates to when to recognise a liability to pay a levy that is accounted for in accordance with IAS 37. Where an authority considers it has relevant transactions, it shall refer to IFRIC 21.

8.2.1.11 Many authorities are experiencing large numbers of claims for back pay from appeals about unequal pay arising from the implementation of the single status agreement. In some cases these claims can take several years to settle. Provisions for such claims shall be made in accordance with this section of the Code.

8.2.2 Accounting requirements

Definitions

8.2.2.1 A **contingent asset** is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the authority.

8.2.2.2 A **contingent liability** is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the authority, or
- a present obligation that arises from past events but is not recognised because:
 - a) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, or
 - b) the amount of the obligation cannot be measured with sufficient reliability.

8.2.2.3 A **constructive obligation** is an obligation that derives from an authority's actions where:

- by an established pattern of past practice, published policies or a sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities, and
- as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

8.2.2.4 **Executory contracts** are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.

8.2.2.5 A **liability** is a present obligation of the authority arising from past events, the settlement of which is expected to result in an outflow from the authority of resources embodying economic

⁶⁰ 'Government' in the IFRIC refers to government, government agencies and similar bodies whether local, national or international.

benefits or service potential.

8.22.6 A **legal obligation** is an obligation that derives from:

- a contract (through its explicit or implicit terms)
- legislation, or
- other operation of law.

8.22.7 An **obligating event** is an event that creates a legal or constructive obligation that results in an authority having no realistic alternative to settling that obligation.

8.22.8 An **onerous contract** is a contract for the exchange of assets or services in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.

8.22.9 A **provision** is a liability of uncertain timing or amount.

8.22.10 A **restructuring** is a programme that is planned and controlled by management, and materially changes either:

- the scope of an authority's activities, or
- the manner in which those activities are carried out.

8.22.11 **Social benefits** refer to goods, services and other benefits provided in the pursuit of the social policy objectives of an authority.

Provisions – recognition and measurement

8.22.12 A provision shall be recognised when:

- an authority has a present obligation (legal or constructive) as a result of a past event
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, and
- a reliable estimate can be made of the amount of the obligation.

8.22.13 If the above conditions are not met, no provision shall be recognised.

8.22.14 In some cases it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the reporting date. A past event that leads to a present obligation is called an obligating event.

8.22.15 The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the reporting date. The risks and uncertainties that inevitably surround many events and circumstances should be taken into account in reaching the best estimate of a provision. Future events that may affect the amount required to settle an obligation should be reflected in the amount of a provision where there is sufficient objective

evidence that they will occur.

- 8.2.2.16** Where the effect of the time value of money is material, the amount of a provision should be the present value of the expenditures expected to be required to settle the obligation. The unwinding of the discount due to the passage of time shall be recognised as interest within surplus or deficit on the provision of services.
- 8.2.2.17** If an authority has a contract that is onerous, the present obligation (net of recoveries) under the contract should be recognised and measured as a provision. Provisions shall also be recognised for restructuring costs where they meet the recognition criteria set out in paragraph 8.2.2.12. Provisions shall not be recognised for future operating losses.
- 8.2.2.18** Recognition of a provision will be charged to surplus or deficit on the provision of services, although where recognition relates to an inflow of resources, this might justify recording an asset; however, this is not expected to be common in authorities.
- 8.2.2.19** Once the uncertainty of the amount is removed, the provision shall be reclassified as a creditor (or recognised as cash where consideration has been received) in the financial statements.
- 8.2.2.20** In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognised. That liability is disclosed as a contingent liability.

Contingent liabilities – recognition and measurement

- 8.2.2.21** An authority shall not recognise a contingent liability in the financial statements but disclose as a note to the accounts, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.
- 8.2.2.22** Contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits or service potential has become probable. If it becomes probable that an outflow of future economic benefits or service potential will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made). A contingent liability shall be disclosed in the extremely rare case where a liability exists but a reliable estimate cannot be made.

Contingent assets – recognition and measurement

- 8.2.2.23** An authority shall not recognise a contingent asset in the financial statements but disclose as a note to the accounts where an inflow of economic benefits or service potential is probable.
- 8.2.2.24** Contingent assets shall not be recognised if it is not probable that there will be an inflow of economic benefit or service potential or it cannot be reliably measured.
- 8.2.2.25** Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the debtor

(or cash where consideration has been received) and the related revenue are recognised in the financial statements of the period in which the change occurs.

Provisions – reimbursements

8.2.2.26 In the event that some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the authority settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision. The expense relating to a provision may be presented net of the amount recognised for a reimbursement in surplus or deficit on the provision of services.

Changes in provisions

8.2.2.27 Provisions shall be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed. The change in the carrying amount of a provision as a result of discounting is referred to in paragraph 8.2.2.16.

Use of provisions

8.2.2.28 A provision shall be used only for expenditures for which the provision was originally recognised.

8.2.3 Statutory accounting requirements

8.2.3.1 In England and Wales, regulations and, in Scotland, statutory guidance (see part 2 of Appendix B for the legislative basis) permitted an authority to defer the impact of any provision made for back pay arising out of unequal pay claims on a revenue account. [In England and Wales the ability to defer the reserves impact of new provisions ceases on 1 April 2020. In Scotland, statutory guidance in Scottish Government Finance Circular 4/2015 also allows deferral of severance pay.](#)

8.2.3.2 Where an authority [has elected](#) to apply the regulation or statutory guidance, the difference between the amount of expenditure included in surplus or deficit on the provision of services in each year and the amount charged under the regulations shall be debited to the unequal pay back pay account, with a corresponding credit to the appropriate revenue account. In Scotland the account shall be the [employee equal pay provision](#) statutory adjustment account ~~and for severance, a severance provision statutory adjustment account.~~

8.2.3.3 To the extent that a provision is derecognised (for example where payments are made to a group of employees), an authority shall credit the unequal pay back pay account [or, employee equal pay provision](#) statutory adjustment account ~~or severance provision statutory adjustment account,~~ with a corresponding debit to the appropriate revenue account.

8.23.4 There are no equivalent provisions in Northern Ireland; authorities in Northern Ireland shall account for any provisions in relation to back pay arising out of unequal pay claims in accordance with the Code.

8.2.4 Disclosure requirements

8.24.1 Disclosure of accounting policies in relation to provisions, contingent liabilities and contingent assets is required, where these accounting policies are significant to the authority's financial statements (see Section 3.4 of the Code).

8.24.2 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 provisions, contingent liabilities and contingent assets:

- 1) For each class of provision, an authority shall disclose:
 - a) the carrying amount at the beginning and end of the period
 - b) additional provisions made in the period, including increases to existing provisions
 - c) amounts used (ie incurred and charged against the provision) during the period
 - d) unused amounts reversed during the period, and
 - e) the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

Comparative information is not required for the disclosures above.

- 2) An authority shall disclose the following for each class of provision:
 - a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential
 - b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an authority shall disclose the major assumptions made concerning future events, and
 - c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.
- 3) Unless the possibility of any outflow in settlement is remote, an authority shall disclose for each class of contingent liability at the balance sheet date a brief description of the nature of the contingent liability and, where practicable:
 - a) an estimate of its financial effect, measured using the principles set out in the Code
 - b) an indication of the uncertainties relating to the amount or timing of any outflow, and
 - c) the possibility of any reimbursement.
- 4) Where an inflow of economic benefits or service potential is probable, an authority

shall disclose a brief description of the nature of the contingent assets at the balance sheet date, and, where practicable, an estimate of their financial effect, measured using the principles set out in the Code.

- 5) Where any of the information required by 3) and 4) above is not disclosed because it is not practicable to do so, that fact shall be stated.
- 6) In extremely rare cases, disclosure of some or all of the information required by 1) to 4) above can be expected to prejudice seriously the position of the authority in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an authority need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

8.2.5 Statutory disclosure requirements

8.25.1 There are no statutory disclosures required in relation to provisions, contingent liabilities and contingent assets.

8.2.6 Changes since the 2019/2020 Code

8.26.1 There have been ~~no amendments~~ changes to the Provisions, Contingent Liabilities and Contingent Assets section of the Code since the 2018/2019 Code to recognise legislative amendments.

CHAPTER 9

Group accounts

9.1 GROUP ACCOUNTS

9.1.1 Introduction

9.1.1.1 Authorities shall account for group accounts in accordance with IFRS 3 *Business Combinations*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (as amended in 2011), except where adaptations to fit the public sector are detailed in the Code.

9.1.1.2 IPSAS 34 *Separate Financial Statements*, IPSAS 35 *Consolidated Financial Statements*, IPSAS 36 *Investments in Associates and Joint Ventures*, IPSAS 37 *Joint Arrangements* and IPSAS 38 *Disclosure of Interests in Other Entities* are based on IAS 27, IFRS 10, IAS 28, IFRS 11 and IFRS 12, respectively and provide additional guidance for public sector bodies.

Adaptation, interpretation and application for the public sector context

9.1.1.3 The following adaptation of IFRS 10 and of IAS 28 for the public sector context applies:

- Where an authority has investments in associates and/or interests in joint ventures but no interests in subsidiaries, group accounts that include these interests in associates and joint ventures shall still be prepared (see paragraph 9.1.2.42).

9.1.1.4 The following interpretation of IAS 27 for the public sector context applies:

- Where an authority has investments in subsidiaries, associates or interests in joint ventures the option to equity account in the separate financial statements (known as single entity financial statements in the Code) is withdrawn.

9.1.1.5 The following adaptation of IFRS 3 for the public sector context applies:

- Combinations of public sector bodies (ie local government reorganisation and other transfers of function from one public sector body to another) are deemed to be combinations of businesses under common control and as such are excluded from the scope of this section of the Code. For the accounting treatment of combinations of public sector bodies see Section 2.5 of the Code.

- 9.1.16 Local authority pension funds shall not be considered for consolidation in group accounts (see Section 6.4 of the Code). Authorities in Scotland should consider the consolidation of common goods fund within group accounts.
- 9.1.17 Authorities with interests in subsidiaries, associates and/or joint ventures shall prepare group accounts in addition to their single entity financial statements, unless their interest is considered not material.
- 9.1.18 Where group accounts are required, authorities shall produce the financial statements as set out in Section 3.4 of the Code and the disclosures, as required by paragraphs 9.1.4.1 to 9.1.4.31.
- 9.1.19 The accounting for business combinations (ie subsidiaries and associates) covered by this section of the Code does not apply to the formation of a joint venture, the acquisition of an asset or a group of assets that does not constitute a business⁶¹ and a combination of entities or businesses under common control (ie the combination of two or more public sector bodies into one new body, or the transfer of functions from the responsibility of one part of the public sector to another). Merger accounting should be applied where the entity in which the interest has been acquired was 100% in public sector ownership both before and after acquisition by the local authority.
- 9.1.10 The disclosure requirements of paragraphs 9.1.4.1 to 9.1.4.31 of this chapter shall be applied by a reporting authority, as appropriate, that has an interest in any of the following:
- a) subsidiaries
 - b) joint arrangements (ie joint operations or joint ventures)
 - c) associates
 - d) unconsolidated structured entities.
- 9.1.11 Except as described in paragraph B17 of IFRS 12, the disclosure requirements in this section of the Code apply to an authority's interests listed in paragraph 9.1.1.10 that are classified (or included in a disposal group that is classified) as held for sale or discontinued operations in accordance with Section 4.9 of the Code and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.
- 9.1.12 The disclosure requirements of paragraphs 9.1.4.1 to 9.1.4.31 of this chapter do not include the following:
- a) Post-employment benefit plans or other long-term employee benefit plans to which IAS 19 *Employee Benefits* applies.
 - b) An authority's single entity financial statements. However, if a reporting authority

⁶¹ An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic or service benefits directly to investors or other owners, members or participants.

has interests in unconsolidated structured entities and prepares single entity financial statements as its only financial statements, it shall apply the requirements in paragraphs 9.1.4.24 to 9.1.4.31 of this chapter when preparing those single entity financial statements.

- c) An interest held by a reporting authority that participates in, but does not have joint control of, a joint arrangement unless that interest results in significant influence over the arrangement or is an interest in a structured entity.
- d) An interest in another entity that is accounted for in accordance with Chapter 7. However, a reporting authority shall apply the disclosures in paragraphs 9.1.4.1 to 9.1.4.31 of this chapter:
 - i) when that interest is an interest in an associate or a joint venture that, in accordance with IAS 28 *Investments in Associates and Joint Ventures*, is measured at fair value through profit or loss, or
 - ii) when that interest is an interest in an unconsolidated structured entity.

9.1.2 Accounting requirements

Definitions

- 9.1.21** An **associate** is an entity over which an investor (ie a reporting authority) has significant influence.
- 9.1.22** **Control of an investee** – an investor (ie the reporting authority) controls an investee when the reporting authority is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In this chapter of the Code the investor shall be referred to as the reporting authority and the investee is an entity that a reporting authority has an interest in and is considered for inclusion in the group accounts in accordance with the requirements of this chapter of the Code.
- 9.1.23** A **decision maker** is an entity with decision-making rights that is either a principal or an agent for other parties.
- 9.1.24** The **equity method** is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The reporting authority's surplus or deficit on the provision of services includes its share of the investee's profit or loss and the reporting authority's other comprehensive income and expenditure includes its share of the investee's other comprehensive income and expenditure.
- 9.1.25** A **group** is a parent and all its subsidiaries.
- 9.1.26** **Group accounts**⁶² are the financial statements of a group in which the assets, liabilities, reserves,

⁶² IFRS 10 and IAS 28 (as amended in May 2011) use the term 'consolidated financial statements' but this

income, expenses and cash flows of the parent (reporting authority) and its subsidiaries plus the investments in associates and interests in joint ventures are presented as those of a single economic entity.

- 9.12.7 Income from a structured entity** includes, for the purposes of this chapter of the Code, but is not limited to, recurring and non-recurring fees, interest, dividends, gains or losses on the remeasurement or derecognition of interests in structured entities and gains or losses from the transfer of assets and liabilities to the structured entity.
- 9.12.8 An interest in another entity** refers, for the purpose of this chapter of the Code, to contractual and non-contractual involvement that exposes a reporting authority to variability of returns from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity. A reporting authority does not necessarily have an interest in another entity solely because of a typical customer–supplier relationship.
- 9.12.9 A joint arrangement** is an arrangement of which two or more parties have joint control.
- 9.12.10 Joint control** is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
- 9.12.11 A joint operation** is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.
- 9.12.12 A joint operator** is party to a joint operation that has joint control of that joint operation.
- 9.12.13 A joint venture** is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
- 9.12.14 A joint venturer** is a party to a joint venture that has joint control of that joint venture.
- 9.12.15 Minority interest**⁶³ is the equity in a subsidiary not attributable, directly or indirectly, to a parent.
- 9.12.16 A parent** is an entity (ie reporting authority) that has one or more subsidiaries.
- 9.12.17 A party to a joint arrangement** is an entity that participates in a joint arrangement, regardless of whether that entity has joint control of the arrangement.

has been changed for the purposes of the Code to ‘group accounts’.

⁶³ IFRS 10 uses the term ‘non-controlling interest’ but this has been changed for the purposes of the Code to ‘minority interest’.

- 9.1.2.18 Power** means existing rights that give the current ability to direct the relevant activities.
- 9.1.2.19 Protective rights** are rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.
- 9.1.2.20 Relevant activities**, for the purposes of this chapter of the Code, are activities of the investee that significantly affect the investee's returns.
- 9.1.2.21 A separate vehicle** is a separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality.
- 9.1.2.22 Significant influence** is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. If an investor holds, directly or indirectly (eg through subsidiaries), 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly (eg through subsidiaries), less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence. The existence of significant influence by an investor is usually evidenced in one or more of the following ways:
- representation on the board of directors or equivalent governing body of the investee
 - participation in policy-making processes, including participation in decisions about dividends or other distributions
 - material transactions between the investor and the investee
 - interchange of managerial personnel, or
 - provision of essential technical information.
- 9.1.2.23 Single entity financial statements**⁶⁴ are those presented by a parent (ie a reporting authority with control of a subsidiary) or an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or in accordance with Chapter 7 of the Code. In the context of the Code, an authority's single entity financial statements are deemed to be separate financial statements.
- 9.1.2.24 A structured entity** is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. The structured entity may have also been designed to pass on exposure of risks

⁶⁴ IAS 27 uses the term 'separate financial statements' but this has been changed for the purposes of the Code to 'single entity financial statements'.

or rewards of the reporting authority; however this is insufficient in itself to evidence control over the investee. Other indicators of a structured entity relationship with the investor include:

- the reporting authority having involvement in the design of the entity and the transaction terms and features of the involvement give rights to the authority that are sufficient to give it power over the investee
- there are contractual arrangements in place that involve activities that are closely related to the investee, and these activities are, in substance, an integral part of the investee's overall activities
- the investee may be designed so that the direction of its activities and its returns are predetermined unless and until those particular circumstances arise or events occur.

9.1.2.25 A **subsidiary** is an entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the parent).

Subsidiaries – consolidation and measurement

9.1.2.26 A reporting authority shall produce group accounts in which it consolidates its investments in subsidiaries, unless the interest is considered not material.

9.1.2.27 On acquisition a subsidiary which meets the criteria to be classified as held for sale in accordance with Section 4.9 of the Code shall be accounted for in accordance with that section of the Code. Otherwise, in preparing group accounts, like items of assets, liabilities, reserves, income and expenses are added together line by line to combine the financial statements of the reporting authority and its subsidiaries.

9.1.2.28 A reporting authority, regardless of the nature of its involvement with an entity, shall determine whether it is a parent by assessing whether it controls the investee.

9.1.2.29 A reporting authority controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

9.1.2.30 Thus, a reporting authority controls an entity if and only if the reporting authority has all the following:

- a) power over the investee
- b) exposure, or rights, to variable returns from its involvement with the investee, and
- c) the ability to use its power over the investee to affect the amount of the investor's returns.

9.1.2.31 A reporting authority has power over an investee when it has existing rights that give it the current ability to direct the relevant activities, ie the activities that significantly affect the investee's returns. Power arises from rights. Sometimes assessing power is straightforward, such as when power over an investee is obtained directly and solely from the voting rights granted by equity instruments such as shares, and can be assessed by considering the voting rights from

those shareholdings. In other cases, the assessment will be more complex and require more than one factor to be considered, for example when power results from one or more contractual arrangements.

9.12.32 A reporting authority with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised.

9.12.33 If two or more entities each have existing rights that give them the unilateral ability to direct different relevant activities, the entity that has the current ability to direct the activities that most significantly affect the returns of the investee has power over the investee.

9.12.34 A reporting authority is exposed, or has rights, to variable returns from its involvement with the investee when the reporting authority's returns from its involvement have the potential to vary as a result of the investee's performance. The reporting authority's returns can be only positive, only negative or wholly positive and negative. Examples of returns include:

- a) Dividends, other distributions of economic benefits from an investee and changes in the value of a reporting authority's involvement with an investee.
- b) Remuneration for servicing an investee's assets or liabilities, fees and exposure to loss from providing credit or liquidity support, residual interests in the investee's assets and liabilities on liquidation of that investee, tax benefits, and access to future liquidity that an investor has from its involvement with an investee.
- c) Returns that are not available to other interest holders. For example, an investor might use its assets in combination with the assets of the investee, such as combining operating functions to achieve economies of scale or cost savings.
- d) Exposure or rights to other returns that can also be described as benefits or other advantages which are non-financial, for example the service potential generated by an entity on behalf of an authority.

9.12.35 A reporting authority controls an investee if the reporting authority not only has power over the investee and exposure or rights to variable returns from its involvement with the investee, but also has the ability to use its power to affect the reporting authority's returns from its involvement with the investee.

9.12.36 Consideration of the following factors may also assist in the determination of control:

- a) the purpose and design of the investee
- b) what the relevant activities are and how decisions about those activities are made
- c) whether the rights of the reporting authority give it the current ability to direct the relevant activities
- d) whether the reporting authority is exposed, or has rights, to variable returns from its involvement with the investee, and
- e) whether the reporting authority has the ability to use its power over the investee

to affect the amount of the investor's returns.

9.12.37 When a reporting authority with decision-making rights (a decision maker) assesses whether it controls an investee, it shall determine whether it is a principal or an agent. A reporting authority shall also determine whether another entity with decision-making rights is acting as an agent for the reporting authority. A reporting authority that is an agent in accordance with paragraphs B58 to B72 of IFRS 10 does not control an investee when it exercises decision-making rights delegated to it.

9.12.38 The group accounts shall:

- a) Combine like items of assets, liabilities, reserves, income, expenses and cash flows of the parent with those of its subsidiaries.
- b) Offset (eliminate) the carrying amount of the parent's investment in each subsidiary and the parent's portion of reserves of each subsidiary.
- c) Eliminate in full intragroup assets and liabilities, reserves, income, expenses and cash flows relating to transactions between entities of the group. Intragroup losses may indicate an impairment that requires recognition in the group accounts.

9.12.39 Minority interests shall be presented separately in the group balance sheet in reserves.

9.12.40 Changes in a reporting authority's ownership interest in a subsidiary that do not result in a loss of control are accounted for as reserve transactions. In such circumstances the carrying amounts of the controlling and minority interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the minority interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in reserves and attributed to the reporting authority.

9.12.41 If a parent (reporting authority) loses control of a subsidiary, the reporting authority shall:

- a) Derecognise the assets and liabilities of the former subsidiary from the group balance sheet.
- b) Recognise any investment retained in the former subsidiary at its fair value when control is lost and subsequently account for it and for any amounts owed by or to the former subsidiary in accordance with the relevant section of the Code. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with Chapter 7 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture per the accounting requirements of this chapter.
- c) Recognise the gain or loss associated with the loss of control attributable to the former controlling interest.

Associates and joint ventures – consolidation and measurement

9.12.42 A reporting authority shall produce group accounts in which it consolidates its investments in associates and joint ventures unless the interest is considered not material.

- 9.1.2.43 An investment, or a portion of an investment, in an associate or a joint venture which meets the criteria to be classified as held for sale in accordance with Section 4.9 of the Code shall be accounted for in accordance with that section of the Code. Otherwise, in preparing group accounts investments in an associate or a joint venture shall be accounted for using the equity method. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place.
- 9.1.2.44 When an investment in an associate or a joint venture previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for retrospectively using the equity method as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.
- 9.1.2.45 The reporting authority's share of surpluses or deficits resulting from transactions between the reporting authority and its associate shall be eliminated (eg sales of assets from an associate or a joint venture to the reporting authority, and vice versa).
- 9.1.2.46 A reporting authority shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:
- a) If the investment becomes a subsidiary, the reporting authority shall account for its investment as a business combination in accordance with this section of the Code.
 - b) If the retained interest in the former associate or joint venture is a financial asset, the reporting authority shall measure the retained interest at fair value. The fair value of the retained interest shall be regarded as its fair value on initial recognition as a financial asset in accordance with Chapter 7 of the Code. The reporting authority shall recognise in the surplus or deficit on the provision of services any difference between:
 - i) the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture, and
 - ii) the carrying amount of the investment at the date the equity method was discontinued.
 - c) When a reporting authority discontinues the use of the equity method, the reporting authority shall account for all amounts previously recognised in other comprehensive income and expenditure in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.
- 9.1.2.47 If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the reporting authority continues to apply the equity method and does not remeasure the retained interest.

Joint arrangements

- 9.1.2.48 A joint arrangement is an arrangement of which two or more parties have joint control. A joint

arrangement has the following characteristics:

- a) The parties are bound by a contractual arrangement.
- b) The contractual arrangement gives two or more of those parties joint control of the arrangement.

A joint arrangement is either a joint operation or a joint venture.

9.1.2.49 Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

9.1.2.50 A reporting authority shall determine the type of joint arrangement in which it is involved. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.

Financial statements of parties to a joint operation

9.1.2.51 A reporting authority that is a joint operator shall recognise in relation to its interest in a joint operation:

- a) its assets, including its share of any assets held jointly
- b) its liabilities, including its share of any liabilities incurred jointly
- c) its revenue from the sale of its share of the output arising from the joint operation
- d) its share of the revenue from the sale of the output by the joint operation, and
- e) its expenses, including its share of any expenses incurred jointly.

9.1.2.52 When an authority acquires an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, it shall apply, to the extent of its share in accordance with paragraph 9.1.2.51, all of the principles on business combinations accounting in IFRS 3, and other IFRSs, that do not conflict with the guidance in this section of the Code (as it adopts IFRS 11) and IFRS 11 itself and disclose the information that is required in those IFRSs in relation to business combinations. This applies to the acquisition of both the initial interest and additional interests in a joint operation in which the activity of the joint operation constitutes a business. The accounting for the acquisition of an interest in such a joint operation is specified in paragraphs B33A–B33D of IFRS 11.

Financial statements of parties to a joint venture

9.1.2.53 A reporting authority in a joint venture shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with the accounting treatment for associates set out in paragraphs 9.1.2.42 to 9.1.2.47 above.

9.1.2.54 A party that participates in, but does not have joint control of, a joint venture shall account for its interest in the arrangement in accordance with Chapter 7 of the Code, unless it has significant

influence over the joint venture, in which case it shall account for it in accordance with paragraph 9.1.2.55.

Investors in joint ventures with significant influence

9.1.2.55 Where an authority is a party to a joint venture, does not have joint control over that joint venture, but does have significant influence over that joint venture, the authority shall account for that joint venture as if it were an associate in accordance with IAS 28 (as amended in 2011).

Accounting periods and dates

9.1.2.56 The financial statements of the reporting authority and its subsidiaries, associates and joint ventures used in the preparation of the group accounts shall be prepared as of the same reporting date.

9.1.2.57 When the end of the reporting period of the reporting authority is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial information as of the same date as the financial statements of the parent to enable the parent to consolidate the financial information of the subsidiary, unless it is impracticable to do so.

9.1.2.58 The most recent available financial statements of the associate or joint venture are used by the reporting authority in applying the equity method. When the end of the reporting period of the reporting authority is different from that of the associate or joint venture, the associate or joint venture prepares, for the use of the reporting authority, financial statements as of the same date as the financial statements of the reporting authority, unless it is impracticable to do so.

9.1.2.59 Where the financial year ends of the reporting authority and its subsidiary, associate and joint venture in the group do not converge, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the reporting authority's financial statements. The adjustments shall be restricted to the reporting period of the subsidiary, associate and joint venture, and that of the reporting authority of no more than three months. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.

Uniform accounting policies

9.1.2.60 Group accounts shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies of the subsidiaries, associates and joint ventures shall be aligned with the policies of the reporting authority, for the purposes of group accounts. Where materially different, appropriate adjustments are made to that group member's financial statements in preparing the group accounts to ensure conformity with the group's accounting policies.

Single entity financial statements – measurement of investments in subsidiaries and associates and interests in joint ventures

9.1.2.61 Within the reporting authority's single entity financial statements, investments in subsidiaries and associates and interests in joint ventures that are not classified as held for sale (see Section 4.9 of the Code) shall be accounted for either:

- at cost, or
- in accordance with Chapter 7 (Financial Instruments).

9.1.2.62 The reporting authority shall apply the same accounting for each category of investments.

9.1.2.63 In its single entity financial statements, a party (the reporting authority) that participates in, but does not have joint control of, a joint arrangement shall account for its interest in:

- a) a joint operation in accordance with paragraph 9.1.2.51 (and paragraphs 21 and 22 of IFRS 11) if the authority has rights to assets and obligations for liabilities and if it does not have those rights the section of the Code applicable to that interest
- b) a joint venture in accordance with Chapter 7, unless the authority has significant influence over the joint venture, in which case it shall apply paragraph 9.1.2.61.

Accounting for acquisitions in subsidiaries and associates

9.1.2.64 A reporting authority shall account for the acquisition of subsidiaries and associates by applying the acquisition method. The use of merger accounting is not permitted, with the exception of combinations of public sector bodies (see Section 2.5 of the Code). The determination of the acquisition date, recognition and measurement of the identifiable assets acquired, the liabilities assumed and any minority interests, and the recognition and measurement of goodwill or a gain from a bargain purchase, are addressed in IFRS 3. In the event that an authority acquires investments in a subsidiary or associate, the authority should refer to IFRS 3.

9.1.3 Statutory accounting requirements

9.1.3.1 There are no statutory accounting requirements in relation to group accounts.

9.1.4 Disclosure requirements

9.1.4.1 The objective of the disclosure requirements of this chapter is to require a reporting authority to disclose information that enables users of its financial statements to evaluate:

- a) the nature of, and risks associated with, its interests in other entities, and
- b) the effects of those interests on its financial position, financial performance and cash flows.

9.1.4.2 The accounting policies of the subsidiaries, associates and joint ventures shall be aligned with the policies of the reporting authority, for the purposes of group accounts. The disclosure of the accounting policies of the authority is required (see Section 3.4 of the Code).

9.143 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 group accounts.

9.144 To meet the objective in paragraph 9.1.4.1, a reporting authority shall disclose:

- a) the significant judgements and assumptions it has made in determining the nature of its interest in another entity or arrangement, and in determining the type of joint arrangement in which it has an interest (paragraphs 9.1.4.7 to 9.1.4.9), and
- b) information about its interests in:
 - i) subsidiaries (paragraphs 9.1.4.10 to 9.1.4.19)
 - ii) joint arrangements and associates (paragraphs 9.1.4.20 to 9.1.4.23), and
 - iii) structured entities that are not controlled by the reporting authority (unconsolidated structured entities) (paragraphs 9.1.4.24 to 9.1.4.31).

9.145 If the disclosures required by this chapter, together with disclosures required by other chapters of this Code, do not meet the objective in paragraph 9.1.4.1, a reporting authority shall disclose whatever additional information is necessary to meet that objective.

9.146 A reporting authority shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the disclosure requirements in this chapter. It 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. In preparing the disclosures in this chapter of the Code local authorities shall have regard to paragraphs B2 to B6 of IFRS 12.

Significant judgements and assumptions

9.147 A reporting authority shall disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining:

- a) that it has control of another entity, ie an investee as described in paragraphs 9.1.2.28 to 9.1.2.30
- b) that it has joint control of an arrangement or significant influence over another entity, and
- c) the type of joint arrangement (ie joint operation or joint venture) when the arrangement has been structured through a separate vehicle.

9.148 The significant judgements and assumptions disclosed in accordance with paragraph 9.1.4.7 include those made by the authority when changes in facts and circumstances are such that the conclusion about whether it has control, joint control or significant influence changes during the reporting period.

9.149 To comply with paragraph 9.1.4.7, a reporting authority shall disclose, for example, significant

judgements and assumptions made in determining that:

- a) it does not control another entity even though it holds more than half of the voting rights of the other entity
- b) it controls another entity even though it holds less than half of the voting rights of the other entity
- c) it is an agent or a principal (in accordance with the requirements of paragraphs B58 to B72 of IFRS 10)
- d) it does not have significant influence even though it holds 20% or more of the voting rights of another entity
- e) it has significant influence even though it holds less than 20% of the voting rights of another entity.

Interests in subsidiaries

9.14.10 A reporting authority shall disclose information that enables users of its group accounts:

- a) to understand:
 - i) the composition of the group, and
 - ii) the interest that minority interests have in the group's activities and cash flows (paragraph 9.1.4.12), and
- b) to evaluate:
 - i) the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group (paragraph 9.1.4.13)
 - ii) the nature of, and changes in, the risks associated with its interests in consolidated structured entities (paragraphs 9.1.4.14 to 9.1.4.17)
 - iii) the consequences of changes in its ownership interest in a subsidiary that do not result in a loss of control (paragraph 9.1.4.18), and
 - iv) the consequences of losing control of a subsidiary during the reporting period (paragraph 9.1.4.19).

9.14.11 When the financial statements of a subsidiary used in the preparation of group accounts are as of a date or for a period that is different from that of the group accounts, a reporting authority shall disclose:

- a) the date of the end of the reporting period of the financial statements of that subsidiary, and
- b) the reason for using a different date or period.

The interest that minority interests have in the group's activities and cash flows

9.14.12 A reporting authority shall disclose for each of its subsidiaries that have minority interests that are material to the reporting authority:

- a) the name of the subsidiary
- b) the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary
- c) the proportion of ownership interests held by minority interests
- d) the proportion of voting rights held by minority interests, if different from the proportion of ownership interests held
- e) the surplus or deficit allocated to minority interests of the subsidiary during the reporting period
- f) accumulated minority interests of the subsidiary at the end of the reporting period
- g) summarised financial information about the subsidiary (see paragraph B10 of IFRS 12).

Nature and extent of significant restrictions

9.14.13 A reporting authority shall disclose:

- a) significant restrictions (eg statutory, contractual and regulatory restrictions) on its ability to access or use the assets and settle the liabilities of the group, such as:
 - i) those that restrict the ability of a parent or its subsidiaries to transfer cash or other assets to (or from) other entities within the group
 - ii) guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the group
- b) the nature and extent to which protective rights of non-controlling interests can significantly restrict the reporting authority's ability to access or use the assets and settle the liabilities of the group
- c) the carrying amounts in the group accounts of the assets and liabilities to which those restrictions apply.

Nature of the risks associated with a reporting authority's interests in consolidated structured entities

9.14.14 A reporting authority shall disclose the terms of any contractual arrangements that could require the parent or its subsidiaries to provide financial support to a consolidated structured entity, including events or circumstances that could expose the reporting authority to a loss.

- 9.14.15 If during the reporting period a parent (a reporting authority) or any of its subsidiaries has, without having a contractual obligation to do so, provided financial or other support to a consolidated structured entity, the reporting authority shall disclose:
- a) the type and amount of support provided, including situations in which the parent or its subsidiaries assisted the structured entity in obtaining financial support, and
 - b) the reasons for providing the support.

9.14.16 If during the reporting period a parent (the reporting authority) or any of its subsidiaries has, without having a contractual obligation to do so, provided financial or other support to a previously unconsolidated structured entity and that provision of support resulted in the entity controlling the structured entity, the reporting authority shall disclose an explanation of the relevant factors in reaching that decision. Note that CIPFA/LASAAC considers that such situations would be rare in local authorities.

9.14.17 A reporting authority shall disclose any current intentions to provide financial or other support to a consolidated structured entity, including intentions to assist the structured entity in obtaining financial support.

Consequences of changes in a parent's ownership interest in a subsidiary that do not result in a loss of control

9.14.18 A reporting authority shall present a schedule that shows the effects on the equity attributable to a reporting authority of changes in the ownership interest in a subsidiary that do not result in a loss of control.

Consequences of losing control of a subsidiary during the reporting period

9.14.19 A reporting authority shall disclose the gain or loss, if any, calculated in accordance with paragraph 9.1.2.41, and:

- a) the portion of that gain or loss attributable to measuring any investment retained in the former subsidiary at its fair value at the date when control is lost, and
- b) the line item(s) in the surplus or deficit on the provision of services in which the gain or loss is recognised (if not presented separately).

Interests in joint arrangements and associates

9.14.20 A reporting authority shall disclose information that enables users of its financial statements to evaluate:

- a) the nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates (paragraphs 9.1.4.21 and 9.1.4.22), and

- b) the nature of, and changes in, the risks associated with its interests in joint ventures and associates (paragraph 9.1.4.23).

Nature, extent and financial effect of an entity's interests in joint arrangements and associates

9.14.21 A reporting authority shall disclose:

- a) for each joint arrangement and associate that is material to the reporting authority:
 - i) the name of the joint arrangement or associate
 - ii) the nature of the reporting authority's relationship with the joint arrangement or associate (by, for example, describing the nature of the activities of the joint arrangement or associate and whether they are strategic to the reporting authority's activities)
 - iii) the principal place of business (and country of incorporation, if applicable and different from the principal place of business) of the joint arrangement or associate
 - iv) the proportion of ownership interest or participating share held by the reporting authority and, if different, the proportion of voting rights held (if applicable)
- b) for each joint venture and associate that is material to the reporting authority:
 - i) summarised financial information about the joint venture or associate as specified in paragraphs B12 and B13 of IFRS 12
 - ii) the fair value of its investment in the joint venture or associate, if there is a quoted market price for the investment
- c) financial information as specified in paragraph B16 of IFRS 12 about the reporting authority's investments in joint ventures and associates that are not individually material:
 - i) in aggregate for all individually immaterial joint ventures and, separately
 - ii) in aggregate for all individually immaterial associates.

9.14.22 A reporting authority shall also disclose:

- a) the nature and extent of any significant restrictions on the ability of joint ventures or associates to transfer funds to the reporting authority in the form of cash dividends, or to repay loans or advances made by the reporting authority
- b) when the financial statements of a joint venture or associate used in applying the equity method are as of a date or for a period that is different from that of the reporting authority:
 - i) the date of the end of the reporting period of the financial statements of that joint venture or associate, and
 - ii) the reason for using a different date or period

- c) the unrecognised share of losses of a joint venture or associate, both for the reporting period and cumulatively, if the reporting authority has stopped recognising its share of losses of the joint venture or associate when applying the equity method.

Risks associated with a reporting authority's interests in joint ventures and associates

9.14.23 A reporting authority shall disclose:

- a) commitments that it has relating to its joint ventures separately from the amount of other commitments (see paragraphs B18 to B20 of IFRS 12)
- b) in accordance with Section 8.2 of the Code (Provisions, Contingent Liabilities and Contingent Assets), unless the probability of loss is remote, contingent liabilities incurred relating to its interests in joint ventures or associates (including its share of contingent liabilities incurred jointly with other investors with joint control of, or significant influence over, the joint ventures or associates), separately from the amount of other contingent liabilities.

Interests in unconsolidated structured entities

9.14.24 A reporting authority shall disclose information that enables users of its financial statements:

- a) to understand the nature and extent of its interests in unconsolidated structured entities (paragraphs 9.1.4.26 to 9.1.4.28), and
- b) to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities (paragraphs 9.1.4.29 to 9.1.4.31).

9.14.25 The information required by paragraph 9.1.4.24 b) above includes information about a reporting authority's exposure to risk from involvement that it had with unconsolidated structured entities in previous periods (eg sponsoring the structured entity), even if the reporting authority no longer has any contractual involvement with the structured entity at the reporting date.

Nature of interests

9.14.26 A reporting authority shall disclose qualitative and quantitative information about its interests in unconsolidated structured entities, including, but not limited to, the nature, purpose, size and activities of the structured entity and how the structured entity is financed.

9.14.27 If a reporting authority has sponsored an unconsolidated structured entity for which it does not provide information required by paragraph 9.1.4.29, the reporting authority shall disclose:

- a) how it has determined which structured entities it has sponsored
- b) income from those structured entities during the reporting period, including a description of the types of income presented, and
- c) the carrying amount (at the time of transfer) of all assets transferred to those

structured entities during the reporting period.

9.14.28 A reporting authority shall present the information in paragraph 9.1.4.27 b) and c) in tabular format, unless another format is more appropriate, and classify its sponsoring activities into relevant categories (see paragraphs B2 to B6 of IFRS 12).

Nature of risks

9.14.29 A reporting authority shall disclose in tabular format, unless another format is more appropriate, a summary of:

- a) The carrying amounts of the assets and liabilities recognised in its financial statements relating to its interests in unconsolidated structured entities.
- b) The line items in the balance sheet in which those assets and liabilities are recognised.
- c) The amount that best represents the reporting authority's maximum exposure to loss from its interests in unconsolidated structured entities, including how the maximum exposure to loss is determined. If a reporting authority cannot quantify its maximum exposure to loss from its interests in unconsolidated structured entities it shall disclose that fact and the reasons.
- d) A comparison of the carrying amounts of the assets and liabilities of the reporting authority that relate to its interests in unconsolidated structured entities and the reporting authority's maximum exposure to loss from those entities.

9.14.30 If during the reporting period a reporting authority has, without having a contractual obligation to do so, provided financial or other support to an unconsolidated structured entity in which it previously had or currently has an interest, the reporting authority shall disclose:

- a) the type and amount of support provided, including situations in which the reporting authority assisted the structured entity in obtaining financial support, and
- b) the reasons for providing the support.

9.14.31 A reporting authority shall disclose any current intentions to provide financial or other support to an unconsolidated structured entity, including intentions to assist the structured entity in obtaining financial support.

~~Transition for scope disclosure amendments~~

~~9.14.32 An authority shall apply the scope disclosure amendments introduced to the Code by paragraph 9.1.1.11 and by the amended paragraph B17 of IFRS 12 (in accordance with Annual Improvements to IFRS Standards 2014-2016 Cycle) retrospectively in accordance with Section 3.3 of the Code and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors from 1 April 2019.~~

Business combinations

9.14.32 An acquirer (ie reporting authority) shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of business combinations that were effected:

- a) during the period
- b) after the balance sheet date but before the financial statements are authorised for issue (see Section 3.8 of the Code).

To meet the disclosure requirements in 9.1.4.32 above, the acquirer shall refer to paragraphs B64 to B66 of IFRS 3.

9.14.33 An acquirer (ie reporting authority) shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current period that relate to business combinations that occurred in the period or in previous reporting periods.

To meet the disclosure requirements in 9.1.4.33 above, the acquirer shall refer to paragraph B67 of IFRS 3.

9.1.5 Statutory disclosure requirements

9.15.1 There are no statutory disclosures required in relation to group accounts.

9.1.6 Changes since the 2019/2020 Code

9.16.1 The group accounts chapter of the Code has been not been amended, however the 2020/21 Code consequently incorporates the requirements of 'Definition of a Business: Amendments to IFRS 3' which is applicable prospectively from 1 April 2020 (see Appendices C and D) . ~~amended to include the scope clarifications for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations introduced by the Annual Improvements to IFRSs 2014 to 2016 Cycle.~~

APPENDIX A

IFRSs with limited application to local authorities

A.1 INTRODUCTION

- A.11** A small number of IFRSs are only expected to apply to local authorities in limited circumstances. As such, the Code does not include detailed accounting requirements for these IFRSs. Where an IFRS is relevant to a local authority, the authority shall comply with the requirements of the relevant IFRS. The standards not covered in detail in the Code are:
- A.12** IAS 12 *Income Taxes (as amended 2016)*, SIC 25 *Income Taxes – Changes in the Tax Status of an Entity or its Shareholders* and IFRIC 23 *Uncertainty over Income Tax Treatments* relate to taxes on an entity's income (for example, corporation tax). They do not relate to accounting for VAT, council tax or non-domestic rates, which are covered elsewhere in the Code. IAS 12 is not expected to be relevant to an authority's single entity financial statements. Group entities will account for their own tax; however, a consolidation adjustment may be required in the group accounts where group entities have accounted for tax under UK GAAP. This standard was amended in December 2010 by *Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)*.
- A.13** IAS 21 *The Effects of Changes in Foreign Exchange Rates* relates to accounting for exchange rates and exchange rate movements. IFRIC 22 *Foreign Currency Transactions and Advance Consideration* provides clarification of the application of IAS 21. IPSAS 4 provides additional guidance for the public sector. Where local authorities have foreign currency transactions, they shall use the spot exchange rate at the date of the transaction to record the transaction in pounds sterling. For more complex foreign currency transactions, authorities shall refer to IAS 21.
- A.14** IAS 29 *Financial Reporting in Hyperinflationary Economies* and IFRIC 7 *Applying the Restatement Approach under IAS 29* relate to financial reporting in hyperinflationary economies. IPSAS 10 provides additional guidance for the public sector. These standards are not expected to be

relevant to local authorities.

- A.15** IAS 41 *Agriculture* sets out the accounting requirements for agricultural activities undertaken for commercial gain. IPSAS 27 provides additional guidance for the public sector. Biological assets that are not held for agricultural activity (eg trees in public parks, police horses and police dogs, and the management of biological assets held for research, experimental and public recreation purposes, including breeding for the preservation of species and raising in game parks and zoos) are not subject to the requirements of IAS 41. Where material, these assets shall be accounted for in accordance with IAS 16 *Property, Plant and Equipment*.
- A.16** IFRS 2 *Share-based Payment* sets out the accounting requirements for payments that are made by the transfer of equity instruments. IFRS 2 will only apply to local authorities in the rare circumstance that they transfer shares or other equity instruments in a subsidiary or associate in return for goods or services received.
- A.17** IFRS 4 *Insurance Contracts* specifies the financial reporting for insurance contracts by an entity that issues such contracts. The standard does not cover insurance contracts held by a policyholder. A number of transactions such as giving a financial guarantee and product or service warranties are outside the scope of IFRS 4.
- A.18** IFRS 6 *Exploration for and Evaluation of Mineral Resources* specifies the accounting requirements for expenditure incurred while an entity is exploring for and evaluating mineral resources; it does not apply after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. This standard is not expected to be relevant to local authorities.

Adaptation for the public sector context

- A.19** The following adaptations apply to IFRSs covered by this section of the Code:
- A.110** IAS 21 *The Effects of Changes in Foreign Exchange Rates*: local authorities are required to account for transactions in pounds sterling, and to present their financial statements in pounds sterling. The alternative approaches available in IAS 21 are not permitted by the Code.
- A.111** IAS 29 *Financial Reporting in Hyperinflationary Economies*: HM Treasury will notify classification of the UK economy as hyperinflationary for the purposes of IAS 29 if appropriate.

A.2 ACCOUNTING REQUIREMENTS

- A.21** Where material, authorities shall account for assets, liabilities, income and expenses in accordance with the relevant standards.

A.3 STATUTORY ACCOUNTING REQUIREMENTS

- A.31** There are no statutory accounting requirements in relation to transactions covered by this

section of the Code.

A.4 DISCLOSURE REQUIREMENTS

A4.1 Where material, authorities shall disclose the information required by the relevant standards.

A.5 STATUTORY DISCLOSURE REQUIREMENTS

A5.1 There are no statutory disclosure requirements in relation to transactions covered by this section of the Code.

A.6 CHANGES SINCE THE 2018/2019 CODE

A6.1 ~~No amendments to this section of the Code have been made since 2019/2020 amended to include the adoption of IFRICs 22 and 23.~~

APPENDIX B

Sources and legislation

PART 1 – STATUTORY SOURCES

Great Britain

- 1 Local Government and Housing Act 1989 (*including HRA in England and Wales*)
- 2 Local Government Finance Act 1992 (*council tax*)
- 3 Waste and Emissions Trading Act 2003 (*landfill allowances*)

England and Wales

- 1 Local Government Act 1972
- 2 Superannuation Act 1972 (*pension funds*)
- 3 Local Government Finance Act 1988 (*general fund and collection fund*)
- 4 Local Government and Housing Act 1989
- 5 School Standards and Framework Act 1998 (*school balances*)
- 6 Transport Act 2000
- 7 Education Act 2002 (*Dedicated Schools Grant*)
- 8 Local Government Act 2003, Part 1 (*capital finance and accounts*)
- 9 Local Government Act 2003, Part IV (*business improvement districts*)
- 10 Waste and Emissions Trading Act 2003
- 11 Public Audit (Wales) Act 2004
- 12 National Health Service Act 2006
- 13 National Health Service (Wales) Act 2006
- 14 Planning Act 2008 (community infrastructure levy)
- 15 Business rate supplements Act 2009

- 16 The Local Audit and Accountability Act 2014
- 17 The Accounts and Audit (Wales) Regulations 2014 (Welsh SI 2014/3362), as amended
- 18 The Accounts and Audit Regulations 2015 (SI 2015/234)

Scotland

- 1 Local Government (Scotland) Act 1973
- 2 Local Government (Scotland) Act 1975
- 3 Housing (Scotland) Act 1987 (*HRA*)
- 4 Local Government etc (Scotland) Act 1994
- 5 Public Finance and Accountability (Scotland) Act 2000
- 6 Transport (Scotland) Act 2001
- 7 Community Care and Health (Scotland) Act 2002
- 8 Local Government in Scotland Act 2003
- 9 Transport (Scotland) Act 2005
- 10 The Local Authority Accounts (Scotland) Regulations 2014
- 11 The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016

Northern Ireland

- 1 Local Government Act (Northern Ireland) 1972
- 2 The Local Government (Miscellaneous Provisions) (Northern Ireland) Orders
 - 1985
 - 1992
 - 1995
- 3 The Local Government (Northern Ireland) Order 2005
- 4 The Local Government Companies (Best Value) Order (Northern Ireland) 2006
- 5 Local Government Finance Act (Northern Ireland) 2011
- 6 The Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326)
- 7 The Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 (SRNI 2015/106)

PART 2 – LEGISLATIVE BASIS FOR STATUTORY ACCOUNTING

SECTIONS OF THE CODE

Chapter/ section	England and Wales	Scotland	Northern Ireland
2.3 Government Grants	<p>This is as a consequence of the capital control regime requiring capital expenditure to be financed as part of the capital financing requirement (as defined in CIPFA’s <i>Prudential Code for Capital Finance in Local Authorities</i>) unless other resources are set aside to finance the expenditure.</p> <p>Part 1 Local Government Act 2003. SI 2003/3146 the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. SI 2003/3239 (W.319) the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 (as amended).</p>	<p>This is as a consequence of the capital control regime requiring capital expenditure to be financed as part of the capital financing requirement (as defined in CIPFA’s <i>Prudential Code for Capital Finance in Local Authorities</i>) unless other resources are set aside to finance the expenditure.</p> <p>Part 7 Local Government in Scotland Act 2003, refer to: SSI 2004/29: the Local Government Capital Expenditure Limits (Scotland) Regulations 2004 Statutory guidance issued under Section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 3/2018).</p>	<p>This is as a consequence of the capital control regime requiring capital expenditure to be financed as part of the capital financing requirement (as defined in CIPFA’s <i>Prudential Code for Capital Finance in Local Authorities</i>) unless other resources are set aside to finance the expenditure.</p> <p>Part 1 Local Government Finance Act (Northern Ireland) 2011. The Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326).</p>
4.1 Property, Plant and Equipment	<p>Depreciation: General fund (references to general fund throughout this appendix are to be read as council fund in Wales): as a consequence of the requirement to charge the general fund with minimum revenue provision (see SI 2008/414 the Local Authorities</p>	<p>Depreciation: General fund: as a consequence of the requirement to charge the general fund with statutory repayment of loans fund advances (see the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (SSI</p>	<p>Depreciation: As a consequence of the requirement to charge the general fund with minimum revenue provision. (See the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326) and <i>Guidance on</i></p>

Chapter/ section	England and Wales	Scotland	Northern Ireland
	<p>(Capital Finance and Accounting) (England) (Amendment) Regulations 2008 or SI 2008/588 (W.59) the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 and related statutory guidance).</p> <p>HRA: Item 8 Credit and Item 8 Debit (General) Determinations.</p> <p>Major repairs reserve (England): the Accounts and Audit Regulations 2015 (SI 2015/234).</p> <p>Revaluation losses:</p> <p>As a consequence of the capital control regime requiring capital resources to be set aside to finance capital assets when they are acquired or constructed (see the Local Government Act 2003 and various regulations and statutory guidance).</p>	<p>2016/123) and Scottish Government Finance Circular 7/2016).</p> <p>HRA: Part II of Schedule 15 paragraph 3(a) of the Housing (Scotland) Act 1987.</p> <p>Revaluation losses:</p> <p>As a consequence of the capital control regime requiring capital resources to be set aside to finance capital assets when they are acquired or constructed (see the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (SSI 2016/123) requiring local authorities to have regard to generally recognised codes of practice in relation to capital finance, Scottish Government Circular 7/2016 and see SSI 2004/29 requiring adherence to CIPFA's <i>Prudential Code for Capital Finance in Local Authorities</i>).</p>	<p><i>Minimum Revenue Provision for District Councils in Northern Ireland</i>).</p> <p>Revaluation losses:</p> <p>As a consequence of the capital control regime requiring capital resources to be set aside to finance capital assets when they are acquired or constructed.</p> <p>See the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326).</p>
<p>4.1 Property, Plant and Equipment (cont.)</p>	<p>Gains and losses on disposal:</p> <p>As a consequence of the capital control regime requiring capital resources to be set aside to finance capital assets when they are acquired or constructed (see the Local Government Act 2003 and various regulations and statutory guidance).</p> <p>Minimum revenue provision:</p>	<p>Gains and losses on disposal:</p> <p>As a consequence of the capital control regime requiring capital resources to be set aside to finance capital assets when they are acquired or constructed (see the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (SSI 2016/123) requiring local</p>	<p>Gains and losses on disposal:</p> <p>As a consequence of the capital control regime requiring capital resources to be set aside to finance capital assets when they are acquired or constructed.</p> <p>See the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI</p>

Chapter/ section	England and Wales	Scotland	Northern Ireland
	<p>SI 2008/41/4 the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 or SI 2008/588 (W.59) the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 and related statutory guidance.</p>	<p>authorities to have regard to generally recognised codes of practice in relation to capital finance and see SSI 2004/29 requiring adherence to CIPFA's <i>Prudential Code for Capital Finance in Local Authorities</i>. See also Finance Circular 1/2019 where receipts are to be used for equal pay settlements.</p> <p>Loans fund: The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (SSI 2016/123) and related statutory guidance.</p>	<p>2011/326).</p>
<p>4.2 Leases</p>	<p>LESSEE Depreciation, impairment and revaluation gains and losses: As a consequence of the requirement to charge the general fund with minimum revenue provision (see SI 2008/414 the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 or SI 2008/588 (W.59) the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 and related statutory guidance). Item 8 Credit and Item 8 Debit (General) Determinations.</p>	<p>LESSEE Depreciation, impairment and revaluation gains and losses: Guidance issued under Section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 4/2010). Repayment of liability: Guidance issued under Section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 4/2010). LESSOR Capital receipts: Capital receipts fall to be defined in accordance with</p>	<p>LESSEE Depreciation, impairment and revaluation gains and losses: As a consequence of the requirement to charge the general fund with minimum revenue provision. See the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326) and <i>Guidance on Minimum Revenue Provision for District Councils in Northern Ireland</i>. LESSOR Capital receipts: Section 20 of the Local Government Finance Act (Northern Ireland) 2011.</p>

Chapter/ section	England and Wales	Scotland	Northern Ireland
	<p>Minimum revenue provision: SI 2008/414 the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 or SI 2008/588 (W.59) the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 and related statutory guidance.</p>	proper accounting practice.	<p>Lease reclassification: Accounts direction (Circular LG 22/10).</p>
<p>4.2 Leases (cont.)</p>	<p>LESSOR</p> <p>Capital receipts:</p> <p>SI 2003/3146 the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.</p> <p>SI 2004/1010 (W.107) the Local Authorities (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2004.</p> <p>Lease reclassification:</p> <p>SI 2010/454 the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010.</p> <p>SI 2010/685 (W.67) the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2010.</p>		
<p>4.3 PPP and PFI Schemes</p>	<p>Use of capital receipts to meet liability:</p> <p>SI 2003/3146 the Local Authorities (Capital Finance</p>	<p>Use of capital receipts to meet liability:</p> <p>Restricted: see guidance issued under Section 12(2)(b)</p>	<p>Use of capital receipts to meet liability:</p> <p>The Local Government Finance Act (Northern Ireland) 2011.</p>

Chapter/ section	England and Wales	Scotland	Northern Ireland
	<p>and Accounting) (England) Regulations 2003.</p> <p>SI 2003/3239 (W.319) the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003, as amended.</p> <p>Depreciation, impairment and revaluation gains and losses:</p> <p>As a consequence of the requirement to charge the general fund with minimum revenue provision (see SI 2008/414 the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 or SI 2008/588 (W.59) the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 and related statutory guidance).</p> <p>Item 8 Credit and Item 8 Debit (General) Determinations.</p>	<p>of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 4/2010 Part 2 paragraph 42).</p> <p>Depreciation, impairment and revaluation gains and losses:</p> <p>Statutory guidance issued under Section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 4/2010).</p> <p>Repayment of liability:</p> <p>Statutory guidance issued under Section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 4/2010) as amended by Scottish Government Circular 3/2018.</p>	<p>Depreciation, impairment and revaluation gains and losses:</p> <p>As a consequence of the requirement to charge the general fund with minimum revenue provision. See the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326).</p> <p>Minimum revenue provision:</p> <p>The Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326) and <i>Guidance on Minimum Revenue Provision for District Councils in Northern Ireland</i>.</p>
	<p>Minimum revenue provision:</p> <p>SI 2008/414 the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 or SI 2008/588 (W.59) the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 and related statutory guidance.</p>		

Chapter/ section	England and Wales	Scotland	Northern Ireland
4.4 Investment Property	<p>Gains and losses on disposal: As a consequence of the capital control regime requiring capital resources to be set aside to finance capital assets when they are acquired or constructed (see Local Government Act 2003 and various regulations and statutory guidance).</p> <p>Movements in fair value: As a consequence of the capital control regime requiring capital resources to be set aside to finance capital assets when they are acquired or constructed (see Local Government Act 2003 and various regulations and statutory guidance).</p> <p>Minimum revenue provision: SI 2008/414 the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 or SI 2008/588 (W.59) the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 and related statutory guidance.</p>	<p>Gains and losses on disposal: As a consequence of the capital control regime requiring capital resources to be set aside to finance capital assets when they are acquired or constructed (see the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (SSI 2016/123) requiring local authorities to have regard to generally recognised codes of practice in relation to capital finance and see SSI 2004/29 requiring adherence to CIPFA's <i>Prudential Code for Capital Finance in Local Authorities</i>). Statutory guidance issued under Scottish Government Finance Circular 7/2011. See also Finance Circular 1/2019 where receipts are to be used for equal pay settlements.</p>	<p>Gains and losses on disposal: As a consequence of the capital control regime requiring capital resources to be set aside to finance capital assets when they are acquired or constructed (see the Local Government Finance Act (Northern Ireland) 2011, the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326) and <i>Guidance on Minimum Revenue Provision for District Councils in Northern Ireland</i>).</p> <p>Movements in fair value: As a consequence of the capital control regime requiring capital resources to be set aside to finance capital assets when they are acquired or constructed (see the Local Government Finance Act (Northern Ireland) 2011, the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326) and <i>Guidance on Minimum Revenue Provision for District Councils in Northern Ireland</i>).</p>
4.4 Investment Property (cont.)		<p>Movements in fair value: As a consequence of the capital control regime requiring capital resources to be set aside to finance capital</p>	<p>Minimum revenue provision: The Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326) and</p>

Chapter/ section	England and Wales	Scotland	Northern Ireland
		<p>assets when they are acquired or constructed (see the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (SSI 2016/123) requiring local authorities to have regard to generally recognised codes of practice, and see SSI 2004/29 requiring adherence to CIPFA's <i>Prudential Code for Capital Finance in Local Authorities</i>). Statutory guidance issued under Section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 7/2011).</p> <p>Loans fund:</p> <p>The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (SSI 2016/123) and statutory guidance issued under Section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 7/2016).</p>	<p><i>Guidance on Minimum Revenue Provision for District Councils in Northern Ireland.</i></p>
<p>4.5 Intangible Assets</p>	<p>Gains and losses on Disposal:</p> <p>As a consequence of the capital control regime requiring capital resources to be set aside to finance capital assets when they are acquired or constructed (see Local Government Act 2003 and various regulations and statutory guidance).</p>	<p>Gains and losses on Disposal:</p> <p>As a consequence of the capital control regime requiring capital resources to be set aside to finance capital assets when they are acquired or constructed (see the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (SSI</p>	<p>Gains and losses on Disposal:</p> <p>As a consequence of the capital control regime requiring capital resources to be set aside to finance capital assets when they are acquired or constructed (see the Local Government Finance Act (Northern Ireland) 2011, the Local Government (Capital</p>

Chapter/ section	England and Wales	Scotland	Northern Ireland
	<p>Amortisation and Impairment: As a consequence of the capital control regime requiring capital resources to be set aside to finance capital assets when they are acquired or constructed (see Local Government Act 2003 and various regulations and statutory guidance).</p> <p>Minimum revenue provision: SI 2008/414 the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 or SI 2008/588 (W.59) the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 and related statutory guidance.</p>	<p>2016/123) requiring local authorities to have regard to generally recognised codes of practice and see SSI 2004/29 requiring adherence to CIPFA's <i>Prudential Code for Capital Finance in Local Authorities</i>).</p> <p>Amortisation and impairment: As a consequence of the capital control regime requiring capital resources to be set aside to finance capital assets when they are acquired or constructed (see SSI 2004/29 requiring adherence to CIPFA's <i>Prudential Code for Capital Finance in Local Authorities</i>).</p>	<p>Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326) and <i>Guidance on Minimum Revenue Provision for District Councils in Northern Ireland</i>).</p> <p>Amortisation and impairment: As a consequence of the capital control regime requiring capital resources to be set aside to finance capital assets when they are acquired or constructed (see the Local Government Finance Act (Northern Ireland) 2011, the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326) and <i>Guidance on Minimum Revenue Provision for District Councils in Northern Ireland</i>).</p>
4.5 Intangible Assets (cont.)		<p>Loans fund: The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (SSI 2016/123) and statutory guidance issued under Section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 7/2016).</p>	<p>Minimum revenue provision: The Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326) and <i>Guidance on Minimum Revenue Provision for District Councils in Northern Ireland</i>.</p>
4.6 Revenue Expenditure Funded from Capital under	Local Government Act 2003, and related regulations and directions.	The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (SSI 2016/123) and statutory guidance issued under Section	The Local Government Finance Act (Northern Ireland) 2011 sections 19(2) and 19(3), the Local Government (Capital Finance and Accounting)

Chapter/ section	England and Wales	Scotland	Northern Ireland
Statute		12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circulars 7/2016 , 1/2019 and 4/2019).	Regulations (Northern Ireland) 2011 (SRNI 2011/326) and <i>Guidance on Minimum Revenue Provision for District Councils in Northern Ireland</i> .
4.7 Impairment	As a consequence of the requirement to charge the general fund with minimum revenue provision (see SI 2008/414 the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 or SI 2008/588 (W.59) the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 and related statutory guidance). Item 8 Credit and Item 8 Debit (General) Determinations.	As a consequence of the requirement to charge the general fund with the statutory repayment of loans fund advances (see the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (SSI 2016/123) and statutory guidance issued under Section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 7/2016)). Part II of Schedule 15 (paragraph 3(a)) of the Housing (Scotland) Act 1987.	As a consequence of the requirement to charge the general fund with minimum revenue provision (see the Local Government Finance Act (Northern Ireland) 2011, the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326) and <i>Guidance on Minimum Revenue Provision for District Councils in Northern Ireland</i>).
4.9 Assets Held for Sale	Remeasurement: As a consequence of the requirement to charge the general fund with minimum revenue provision (see SI 2008/414 the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 or SI 2008/588 (W.59) the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 and related statutory guidance).	Remeasurement: As a consequence of the requirement to charge the general fund with the statutory repayment of loans fund advances (see the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (SSI 2016/123) and statutory guidance issued under Section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 7/2016)).	Remeasurement: As a consequence of the requirement to charge the general fund with minimum revenue provision (see the Local Government Finance Act (Northern Ireland) 2011, the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326) and <i>Guidance on Minimum Revenue Provision for District Councils in Northern Ireland</i>).

Chapter/ section	England and Wales	Scotland	Northern Ireland
	Item 8 Credit and Item 8 Debit (General) Determinations.	Part II of Schedule 15 (paragraph 3(a)) of the Housing (Scotland) Act 1987.	
4.10 Heritage Assets	Heritage assets are accounted for under sections 2.3, 4.1, 4.5 and 4.7 of the Code, and the relevant legislative provisions apply.	Heritage assets are accounted for under sections 2.3, 4.1, 4.5 and 4.7 of the Code, and the relevant legislative provisions apply.	Heritage assets are accounted for under sections 2.3, 4.1, 4.5 and 4.7 of the Code, and the relevant legislative provisions apply.
6.2 Benefits Payable during Employment	SI 2010/454 the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010. SI 2010/685 (W.67) the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2010.	Short-term accumulating compensated absences: Statutory guidance issued under Section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 2/2018). Note that the statutory adjustment for non-annual leave absences (eg flexi-leave and time off in lieu) ceases as at 31 March 2021.	Accounts direction (Circular LG 10/11).
6.4 Post- employment Benefits	SI 2003/3146 the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. SI 2010/454 the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010. SI 2003/3239 (W.319) the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003. SI 2010/685 (W.67) the Local Authorities (Capital Finance and Accounting) (Wales)	Pensions: SSI 2003/580 the Local Government Pension Reserve Fund (Scotland) Regulations 2003. SSI 2010/34 the Local Government Pension Reserve Fund (Scotland) Amendment Regulations 2010. Statutory guidance issued under Section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 4/2016).	Accounts direction (Circular LG 22/10). The Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326).

Chapter/ section	England and Wales	Scotland	Northern Ireland
	(Amendment) Regulations 2010.		
7.1 Financial Instruments: Introduction etc (in respect of 'Soft Loans')	SI 2007/573 the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007. SI 2007/1051 (W.108) the Local Authorities (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2007.	Statutory guidance issued under Section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 7/20184/2007). Note this only applies to 'soft loans' issued prior to 1 April 2007.	Not applicable.
7.1 Financial Instruments: Introduction etc (in respect of premiums and discounts)	Premiums and discounts: SI 2007/573 the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007. SI 2007/1051 (W.108) the Local Authorities (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2007. Acquisition of share or loan capital: SI 2003/3146 the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 <u>as amended</u> . SI 200 34/3239 1010 (W. 319 107) the Local Authorities (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2004. <u>As amended (eg SI 2004/1010(W.107); SI 2018/325 (W.61))</u> SI 2012/265 the Local	Premiums and discounts: Statutory guidance issued under Section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 74/201807). Acquisition of share or loan capital: Not applicable.	Premiums and discounts: Not applicable. Acquisition of share or loan capital: Not applicable.

Chapter/ section	England and Wales	Scotland	Northern Ireland
	Authorities (Capital Finance and Accounting) (England) Regulations 2003.		
7.1 Financial Instruments: Introduction etc (in respect of fair value gains and losses of pooled investment funds)	SI 2018/1207 the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2018	Not applicable	Not applicable
8.2 Provisions (in respect of unequal pay back pay and severance for Scottish local authorities)	<p>SI 2007/573 the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007.</p> <p>SI 2010/454 the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010.</p> <p>SI 2013/476 the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010.</p> <p>SI 2018/1207 the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2018</p> <p>WSI 2007/1051 (W.108) the Local Authorities (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2007.</p> <p>WSI 2010/685 (W.67) the Local</p>	<p>Statutory guidance issued under Section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 1/2019).</p> <p>The previous statutory guidance issued under Section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 4/2015) lapsed as at 1 April 2018. At the time of publication preparation a consultation to extend the arrangements was being undertaken.</p>	Not applicable.

Chapter/
section

England and Wales

Scotland

Northern Ireland

Authorities (Capital Finance
and Accounting) (Wales)
(Amendment) Regulations
2010.

[WSI 2018/325 \(W.61\) -the
Local Authorities \(Capital
Finance and Accounting\)
\(Wales\) \(Amendment\)
Regulations 2018.](#)

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APPENDIX C

Changes in accounting policies: disclosures in the 2019/20 and 2020/21 financial statements

C.1 INTRODUCTION

- C.11** Paragraph 3.3.2.13 of the Code requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code. In addition, paragraph 3.3.4.3 requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.
- C.12** A complete set of financial statements is defined in paragraph 3.4.2.17 of the Code. This includes a 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.
- C.13** This appendix sets out the additional disclosures that will be required in the 2019/20 and 2020/21 financial statements in respect of accounting changes that are introduced by the 2020/21 Code.

C.2 DISCLOSURES REQUIRED IN THE 20198/2019 AND 202019/210 FINANCIAL STATEMENTS

20198/2019

C21 An authority shall disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. An authority shall provide known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the authority's financial statements including the group statements in the period of initial application. This requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (ie on or before 1 January 202019 for 2019/210). For this disclosure the standards introduced by the 202018/2119 Code include:

- a) IFRS 16 Leases
- b) Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- c) Annual Improvements to IFRS Standards 2015-2017 Cycle
- d) Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.
- e) Amendments to IFRS 3 Business Combinations: Definition of a Business
- f) Amendments to References to the Conceptual Framework in IFRS Standards
- ~~amendments to IAS 40 Investment Property: Transfers of Investment Property~~
- ~~b) Annual Improvements to IFRS Standards 2014-2016 Cycle~~
- ~~c) IFRIC 22 Foreign Currency Transactions and Advance Consideration~~
- ~~d) IFRIC 23 Uncertainty over Income Tax Treatments~~
- ~~e) amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation.~~

C22 In complying with paragraph C2.1, an authority considers disclosing:

- a) the title of the new IFRS, indicating that it has been adopted by this Code
- b) the nature of the impending change or changes in accounting policy
- c) the date by which application of the IFRS, as adopted by this Code, is required (ie 1 April 202019)
- d) the date as at which the authority will adopt the IFRS initially (ie 1 April 202019), and
- e) either:

- i) a discussion of the impact that initial application of the IFRS as adopted by this Code is expected to have on the authority's financial statements, or
- ii) if that impact is not known or reasonably estimable, a statement to that effect.

2020/19/210

c23 The requirements of IFRS 16 *Leases* (-C2.1a above) as adopted by the Code shall be applied prospectively in accordance with Section 4.2 of the Code and other relevant sections.

c23B The following amendments to the Code shall be made prospectively, unless otherwise required by may be made retrospectively by prior period restatement, only in specified cases if that is possible without the benefit of hindsight, or through the adjustment of opening balances as at 1 April 2019, in accordance with ~~the requirements of~~ the relevant amendments to standards:

- C.2.1ca) – Annual Improvements to IFRS Standards 2015-2017 Cycle affecting:
 - IFRS 3 Business Combinations and IFRS 11 Joint Arrangements - Previously Held Interest in a Joint Operation
 - IAS 23 Borrowing Costs – Borrowing Costs Eligible for Capitalisation
 - ~~amendments to IAS 40 Investment Property: Transfers of Investment Property~~
- C.2.1de) –Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.
- C.2.1 e) Amendments to IFRS 3 Business Combinations: Definition of a Business
- C.2.1 f) Amendments to References to the Conceptual Framework in IFRS Standards
- ~~IFRIC 22 Foreign Currency Transactions and Advance Consideration (note that the amendments also allow for prospective application)~~
- ~~C.2.1d) – IFRIC 23 Uncertainty over Income Tax Treatments, and~~
- ~~C.2.1 e) – amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation.~~

C24 The adoption of amendments to [the following items noted in C.2.1 above is made retrospectively in accordance with Section 3.3 of the Code, unless the transition provisions of the amendments permits otherwise:](#)

- [C.2.1 b\) Amendments to IAS 28 *Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures*](#)
- [C.2.1 c\) *Annual Improvements to IFRS Standards 2015-2017* Cycle *affecting IAS 12 Income Taxes – Income Tax Consequences of Payments on Financial Instruments Classified as Equity*](#)
- ~~above is made retrospectively in accordance with Section 3.3 of the Code.~~

~~**C25** The following amendments to IFRS Standards were not provided with EU endorsement by 1-January 2019 and are therefore not implemented in the 2019/20 Code:~~

- ~~• a) amendments to IAS 28 *Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures*~~
- ~~• b) *Annual Improvements to IFRS Standards 2015-17 Cycle.*~~
- ~~• c) amendments to IAS 19 *Employee Benefits: Plan Amendment, Curtailment or Settlement.*~~

Other changes

C26 Other changes adopted in the ~~20~~[2019/210](#) Code are not expected to require additional disclosure in the ~~20198/2019~~ or ~~202019/210~~ financial statements. Some changes to the Code relate to changes in circumstances. Other changes clarify the requirements of the Code or provide additional guidance, but do not change the requirements of the Code.

C27 In some cases, the Code refers to accounting standards, but does not incorporate their requirements directly. If an authority is relying on the requirements of the underlying standards, and these have changed, the authority shall make such disclosures as are required to meet the requirements of paragraph 3.3.4.3 of the Code in the ~~20198/2019~~ financial statements, and shall consider whether the changes will require the publication of a balance sheet as at the beginning of the preceding period (ie a third balance sheet) in the ~~202019/210~~ financial statements.

APPENDIX D

New or amended standards introduced to the 2020~~19~~/21~~0~~ Code

D.1 LISTING OF NEW OR AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS OR INTERNATIONAL ACCOUNTING STANDARDS INTRODUCED TO THE 2020~~19~~/21~~0~~ CODE

D.11 [IFRS 16 Leases](#)

~~Amendments to IAS 40 Investment Property: Transfers of Investment Property (issued December 2016).~~

D.12 [Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures](#)

~~Annual Improvements to IFRS Standards 2014-2016 Cycle (December 2016). The amendments that may apply to local authorities include:~~

- ~~▪—IFRS 12 Disclosure of Interests in Other Entities: Clarification of the Scope of the Standard~~
- ~~▪—IAS 28 Investments in Associates and Joint Ventures: Measuring an Associate or Joint Venture at Fair Value.~~

~~D.13 Annual Improvements to IFRS Standards 2015-2017 Cycle~~~~IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued December 2016). The amendments affect:~~

- ~~▪ IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements* - Previously Held Interest in a Joint Operation~~
- ~~▪ IAS 12 *Income Taxes – Income Tax Consequences of Payments on Financial Instruments Classified as Equity*~~
- ~~▪ IAS 23 *Borrowing Costs – Borrowing Costs Eligible for Capitalisation*~~

~~D.14 Amendments to IAS 19 *Employee Benefits: Plan Amendment, Curtailment or Settlement.*~~

~~D.15 Amendments to IFRS 3 *Business Combinations: Definition of a Business*~~

~~D.16 Amendments to References to the Conceptual Framework in IFRS Standards~~

~~IFRIC 23 Uncertainty over Income Tax Treatments (issued June 2017).~~

~~D.15 Amendments to IFRS 9 *Financial Instruments: Prepayment Features with Negative Compensation* (issued October 2017).~~

Accounting for schools in local authorities in England and Wales

E.1 REPORTING REQUIREMENTS FOR LOCAL AUTHORITY SCHOOLS WITHIN THE CONTROL OF LOCAL AUTHORITIES IN ENGLAND AND WALES

- E.11** CIPFA/LASAAC is of the view that local authority maintained schools⁶⁵ are capable of being treated as separate entities for control purposes under Chapter 9, group accounts of the Code.
- E.12** CIPFA/LASAAC is of the view that, based on the indicators of control identified under the requirements of the Code's adoption of IFRS 10, the balance of control lies with local authorities for all maintained schools. The recognition of non-current assets used by schools shall be determined in accordance with the definition of an asset in paragraph 2.1.2.28 and with the relevant standards adopted by Chapter 4 (Non-current Assets) of this Code as appropriate to the arrangements for the assets. These assets shall be recognised in a local authority's balance sheet if they meet the appropriate recognition criteria (see Chapter 4) either for the local authority or for a school⁶⁶ within the local authority area.
- E.13** The following text is required to be added to the definition of single entity financial statements in paragraph 9.1.2.23 of the Code as an adaptation⁶⁷ to the definition of **the single entity**

⁶⁵ Local authority maintained schools are those schools categorised in the School Standards and Framework Act 1998, ie community, voluntary controlled, voluntary aided, foundation, community special, foundation special and nursery schools.

⁶⁶ Where the school is an entity in accordance with paragraph E1.1.

⁶⁷ This is an adaptation to both IFRS 10 *Consolidated Financial Statements* and consequentially to IAS 27 *Separate Financial Statements* to include the schools' (as entities) transactions, which would otherwise

financial statements:

The single entity financial statements are also defined as including the income, expenditure, assets, liabilities, reserves and cash flows of the local authority maintained schools in England and Wales within the control of the local authority.

- E14** Following the conclusion in paragraph E.1.1, local authorities will need to disclose relevant information under paragraphs 9.1.4.10 a) i) and b) and 9.1.4.13. CIPFA/LASAAC considers that these disclosures should be made in aggregate and should focus only on those material risks to local authority financial statements.