CHAPTER THREE

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 principle risks that it faces. The narrative report should provide a commentary on how the authority 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 the understanding of the financial position and performance of the authority, In developing the narrative report consideration should be given the following elements[1]:

a) organisational overview and external environment

b) governance

[1] The International Integrated Reporting Framework (International Integrated Reporting Framework, December 2013)

c) business model

d) risks and opportunities

e) strategy and resource allocation

f) performance

g) outlook, and

h) basis of preparation.

3.1.1.5 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

3.1.1.6 The narrative report should contain sufficient information to understand the organisation of the authority, 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

3.1.1.7 If there have been significant changes in, or issues around, governance arrangements during the year these should be highlighted in the narrative report. The narrative report should cross refer to the Annual Governance Statement.

Business Model

3.1.1.8 The narrative report should include information on inputs, outputs, business activities, and outcomes and how the authority allocated and consumed resources during the year in order to achieve its objectives.

Risks and Opportunities

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

3.1.1.10 Further details of the future outlook or risks and uncertainties should be included where there is a potential material impact on the authority's business model or performance.

Strategy and Resource Allocation

3.1.1.11 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 3.4.2.97 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 including:

a) cashflows 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 boundary decisions are made in relation to what is included in the financial statements of the authority and the impact on the financial statements.The purpose of the Narrative Report is to offer interested parties an effective guide to the most significant matters reported in the accounts. The Narrative Report should be fair, balanced and understandable for the users of the financial statements.

3.1.1.3 Local authorities are encouraged to prepare the Narrative Report taking into consideration the provisions of the 2015 - 2016 Government's *Financial Reporting Manual* (FReM), paragraphs 5.2.1 to 5.2.10, where these paragraphs disclose information relevant to local authorities. Authorities should note that, unlike the FReM, the Code does not require local authorities to consider the requirements for sustainability reporting; but neither does the Code prevent an authority including such information within its Narrative Report. Note that CIPFA/LASAAC considers this encouragement approach to be an interim measure until the CIPFA Integrated Reporting: Public Sector Network has finalised its recommendations on integrated reporting. It is anticipated that these recommendations will be available in 2016 and therefore should be able to be included in the 2017/18 Code. Authorities should also note that the specifications of paragraph 3.1.5.2 set out the reporting principles that CIPFA/LASAAC considers will enable local authorities in England to meet the requirements of the Accounts and Audit Regulations 2015 ie to "include comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year"[2].

3.1.14 The Narrative Report shall provide an explanation of the authority's financial position, and assist in the interpretation of the financial statements, including the Group Accounts. It shall also contain a commentary on the major influences affecting the authority's income and expenditure and cash flow, and information on the financial needs and resources of the authority. Content and style are left to local judgement.

Management Commentary – Scottish Local Authorities

3.1.1.517 Statutory Guidance on the Management Commentary in Scottish Government Circular 5/2015 "sets aside" the Code requirement for an Explanatory Foreword. This will mean the requirements of this section of the Code.

[2] The Accounts and Audit Regulations 2015, Regulation 8 (2).

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 Accounting Requirements~~

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

~~3.1.4 Disclosure Requirements~~

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

~~a) An explanation of which statements follow, their purpose and the relationship between them.~~

~~b) Service expenditure, interest payable and other operating costs, income from grants, local taxpayers and other sources, compared in overall terms to the budget.~~

~~c) A note of any material assets acquired or liabilities incurred. If these are unusual in scale, having regard to the normal activities of the authority, or for any other reason, the circumstances shall be explained.~~

~~d) A note explaining the significance of any pensions liability or asset disclosed.~~

~~e) An explanation of any material and unusual charge or credit in the accounts. This shall be provided whether the charge is made as part of the cost of services or as an adjustment to the cost of services.~~

~~f) Any significant change in accounting policies. The reason for the change, and the effect on the accounts, shall be explained.~~

~~g) Any major change in statutory functions, eg local government reorganisation, which has a significant impact on the accounts. In addition, a comment on planned future developments in service delivery, including a summary of revenue and capital investment plans, distinguishing between expenditure intended to maintain existing levels of service provision and that intended to expand existing services or develop new services and the impact of any reduction in services.~~

~~h) A note of the authority's current borrowing facilities and capital borrowing, outlining the purpose and impact of financing transactions entered into during the year and major non-current asset acquisitions and disposals.~~

~~i) A summary of the authority's internal and external sources of funds available to meet its capital expenditure plans and other financial commitments including PFI schemes.~~

j) Details of significant provisions or contingencies and material write-offs. This disclosure should focus on new items and any significant changes to existing items.

k) Details of any material events after the reporting date (up to the date the accounts are authorised for issue).

l) An explanation of the impact of the current economic climate on the authority and the services it provides.

3.1.4.2 It is recommended that a local authority cross refer to the outturn provided in the Expenditure and Funding Analysis required by paragraph 3.4.2.97 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.

3.1.5 Statutory Reporting and Disclosure Requirements

3.1.5.1 There are no statutory disclosure requirements in relation to the Narrative Report.

Narrative Report – English Local Authorities

3.1.5.2 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.

3.1.5.3 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 to the Code meets the requirement of Regulation 8 (2).

~~local authorities in England should follow the principles in Financial Reporting Council (FRC) Guidance on the Strategic Report3 (FRC Guidance) in relation to business performance. Therefore the narrative statement should provide an analysis of:~~

~~a) the development and the performance of the authority in that financial year and its position at the end of the year (see FRC guidance paragraph 7.38); the narrative report in that context should:~~

~~i) complement the financial statements, where relevant, providing additional explanations of amounts recognised in the financial statements and the conditions and events that shaped the information in them,~~

~~ii) be analysed in the context of the authority's strategic/corporate reports for that year; any segmental analysis should be consistent with the authority's segmental analysis provided in accordance with this section and section 3.4 of this Code,~~

~~iii) make reference to cashflows during the year and the factors that may affect future cash flows, and~~

~~iv) include information on an authority's key strengths and resources (this might include consideration of an authority's employees, capital expenditure and commitments, key services including commentary on significant matters covered in the budget report, consideration of any significant assets or liabilities earned or incurred, corporate reputation and relevant information on service recipients). This might also necessitate cross reference to the items included in paragraph 3.1.4.1.~~

~~b) the financial and non-financial performance indicators as relevant to the performance of the authority (see FRC Guidance, paragraph 7.43); thus in producing a narrative commentary on the use of resources a local authority should consider the following:~~

~~i) the performance indicators used should include those that the local authority judges as central in assessing progress against its strategic objectives, or monitoring its risks or otherwise used to measure performance in the year,~~

~~ii) non-financial indicators can be indicators of future financial prospects and~~

[3] ~~Financial Reporting Council, June 2014.~~

~~**progress in managing risks and opportunities,**~~

~~**iii) performance indicators should, where possible, represent generally accepted measures of performance for local authorities whether on a corporate, financial or service basis,**~~

~~**iv) comparatives should be included and any significant changes from year to year should be explained, and**~~

~~**v) if necessary, appropriate description of the performance indicators should be provided.**~~

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

Narrative Report – Welsh and Northern Irish Local Authorities

3.1.5.4 There are no statutory reporting requirements in relation to the Narrative Report for Welsh and Northern Irish Local Authorities.

Management Commentary – Scottish Local Authorities

3.1.5.5 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.

3.1.6 Changes since the ~~2015~~2016/~~16~~ 17 Code

3.1.6.1 This section of the Code ~~(following the amendments in the Update to the 2015/16 Code)~~ has been amended to reflect the adoption of key principles within the Code in respect of the Narrative Report.

~~reflect the requirement for local authorities in England to provide a narrative statement with their published statement of accounts in accordance with the Accounts and Audit Regulations 2015. It has also been updated to reflect the provisions of Statutory Guidance issued by the Scottish Government on the Management Commentary.~~

~~3.1.6.2 This section of the Code (following the Update to the 2015/16 Code) now uses the term Narrative Report rather than Explanatory Foreword. It also confirms that the Narrative Report should be fair, balanced and understandable.~~

~~3.1.6.3 This section of the Code has introduced a recommendation to cross refer to the Expenditure and Funding Analysis in the Narrative Report.~~

3.4 PRESENTATION OF FINANCIAL STATEMENTS

3.4.2.23 A local authority's financial statements shall be prepared on a going concern basis; that is, the accounts ~~should~~ 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 of going concern.

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Notes to the financial statements

3.4.2.82 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

3.4 PRESENTATION OF FINANCIAL STATEMENTS

3.4.1 Introduction

3.4.2.85 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.

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

3.4.2.87 ~~The significant accounting policies shall include the following items where they have a significant effect on the amounts recognised in the financial statements~~In deciding whether a particular accounting policy should be disclosed as a significant accounting policy, 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. Additionally an authority should ensure that the accounting policies reflect those normally expected by the users of local authority financial statements. 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. To assist authorities a list ~~:~~of accounting policies most likely to need to be disclosed in the local authority financial statements is included in the Annex to this section of the Code.

~~a) accruals of expenditure and income~~

~~b) acquired operations~~

~~c) back pay arising from unequal pay claims~~

~~d) Business Improvement District schemes (England, Scotland and Wales)~~

~~e) cash and cash equivalents~~

~~f) contingent assets~~

~~g) contingent liabilities~~

~~h) council tax, district rates and non-domestic rates~~

~~i) discontinued operations~~

~~j) employee benefits~~

~~k) events after the reporting period~~

~~l) prior period adjustments~~

~~m) financial instruments~~

~~n) foreign currency translation~~

~~o) government grants and other contributions~~

~~p) heritage assets~~

~~q) intangible assets~~

~~r) inventories and long-term contracts~~

~~s) investment property~~

~~t) landfill allowances schemes~~

~~u) leases (separate policies required for operating and finance leases)~~

~~v) non-current assets held for sale~~

~~w) overheads~~

~~x) service concession arrangements (PFI/PPP schemes)~~

~~y) property, plant and equipment~~

~~z) provisions~~

~~aa) reserves~~

~~ab) revenue expenditure funded from capital under statute, and~~

~~ac) value added tax.~~

…

ANNEX TO SECTION 3.4: LIST OF ACCOUNTING POLICIES MOST LIKELY TO HAVE A SIGNIFICANT EFFECT ON LOCAL AUTHORITY FINANCIAL STATEMENTS

A1 The following provides a list of accounting policies most likely to have a significant effect on local authority financial statements

a) accruals of expenditure and income

b) acquired operations

c) council tax, district rates and non-domestic rates

d) employee benefits

e) events after the reporting period

f) financial instruments

g) government grants and other contributions

h) heritage assets

i) intangible assets

j) investment property

k) leases (separate policies required for operating and finance leases)

l) non-current assets held for sale

m) service concession arrangements (PFI/PPP schemes)

n) property, plant and equipment

o) provisions

p) reserves

q) revenue expenditure funded from capital under statute, and

r) value added tax.

3.4.6 Changes since the ~~2015~~2016/~~16~~ 17 Code

3.4.6.1 The ~~2016~~2017/~~17~~ 18 Code includes amendments to the Code's provisions on the presentation of financial statements to ~~reflect the reporting requirements for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement and has introduced a new Expenditure and Funding Analysis as a result of the Telling the Story review of improvements to the presentation of local authority financial statements.~~clarify the reporting requirements for accounting policies

3.4.6.2 The presentation of the financial statements section of the Code has also been amended to ~~reflect the December 2014 changes to IAS 1 under the International Accounting Standards Board (IASB) Disclosure Initiative~~reflect the new disclosure requirements under IAS 7 *Statement of Cash Flows* (Disclosure Initiative).

~~3.4.6.3 The 2016/17 Code (following the Update to the 2015/16 Code) has been amended to reflect the changes to disclosures on fees payable to auditors as a consequence of the Local Audit and Accountability Act 2014, the reporting requirements of the Accounts and Audit Regulations 2015 and the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 requirement for local authorities in Northern Ireland to produce a statutory remuneration report.~~

CHAPTER ONE
Introduction

1.1 OBJECTIVE OF THE CODE

1.1.1 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 group financial statements where a local authority has material interests in subsidiaries, associates or joint ventures.

1.2 LEGISLATIVE PROVISIONS FOR PROPER ACCOUNTING PRACTICES

1.2.1 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 group financial statements where a local authority has material interests in subsidiaries, associates or joint ventures.

Proper Accounting Practices - England

1.2.2 The Code sets out the proper accounting practices required 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

1.2.3 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

1.2.4 In Scotland, the Code constitutes proper accounting practice 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

1.2.5 The Code sets out the proper accounting practices required 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 for Wales.

Proper Accounting Practices – Application of the Code

1.2.6 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/Annual Accounts in Scotland[1] 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.

1.2.7 The Code prescribes the accounting treatment and disclosures for all normal transactions of a local authority, and is based on European Union adopted IFRS. On the few occasions where the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC) considers it appropriate to adapt IFRSs, the accounting treatment is based on the approach in the Memorandum of Understanding between the Relevant Authorities.

1.2.8 The Code involves 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 will be clearly identified in each chapter or section of the Code. In all other cases, the Code implements the requirements of the 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

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1 References to Statement of Accounts in this Code mean Annual Accounts for Scottish authorities following the specifications of the Local Authority Accounts (Scotland) Regulations 2014.

in International Public Sector Accounting Standards or other reporting standards relevant to the public sector, authorities shall refer to those standards for further guidance.

1.2.9 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.

1.3 APPLICABILITY OF THE CODE

1.3.1 This Code has effect for financial years commencing on or after 1 April 2017.

Applicability – English Authorities/Bodies

1.3.2 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 Statements 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 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.

1.3.3 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.

1.3.4 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.

1.3.5 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

1.3.6 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

1.3.7 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 those bodies to which section 106(1) of the Local Government (Scotland) Act 1973 applies (ie committees, joint committees and joint boards, the members of which are appointed by local authorities, charities/trust funds, etc; the trustees of which are local authorities or their members).

1.3.8 Where a section 106 body complies with the accounting requirements of the Charities and Trustee Investment (Scotland) Act 2005 and associated regulations it should follow the Charities SORP, or other financial reporting requirements as specified by the Office of the Scottish Charity Regulator (OSCR). Where a Common Good Fund (or other trust fund) is a registered charity, it should also follow the financial reporting requirements of the OSCR. Where the 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 Statements 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 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 eighth edition of the Code to be prepared under International Financial Reporting Standards. This version of the Code reflects a number of changes to accounting practice since the 2016/17 Code. These changes are set out at the end of each section.

1.3.13 Proper practice, as defined by regulations, also includes the requirements of other codes of practice, such as the *Service Reporting Code of Practice* (S*e*RCOP). 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

1.4.1 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*.

Certification and Publication Requirements for the Statement of Accounts in England

1.4.2 In England, each authority is required to prepare its accounts for certification by the responsible financial officer prior to the commencement of the period for the exercise of public rights (which includes the first 10 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

1.4.3 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 in Northern Ireland. The statements should be published with an audit certificate and opinion in Northern Ireland. 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

1.4.4 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 Annual Accounts in Scotland. The statements should be published with an audit certificate in Scotland. 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

1.4.5 In Wales, 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 in Wales. The statements should be published with an audit certificate and opinion in Wales. If the published Statement of Accounts has not been audited, this should be stated clearly on the front of the document.

Other Publication Issues

1.4.6 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.

1.4.7 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

1.5.1 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.

1.5.2 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 gives 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 requirement for disclosure and presentation (subject to materiality) and is not intended to prejudice the provision of further information by authorities.

1.6 ACCOUNTING STANDARDS

1.6.1 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.

1.6.2 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 2017 (as adopted by the EU) apply unless specifically adapted by the Code.

1.7 MATERIALITY

1.7.1 The Code provides a definition of materiality in paragraph 2.1.2.11 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.[2] CIPFA/LASAAC is of the view that local authorities 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

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

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

1.8.5 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.

1.8.6 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.

3.4 PRESENTATION OF FINANCIAL STATEMENTS

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:

Disclosures not Included in Other Sections of the Code

1) The nature of any acquired or discontinued operations and details of any outstanding liabilities in respect of discontinued operations.
2) The nature, turnover, and surpluses/deficits of any significant trading operation and for Scottish local authorities the cumulative surplus or deficit for the current year and two preceding financial years in accordance with the requirements of the Local Government in Scotland Act 2003.
3) The nature and amount of any significant agency income and expenditure.
4) Sufficient information on any partnership schemes under 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 Housing Revenue Account for the year and the transfers to/from reserves.

11) Details of the nature and amount of trust funds where the authority acts as the sole trustee. For other trust funds and other third party funds administered by the authority, a statement providing an indication of the overall nature and amounts administered by the authority. Where land or non-financial assets are managed, occupied or held by the local authority which are impressed with charitable trusts, the nature of those holdings.

Cash Flow Statement Disclosures

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

13) An authority shall 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 44E of IAS 7 for guidance on this disclosure).

3.4.6 Changes since the 20152016/16 17 Code

3.4.6.1 The 20162017/17 18 Code includes amendments to the Code's provisions on the presentation of financial statements to reflect the reporting requirements for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement and has introduced a new Expenditure and Funding Analysis as a result of the Telling the Story review of improvements to the presentation of local authority financial statements.clarify the reporting requirements for accounting policies

3.4.6.2 The presentation of the financial statements section of the Code has also been amended to reflect the December 2014 changes to IAS 1 under the International Accounting Standards Board (IASB) Disclosure Initiativereflect the new disclosure requirements under IAS 7 Statement of Cash Flows (Disclosure Initiative).

3.4.6.3 The 2016/17 Code (following the Update to the 2015/16 Code) has been amended to reflect the changes to disclosures on fees payable to auditors as a consequence of the Local Audit and Accountability Act 2014, the reporting requirements of the Accounts and Audit Regulations 2015 and the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 requirement for local authorities in Northern Ireland to produce a statutory remuneration report.

3.5 HOUSING REVENUE ACCOUNT

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]:

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 ~~to government~~ 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 breakdown of the amount of HRA subsidy payable to the authority for the~~

[1] The statutory disclosures for English authorities are based on The Housing Revenue Account (Accounting Practices) Directions 2011 which have been subject to consultation but the new (Accounting Practices) Directions were not issued at the time when the 2016/17 Code was approved for publication.

~~financial year in accordance with the elements set out in the general formula in paragraph 3.1 of the General Determination of Housing Revenue Account Subsidy for the year.~~

~~7~~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 ~~(ie the debit under Item 2 of Part II of Schedule 4 to the Local Government and Housing Act 1989)~~

e) the Major Repairs Reserve.

~~8~~7) A summary of total capital receipts from disposals of land, houses and other property within the authority's HRA during the financial year.

~~9~~8) An explanation of the capital asset charges accounting adjustment, calculated in accordance with the Item 8 Credit and Item 8 Debit (General) Determination for the year.

~~10~~9) The total charge for depreciation for the land, houses or other property within the authority's HRA, and the charges for depreciation[2] 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.

~~g) investment properties~~

~~h) assets held for sale.~~

~~11) An analysis of the movement on the Major Repairs Reserve for the financial year showing:~~

~~a) the balance on the Major Repairs Reserve on 1 April in the financial year~~

~~b) the amount transferred to the Major Repairs Reserve during the financial year~~

~~c) any amount transferred from the Major Repairs Reserve to the HRA during the financial year~~

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2 Note it is appropriate to calculate depreciation charges on each of these classes of asset in accordance with the relevant sections of chapter four of the Code.

~~d) the debits to the Major Repairs Reserve during the financial year in respect of capital expenditure on the land, houses and other property within the authority's HRA~~

~~e) the debits in respect of any repayment, made in the year, of the principal of any amount borrowed where the repayment was met by payment out of the Major Repairs Reserve~~

~~f) debits in respect of the meeting of any liability, in that year, in respect of credit arrangements, other than any liability, which in accordance with proper practices, must be charged to a revenue account, where the meeting of that liability was met by payments out of the Major Repairs Reserve~~

~~g) the balance on the Major Repairs Reserve on 31 March in the financial year.~~

Wales:

~~12~~10) 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 ~~2015~~2016/~~16~~ 17 Code

3.5.6.1 The~~re~~ 2017/18 Code has updated the ~~have been no changes to the~~ Housing Revenue Account section of the Code ~~since the 2015/16 Code.~~to reflect the changes as a result of the Housing Revenue Account (Accounting Practices) Directions 2016.

4.2 LEASES AND LEASE TYPE ARRANGEMENTS

4.2.3 Statutory Accounting Requirements

Leases reclassified on transition to IFRS (authority is lessor)

4.2.3.10 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).

4.2.3.11 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.

4.2.3.12 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.

~~4.2.3.13 In Scotland, no equivalent provisions were in place at the time the Code was prepared. If provisions are introduced, authorities shall comply with those provisions. If provisions are not introduced, authorities shall account for all income received from leases in line with classification of the leases under the Code.~~

4.2.3.~~14~~13 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.

4.3 SERVICE CONCESSION ARRANGEMENTS: LOCAL AUTHORITY AS GRANTOR

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. ~~In Scotland, no decision has yet been made to permit capital receipts to be used to 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 repayment of the liability (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).

CHAPTER SEVEN

Financial instruments

7.4 FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION REQUIREMENTS

Balance Sheet disclosures

Collateral

7.4.2.5 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

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 ~~paragraph 8 of Schedule 3 to the Local Government (Scotland) Act 1975~~ 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.

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)

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	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 *Prudential Code for Capital Finance in Local Authorities*) unless other resources are set aside to finance the expenditure. Part 1 Local Government Act 2003. SI 2003/3146 the Local	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 *Prudential Code for Capital Finance in Local Authorities*) unless other resources are set aside to finance the expenditure. Part 7 Local Government in Scotland Act 2003, refer to:	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 *Prudential Code for Capital Finance in Local Authorities*) unless other resources are set aside to finance the expenditure. Part 1 Local Government Finance Act (Northern

Chapter/section	England and Wales	Scotland	Northern Ireland
	Authorities (Capital Finance and Accounting) (England) Regulations 2003. SI 2003/3239 (W.319) the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003.	SSI 2004/29: the Local Government Capital Expenditure Limits (Scotland) Regulations 2004 Scottish Government Finance Circular 3/2004 Scottish Government Finance Circular 6/2011.	Ireland) 2011. The Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326).
4.1 Property, Plant and Equipment	**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 (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). HRA: Item 8 Credit and Item 8 Debit (General) Determinations. Major Repairs Reserve (England): the Accounts and Audit Regulations 2015 (SI 2015/234). **Revaluation Losses:** As a consequence of the capital control regime requiring capital resources to be set aside to finance capital assets	**Depreciation:** General Fund: as a consequence of the requirement to charge the General Fund with Loans Fund principal repayments (~~see Schedule 3 paragraph 15(1) of the Local Government (Scotland) Act 1975 and related statutory guidance~~see Regulation 14 of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016) (SSI 2016/123). HRA: Part II of Schedule 15 paragraph 3(a) of the Housing (Scotland) Act 1987. **Revaluation Losses:** 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 Regulation 4 of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations	**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 *Guidance on Minimum Revenue Provision for District Councils in Northern Ireland).* **Revaluation Losses:** 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 (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326).

Chapter/section	England and Wales	Scotland	Northern Ireland
	when they are acquired or constructed (see the Local Government Act 2003 and various regulations and statutory guidance).	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 *Prudential Code for Capital Finance in Local Authorities*).	
	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 Act 2003 and various regulations and statutory guidance).		
4.1 Property, Plant and Equipment (continued)	**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.	**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 Regulation 4 of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (SSI 2016/123) requiring local authorities to have regard to generally	**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 (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI

Chapter/section	England and Wales	Scotland	Northern Ireland
		recognised codes of practice in relation to capital finance and see SSI 2004/29 requiring adherence to CIPFA's *Prudential Code for Capital Finance in Local Authorities*). **Loans Fund:** Regulation 14 of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (SSI 2016/123)~~Schedule 3 paragraph 15(1) of the Local Government (Scotland) Act 1975~~ and related statutory guidance.	2011/326).
4.2 Leases	**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.	**LESSEE** **Depreciation, Impairment and Revaluation Gains and Losses:** Guidance issued on 31 March 2010 under section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 4/2010). **Repayment of Liability:** Guidance issued on 31 March 2010 under section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 4/2010). **LESSOR** **Capital Receipts:**	**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 *Guidance on Minimum Revenue Provision for District Councils in Northern Ireland*). **LESSOR** **Capital Receipts:** Section 20 of the Local

Chapter/section	England and Wales	Scotland	Northern Ireland
		Capital receipts fall to be defined in accordance with proper accounting practice.	Government Finance Act (Northern Ireland) 2011. **Lease Reclassification:** Accounts Direction (Circular LG 22/10).
4.2 Leases (continued)	**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. **LESSOR** **Capital Receipts:** SI 2003/3146 the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. SI 2004/1010 (W.107) the Local Authorities (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2004. **Lease Reclassification:** 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.		

Chapter/section	England and Wales	Scotland	Northern Ireland
4.3 **PPP and PFI Schemes**	**Use of Capital Receipts to meet Liability:** 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. **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. **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.	**Use of Capital Receipts to meet Liability:** ~~Under consideration; refer to guidance issued on 31 March 2010 under section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 4/2010).~~ Restricted: see guidance issued under section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 4/2010 Part 2 Paragraph 42. **Depreciation, Impairment and Revaluation Gains and Losses:** Guidance issued on 31 March 2010 under section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 4/2010). **Repayment of Liability:** Guidance issued on 31 March 2010 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 6/2011).	**Use of Capital Receipts to meet Liability:** The Local Government Finance Act (Northern Ireland) 2011. **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). **Minimum Revenue Provision:** The Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326) and *Guidance on Minimum Revenue Provision for District Councils in Northern Ireland*.

Chapter/section	England and Wales	Scotland	Northern Ireland
4.4 Investment Property	**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). **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). **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.	**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 Regulation 4 of 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 *Prudential Code for Capital Finance in Local Authorities*). Scottish Government Finance Circular 7/2011. **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 Regulation 4 of 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	**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 *Guidance on Minimum Revenue Provision for District Councils in Northern Ireland*). **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 *Guidance on Minimum Revenue Provision for District Councils in Northern Ireland*).

Chapter/section	England and Wales	Scotland	Northern Ireland
		2004/29 requiring adherence to CIPFA's *Prudential Code for Capital Finance in Local Authorities*). Scottish Government Finance Circular 7/2011. **Loans Fund:** Regulation 14 of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016) (SSI 2016/123).~~Schedule 3 paragraph 15(1) of the Local Government (Scotland) Act 1975 and related statutory guidance.~~	
4.4 Investment Property (continued)			**Minimum Revenue Provision:** The Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326) and *Guidance on Minimum Revenue Provision for District Councils in Northern Ireland*).
4.5 Intangible Assets	**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).	**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 Regulation 4 of the Local Authority (Capital Finance and Accounting)	**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,

Chapter/section	England and Wales	Scotland	Northern Ireland
	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). **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.	(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 *Prudential Code for Capital Finance in Local Authorities*). **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 *Prudential Code for Capital Finance in Local Authorities*). **Loans Fund:** Regulation 14 of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016) (SSI 2016/123).~~Schedule 3 paragraph 15(1) of the Local Government (Scotland) Act 1975 and related statutory guidance~~.	the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326) and *Guidance on Minimum Revenue Provision for District Councils in Northern Ireland*). **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
4.5 Intangible Assets (continued)			Finance Act (Northern Ireland) 2011, the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI

Chapter/section	England and Wales	Scotland	Northern Ireland
			2011/326) and *Guidance on Minimum Revenue Provision for District Councils in Northern Ireland*).
			Minimum Revenue Provision: The Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326) and *Guidance on Minimum Revenue Provision for District Councils in Northern Ireland*.
4.6 Revenue Expenditure Funded from Capital under Statute	Local Government Act 2003, and related regulations and directions.	~~Schedule 3 paragraph 1(2) of the Local Government (Scotland) Act 1975~~Regulation 2 of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016) (SSI 2016/123).~~.~~	The Local Government Finance Act (Northern Ireland) 2011 s19(2) and 19(3) the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326) and *Guidance on Minimum Revenue Provision for District Councils in Northern Ireland*.
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	As a consequence of the requirement to charge the General Fund with Loans Fund principal repayments (see Regulation 14 of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016) (SSI 2016/123~~(see Schedule 3 paragraph~~	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

Chapter/section	England and Wales	Scotland	Northern Ireland
	Finance and Accounting) (Wales) (Amendment) Regulations 2008 and related statutory guidance). Item 8 Credit and Item 8 Debit (General) Determinations.	~~15(1) of the Local Government (Scotland) Act 1975~~ and related statutory guidance). Part II of Schedule 15 (paragraph 3(a)) of the Housing (Scotland) Act 1987.	(Northern Ireland) 2011 (SRNI 2011/326) and *Guidance on Minimum Revenue Provision for District Councils in Northern Ireland*).
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). Item 8 Credit and Item 8 Debit (General) Determinations.	**Remeasurement:** As a consequence of the requirement to charge the General Fund with Loans Fund principal repayments (see Regulation 14 of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016) (SSI 2016/123).~~Schedule 3 paragraph 15(1) of the Local Government (Scotland) Act 1975 and related statutory guidance~~). Part II of Schedule 15 (paragraph 3(a)) of the Housing (Scotland) Act 1987.	**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 *Guidance on Minimum Revenue Provision for District Councils in Northern Ireland*).
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	**Short-term Accumulating Compensated Absences:** Guidance issued on 8 July 2010 under section 12(2)(b) of the Local	Accounts Direction (Circular LG 10/11).

Chapter/section	England and Wales	Scotland	Northern Ireland
	Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2010.	Government in Scotland Act 2003 (Scottish Government Finance Circular 3/2010). **Injury Benefits (accounted for as post-employment benefits):** Guidance issued on 31 March 2010 under section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 8/2010).	
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) (Amendment) Regulations 2010.	**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. **Injury Benefits (accounted for as post-employment benefits):** Guidance issued on 31 March 2010 under section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 8/2010).	Accounts Direction (Circular LG 22/10). The Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326).
7.1 Introduction to Financial Instruments (in respect	SI 2007/573 the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007. SI 2007/1051 (W.108) the	Guidance issued on 30 March 2007 under section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish	Not applicable.

Chapter/section	England and Wales	Scotland	Northern Ireland
of 'Soft Loans')	Local Authorities (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2007.	Government Finance Circular 4/2007).	
7.2 Accounting for Financial Liabilities	**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. SI 2004/1010 (W.107) the Local Authorities (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2004. SI 2012/265 the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003	**Premiums and Discounts:** Guidance issued on 30 March 2007 under section 12(2)(b) of the Local Government in Scotland Act 2003 (Scottish Government Finance Circular 4/2007). **Acquisition of Share or Loan Capital:** Not applicable.	**Premiums and Discounts:** Not applicable. **Acquisition of Share or Loan Capital:** Not applicable.
~~**7.3 Accounting for Financial Assets (in respect of impairment of investments in Icelandic banks)**~~	~~SI 2009/321 the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2009.~~ ~~SI 2009/560 (W.52) the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2009.~~	~~Scottish Government Finance Circular 4/2009.~~ ~~Scottish Government Finance Circular 5/2011.~~	~~Not applicable.~~

Chapter/section	England and Wales	Scotland	Northern Ireland
8.2 Provisions (in respect of unequal pay back pay and severance for Scottish local authorities)	SI 2007/573 the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007. SI 2010/454 the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010. SI 2013/476 the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010. SI 2007/1051 (W.108) the Local Authorities (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2007. SI 2010/685 (W.67) the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2010.	Scottish Government Finance Circular 4/2015.	Not applicable.

APPENDIX G
Provisions in the 2018/19 Code for Financial Instruments

F.1 REPORTING REQUIREMENTS FOR THE 2018/19 CODE FOR IFRS 9 FINANCIAL INSTRUMENTS

F.1.1 CIPFA/LASAAC has included the following section new Appendix F to the Code to demonstrate to authorities how the 2018/19 Code will apply the IFRS 9 *Financial Instruments* from **1 April 2018**. **Note that early adoption of the requirements of this Appendix is not permitted by this Code.** This Appendix includes a completely redrafted chapter seven and the consequential amendments to other sections of the Code when the new standard is applied in the 2018/19 Code. The changes are presented to chapter seven without tracked changes because this chapter has been substantially redrafted. The consequential changes have been included as tracked changes for ease of reference.

CHAPTER SEVEN
Financial instruments

7.1 INTRODUCTION, SCOPE, DEFINITIONS, RECOGNITION, DERECOGNITION, CLASSIFICATIONINITIAL MEASUREMENT, DERIVATIVES AND EMBEDDED DERIVATIVES AND HEDGE ACCOUNTING

7.1.1 Introduction

7.1.1.1 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.

7.1.1.2 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

7.1.1.3 The following adaptations have been adopted by the Code:

a) Soft loans advanced by an authority – 'prevailing interest rate'

The Code provides guidance on estimating the 'prevailing interest rate' that 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 adaptation 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) Lender Option Borrower Option Loans (LOBOs)

The Code requires:

- options embedded in a LOBO shall not be separately accounted for unless after considering the contractual terms of the instrument the authority concludes that IFRS 9 would require the embedded options to be accounted for separately (see paragraph 7.1.7.8)
- 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).

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, 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 to choices to apply the hedge accounting requirements of IAS 39 when an entity first applies IFRS 9.

What the sections and chapter cover

7.1.1.4 This first section of chapter seven 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.

7.1.1.5 Chapter seven 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

7.1.2.1 **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.

7.1.2.2 **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.

7.1.2.3 **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.

7.1.2.4 **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).

7.1.2.5 **Credit risk rating grades** are the rating of credit risk based on the risk of a default occurring on the financial instrument.

7.1.2.6 **Derecognition** is the removal of a previously recognised financial asset or financial liability from an authority's Balance Sheet.

7.1.2.7 The **effective interest rate 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 profit or loss over the relevant period.

7.1.2.8 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.

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 if it meets the definition of held for trading. Note that the Code does not permit designation of a financial liability at fair value through profit or loss.

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 loss 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**.**

7.1.2.23 A **regular way purchase or sale** is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

7.1.2.24 **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

7.1.2.25 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

7.1.2.26 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, eg in Group Accounts (see Code chapter nine – 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 nine – 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 six (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.

e) Contracts to buy or sell non-financial items (eg commodity futures contracts) are outside the scope of this chapter 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) Special considerations apply in respect of receivable and payables arising from non-exchange transactions such as council tax (see sections 5.3 and 8.1 of the Code).

j) 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.

k) 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 IFRS 15 specifies are accounted for in accordance with this Standard.

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. When an authority first recognises a financial liability, it shall classify it in accordance with paragraphs 7.1.5.7 and measure it in accordance with paragraph 7.1.6.1.

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; and a trade payable is recognised when the ordered goods or services have been received.

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).

7.1.4.2 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.

7.1.4.3 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

7.1.4.4 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

7.1.4.5 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 (normally referred to as premiums and discounts by local authorities) 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.

7.1.4.7 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 (normally referred to as premiums and discounts by local authorities), is at least 10 percent 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

7.1.5.1 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,

7.1.5.2 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.

7.1.5.3 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.

7.1.5.4 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.

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 5.7.6 of IFRS 9).

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 profit or loss.

Option to Designate a Financial Liability at Fair Value through Profit or Loss

7.1.5.8 The criteria for designating a financial liability at fair value through profit or loss referred to in IFRS 9 paragraph 4.2.2 (ie a measurement or recognition inconsistency / or 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 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.

Investments in Equity Instruments

7.1.5.9 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 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 the authority shall account for that instrument at that date in accordance with B5.1.2A of IFRS 9.

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

7.1.64 The fair value of a loan advanced at nil interest rate 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 (ie the credit risk). Authorities may use other reasonable approaches to determining the prevailing interest rate.

Soft loans made to a subsidiary

7.16.7 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

7.1.6.8 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.

7.1.6.9 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

7.1.7.1 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.

7.17.2 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.

7.1.7.3 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

7.1.7.4 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.

7.1.7.5 It is considered unlikely that local authorities will have hybrid contracts with

financial asset hosts. If they do the embedded derivative is not separated from the host contract. In all other cases local authorities shall account for the embedded derivative in accordance with paragraph 7.1.7.6 below.

7.1.7.6 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

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 asset or 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.

7.1.7.7 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, paragraph B4.3.11 to B4.3.12).

7.1.7.8 Many authorities have lender option borrower option loan debts, which are commonly referred to as LOBOs. The key characteristics of a LOBO are that the host contract is a loan with the rate of interest payable specified for the whole term of the contract. However, there is an option that allows the lender to increase the interest charge by any amount chosen at specified option exercise dates. If the lender increases the interest rate, the borrower has an option to repay the loan at the amount of the principal outstanding. If the borrower accepts the increased interest rate, it becomes the host contract's interest rate for the remainder of its term (subject to revision at the next option exercise date). The options embedded in a LOBO would not usually be required to be separately accounted for under IFRS 9 and such instruments shall be accounted for on this basis unless on considering the terms of the instrument the authority concludes that IFRS 9 would require the options to be accounted for separately.

7.1.8 Hedge Accounting

7.1.8.1 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.

7.1.8.2 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 "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

7.1.9.1 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 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.

7.1.9.2 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

7.1.9.3 In England 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.

Regulation/statutory guidance on soft loans advanced by an authority

7.1.9.4 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.

7.1.9.5 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.

7.1.9.6 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 Balance and requires the amount to be apportioned appropriately between the General Fund and Housing Revenue Account 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 2017/18 Code

7.1.12.1 Section 7.1 has been fully revised to reflect the introduction of IFRS 9 *Financial*

Instruments.

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 a financial asset 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.

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.

7.2.4.2 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

7.2.4.3 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 rate method

7.2.5.1 Amortised cost using the effective interest rate can apply to both financial assets and financial liabilities .The following four 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).

7.2.5.2 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.

7.2.5.3 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.

7.2.5.4 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

7.2.5.5 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.

7.2.5.6 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

7.2.5.7 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

7.2.6.1 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.

7.2.6.2 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 7.1.5.9, or

c) it is a financial asset measured at fair value through other comprehensive income in accordance with paragraph 7.1.5.2 and the authority is required to recognise some changes in fair value in other comprehensive income in accordance with paragraph 7.2.6.5.

7.2.6.3 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

7.2.6.4 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

7.2.6.5 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, 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 and 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 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.

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

7.2.9.1 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, 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 7.1.2.26 d) and 7.1.5.7 c) or d).

7.2.9.2 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. It is considered unlikely that local authorities will undertake transactions for purchased or originated credit-impaired financial assets; where they do so they shall apply the requirements of IFRS 9.

7.2.9.3 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.

7.2.9.4 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.

7.2.9.5 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.

7.2.9.6 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.

7.2.9.7 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

7.2.9.8 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.

7.2.9.9 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).

7.2.9.10 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 (either on 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.

7.2.9.11 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

7.2.9.12 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.

7.2.9.13 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

7.2.9.14 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).

Simplified approach for trade receivables, contract assets and lease receivables

7.2.9.15 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

   i) 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 IAS 17 *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.

7.2.9.16 An authority may select its accounting policy for trade receivables, lease receivables and contract assets independently of each other.

Measurement of expected credit losses

7.2.9.17 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.

7.2.9.18 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.

7.2.9.19 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 The 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 2017/18 Code

7.2.13.1 Section 7.2 has been fully revised to reflect the introduction of IFRS 9 *Financial*

Instruments.

7.3 FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION REQUIREMENTS

7.3.1 Introduction

7.3.1.1 This section of chapter seven 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.

7.3.1.4 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 ie 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.

7.3.1.5 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 or requested collateral, it shall provide the disclosures required by IFRS 7. Also local authorities do not normally require collateral against their financial assets and therefore these

disclosures relating to collateral are not included in the Code. If an authority does require collateral from counterparties to support their financial assets then they would need to include the relevant disclosures in IFRS 7, where the transactions are material to their financial statements. However, the disclosures relating to collateral are not included in this section of the Code.

7.3.1.6 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).

7.3.1.7 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.

SECTION 7.3 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

7.3.2.2 The carrying amounts of each of the following categories shall be disclosed either

in the Balance Sheet or in the notes to the accounts[1]:

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
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

7.3.2.3 Where an authority separately discloses the carrying amount of soft loans granted by the authority, 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
   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 at fair value through profit or loss

7.3.2.4 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.

[1] 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.

Investments in equity instruments designated at fair value through other comprehensive income

7.3.2.5 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 equity during the period including the reason for such transfers.

7.3.2.6 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

7.3.2.7 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

7.3.2.8 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.

Allowance account for credit losses

7.3.2.9 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

7.3.2.10 For loans payable recognised at the end of the reporting period, 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.

7.3.2.11 If, during the period, there were breaches of loan agreement terms other than those described in paragraph 7.3.2.10, an authority shall disclose the same information as required by paragraph 7.3.2.10 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

7.3.2.12 An authority shall disclose the following items of income, expense, gains or losses either on the face of the financial statements or in the notes[2]:

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

[2] 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

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.

7.3.2.13 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.

Accounting policies

7.3.2.14 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

7.3.2.15 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.

7.3.2.16 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.

7.3.2.17 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.

7.3.2.18 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.

7.3.2.19 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.

7.3.2.20 In the case described in 7.3.2.19 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 7.3.3.17 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, and

iii) trade receivables, contract assets or lease receivables for which the loss allowances are measured in accordance with paragraph 7.2.9.15.

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 b) 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) changes because of financial instruments that were derecognised (including those that were written-off) during the reporting period, and

c) changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime expected credit losses.

7.3.3.15 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.

7.3.3.16 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

7.3.3.17 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, and

iii) trade receivables, contract assets or lease receivables for which the loss allowances are measured in accordance with paragraph 7.2.9.15.

7.3.3.18 For trade receivables, contract assets and lease receivables to which an authority applies paragraph 7.2.9.15, 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 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.

Financial assets that are either past due or impaired

7.3.3.20 An authority shall disclose by class of financial asset:

a) an analysis of the age of financial assets that are past due as at the reporting date but not impaired, and

b) an analysis of financial 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.

Other credit enhancements obtained

7.3.3.21 When an authority obtains financial or non-financial assets during the period by calling on other credit enhancements (eg 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

7.3.3.22 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).

Market risk

7.3.3.23 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, and

c) changes from the previous period in the methods and assumptions used, and the reasons for such changes.

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 accordance with the amendments to IFRS 7 issued in October 2010) 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.

SECTION 7.3 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 3.3.22).

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 There are no statutory disclosure requirements for financial instruments.

7.3.9 Changes since the 2017/18 Code

7.3.9.1 Section 7.3 has been fully revised to reflect the introduction of the consequential changes to IFRS7 *Financial Instruments: Disclosures* and IAS 32 *Financial Instruments: Presentation* as a result of the Code's adoption of IFRS 9 *Financial Instruments*.

7.4 FINANCIAL INSTRUMENTS – EFFECTIVE DATE AND TRANSITIONAL REPORTING REQUIREMENTS FOR THE MOVE TO IFRS 9

7.4.1 Introduction

7.4.1.1 This section of the Code specifies the effective date and the transitional reporting requirements of IFRS 9 as they apply to local authorities under the Code.

7.4.2 Effective Date

7.4.2.1 A local authority shall apply the reporting requirements of IFRS 9 as adopted by this Code from 1 April 2018. This Code does not permit early adoption of any of the provisions of IFRS 9.

7.4.3 Transition

7.4.3.1 An authority shall apply IFRS 9 retrospectively, in accordance with section 3.3 and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except as specified in paragraph 7.4.3.4. IFRS 9 shall not be applied to items that have already been derecognised at the date of initial application.

7.4.3.2 For the purposes of the transition provisions in paragraphs 7.4.3.1 and 7.4.3.3 to 7.4.3.15, the date of initial application is 1 April 2018.

Transition for Classification and Measurement

7.4.3.3 At 1 April 2018, an authority shall assess whether a financial asset meets the condition in paragraphs 7.1.5.2 a) or 7.1.5.3 a) on the basis of the facts and circumstances that exist at that date. The resulting classification shall be applied retrospectively irrespective of the authority's business model in prior reporting periods. However, when adopting the classification and measurement requirements of IFRS 9 (which include the requirements related to amortised cost measurement for financial assets and impairment in sections 7.2.4 and 7.2.9) an authority shall provide the disclosures set out in paragraphs 7.4.3.19 to 7.4.3.22 but shall not restate prior periods.

7.4.3.4 If, at 1 April 2018, it is impracticable (as defined in section 3.3) for an authority to assess a modified time value of money element in accordance with paragraphs B4.1.9B to B4.1.9D of IFRS 9 on the basis of the facts and circumstances that existed at the initial recognition of the financial asset, an authority shall assess the contractual cash flow characteristics of that financial asset on the basis of the facts and circumstances that existed at the initial recognition of the financial asset without taking into account the requirements related to the modification of the time value of money element in paragraphs B4.1.9B to B4.1.9D of IFRS 9. (See also paragraph 7.4.3.25).

7.4.3.5 At the date of initial application an authority may designate an investment in an equity instrument as at fair value through other comprehensive income in accordance with paragraph 7.1.5.9. Such a designation shall be made on the basis of the facts and circumstances that exist at 1 April 2018. The classification shall be applied retrospectively.

7.4.3.6 If it is impracticable (as defined in section 3.3) for an authority to apply retrospectively the effective interest method, the authority shall treat the fair value of the financial asset or the financial liability at 1 April 2018 as the new gross carrying amount of that financial asset or the new amortised cost of that financial liability.

7.4.3.7 If an authority previously accounted at cost (in accordance with IAS 39 as adopted by this Code), for an investment in an equity instrument that does not have a quoted price in an active market for an identical instrument (ie a Level 1 input) it shall measure that instrument at fair value at the 1 April 2018. Any difference

between the previous carrying amount and the fair value shall be recognised in the opening Capital Adjustment Account as at 1 April 2018 as this is not a gain or loss which is chargeable to the General Fund.

7.4.3.8 It is unlikely that paragraphs 7.2.5 to 7.2.7, 7.2.10 and 7.2.13 to 7.2.14 of IFRS 9 will apply to local authorities. Where they do apply, an authority shall provide these disclosures where the relevant transactions are material to local authority financial statements.

7.4.3.9 Paragraph 7.2.9 of IFRS 9 does not apply to local authorities.

7.4.3.10 As an authority is required not to restate preceding year information it shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the 2018/19 financial year.

Transitional Reporting Requirements for Impairment

7.4.3.11 An authority shall apply the impairment requirements in Section 7.2.9 retrospectively in accordance with section 3.3 and IAS 8 subject to paragraphs 7.4.3.10 and 7.4.3.12 to 7.4.3.14.

7.4.3.12 At 1 April 2018, an authority shall use reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that a financial instrument was initially recognised (or for loan commitments and financial guarantee contracts at the date that the authority became a party to the irrevocable commitment in accordance with paragraph 7.2.9.5) and compare that to the credit risk at 1 April 2018.

7.4.3.13 When determining whether there has been a significant increase in credit risk since initial recognition, an authority may apply:

a) the requirements in paragraphs 7.2.9.9 and B5.5.22 to B5.5.24 of IFRS 9, and

b) the rebuttable presumption in paragraph 7.2.9.11 for contractual payments that are more than 30 days past due if an authority will apply the impairment requirements by identifying significant increases in credit risk since initial recognition for those financial instruments on the basis of past due information.

7.4.3.14 If, at 1 April 2018, determining whether there has been a significant increase in credit risk since initial recognition would require undue cost or effort, an authority shall recognise a loss allowance at an amount equal to lifetime expected credit losses at each reporting date until that financial instrument is derecognised (unless that financial instrument is low credit risk at a reporting date, in which case paragraph 7.4.3.13 a) applies.

Transitional requirements for hedge accounting

7.4.3.15 Where an authority applies hedge accounting it shall apply the transitional reporting requirements for hedge accounting included in IFRS 9 as adopted by this

Code.

Transitional disclosure requirements on the initial application of IFRS 9

7.4.3.16 For 2018/19, the authority shall disclose the following information for each class of financial assets and financial liabilities as at 1 April 2018:

a) the original measurement category and carrying amount determined in accordance with the Code's adoption of IAS 39, and

b) the new measurement category and carrying amount determined in accordance with the Code's adoption of IFRS 9.

7.4.3.17 For the 2018/19 financial statements, an authority shall disclose qualitative information to enable users to understand how it applied the classification requirements in IFRS 9 to those financial assets whose classification has changed as a result of applying IFRS 9[3].

7.4.3.18 For the 2018/19 financial statements an authority shall present the disclosures set out in paragraphs 7.4.3.19 to 7.4.3.22 without restating preceding year information.

7.4.3.19 An authority shall disclose the changes in the classifications of financial assets and financial liabilities as at 1 April 2018 of IFRS 9, showing separately:

a) the changes in the carrying amounts on the basis of their measurement categories in accordance with the Code's adoption of IAS 39 (ie not resulting from a change in measurement attribute on transition to the Code's adoption of IFRS 9), and

b) the changes in the carrying amounts arising from a change in measurement attribute on transition to IFRS 9.

7.4.3.20 An authority shall disclose the following for financial assets and financial liabilities that have been reclassified so that they are measured at amortised cost and, in the case of financial assets, that have been reclassified out of fair value through profit or loss so that they are measured at fair value through other comprehensive income, as a result of the transition to IFRS 9:

a) the fair value of the financial assets or financial liabilities at the end of the reporting period, and

b) the fair value gain or loss that would have been recognised in Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure during the reporting period if the financial assets or financial liabilities had not been reclassified.

7.4.3.21 An authority shall disclose the following for financial assets and financial liabilities that have been reclassified out of the fair value through profit or loss category as a result of the transition to IFRS 9 as adopted by this Code:

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[3] In the unusual circumstance where an authority decides to designate a financial instrument as measured at fair value through profit or loss on 1 April 2018 it should disclose the reasons for any designation.

a) the effective interest rate determined on 1 April 2018 application, and

b) the interest revenue or expense recognised.

If an authority treats the fair value of a financial asset or a financial liability as the new gross carrying amount at the date of initial application (see paragraph 7.4.3.6), the disclosures in this paragraph shall be made for each reporting period until derecognition. Otherwise, the disclosures in this paragraph need not be made after the 2018/19 financial year.

7.4.3.22 When an authority presents the disclosures set out in paragraphs 7.4.3.18 to 7.4.3.21, those disclosures, and the disclosures in 7.3.2.16, must permit reconciliation between:

a) the measurement categories presented in accordance with IAS 39 and IFRS 9, both standards as adopted by this Code, and

b) the class of financial instrument

as at 1 April 2018.

7.4.3.23 On the date of initial application of section 7.2.9, an authority is required to disclose information that would permit the reconciliation of the ending impairment allowances in accordance with IAS 39 as adopted by this Code and the provisions in accordance with section 8.2 and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to the opening loss allowances determined in accordance with IFRS 9 in accordance with this Code. For financial assets, this disclosure shall be provided by the related financial assets' measurement categories in accordance with IAS 39 and IFRS 9 as adopted by this Code, and shall show separately the effect of the changes in the measurement category on the loss allowance at that date.

7.4.3.24 For the financial year 2018/19 an authority shall not disclose the line item amounts that would have been reported in accordance with the classification and measurement requirements (which includes the requirements related to amortised cost measurement of financial assets and impairment in sections 7.2.4 and 7.2.9) of:

a) IFRS 9 as adopted by the Code for preceding year information, and

b) IAS 39 as adopted by the Code for the current period.

7.4.3.25 In accordance with paragraph 7.4.3.4, if it is impracticable (as defined in section 3.3) at the date of initial application of IFRS 9 for an authority to assess a modified time value of money element in accordance with paragraphs B4.1.9B to B4.1.9D of IFRS 9 based on the facts and circumstances that existed at the initial recognition of the financial asset, an authority shall assess the contractual cash flow characteristics of that financial asset based on the facts and circumstances that existed at the initial recognition of the financial asset without taking into account the requirements related to the modification of the time value of money element in paragraphs B4.1.9B to B4.1.9D of IFRS 9. An authority shall disclose the carrying

amount at the reporting date of the financial assets whose contractual cash flow characteristics have been assessed based on the facts and circumstances that existed at the initial recognition of the financial asset without taking into account the requirements related to the modification of the time value of money element in paragraphs B4.1.9B to B4.1.9D of IFRS 9 until those financial assets are derecognised.

Consequential Amendments to the Code on Adoption of IFRS 9

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

Impairment of Tax Income (Council Tax, Residual Community Charges, Non-Domestic Rates (NDR) and District Rates)

2.8.2.24 Taxation debtors are non-contractual debts and are therefore excluded from the scope of IFRS 9. The accounting requirements for Council Tax, Residual Community Charges, Non-Domestic Rates (NDR) and District Rates in respect of the write-off of uncollectable debts and allowance for impairment of doubtful debts shall follow the incurred loss approach to measurement (see paragraphs 2.8.2.25 to 2.8.2.26 below). However, the Collection Fund and other statements shall be presented in accordance with the statutory accounting requirements.

2.8.2.25 Council Tax, Residual Community Charges, Non-Domestic Rates (NDR) and District Rates 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. At each Balance Sheet date an assessment shall be made of whether there is objective evidence that the debtor balances for Council Tax, Residual Community Charges, Non-Domestic Rates (NDR) and District Rates 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.

2.8.2.26 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 Council Tax, Residual Community Charges, Non-Domestic Rates (NDR) and District Rates with similar credit risks and collectively assessed for impairment. Debtor balances for Council Tax, Residual Community Charges, Non-Domestic Rates (NDR) and Rates 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 assets in a group, those assets shall be removed from the group.

2.8.6 Changes since the 20152017/16 18 Code

2.8.6.1 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 2015/16 The 2018/19 Code includes the provisions on the establishment of the impairment allowances for Code tax income (council tax, residual community charges, non-domestic rates (NDR) and district rates) under the incurred loss impairment model in this section of the Code following the introduction of IFRS.

3.4 PRESENTATION OF FINANCIAL STATEMENTS

Adaptation for the public sector context

3.4.1.3 IAS 1 specifies the information to be included in the financial statements, but does not prescribe a format. IAS 1 also specifies information that must be disclosed either on the face of the financial statements or in the notes to the financial statements. IAS 1 permits the terminology used to be adapted to suit the reporting entity.

3.4.1.4 The Code adapts the requirements of IAS 1 by specifying the format of the statements, disclosures and terminology that are appropriate for local authorities. In doing so, the Code adopts the interpretation of IAS 1 included in IPSAS 1 *Presentation of Financial Statements* that 'function of expenses' is equivalent to a service analysis. The Code adopts the principle of specifying the minimum level of detail for the financial statements, whilst permitting authorities to include more detail where it is appropriate to do so.

3.4.1.5 Where an authority prepares Group Accounts, the Code requires the authority to prepare authority-only accounts and Group Accounts incorporating all financial statements. Authorities may elect to present the Group Accounts alongside the authority-only accounts (ie a columnar approach) or as separate statements. An authority need not apply the same approach to each statement.

3.4.2.9 **Other Comprehensive Income and Expenditure** comprises items of expense and income (including reclassification adjustments) that are not recognised in the Surplus or Deficit on the Provision of Services as required or permitted by the Code. Examples include changes in revaluation surplus and; remeasurement of the net defined benefit liability (asset); and gains and losses on remeasuring available-for-sale financial assets.

Comprehensive Income and Expenditure Statement

3.4.2.37 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.

3.4.2.38 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, analysed by service. Authorities shall present the service analysis on the basis of the organisational structure (including, where relevant, corporate support services) under which local authorities operate and shall include costs for those services in accordance with paragraph 3.4.2.39 below.

b) Other operating expenditure (comprising precepts (paid to non-principal authorities in England and all authorities in Wales) and levies; payments to the Housing Capital Receipts Pool; and gains or losses on the disposal of non-current assets).

c) Financing and investment income and expenditure (comprising interest payable and similar charges; net interest on the net defined benefit liability (asset); remeasurements of the net defined benefit liability (asset) for long-term employee benefits recognised in accordance with section 6.2;[4] interest income; income, expenditure, and changes in the fair values of investment properties; the surplus or deficit of trading operations which are not allocated back to services; and other investment income).

ca) Interest revenue calculated using the effective interest method.

cb) Gains and losses arising from the derecognition of financial assets measured at amortised cost.

cc) Impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with section 7.2.9 of the Code.

d) Surplus or deficit on discontinued operations (such a surplus or deficit may

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

need to 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 on revaluation of available-for-sale financial assets~~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.

~~m~~n) Remeasurements of the net defined benefit liability (asset).

~~n~~o) Share of other comprehensive income and expenditure of associates and joint ventures (Group Accounts only).

~~o~~p) Other comprehensive income and expenditure.

~~p~~q) Total comprehensive income and expenditure.

3.4.2.39 The income and expenditure allocated to services should reflect the way in which an authority operates or manages its services. 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.

3.4.2.40 The Comprehensive Income and Expenditure Statement does 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. It also does not include the lines required for reclassifications for financial assets per 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.

…

3.4.2.47~~48~~ 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 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 of Deficit on the Provision of Services, and

   ii) will be reclassified subsequently to the Surplus of 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 of Deficit on the Provision of Services, and

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

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

3.4.6 Changes since the ~~2015~~2017/~~16~~ 18 Code

3.4.6.1 ~~The 2016/17 Code includes amendments to the Code's provisions on the presentation of financial statements to reflect the reporting requirements for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement and has introduced a new Expenditure and Funding Analysis as a result of the Telling the Story review of improvements to the presentation of local authority financial statements.~~ The 2018/19 Code includes amendments to the Comprehensive Income and Expenditure statement as a result of the consequential amendments to IAS 1 following the introduction to the Code of IFRS 9. ~~of the financial statements section of the Code has also been amended to reflect the December 2014 changes to IAS 1 under the International Accounting Standards Board (IASB) Disclosure Initiative.~~

~~3.4.6.3 The 2016/17 Code (following the Update to the 2015/16 Code) has been amended to reflect the changes to disclosures on fees payable to auditors as a consequence of the Local Audit and Accountability Act 2014, the reporting requirements of the Accounts and Audit Regulations 2015 and the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 requirement for local authorities in Northern Ireland to produce a statutory remuneration report.~~

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

3.6.2 Accounting Requirements

3.6.2.1 ~~Even though~~The taxation debtors are non-contractual debts and are excluded from the scope of ~~IAS 39~~IFRS 9.~~,~~ ~~the~~ 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 impairment provisions of chapter seven~~the incurred loss model~~-~~ for impairment (see paragraphs 2.8.2.24 to 2.8.2.26 ~~7.3.3.1 to 7.3.3.6)~~ of the Code. However, the statements shall be presented in accordance with the statutory accounting requirements.

3.6.6 Changes since the ~~2015~~2017/~~16~~ 18 Code

3.6.6.1 ~~There have been no changes to the Collection Fund (England)/Council Tax Income Account/Non Domestic Rate Account (Scotland) section of the Code since the 2015/16 Code.~~ The 2018/19 Code includes consequential amendments relating to the new provisions on the establishment of the impairment allowances for Council Tax Income and Non Domestic Rate income.

8.2 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

8.2.1 Introduction

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 ~~measurement of~~ financial guarantees ~~after initial measurement~~) that are within the scope of chapter seven
- 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; construction contracts (section 5.2), income taxes (Appendix A, paragraph A.1.2), leases (section 4.2),

employee benefits (chapter six), insurance contracts (Appendix A, paragraph A.1.7) and contingent consideration of an acquirer in a business combination (see IFRS 3 *Business Combinations*).

Other Consequential Amendments

The following table lists the minor amendments to each section of the Code for the introduction of IFRS 9, where for each item reference to IAS 39 is changed to IFRS 9.

Reference
Section 2.3, Government and Non-Government Grants, paragraph 2.3.2.16
Section 4.3, Service Concession Arrangements: Local authority as Grantor, paragraph 4.3.2.43
Section 5.1,Inventories, paragraph 5.1.1.3
Section 5.3, Debtors, paragraphs 5.3.1.1 and 5.3.1.6
Section 6.5, Accounting and Reporting by Pension Funds, paragraphs 6.5.1.2, 6.5.2.4 and the table in the Annex.
Section 8.1, Creditors, paragraphs 8.1.1.1 and 8.1.16

APPENDIX G

Provisions in the 2018/19 Code for Revenue from Contracts with Service Recipients

G.1 REPORTING REQUIREMENTS FOR THE 2018/19 CODE FOR REVENUE RECOGNITION

G.1.1 CIPFA/LASAAC has included the following section new Appendix G in the Code to demonstrate to authorities how the 2018/19 Code will apply the IFRS 15 *Revenue from Customers with Contracts* from **1 April 2018**. **Note that early adoption of the requirements of this Appendix is not permitted by this Code.** This Appendix includes a completely redrafted section 2.7 and the consequential amendments to other sections of the Code when the new standard is applied in the 2018/19 Code. The changes are presented to section 2.7 without tracked changes because this section has been substantially redrafted. The consequential changes have been included as tracked changes for ease of reference. The consequential changes also include new provisions on the principles of revenue recognition in section 2.1 these are also presented as tracked changes.

2.7 REVENUE FROM CONTRACTS WITH SERVICE RECIPIENTS

2.7.1 Introduction

2.7.1.1 Authorities shall account for revenue recognition in accordance with IFRS 15 *Revenue Recognition 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’.

2.7.1.2 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.

2.7.1.3 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 nine 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.

2.7.1.4 An authority shall apply 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.

2.7.1.5 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 revenue recognition principles in section 2.1.

Adaptation for the public sector context

2.7.1.6 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.

2.7.1.7 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'.

2.7.1.8 The Code includes an adaptation of IFRS 9, for the avoidance of doubt, which has a direct impact on the measurement of revenue, as follows:

Recognition and measurement

- Revenue 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.

2.7.2 Accounting Requirements

Definitions

2.7.2.1 A **contract** is an agreement between two or more parties that creates enforceable rights and obligations.

2.7.2.2 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).

2.7.2.3 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.

2.7.2.4 **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.

2.7.2.5 **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.

2.7.2.6 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.

2.7.2.7 **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.

2.7.2.8 **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 entity 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.

2.7.2.14 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

2.7.2.15 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.

2.7.2.16 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

2.7.2.17 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 eg 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 eg adaptations to residents homes for social care purposes

d) granting licences eg alcohol and entertainment licences and taxi licences, and

e) 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) 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 (eg 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 eg 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

2.7.2.23 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, 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, Value Added Tax). 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 paragraphs 2.7.2.30 below; and 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 paragraph 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 entity 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 customers 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 customer.

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 see paragraphs 2.7.2.38 below and 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, council tax general and business rates

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

2.7.2.41 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

2.7.2.42 When either party to a contract has performed, an authority shall present the contract in the statement of financial position 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.

2.7.2.43 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.

2.7.2.44 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 seven.

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 seven 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 seven and IFRS 9 and the corresponding amount of revenue recognised shall be presented as an expense (for example, as an impairment loss).

Transition

2.7.2.46 An authority shall apply this section of the Code and IFRS 15 for annual reporting periods beginning on or after 1 April 2018 (the date of initial application of this section of the Code is therefore 1 April 2018). An authority shall apply this section of the Code and IFRS 15 retrospectively with the cumulative effect of initially applying this section of the Code recognised at 1 April 2018 and in accordance with paragraphs 2.7.2.47 and 2.7.2.48.

2.7.2.47 The authority shall recognise the cumulative effect of initially applying this section of the Code and IFRS 15 as an adjustment to the opening balance of reserves (or other component of reserves, as appropriate) of the 2018/19 financial year. An authority shall apply IFRS 15 retrospectively only to contracts that are not completed contracts at 1 April 2018.

2.7.2.48 An authority need not retrospectively restate contracts modified before 1 April 2018 for those contract modifications in accordance with paragraphs 20 to 21 of IFRS 15. Instead, an authority shall reflect the aggregate effect of all of the modifications that occur:

a) identifying the satisfied and unsatisfied performance obligations,

b) determining the transaction price, and

c) allocating the transaction price to the satisfied and unsatisfied performance obligations.

When authority applying the requirements of this section of the Code for the first time it may use the practical expedient described above:

i) for all contract modifications that occur before the beginning of the preceding financial year ie 2017/18, or,

ii) for all contract modifications that occur before 1 April 2018.

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 eg section 2.3 for

government grant 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 the commercial entities, where the recognition of revenue is normally of paramount importance for the 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 2.1.2.11 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 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 shall provide the disclosures required by IFRS 15 paragraphs 113 to 129 if the information relating to the disclosure is material to its financial statements. 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.

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

Transition

2.7.4.6 An authority shall provide both of the following additional disclosures on transition:

a) the amount by which each financial statement line item is affected in the current reporting period by the application of IFRS 15 as compared to section 5.2 and IAS 11 (if applicable), section 2.7 and IAS 18 and related interpretations that were in effect before the change, and

b) an explanation of the reasons for significant changes identified in 2.7.4.6 a).

2.7.5 Statutory Disclosure Requirements

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

2.7.6 Changes since the 2017/18 Code

2.7.6.1 This section of the Code has been substantially redrafted for the introduction of IFRS 15 *Revenue from Contracts with Customers*.

Consequential Amendments

CHAPTER TWO

Concepts and principles

2.6 PRINCIPAL AND AGENT TRANSACTIONS

Reference to IAS 18 *Revenue* is replaced with IFRS 15 *Revenue from Contracts with Customers*.

CHAPTER FOUR

Non-current assets

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 seven), intangible assets held for sale in the ordinary course of business (see chapter five), leases within the scope of IAS 17 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 six) or contract assets (in accordance with section 2.7 of the Code ~~non-current assets classified as held for sale (see~~

~~section 4.9 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.

4.7 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 six), financial instruments (see chapter seven), 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 ~~construction contracts~~contract assets (in accordance with ~~see~~ section ~~5.2~~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.

CHAPTER FIVE
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:

~~work in progress arising under construction contracts, including directly related service contracts in accordance with section 5.2 of the Code (also see IAS 11)~~

- financial instruments in accordance with section 7.1 of the Code (also see IAS 39)
- biological assets in accordance with Appendix A, paragraph A.1.5 (also see IAS 41).

Measurement

5.1.2.12 Much of the output of authorities is in the form of services rather than goods. ~~To the extent that an authority as a service provider has inventories (work in progress), they shall measure them at the costs of their production. These costs consist primarily of the labour and other costs of personnel directly engaged in providing the service, including supervisory personnel, and attributable overheads. The costs of labour not engaged in providing the service are not included. Labour and other costs relating to sales and general administrative personnel are not included but are recognised as expenses in the period in which they are incurred.~~Costs incurred to fulfill 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).

5.1.6 Changes since the ~~2015~~2017/~~16~~ 18 Code

5.1.6.1 ~~There have been no changes to the inventories section of the Code since the 2015/16 Code~~There have been minor consequential changes to the inventories section of the Code following the introduction of IFRS 15 *Revenue from Contracts with Customers* since the 2017/18 Code.

5.2 WORK IN PROGRESS CONSTRUCTION CONTRACTS

Section 5.2 is deleted as IAS 11 *Construction Contracts* is withdrawn.

5.32 DEBTORS

5.32.1 Introduction

5.32.1.1 Authorities shall account for debtors in accordance with IAS 18IFRS 15 *Revenue from Contracts with Customers Revenue*, IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* and IAS 39IFRS 9 *Financial Instruments: Recognition and Measurement*, except where adaptations to fit the public sector are detailed in the Code.

5.32.1.2 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.

5.32.1.3 This section of the Code must be read in conjunction with section 2.7 (Revenue *Recognitionfrom Contracts with Service Recipients*) and section 7.3 2 (Accounting for Financial Assets after Initial RecognitionSubsequent Measurement of Financial Assets and Financial Liabilities) of the Code as it applies to financial assets.

Adaptation for the public sector context

5.32.1.4 No adaptations of IAS IFRS 1518 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.

5.32.1.5 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'.

5.32.1.6 The Code includes an adaptation of IAS IFRS 9,39 for the avoidance of doubt, as follows:

Recognition and measurement

- Financial 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.~~3~~2.2 Accounting Requirements

Definitions

5.~~3~~2.2.1 **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.~~3~~2.2.2 **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).

5.~~3~~2.2.3 **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.~~3~~2.2.4 **Revenue** is income arising as a result of an authority's normal operating activities (see also section 2.7 for the definition of income).~~is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth~~.

5.~~3~~2.2.5 **Debtors** are financial assets 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 2.7.2.45 for reference to the presentation of contract assets.

Recognition and measurement

5.~~3~~2.2.6 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.~~3~~2.2.7 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 seven of the Code.

5.~~3~~2.2.8 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 seven of the Code).

5.~~3~~2.2.9 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 seven).

5.322.2.10 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 2.7.2.45).

5.32.3 Statutory Accounting Requirements

5.322.3.1 There are no statutory accounting requirements in relation to debtors.

5.32.4 Disclosure Requirements

5.322.4.1 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).

5.322.4.2 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) An analysis of the amount of debtors between:
   a) central government bodies
   b) other local authorities
   c) NHS bodies
   d) public corporations and trading funds
   e) bodies external to general government (ie all other bodies).
2) Disclosures as set out in the Financial Instruments section (see chapter seven), where payment is on deferred settlement terms.

5.32.5 Statutory Disclosure Requirements

5.322.5.1 There are no statutory disclosures required in relation to debtors.

5.32.6 Changes since the 20152017/16 18 Code

5.322.6.1 There have been consequential changes to the debtors section of the Code following the introduction of IFRS 15 *Revenue from Contracts with Customers* since the 2017/18 Code.

There have been no changes in the debtors section of the Code since the 2015/16 Code.

CHAPTER EIGHT
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, IAS IFRS 15 18 Revenue*Revenue from Contracts with Customers*, IPSAS 23 *Revenue from Non-exchange Transactions (Taxes and Transfers)* and IAS 39IFRS 9 *Financial Instruments: Recognition and Measurement*, 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 RecipientsRecognition) and section 7.2 (Subsequent Measurement of Financial Assets and Financial LiabiltiesAccounting for Financial Liabilities after Initial Recognition) of the Code as it applies to financial liabilities.

Adaptation for the public sector context

8.1.1.4 No adaptations of IAS 18IFRS 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 adaptation of IAS 39IFRS 9, for the avoidance of doubt, as follows:

Recognition and measurement

- Financial 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

8.1.2.1 **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.

8.1.2.2 **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).

8.1.2.3 **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.

8.1.2.4 **Revenue** is income arising as a result of an authority's normal operating activities (see also section 2.7 for the definition of income) ~~is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth~~.

8.1.2.5 **Creditors** are financial liabilities 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

8.1.2.6 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.

8.1.2.7 Creditors shall be recognised and measured at the fair value of the consideration payable except for a financial liability that is measured under chapter seven of the Code.

8.1.2.8 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 ~~(ie beyond normal credit terms), the consideration payable is recognised initially at the cash price equivalent (that is the discounted amount). The difference between this amount~~

~~and the total payments is recognised as interest expense in Surplus or Deficit on the Provision of Services.~~ see section 2.7 of the Code.

~~Short duration payables with no stated interest rate may be measured at original invoice amount if the effect of discounting is immaterial (see chapter seven of the Code).~~

8.1.2.9 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 (see chapter seven).

~~8.1.2.10 In the event that consideration is received but the revenue does not meet the revenue recognition criteria set out in section 2.7 of the Code, an authority shall recognise a creditor (ie receipt in advance) in respect of that inflow of resources.~~

8.1.3 Statutory Accounting Requirements

8.1.3.1 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) An analysis of the amount of creditors between:
    a) central government bodies
    b) other local authorities
    c) NHS bodies
    d) public corporations and trading funds
    e) bodies external to general government (ie all other bodies).
2) Disclosures as set out in the Financial Instruments section (see chapter seven), 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 ~~2015~~2017/~~16~~ 18 Code

8.1.6.1 There have been consequential changes the creditors section of the Code following the introduction of IFRS 15 *Revenue from Contracts with Customers*

since the 2017/18 CodeThere have been no changes to the creditors section of the Code since the 2015/16 Code.

8.2 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Reference to section 5.2 construction contracts is removed as IAS 11 *Construction Contracts* is withdrawn.

Other Augmentations to the Code for Revenue Recognition

CHAPTER TWO

Concepts and principles

2.1 CONCEPTS

Elements of financial statements

2.1.2.28 **Income** – is the gross inflow of economic benefits or service potential during the reporting period when those inflows or enhancements of assets or decreases of liabilities result in an increase in reserves. Income includes both revenue arising in the course of ordinary activitiesnormal operating activities of an authority and gains such as the revaluation of fixed assets.

2.1.2.29 **Expenses** – are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or increases of liabilities that result in decreases in reserves. Expenses include expenses that arise in the course of the ordinary activities and losses such as revaluation of fixed assets.

Recognition of the elements of financial statements

2.1.2.30 Recognition is the process of incorporating in the Balance Sheet or Comprehensive Income and Expenditure Statement an item that meets the definition of an element and satisfies the criteria for recognition. The relevant sections of the Code set out the criteria for recognition of the elements of financial statements.

Recognition of Revenue

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

- taxation charged by local authorities eg council tax, general rates and non-domestic rates (see sections 2.2, 2.8 and 3.6)
- 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 eg

precepts and levies, car parking feeds and taxi licences

- government grants and contributions – including grants and contributions from central government and other public sector bodies (see section 2.3)
- 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 four).

2.1.2.32 The 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.

2.1.2.33 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.

2.1.2.34 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.

2.1.2.35 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 2.1.2.34. 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 four of the Code. For these latter transactions local authorities will also need to account from the disposals in accordance with the statutory provisions and proper practices to recognise capital receipts (see chapter

four).

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

See separate diagram at the end of ED9

Council Tax, District Rates and Non Domestic Rates

2.1.2.37 A major source of local authority income is council tax, district 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 them. 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.

2.1.2.38 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.

Fines and penalties

2.1.2.39 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 (non-exchange transactions)

2.1.2.40 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 2.1.2.34. The recognition criteria for CIL charges will be met at the commencement date of the chargeable development (see also section 2.2 for CIL).

Government grants and contributions

2.1.2.41 Grants and 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 European Union and from other local authorities. The recognition criteria and requirements for government

grants and contributions are set out in paragraphs 2.3.2.9 to 2.3.2.17.

Bequests and donations

2.1.2.42 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 – exchange transactions

2.1.2.43 Local authorities are required or permitted to charge for services or goods under numerous statutory provisions. These include planning application fees, taxi or alcohol and entertainment licensing, various inspection fees etc. There is an implied contract for these transactions and therefore income is recognised in accordance with section 2.7 of the Code.

Sale or resale of goods

2.1.2.44 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

2.1.2.45 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.

2.1.6 Changes since the ~~2015~~2017/~~16~~18 Code

2.1.6.1 The concepts section of the 2016/17 Code has been updated for ~~the issue of the IPSASB *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities,* particularly to reflect the description of public sector users and understandability of local authority financial statements~~ additional guidance on the principles of revenue recognition.

Principles of Revenue Recognition in Local Authorities