3.4 PRESENTATION OF FINANCIAL STATEMENTS

3.4.1 Introduction

3.4.1.1 Authorities shall prepare financial statements in accordance with IAS 1 *Presentation of Financial Statements,* IAS 7 *Statement of Cash Flows* and IFRS 8 *Operating Segments*, as adapted by this section of the Code.

3.4.1.2 IPSAS 1 *Presentation of Financial Statements* is based on IAS 1, and IPSAS 2 *Cash Flow Statements* is based on IAS 7. These standards provide additional guidance for public sector bodies.

Adaptation for the public sector context

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

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

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

3.4.2 Accounting Requirements

Definitions

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

3.4.2.2 **Cash equivalents** are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

3.4.2.4 **Financing activities** are activities that result in changes in the size and composition of the principal, received from or repaid to external providers of finance.

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

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

3.4.2.7 **Material**. Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

3.4.2.8 **Notes** contain information in addition to that presented in the ~~Movement in Reserves Statement,~~ Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and Cash Flow Statement. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.

3.4.2.9 **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; actuarial gains and losses on defined benefit plans; and gains and losses on remeasuring available-for-sale financial assets.

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

3.4.2.11 **Reclassification adjustments** are amounts reclassified to Surplus or Deficit on the Provision of Services in the current period that were recognised in Other Comprehensive Income and Expenditure in the current or previous periods.

3.4.2.12 **Surplus or Deficit on the Provision of Services** is the total of income less expenses, excluding the components of Other Comprehensive Income and Expenditure.

3.4.2.13 **Total Comprehensive Income and Expenditure** comprises all components of Surplus or Deficit on the Provision of Services and of Other Comprehensive Income and Expenditure.

Cash and cash equivalents

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

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

Financial statements

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

3.4.2.17 A complete set of financial statements comprises:

~~a) Movement in Reserves Statement for the period~~

~~b~~a) Comprehensive Income and Expenditure Statement for the period

b) Movement in Reserves Statement for the period

c) Balance Sheet as at the end of the period

d) Cash Flow Statement for the period

e) notes, comprising ~~a summary of~~ significant accounting policies and other explanatory information

f) comparative information in respect of the preceding period as specified in paragraphs 3.4.2.~~29~~30 and 38A of IAS 1

g) Balance Sheet as at the beginning of the preceding period (ie a third Balance Sheet) when an authority applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A to 40D of IAS 1, and

h) statements, or other financial reports or disclosures which are required by statute to be included in the Statements of Account for the period, where relevant to the authority.

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

3.4.2.19 Financial statements shall give a true and fair presentation of the financial position, financial performance and cash flows of an authority. A true and fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Code. Compliance with the Code is presumed to result in financial statements that achieve a true and fair presentation.

3.4.2.20 A fair presentation also requires an authority:

a) to select and apply accounting policies in accordance with section 3.3 of the Code and
IAS 8. Paragraph 3.3.2.10 sets out the guidance that an authority's management considers in the absence of an IFRS that specifically applies to an item

b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information

c) to provide additional disclosures when compliance with the specific requirements in the Code is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the authority's financial position and financial performance.

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

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

a) management has concluded that the financial statements present a true and fair view of the authority's financial position, financial performance and cash flows

b) it has complied with the Code, except that it has departed from a particular requirement to achieve a true and fair presentation

c) the nature of the departure, including the treatment that the Code would require, the reason why that treatment would be so misleading in the circumstances that it would prevent the financial statements presenting a true and fair view, and the treatment adopted, and

d) for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.

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

3.4.2.24 A local authority shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting, ie the authority recognises items as assets, liabilities, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Code.

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

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

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

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

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

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

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

a) the nature of the reclassification

b) the amount of each item or class of items that is reclassified, and

c) the reason for the reclassification.

3.4.2.~~31~~32 When it is impracticable to reclassify comparative amounts, an authority shall disclose:

a) the reason for not reclassifying the amounts, and

b) the nature of the adjustments that would have been made if the amounts had been reclassified.

3.4.2.~~32~~33 A local authority shall retain the presentation and classification of items in the financial statements from one period to the next unless:

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

b) the Code requires a change in presentation.

3.4.2.~~33~~34 A local authority shall present Group Accounts in addition to its single entity financial statements where required by chapter nine of the Code.

~~3.4.2.34 When presenting Group Accounts, an authority that recognises its interest in a jointly controlled entity using proportionate consolidation shall either:~~

~~combine its share of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items, line by line, in its financial statements, or~~

~~include separate line items for its share of the assets, liabilities, income and expenses of the jointly controlled entity in its financial statements.~~

Structure and content of financial statements

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

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

a) the name of the authority

b) the date of the end of the reporting period or the period covered by the set of financial statements or notes, and

c) the level of rounding used in presenting amounts in the financial statements.

~~Movement in Reserves Statement~~

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

~~3.4.2.38 An authority shall include a description of the purpose of the statement, either in the Explanatory Foreword or on the face of the statement (or both). The following description is recommended but not mandatory.~~

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

~~3.4.2.39 The Movement in Reserves Statement shall show, for each classification of reserves:~~

~~a) balance as at the end of the previous reporting period~~

~~b) surplus or deficit on the provision of services (accounting basis)~~

~~c) other comprehensive income and expenditure~~

~~d) total comprehensive income and expenditure~~

~~e) adjustments between Group Accounts and authority accounts (Group Accounts only)~~

~~f) net increase or decrease before transfers (Group Accounts only)~~

~~g) adjustments between accounting basis and funding basis under regulations~~

~~h) net increase or decrease before transfers to earmarked reserves (England and Wales) or other statutory reserves (Scotland)~~

~~i) transfers to or from earmarked reserves (England and Wales) or other statutory reserves (Scotland)~~

~~j) increase or decrease in year~~

~~k) balance as at the end of the current reporting period.~~

~~3.4.2.40 A local authority shall present, either in the Movement in Reserves Statement or in the notes, an analysis of the amounts included in items c), e), g) and i) of the statement. The analysis of item g) shall include the following items where relevant:~~

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

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

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

~~3.4.2.41 The classification of reserves presented in the Movement in Reserves Statement shall include the following items; authorities may choose to present additional items on the face of the statement:~~

~~a) General Fund Balance (in Scotland, includes earmarked portion of General Fund Balance)~~

~~b) Earmarked General Fund Reserves (not Scotland) (recommended but not~~

~~mandatory)~~

~~c) Housing Revenue Account Balance (in Scotland, includes earmarked portion of Housing Revenue Account Balance)~~

~~d) Earmarked Housing Revenue Account Reserves (not Scotland) (recommended but not mandatory)~~

~~e) Major Repairs Reserve (England and Wales)~~

~~f) Revenue statutory funds (Scotland)~~

~~g) Capital Receipts Reserve (England and Wales); Capital statutory funds (Scotland)~~

~~h) Capital Grants Unapplied Account~~

~~i) Total usable reserves~~

~~j) Unusable reserves~~

~~k) Total reserves of the authority~~

~~l) Authority's share of the reserves of subsidiaries, associates and joint ventures (Group Accounts only)~~

~~m) Total reserves (Group Accounts only).~~

~~3.4.2.42 A local authority shall present, either in the Movement in Reserves Statement or in the notes, an analysis of the amounts included in each item of the classification of reserves required by paragraph 3.4.2.41. This analysis shall present amounts held for capital purposes separately from those held for revenue purposes, and shall separately identify the total reserves held by schools.~~

Comprehensive Income and Expenditure Statement

3.4.2.~~43~~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 ~~Explanatory Foreword~~Narrative Report or on the face of the statement (or both). The following description is recommended but not mandatory.

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

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

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

3.4.2.44 ~~38~~ As a minimum, the Comprehensive Income and Expenditure Statement shall include line items that present the following amounts for the period:

a) Gross expenditure, gross income and net expenditure of continuing operations, analysed by service. Authorities shall present the service analysis on the basis of ~~the *Service Reporting Code of Practice*~~the organisational structure (including, where relevant, corporate support services) under which local authorities operate and shall include the direct accrued costs for those services[1].

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

c) Financing and investment income and expenditure (comprising interest payable and similar charges; net interest on the net defined benefit liability (asset); remeasurements of the net defined benefit liability (asset) for long-term employee benefits recognised in accordance with section 6.2;[2] interest income; income, expenditure, and changes in the fair values of investment properties; the surplus or deficit of trading operations which are not allocated back to services; and other investment income).

d) Surplus or deficit on discontinued operations (such a Surplus or Deficit may need to include an appropriate apportionment of the direct costs of corporate services).

e) Taxation and non-specific grant income and expenditure (comprising council tax income, NDR distribution, non-domestic rates income and expenditure, unringfenced government grants, and all capital grants and contributions).

f) Surplus or deficit on the provision of services.

g) Associates and joint ventures accounted for on an equity basis (Group Accounts only).

h) Tax expenses (Group Accounts only; taxation of group entities and reporting authority's share of taxation of associates and joint ventures shall be shown on

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

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

separate lines).

i) Group surplus or deficit (Group Accounts only).

j) Surplus or deficit on revaluation of non-current assets.

k) Impairment losses on non-current assets charged to the revaluation reserve.

l) Surplus or deficit on revaluation of available-for-sale financial assets.

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

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

o) Other comprehensive income and expenditure.

p) Total comprehensive income and expenditure.

3.4.2.~~45~~39 Where a local authority presents Group Accounts, the authority shall disclose separately those amounts of Surplus or Deficit on the Provision of Services and Other Comprehensive Income and Expenditure that are attributable to the local authority and those that are attributable to any minority interest, eg impairment of goodwill, share of profits of subsidiaries.

3.4.2.~~46~~40 A local authority shall present, either in the Comprehensive Income and Expenditure Statement or in the notes, an analysis of the amounts included in items b), c) and e) of the statement.

3.4.2.41 When an authority presents subtotals in the Comprehensive Income and Expenditure Statement it shall do so in accordance with paragraphs 85 and 85A of IAS1.

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

a) fees, charges and other service income

b) surplus or deficit on associates and joint ventures

c) interest and investment income

d) income from council tax, non-domestic rates, district rate income

e) government grants and contributions

f) employee benefits expenses

g) other service expenses

h) support service recharges

i) depreciation, amortisation and impairment

j) interest payments

k) precepts and levies

l) payments to Housing Capital Receipts Pool

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

n) surplus or deficit on the provision of services.

3.4.2.~~47~~43 An authority shall not present any items of income or expense as extraordinary items, either in the Comprehensive Income and Expenditure Statement or in the notes.

Surplus or Deficit on the Provision of Services

3.4.2.~~48~~44 An authority shall recognise all items of income and expense in a period in Surplus or Deficit on the Provision of Services unless the Code requires or permits otherwise.

Other Comprehensive Income and Expenditure for the period

3.4.2.~~49~~45 Where an authority prepares Group Accounts, the authority shall disclose the amount of income tax relating to each component of Other Comprehensive Income and Expenditure, including reclassification adjustments, either in the Comprehensive Income and Expenditure Statement or in the notes.

3.4.2.~~50~~46 Where a local authority is required to recognise amounts in Other Comprehensive Income and Expenditure for the period, it shall include :~~which include amounts that~~

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

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

~~a)~~

i) will not be reclassified subsequently to the Surplus 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.

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

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

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

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

3.4.2.~~51~~47 For Group Accounts, an authority may present components of Other Comprehensive Income and Expenditure either:

a) net of related tax effects, or

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

If an authority elects alternative b), it shall allocate the tax between the items that might be reclassified subsequently to the Surplus or Deficit on the Provision of Services and those that will not be reclassified subsequently to the Surplus or Deficit on the Provision of Services, where Other Comprehensive Income and Expenditure reflects these groupings in accordance with paragraph 3.4.2.~~50~~46.

3.4.2.~~52~~48 An authority shall disclose reclassification adjustments relating to components of Other Comprehensive Income and Expenditure.

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

3.4.2.~~53~~49 When items of income or expense are material, an authority shall disclose their nature and amount separately. Examples include:

a) disposals of items of property, plant and equipment

b) disposals of investments, and

c) other reversals of provisions.

Movement in Reserves Statement

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

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

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

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

a) balance as at the end of the previous reporting period

b) total comprehensive income and expenditure

c) adjustments between Group Accounts and authority accounts (Group Accounts only)

d) net increase or decrease before transfers (Group Accounts only)

e) adjustments between accounting basis and funding basis under statutory provisions)

f) increase or decrease in year

g) balance as at the end of the current reporting period.

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

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

pension scheme regulations

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

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

a) General Fund Balance

b) Housing Revenue Account Balance

c) Major Repairs Reserve (England and Wales)

d) Revenue statutory funds (Scotland)

e) Capital Receipts Reserve (England and Wales); Capital statutory funds (Scotland)

f) Capital Grants Unapplied Account

g) Total usable reserves

h) Unusable reserves

i) Total reserves of the authority

j) Authority's share of the reserves of subsidiaries, associates and joint ventures (Group Accounts only)

k) Total reserves (Group Accounts only).

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

3.4.2.56 A local authority shall present in a disclosure note, an analysis of the movements in its material earmarked reserves (earmarked proportion of its General Fund balance Scotland) showing opening and closing balances and movements in year. Note that this analysis shall have regard to paragraphs 3.4.2.26 and 3.4.2.27.

Balance Sheet

3.4.2.~~54~~57 A local authority shall present a Balance Sheet. Where a local authority presents Group Accounts as well as authority-only accounts, the authority shall present either separate Balance Sheets for the authority-only accounts and the Group Accounts, or a single statement showing both the authority-only and group Balance Sheets. An authority shall include a description of the purpose of the statement, either in the Explanatory Foreword or on the face of the statement (or both). The following description is recommended but not mandatory.

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

3.4.2.~~55~~58 ~~As a minimum, t~~The Balance Sheet shall include line items that present the following amounts:

a) property, plant and equipment

b) heritage assets

c) investment property (including held for sale* where the authority has opted to disclose this as a separate category)

d) intangible assets (including goodwill for Group Accounts only)*

e) assets held for sale*

f) investments (including net pensions asset)*

g) investments in associates and joint ventures (in Scotland where an authority has negative balances in respect of individual associates, the authority shall include any such associates with a net negative balance in a separate 'liabilities in associates' line)

h) debtors*

i) deferred tax asset (Group Accounts only)

j) long-term assets (sub-total)

k) inventories

l) cash and cash equivalents

m) current tax asset (Group Accounts only)

n) current assets (sub-total)

o) bank overdraft

p) borrowing*

q) creditors*

r) provisions*

s) liabilities in disposal groups*

t) current tax liability (Group Accounts only)

u) current liabilities (sub-total)

v) other long-term liabilities (comprising net pensions liability, deferred liabilities and any other long-term liabilities)

w) Donated Assets Account*

x) Grants Receipts in Advance*

y) deferred tax liability (Group Accounts only)

z) long-term liabilities (sub-total)

aa) net assets (total)

ab) usable reserves (including group reserves where appropriate)

ac) unusable reserves (including group reserves where appropriate)

ad) total reserves (total).

* Asterisked items are shown only once in the list, but should be presented as current
and/or non-current items in accordance with their classification (see paragraphs 3.4.2.~~58~~61 (assets) and 3.4.2.~~59~~62 (liabilities) of the Code).

3.4.2.~~56~~59 An authority shall present other lines (for example, biological assets) where relevant, (this might also require disaggregation of line items).

3.4.2.~~57~~60 An authority shall present additional line items (including by disaggregating the line items listed in paragraph 3.4.2.58 when such presentation is relevant to an understanding of the authority's financial position. For example, an authority may separately disclose one or more categories of property, plant and equipment. When an authority presents subtotals in the balance sheet it shall do so in accordance with paragraph 55A of IAS 1.

Current assets

3.4.2.~~58~~61 An authority shall classify an asset as current when:

a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle (the normal operating cycle for a local authority shall be assumed to be 12 months, however the normal operating cycle of other group members may be different)

b) it holds the asset primarily for the purpose of trading

c) it expects to realise the asset within 12 months after the reporting period, or

d) the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

An authority shall classify all other assets as long term.

Current liabilities

3.4.2.~~59~~62 An authority shall classify a liability as current when:

a) it expects to settle the liability in its normal operating cycle (the normal operating cycle for a local authority shall be assumed to be 12 months, however the normal operating cycle of other group members may be different)

b) it holds the liability primarily for the purpose of trading

c) the liability is due to be settled within 12 months after the reporting period, or

d) the authority does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

An authority shall classify all other liabilities as long term.

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

3.4.2.~~60~~63 An authority shall disclose, either in the Balance Sheet or in the notes, further sub-classifications of the line items presented, classified in a manner appropriate to the authority. Examples include:

a) items of property, plant and equipment are disaggregated into classes

b) receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts, and

c) provisions are disaggregated into provisions for employee benefits and other items.

3.4.2.~~61~~64 An authority shall disclose in the Balance Sheet, in the Movement in Reserves Statement, or in the notes a description of the nature and purpose of each reserve, the carrying amount of each reserve as at the Balance Sheet date and the movement in the reserve in the period. An authority shall present amounts held for capital purposes separately from those held for revenue purposes, and shall separately identify the total reserves held by schools.

Cash Flow Statement

3.4.2.~~62~~65 A local authority shall present a Cash Flow Statement. Where a local authority presents Group Accounts as well as authority-only accounts, the authority shall present either separate Cash Flow Statements for the single entity financial statements and the Group Accounts, or a single Cash Flow Statement showing both authority-only and group cash flows. An authority shall include a description of the purpose of the statement, either in the Explanatory Foreword or on the face of the statement (or both). The following description is recommended but not mandatory.

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

3.4.2.~~63~~66 An authority shall report cash flows from operating activities prepared using either:

a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed, or

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

Cash Flow Statement – direct method

3.4.2.~~64~~67 As a minimum, the Cash Flow Statement prepared using the direct method shall include line items that present the following amounts:

a) operating activities

b) investing activities

c) financing activities

d) net increase or decrease in cash and cash equivalents

e) cash and cash equivalents at the beginning of the reporting period

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

3.4.2.~~65~~68 The amounts to be included (where relevant) in lines a), b) and c) above are as follows:

Operating activities

a) taxation

b) grants

c) housing rents (housing authorities only)

d) sales of goods and rendering of services

e) interest received

f) other receipts from operating activities

g) cash inflows generated from operating activities (sub-total)

h) cash paid to and on behalf of employees

i) housing benefit paid out (housing authorities only)

j) national non-domestic rate payments to national pool (billing authorities in Scotland and Wales only)

k) precepts paid (billing authorities only)

l) payments to the Capital Receipts Pool (in England and Wales only)

m) cash paid to suppliers of goods and services

n) interest paid

o) other payments for operating activities

p) cash outflows generated from operating activities (sub-total)

q) net cash flows from operating activities.

Investing activities

a) purchase of property, plant and equipment, investment property and intangible assets

b) purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)

c) other payments for investing activities

d) proceeds from the sale of property, plant and equipment, non-current assets held for sale, investment property and intangible assets

e) proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)

f) other receipts from investing activities

g) net cash flows from investing activities.

Financing activities

a) cash receipts of short- and long-term borrowing

b) other receipts from financing activities

c) cash payments for the reduction of the outstanding liability relating to finance leases and on-Balance-Sheet service concession arrangements (PFI) contracts

d) repayments of short- and long-term borrowing

e) other payments for financing activities

f) net cash flows from financing activities.

3.4.2.~~66~~69 A local authority shall consider presenting the detail of the amounts of major classes of gross cash receipts and gross cash payments arising from operating, investing and financing activities (see paragraph 3.4.2.65) in the Cash Flow Statement based on the direct method where such presentation is relevant to an understanding of the authority's cash flow position, or otherwise in the notes.

3.4.2.~~67~~70 Cash flows from interest and dividends received and paid (dividends paid will only be applicable to Group Accounts) shall be disclosed separately either in the Cash Flow Statement or in the notes and be classified as operating activities. In the rare event that cash flows of a local authority (or Group Accounts) arise from transactions in a foreign currency, the cash flows shall be recorded in pounds sterling by applying to the foreign currency amount the exchange rate at the time of the cash flow.

Cash Flow Statement – indirect method

3.4.2.~~68~~71 Where an authority presents a Cash Flow Statement prepared using the indirect method, as a minimum the statement shall include line items that present the following amounts:

a) net surplus or deficit on the provision of services

b) adjust net surplus or deficit on the provision of services for non-cash movements

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

d) net cash flows from operating activities

e) investing activities

f) financing activities

g) net increase or decrease in cash and cash equivalents

h) cash and cash equivalents at the beginning of the reporting period

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

3.4.2.~~69~~72 The amounts to be included (where relevant) in lines b), c), e) and f) above are as follows:

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

a) depreciation

b) impairment and downward valuations

c) amortisation

d) increase/decrease in impairment for bad debts

e) increase/decrease in creditors

f) increase/decrease in debtors

g) increase/decrease in inventories (stock)

h) movement in pension liability

i) carrying amount of non-current assets and non-current assets held for sale, sold or derecognised

j) other non-cash items charged to the net surplus or deficit on the provision of services.

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

a) proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)

b) proceeds from the sale of property plant and equipment, investment property and intangible assets

c) any other items for which the cash effects are investing or financing cash flows.

Investing activities

a) purchase of property, plant and equipment, investment property and intangible assets

b) purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)

c) other payments for investing activities

d) proceeds from the sale of property, plant and equipment, non-current assets held for sale, investment property and intangible assets

e) proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)

f) other receipts from investing activities

g) net cash flows from investing activities.

Financing activities

a) cash receipts of short- and long-term borrowing

b) other receipts from financing activities

c) cash payments for the reduction of the outstanding liability relating to a finance lease and on-Balance-Sheet service concession arrangements (PFI) contracts

d) repayments of short- and long-term borrowing

e) other payments for financing activities

f) net cash flows from financing activities.

3.4.2.~~70~~73 A local authority shall consider presenting the detail of the amounts of major classes of gross cash receipts and gross cash payments rising from operating, investing and financing activities (see paragraph 3.4.2.~~69~~71) in the Cash Flow Statement based on the indirect method where such presentation is relevant to an understanding of the authority's cash flow position, or otherwise in the notes.

3.4.2.~~71~~74 Cash flows from interest and dividends received and paid (dividends paid will only be applicable to Group Accounts) shall be disclosed separately either in the Cash Flow Statement or in the notes and be classified as operating activities. In the rare event that cash flows of a local authority (or Group Accounts) arise from transactions in a foreign currency, the cash flows shall be recorded in pounds sterling by applying to the foreign currency amount the exchange rate at the time of the cash flow.

Cash Flow Statement – general

3.4.2.~~72~~75 In the rare event that cash flows arise from obtaining and losing control of subsidiaries or other businesses, authorities should refer to IAS 7.

3.4.2.~~73~~76 For cash flow purposes, bank overdrafts are shown separately from cash and cash equivalents where they are not an integral part of an authority's cash management. Where they are an integral part of an authority's cash management (ie the bank balance often fluctuates from being positive to overdrawn), they are shown as part of cash and cash equivalents.

3.4.2.~~74~~77 Where an authority prepares Group Accounts, the authority shall also include (where relevant) lines in relation to operating activities – preference dividend paid to minority interest, equity dividends paid, income tax paid; investing activities – net overdraft acquired with subsidiary, net cash acquired with subsidiary; financing activities – purchase/redemption of share capital, issue of share capital and any other lines that may be relevant, and disclosed separately where material in the Cash Flow Statement or in the notes. Cash flows between the reporting authority and an associate or joint venture should be included under the appropriate cash flow heading for the activity giving rise to the cash flow. None of the other cash flows of an associate or joint venture should be included in the Cash Flow Statement of the Group Account.

3.4.2.~~75~~78 Operating, investing and financing transactions that do not require the use of cash and cash equivalents shall be excluded from an authority's (or group) Cash Flow Statement.

3.4.2.~~76~~79 An authority (and Group Accounts) shall disclose the components of cash and cash equivalents in the Cash Flow Statement or in the notes.

3.4.2.~~77~~80 The impact on the Cash Flow Statement of the accounting requirements in England for council tax and NDR are shown in section 2.8 of the Code.

Notes to the financial statements

3.4.2.~~78~~81 A local authority shall present notes to the financial statements. Where a local authority presents Group Accounts as well as authority-only accounts, the authority shall present either separate notes to the financial statements for the authority-only accounts and the Group Accounts, or notes to the financial statements showing both authority-only and group information. The notes shall:

a) present information about the basis of preparation of the financial statements and the specific accounting policies used

b) disclose the information required by the Code that is not presented elsewhere in the financial statements, and

c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

3.4.2.~~79~~82 An authority shall, as far as practicable, present notes in a systematic manner. In determining a systematic manner, the local authority shall consider the effect on the understandability and comparability of its financial statements. An authority shall cross-reference each item in the ~~Movement in Reserves Statement~~, Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and Cash Flow Statement to any related information in the notes.

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

a) giving prominence to the areas of its activities that the authority considers to be most relevant to an understanding of its financial performance and financial position, such as grouping together information about particular activities;

(b) grouping together information about items measured similarly such as assets measured at current value; or

(c) following the order of the line items in the statement(s) of Comprehensive Income and Expenditure Statement and the Balance Sheet.

3.4.2.~~80~~84 An authority shall disclose in ~~the summary of~~its significant accounting policies, comprising:

a) the measurement basis (or bases) used in preparing the financial statements, and

b) the other accounting policies used that are relevant to an understanding of the financial statements.

3.4.2.~~81~~85 An authority shall disclose, ~~in~~ along with ~~the summary of~~its significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the authority's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

3.4.2.~~82~~86 The ~~summary of~~ significant accounting policies shall include the following items where they have a significant effect on the amounts recognised in the financial statements:

a) accruals of expenditure and income

b) acquired operations

c) back pay arising from unequal pay claims

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

e) cash and cash equivalents

f) contingent assets

g) contingent liabilities

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

~~h~~i) discontinued operations

~~i~~j) employee benefits

~~j~~k) events after the reporting period

~~k~~l) prior period adjustments

~~l~~m) financial instruments

~~m~~n) foreign currency translation

~~n~~o) government grants and other contributions

~~o~~p) heritage assets

~~p~~q) intangible assets

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

~~r~~s) investment property

~~s~~t) landfill allowances schemes

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

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

~~v~~w) overheads

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

~~x~~y) property, plant and equipment

~~y~~z) provisions

~~z~~aa)reserves

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

~~ab~~ac) value added tax.

3.4.2.~~83~~87 A local authority shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

a) their nature, and

b) their carrying amount as at the end of the reporting period.

3.4.2.~~84~~88 These disclosures are not required for assets and liabilities measured at fair value based on a quoted price in an active market for an identical asset or liability. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting period.

Segment reporting

3.4.2.~~85~~89 The aim of segment reporting is to disclose information to enable users of a local authority's financial statements to evaluate the nature and financial effects of the activities in which it engages and the economic environments in which it operates.

3.4.2.~~86~~90 An authority shall present information on reportable segments within the notes, where necessary. However, the Comprehensive Income and Expenditure Statement will fulfill a local authority's segmental reporting requirements, where this is not the case local authorities will need to add additional disclosure notes to meet the requirements of paragraphs 3.4,2.90 to 3.4.2.93. Reportable segments shall be based on an authority's internal management reporting, for example departments, directorates or portfolios. Where more than one presentation is used for internal management reporting, the authority shall select the presentation most commonly used by the individual or group within the authority who has the most significant role in allocating resources and assessing the performance of services (for example cabinet, board or senior directors) when considering the allocation of financial resources. Segments may include support services. Normally for local authorities the judgments made by management on aggregation of segments arise as a result of their internal management reporting requirements and therefore disclosure of these judgments should not be onerous. This should be covered by including a description of the aggregation of the operating segments.

3.4.2.~~87~~91 An authority need not report all segments. A segment shall be reported where its expenditure is 10% or more of the gross expenditure within the net expenditure of continuing operations; or its income is 10% or more of the gross income within the net expenditure of continuing operations. An authority may report segments that do not meet these criteria, either individually or combined with other segments.

3.4.2.~~88~~92 Where the reportable segments identified by applying the criteria above do not include at least 75% of the gross expenditure within the net expenditure of continuing operations, additional segments or combinations of segments shall be treated as reportable segments until the reportable segments include at least 75% of the gross expenditure within the net expenditure of continuing operations.

3.4.2.~~89~~93 For each reportable segment, an authority shall present an analysis of the income and expenditure for that segment~~-~~ in the Comprehensive Income and Expenditure Statement (paragraph 3.2.4.38). ~~(ie a subjective analysis), to include those items of income and expenditure that are reported as part of internal management reporting. Authorities should note that this analysis may include items that do not form part of the Comprehensive Income and Expenditure Statement (for example, that statutory provision for the repayment of debt) and exclude items that do form part of the Comprehensive Income and Expenditure Statement (for example, depreciation).~~

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

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

~~additional segments not included in the analysis~~

~~amounts not included in the analysis but included in the Comprehensive Income and Expenditure Statement (for example, pension costs calculated in accordance with IAS 19)~~

~~amounts included in the analysis but not included in the Comprehensive Income and Expenditure Statement (for example, pension contributions payable to the pension fund).~~

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

~~minimum the following lines:~~

~~a) fees, charges and other service income~~

~~b) surplus or deficit on associates and joint ventures~~

~~c) interest and investment income~~

~~d) income from council tax~~

~~e) government grants and contributions~~

~~f) employee expenses~~

~~g) other service expenses~~

~~h) support service recharges~~

~~i) depreciation, amortisation and impairment~~

~~j) interest payments~~

~~k) precepts and levies~~

~~l) payments to Housing Capital Receipts Pool~~

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

~~n) surplus or deficit on the provision of services.~~

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

~~additional segments not included in the analysis~~

~~amounts not included in the analysis but included in the Comprehensive Income and Expenditure Statement (for example, pension costs calculated in accordance with IAS 19)~~

~~amounts included in the analysis but not included in the Comprehensive Income and Expenditure Statement (for example, pension contributions payable to the pension fund)~~

~~allocation of support service recharges~~

~~allocation of lines in the segment reporting analysis that include items from more than one line of the analysis of total income and expenditure~~

~~amounts reported below the net cost of services in the Comprehensive Income and Expenditure Statement.~~

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

3.4.2.~~95~~94 If an authority reports segment assets and/or liabilities internally, it shall present an analysis of segment assets and/or liabilities in the financial statements. This analysis shall be on the same basis as that used to report internally (ie assets and/or liabilities that are not reported on a segment basis internally are not presented in the analysis in the financial statements). Where an analysis of segment assets and/or liabilities is presented in the financial statements, the authority shall also present a reconciliation of segment assets and/or liabilities to the total assets and/or liabilities included in the Balance Sheet.

3.4.3 Statutory Accounting Requirements

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

3.4.4 Disclosure Requirements

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

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

b) Number of exit packages agreed (grouped in rising bands of £20,000 up to £100,000, and bands of £50,000 thereafter), analysed between compulsory redundancies and other departures. Authorities shall also disclose the total cost of packages agreed in each band. Bands shall be combined where this is necessary to ensure that individual exit packages cannot be identified (except where disclosure of payments to the individuals is required elsewhere under regulations). Exit packages include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs (England, Wales, Scotland and Northern Ireland). Scottish local authorities are required to include the disclosure of exit packages in the remuneration report.

7) The following amounts for the year:

a) Fees payable to auditors appointed ~~by the Audit Commission~~under the Local Audit and Accountability Act 2014 or the Auditor General for Wales with regard to external audit services carried out by the appointed auditor under the ~~Audit Commission's~~ *Code of Audit Practice* prepared by the Comptroller and Auditor General or Auditor General for Wales' *Code of Audit and Inspection Practice* in accordance with ~~s5~~ s18 of the ~~Audit Commission Act 1998~~ Local Audit and Accountability Act 2014 or s16 of the Public Audit (Wales) Act 2004.

b) Fees payable to ~~auditors appointed by the Audit Commission or~~ the Auditor General for Wales in respect of statutory inspection under s10 of the Local Government Act 1999.

c) Fees payable to ~~auditors appointed by the Audit Commission or~~ the Auditor General for Wales for the certification of grant claims and returns by the appointed auditor under ~~s28 of the Audit Commission Act 1998 or~~ s2 of the Public Audit (Wales) Act 2004.

d) Fees payable to Audit Scotland in respect of external audit services undertaken in accordance with the *Code of Audit Practice*.

e) In Northern Ireland, the amount payable to the Comptroller and Auditor General for Northern Ireland in respect of external audit services.

f) Fees payable in respect of any other services provided by the appointed auditor over and above the duties described in notes 7 a) to e) above.

8) In Wales, the following information is also to be disclosed:

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

b) The calculation of the council tax base, ie the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings.

c) The name of each authority which made a significant precept or demand on the account and the amount included for each authority.

9) In Northern Ireland, disclosure of details of the rates receivable by the authority (ie rate in the pound for domestic and non-domestic properties).

10) A breakdown of the movement of the amounts shown in the Movement in Reserves Statement that are adjustments between accounting basis and funding basis under regulations to be debited or credited to the General Fund and Housing Revenue Account for the year and the transfers to/from reserves.

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

Cash Flow Statement

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

3.4.5 Statutory Disclosure Requirements

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

1) a) Number of employees and senior police officers (all police officers in Wales) (except those included in b) below) whose remuneration in the year was greater or equal to £50,000, grouped in rising bands of £5,000 (England and Wales), and

   b) An analysis by job title of the remuneration and employer's pension contributions in respect of senior employees and relevant police officers whose salary is £50,000 or more per year (or by name and job title where the salary is £150,000 or more per year) (England and Wales).

   c) In Wales, the reference to '£50,000' in a) and b) above shall be read as '£60,000'.

   d) In Wales, the remuneration ratio as required by the Accounts and Audit (Wales) Regulations 2014 (see Regulation 9(2)).

2) A brief explanation of the nature of any scheme under the Transport Act 2000 or the Transport (Scotland) Act 2001, including the gross income and expenditure of the scheme, and the net proceeds of the scheme (including for joint schemes the apportionment of such proceeds).

3) A disclosure that demonstrates whether the Dedicated Schools Grant (made under section 14 of the Education Act 2002) has been deployed in accordance with regulations made under sections 45A, 45AA, 47, 48(1) and (2) and 138(7) of, and paragraph 1(7)(b) of Schedule 14 to, the School Standards Framework Act 1998 (England).

Remuneration report (Northern Ireland)

3.4.5.2 Local authorities in Northern Ireland shall produce the statutory remuneration report required by the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015.[3]

Remuneration report (Scotland)

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

3.4.6 Changes since the ~~2014~~2015/~~15~~ 16 Code

3.4.6.1 The ~~2015~~2016/~~16~~ 17 Code includes amendments to the Code's provisions on the presentation of financial statements to amend the reporting requirements for the Comprehensive Income and Expenditure Statements and the Movement in Reserves Statement under the telling the story improvements to the presentation of local authority financial statements review,

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

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

~~to reflect:~~

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

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

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

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

CHAPTER THREE
Financial statements

3.1 ~~EXPLANATORY FOREWORD~~NARRATIVE REPORT

3.1.1 Introduction

3.1.1.1 A local authority in England, Northern Ireland and Wales shall publish ~~an~~a Narrative Report ~~Explanatory Foreword~~ with the financial statements. The purpose of the ~~foreword i~~Narrative Report is to offer interested parties an easily understandable guide to the most significant matters reported in the accounts. Local authorities are encouraged to prepare the ~~Explanatory Foreword~~Narrative Report taking into consideration the provisions of the Government's *Financial Reporting Manual* (FReM), paragraphs 5.2.1 to 5.2.10, of the 2015/16 FReM, 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 ~~Explanatory Foreword~~Narrative Report.

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

Management Commentary – Scottish Local Authorities

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

3.1.1.4 Local authorities in England are required by Accounts and Audit Regulations 2015 to publish a narrative statement with the Statement of Accounts. Such a narrative statement shall be provided in accordance with this section of the Code. Note that CIPFA/LASAAC considers this to be an interim measure until the CIPFA Integrated Reporting: Public Sector Network[4] has finalised its recommendations on integrated reporting. It is anticipated that these recommendations will be available in 2016 and therefore should be able to be included in the 2017/18 Code.

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

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

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

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

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

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

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

   i) the performance indicators used should include those that the local

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

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

ii) non-financial indicators can be indicators of future financial prospects and progress in managing risks and opportunities,

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

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

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

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

3.1.2 Accounting Requirements

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

Funding Analysis

3.1.2.2 A local authority shall present a Funding Analysis in the Narrative Report (Management Commentary for Scottish local authorities).

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

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

3.1.2.4 As a minimum, the Funding Analysis shall include three columns I), II) and III). These three columns shall present:

I) for income and expenditure chargeable to the General Fund[5] the line items that present the following amounts for the period:

a) Net expenditure of continuing operations chargeable under statutory funding provisions, analysed by service. Authorities shall present the service analysis on the basis of their organisational structure under which they operate (see paragraphs 3.4.2.89. to 3.4.2.94 for provisions on the service analysis).

b) Other operating expenditure (including precepts (paid to non-principal authorities) and levies; transfers from the Capital Receipts Reserve equal to the amounts payable to the Housing Capital Receipts Pool; and transfer of income on disposal of assets from the Capital Receipts Reserve), all items as chargeable to the General Fund.

c) Financing and investment income and expenditure (including statutory charges for financing ie the Minimum Revenue Provision or in Scotland loans fund charges, capital expenditure charged to the general fund and HRA balances, revenue expenditure funded from capital, any voluntary provisions for the repayment of debt).

d) Surplus or deficit on discontinued operations as chargeable to the General Fund.

e) Taxation and non-specific grant income and expenditure (comprising council tax income, NDR distribution, non-domestic rates income and expenditure, unringfenced government grants, Business Rate Supplements Revenue Account transfers, transfers for Community Infrastructure Levy chargeable to the General Fund under statutory requirements).

f) Surplus or deficit on the provision of services.

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

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

The foot of the Funding Analysis shall show the movement for the period including opening and closing balances on the General Fund. Where an authority has a Housing Revenue Account these Movements shall be split between the General Fund and the HRA Movements or an appropriate cross reference shall be made to

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

those same balances in the Movement in Reserves Statement.

3.1.2.5 An authority will present an analysis between the funding analysis and the net cost of services in the Comprehensive Income and Expenditure Statement in the Funding Analysis. It shall present a note to the Funding Analysis and which describes all material reconciling items.

The analysis shall:

- include items that are not a part of the service analysis to items chargeable to the General Fund that are not chargeable to the Comprehensive Income and Expenditure Statement and vice versa ie adjustments to add expenditure or income not chargeable to Council Tax or Rents and the removal of transactions which are only chargeable under statutory provisions. The analysis shall
- remove items of income and expenditure in paragraph 3.1.2.4 lines I) a) to e) in the Funding Analysis that are chargeable to the General Fund but are not chargeable to the Comprehensive Income and Expenditure Statement for example the Minimum Revenue Provision
- add in expenditure or income that is chargeable to the Comprehensive Income and Expenditure Statement which are not chargeable to General Fund Balances eg net gain or loss on sale or derecognition of non-current assets and non-current assets held for sale.

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

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

3.1.3 Statutory Accounting Requirements

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

3.1.4 Disclosure Requirements

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

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

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

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

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

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

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

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

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

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

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

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

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

3.1.5 Statutory Disclosure Requirements

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

3.1.5.2 The statutory reporting requirements for a Management Commentary are included in the Local Authority Accounts (Scotland) Regulations 2014. Scottish Government

Finance Circular 5/2015 provides statutory guidance on the Management Commentary.

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

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

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

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

CHAPTER FOUR
Non-current assets

4.11 HIGHWAYS NETWORK ASSET[1]

4.11.1 Introduction

4.11.1.1 Authorities shall account for the Highways Network Asset in accordance with IAS 16 *Property, Plant and Equipment*, except where adaptations and interpretations to fit the public sector are detailed in the Code.

4.11.1.2 IPSAS 17 *Property, Plant and Equipment* is based on IAS 16, and introduces no additional accounting requirements, although it provides additional guidance for public sector bodies, ie the basis for determining fair value (now described in the Code as current value) and introducing the concept of 'service potential'.

4.11.1.3 This section of the Code only covers property, plant and equipment classified as the Highways Network Asset. The Highways Network Asset has the same meaning as transport infrastructure assets described in the CIPFA *Code of Practice on Transport Infrastructure Assets*. The Highways Network Asset is accounted for in accordance with Section 4.1 of the Code subject to the specific requirements of this section of the Code.

4.11.1.4 Components of the Highways Network Asset classified as finance leases under section 4.2 of the Code (also see IAS 17) shall follow section 4.2 in terms of recognition; however, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed in this section. Similarly, components of the Highways Network Asset acquired under service concession arrangement (PFI/PPP) schemes shall follow section 4.3 of the Code in terms of recognition, but subsequent measurement requirements of the Highways Network Asset held under service concession arrangements including depreciation are prescribed in this section.

Adaptations and Interpretations for the public sector context

4.11.1.3 Recognition and measurement

- The Highways Network Asset shall be measured at depreciated replacement cost under the methodologies specified in the CIPFA *Code of Practice on Transport Infrastructure Assets*; the option given in IAS 16 to

[1] Exposure Draft footnote only: this section of the Code is wholly new and therefore has not been presented in tracked change format to improve the readability of the changes.

measure the carrying amount of this class of assets at historical cost has been withdrawn.

- Annual Depreciation shall be interpreted as being measured in accordance with the specifications for each part of the network as provided in the CIPFA *Code of Practice on Transport Infrastructure Assets*.
- For the Highways Network Asset the option in IAS 16 for the treatment of accumulated depreciation and impairment where accumulated depreciation and impairment are eliminated on revaluation are withdrawn.

4.11.2 Accounting Requirements

Definitions

4.11.2.1 The **Highways Network Asset** is a grouping of inalienable components, expenditure on which is only recoverable by continued use of the asset created, ie there is no prospect of sale or alternative use. It has the same meaning as the class of assets within the scope of the CIPFA *Code of Practice on Transport Infrastructure Assets* and includes:

- Carriageways – including urban roads and rural roads.
- Footways and cycletracks (attached to the carriageway or segregated) – including footways, pedestrian areas, footpaths and cycle tracks. Note that “segregated” footways and cycletracks should only be included where they form part of an authority’s highways network.
- Structures – including bridges (span greater than 1.5 m), cantilever road signs, chambers, cellars, vaults, culverts (span greater than 0.9 m), high mast lighting columns (height greater than 20m), retaining walls (height greater than 1.35m), structural earthworks, subway: pipe, tunnels enclosed length of 150 m or more), underpass/subway: pedestrian (span of 1.5m or more), underpass: vehicular and any special structure.
- Street Lighting – including lighting columns, lighting unit attached to a wall or wooden pole, heritage columns, illuminated bollards and illuminated traffic lights.
- Street furniture – for transport highways or amenity (examples include non-illuminated traffic signs, safety fences, bollards, bus shelters, cattle grids trees and tree protection).
- Traffic Management Systems – including traffic signals, pedestrian signals, zebra crossings, in station, information systems and safety cameras.
- Land – including freehold and rights land.

Infrastructure assets not included in the classification descriptions above are not part of the Highways Network Asset and would remain to be reported with other infrastructure assets in property, plant and equipment. More description of the Highways Network Asset is included in table 4.1 of the CIPFA *Code of Practice on Transport Infrastructure Assets*.

Recognition

4.11.2.2 The Highways Network Asset includes those components that fall within the scope of the *Code of Practice on Transport Infrastructure Assets* as defined in paragraph 4.11.2.1.

4.11.2.3 The Highways Network Asset shall be recognised in accordance with the definition of an asset in section 2.1.2.23 of this Code and in accordance with the recognition criteria in paragraph 4.1.2.18. The Highways Network Asset shall follow the recognition requirements for property, plant and equipment unless otherwise specified in paragraphs 4.11.2.4 to 4.11.2.7 below.

4.11.2.4 Subsequent expenditure on the Highways Network Asset will be capitalised where it adds to or replaces the economic benefits or the service potential in the asset. Spending that does not replace or add to the economic benefit or service potential of the asset shall be charged as expenditure in the year that it is incurred.

4.11.2.6 The Highways Network Asset shall be treated as a single asset for financial reporting purposes.

4.11.2.7 The Highways Network Asset shall be reported as a separate class of assets on the face of the balance sheet.

Measurement

4.11.2.8 The Highways Network Asset shall be measured at Depreciated Replacement Cost in accordance with the methodologies specified in the CIPFA *Code of Practice on Transport Infrastructure Assets.*

4.11.2.9 Transport infrastructure assets will be subject to valuations in accordance with the requirements of paragraphs 4.1.2.33 to 4.1.2.47 except as is detailed in paragraphs 4.11.2.10 to 4.11.2.12 below.

4.11.2.10 The Depreciated Replacement Cost measurements of the Highways Network Asset in accordance with 4.11.2.8 above shall be updated by suitable indices in accordance with the *Code of Practice on Transport Infrastructure Assets.*

4.11.2.11 Annual depreciation of the Highways Network Asset shall be measured in accordance with the requirements for each component/category of the CIPFA *Code of Practice on Transport Infrastructure Assets*.

4.11.2.12 The Highways Network Asset shall be carried at a revalued amount, being its revalued amount at the date of revaluation less any subsequent accumulated depreciation and accumulated impairment. When the Highways Network Asset is revalued, the carrying amount of that asset is adjusted to the revalued amount. When the Highways Network Asset is revalued, any accumulated depreciation and impairment at the date of valuation shall follow the option in IAS 16 where the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.

Derecognition

4.11.2.13 Derecognition of components of the Highways Network Asset shall follow the requirements for property, plant and equipment. In addition, the cost of the replacement component shall be used as a proxy for the carrying amount of the replacement component for derecognition purposes. If authorities have more detailed information on the gross replacement cost or accumulated depreciation relating to the components to be derecognised, they may use it. Authorities shall assume that the asset has reached the end of its useful/economic life and/or has been fully utilised, unless it has evidence to the contrary and the financial consequences of the component that should not be derecognised are measurable.

Transition

4.11.2.14 The change in the measurement requirements for the Highways Network Asset shall be treated as a change in accounting policy from 1 April 2016 and in accordance with section 3.3 of the Code shall be treated as requiring full retrospective restatement.

4.11.2.15 When estimating the historical cost attributable for the Highways Network Asset on 1 April 2015 in accordance with the requirements of section 3.3 of the Code local authorities may use any reasonable estimation process to split the depreciated historical cost of the original infrastructure class of assets between the residual infrastructure assets and the Highways Network Asset.

4.11.3 Statutory Accounting Requirements

4.11.3.1 The statutory accounting requirements set out in sections 2.3, 4.1, and 4.7 of the Code apply equally to the Highways Network Asset as to other assets.

4.11.4 Disclosure Requirements

4.11.4.1 Disclosure of accounting policies in relation the Highways Network Asset is required (see section 3.4 of the Code). An authority shall disclose information within these accounting policies that helps users to understand the valuation techniques used to develop the Depreciated Replacement Cost measurements of the Highways Network Asset.

4.11.4.2 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 the Highways Network Asset:

1) The financial statements shall disclose, for the Highways Network Asset:
   a) the measurement base used for determining the gross carrying amount
   b) the depreciation methods used
   c) the useful lives or the depreciation rates used
   d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period, and
   e) a reconciliation of the carrying amount at the beginning and end of the period showing:
      i) additions
      ii) any components classified as held for sale or included in a disposal group classified as held for sale in accordance with section 4.9 of the Code and other disposals, if applicable
      iii) increases or decreases resulting from revaluations under section 4.1 and 4.11 of the Code and from impairment losses recognised or reversed in Other Comprehensive Income and Expenditure and taken to the Revaluation Reserve in accordance with section 4.7 of the Code
      iv) impairment losses recognised in Surplus or Deficit on the Provision of Services in accordance with section 4.7 of the Code
      v) impairment losses reversed in Surplus or Deficit on the Provision of Services in accordance with section 4.7 of the Code
      vi) depreciation, and
      vii) other changes.
2) The financial statements shall also disclose the amount of contractual commitments for the acquisition of components of the Highways Network Asset.
3) In accordance with section 3.3 of the Code, an authority discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For the Highways Network Asset, such disclosure may arise from changes in estimates with respect to:
   a) residual values
   b) the estimated costs of dismantling, removing or restoring items of property, plant and equipment
   c) useful lives, and

d) depreciation methods.

4) The following shall be disclosed:

a) the effective date of the revaluation; and

b) the methods and significant assumptions applied in estimating the items' current values.

5) A summary of capital expenditure during the reporting period, including any parts of the Highways Network Asset acquired under finance leases, together with the sources of finance and capital financing requirement. This note may be combined with the equivalent note for property, plant and equipment.

4.11.4.2 In the unlikely case that the Highways Network Asset is classified as a surplus assets or non-current asset held for sale these assets should be disclosed in accordance with the requirements of sections 4.1 and 4.9 of the Code.

4.11.5 Statutory Disclosure Requirements

4.11.5.1 There are no statutory disclosures required in relation to the Highways Network Asset.

4.11.6 Changes since the 2015/16 Code

4.11.6.1 The 2016/17 Code introduces the new measurement requirements for the Highways Network Asset based on the methodology in the CIPFA *Code of Practice on Transport Infrastructure assets*.

4.1 PROPERTY, PLANT AND EQUIPMENT

4.1.1 Introduction

4.1.1.1 Authorities shall account for property, plant and equipment in accordance with IAS 16 *Property, Plant and Equipment*, except where adaptations to fit the public sector are detailed in the Code.

4.1.1.2 IPSAS 17 *Property, Plant and Equipment* is based on IAS 16, and introduces no additional accounting requirements, although it provides additional guidance for public sector bodies, ie the basis for determining fair value (now described in the Code as current value) and introducing the concept of 'service potential'.

4.1.1.3 This section of the Code does not cover property, plant and equipment classified as Non-current Assets Held for Sale and Discontinued Operations in accordance with section 4.9 of the Code (also see IFRS 5). IAS 16 also refers to other areas where the standard does not apply; however, these areas may not be common, if relevant at all, within authorities, ie exploration for and evaluation of mineral resources. Authorities should refer to IAS 16 for these areas. Tangible heritage assets are accounted for in accordance with this section of the Code subject to the specific requirements of section 4.10 of the Code. The Highways Network Asset is accounted for in accordance with this section of the Code subject to the specific requirements of section 4.11 of the Code.

4.1.1.4 Property, plant and equipment classified as finance leases under section 4.2 of the Code (also see IAS 17) shall follow section 4.2 in terms of recognition; however, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed in this section. Similarly, property, plant and equipment acquired under service concession arrangement (PFI/PPP) schemes shall follow section 4.3 of the Code in terms of recognition, but subsequent measurement requirements for property, plant and equipment held under service concession arrangements including depreciation are prescribed in this section.

4.1.1.5 The section of the Code does not apply to investment property (including investment property under construction) classified under section 4.4 of the Code (also see IAS 40).

Adaptation and interpretation for the public sector context

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

Recognition and measurement

- Infrastructure (except for the Highways Network Asset), community assets (except for community assets where the valuation option has been adopted, in accordance with section 4.10 of the Code) and assets under construction (excluding investment property – see section 4.4 of the Code) shall be measured at historical cost; the option given in IAS 16 to measure the carrying amount of these classes of assets at fair value has been withdrawn. ~~For 2015/16, i~~Infrastructure or community assets (except for community assets where the valuation option has been adopted, in accordance with section 4.10 of the Code) shall also not be measured at current value.

- All other classes of asset shall be measured at current value (or in the case of heritage assets, valuation, in accordance with 4.10 of the Code). If there is no market-based evidence of current value because of the specialist nature of the asset and the asset is rarely sold, authorities may need to estimate current value using a depreciated replacement cost approach. The current value of council dwellings shall be measured using existing use value–social housing (EUV–SH).
- Where an asset is not held for the purpose of generating cash flows, *value in use* is the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential.
- An authority shall not implement the requirements of the Code in relation to accounting for the depreciation of significant components of an asset and the derecognition of old components and recognition of new components retrospectively. These requirements shall be applicable to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2010.
- For the avoidance of doubt, a 'short period' for the revaluation of a class of assets is interpreted to mean that assets are normally revalued once every five years for each class of assets, provided that carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period.
- For property, plant and equipment within this section of the Code the option in IAS 16 for the treatment of accumulated depreciation and impairment where the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset is withdrawn.

Definitions

- For this section of the Code, current value (for land and buildings) is to be interpreted as the amount that would be exchanged for the asset in its existing use. This requirement is met by providing a valuation on the basis of existing use value (EUV) in accordance with UKVS 1.3 of the RICS *Valuation – Professional Standards*.

4.1.2 Accounting Requirements

Definitions

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

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

Operational assets

- Council dwellings (ie dwellings within the Housing Revenue Account).
- Other land and buildings.
- Vehicles, plant, furniture and equipment.
- Infrastructure assets (inalienable assets, expenditure on which is only recoverable by continued use of the asset created, ie there is no prospect of sale or alternative use; examples include ~~highways, structural maintenance of highways, footpaths, bridges, permanent ways,~~ coastal defences, water supply and drainage systems~~)~~. Infrastructure assets no longer include highways network asset[2].
- Community assets (ie assets that an authority intends to hold in perpetuity, that have no determinable useful life and which may, in addition, have restrictions on their disposal). The definition of community assets no longer includes items that are now accounted for as heritage assets.

Non-operational assets

- Surplus assets (ie assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties under section 4.4 of the Code or non-current assets held for sale under section 4.9 of the Code).
- Assets under construction.

…

Measurement after recognition

4.1.2.30 Infrastructure assets and assets under construction (excluding investment property – see section 4.4 of the Code) shall be measured at depreciated historical cost. An authority may measure community assets at either valuation (in accordance with section 4.10 of the Code) or historical cost.

[2] The highways network asset has the same meaning as those assets described within the *Code of Practice on Transport Infrastructure Assets* ie transport infrastructure assets.

4.1.2.31 All other classes of asset shall be measured at current value. For operational assets where there is an active market, this shall be existing use value in accordance with the RICS definitions. If there is no market-based evidence of current value because of the specialist nature of the asset and/or the asset is rarely sold, authorities may need to estimate current value using a DRC approach. The current value of council dwellings shall be measured using EUV–SH. EUV–SH and DRC are methods of valuation that are based on current value with additional special assumptions for each of the respective methods. Surplus assets shall be measured at fair value. The Highways Network Asset shall be measured in accordance with section 4.11 of the Code.

4.1.2.32 Authorities may elect to adopt a depreciated historical cost basis as a proxy for current value for non-property assets that have short useful lives or low values (or both). For depreciated historical cost to be considered as a proxy for current value, the useful life must be a realistic reflection of the life of the asset and the depreciation method used must provide a realistic reflection of the consumption of that asset class.

4.1.2.33 Classes of assets whose current value can be measured reliably shall be carried at a revalued amount, being its current value at the date of revaluation less any subsequent accumulated depreciation and accumulated impairment. When an item of property, plant and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount[3]. ~~When an asset is revalued, a~~Any accumulated depreciation and impairment at the date of valuation shall be eliminated against the gross carrying amount of the assets and the net amount restated to the revalued amount of the asset.~~:~~ See section 4.11 for the treatment of accumulated depreciation and impairment for the highways network asset.

~~be eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset, or~~

~~where authorities choose to use the alternative method, be proportionately restated at the date of valuation (where authorities choose this method, they should refer to IAS 16).~~

[3] Exposure Draft footnote only, this is a minor drafting improvement and emanates from IAS 16, paragraph 35.

Measurement Decision for an Item of Property, Plant and Equipment

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Depreciation

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

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

4.1.2.41 An asset shall not be depreciated until it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of:

- the date that the asset is classified as held for sale in accordance with section 4.9 of the Code (also see IFRS 5), and
- the date the asset is derecognised.

4.1.2.42 The only other ground for not charging depreciation is when the residual value of an asset is equal to or greater than the asset's carrying amount. Repairs and maintenance do not remove the need to depreciate an asset.

4.1.2.43 Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Where there is more than one significant part of the same asset which has the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge. In practice this can be achieved by only separately accounting for significant components that have different useful lives and/or depreciation methods. The requirement for componentisation for depreciation purposes shall be applicable to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2010.

4.1.2.44 The depreciation charge shall be based on the depreciable amount allocated over the useful life of the asset, using a depreciation method that reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed.

4.1.2.45 The depreciation charge for each period shall be recognised in Surplus or Deficit on the Provision of Services unless it is included in the carrying amount of another asset. General Fund service revenue accounts, central support services departments or directorates, ~~and~~ trading accounts and the Housing Revenue Account ~~(as defined in CIPFA's *Service Reporting Code of Practice*)~~ shall be charged with depreciation.

4.1.2.46 The residual value, useful life and depreciation method shall be reviewed at least at each financial year end and, if expectations differ from previous estimates in relation to residual value and/or useful life and/or there has been a significant change in the pattern of consumption of the future economic benefits or service potential, the changes shall be accounted for as a change in an accounting estimate (as opposed to a change in accounting policy) in accordance with chapter three of the Code (also see IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*). The requirement to review the residual value, useful life and depreciation method at least at each financial year shall be in addition to the valuations at intervals of no more than five years (see paragraphs 4.1.2.37 to 4.1.2.38).

4.1.2.47 To determine whether an item of property, plant and equipment is impaired, local authorities shall refer to section 4.7 of the Code (also see IAS 36 *Impairment of Assets*).

…

~~**Transition**~~

~~4.1.2.55 The changes in measurement base to fair value for surplus assets shall be applied prospectively from 1 April 2015.~~

4.1.3 Statutory Accounting Requirements

General Fund – depreciation

4.1.3.1 Depreciation charged to Surplus or Deficit on the Provision of Services is not a proper charge to the General Fund (see part 2 of Appendix B for the legislative basis). Such amounts shall be transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

4.1.3.2 On a revalued asset, a transfer between the Revaluation Reserve and Capital Adjustment Account shall be carried out which represents the difference between depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's historical cost.

Housing Revenue Account – depreciation

4.1.3.3 The Housing Revenue Account Income and Expenditure Statement shall be charged with depreciation.

4.1.3.4 On a revalued asset, a transfer between the Revaluation Reserve and Capital Adjustment Account shall be carried out which represents the difference between depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's historical cost.

4.1.3.5 **England:** Depreciation is not a proper charge to the General Fund. However, for HRA non-dwellings, depreciation charged to the Surplus or Deficit on the Provision of Services in the Housing Revenue Account in England shall be charged in accordance with the requirements of *The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012*.

4.1.3.6 To ensure compliance with the Accounts and Audit Regulations and *The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012* requirements for the Major Repairs Reserve, depreciation for HRA dwellings charged to the Housing Revenue Account is subject to statutory provisions designed to specify the impact on the HRA (see part 2 of Appendix B for the legislative basis). The following entries are required or permitted in respect of the Major Repairs Reserve:

- The Major Repairs Reserve shall be credited, and Housing Revenue Account balances debited, with an amount equal to the depreciation charged to the HRA in accordance with this Code. This transfer is required to meet the requirements of the Accounts and Audit (England) Regulations 2011 (Regulation 7(5)(a)). In order to neutralise the impact on the HRA of this entry, a corresponding transfer is also required where Housing Revenue Account balances are credited and the Capital Adjustment Account is debited. Both these transfers shall be reported in the Movement in Reserves Statement.
- Where depreciation charges for HRA dwellings are greater than the notional Major Repairs Allowance (MRA), an amount equal to the difference is permitted to be transferred to the Housing Revenue Account from the Major Repairs Reserve and reported in the Movement in Reserves Statement. (Note that this transfer is permitted on a transitional basis as specified by *The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012.*)
- A debit to the HRA equal to the amount that has been credited to the HRA for decent homes backlog funding and a corresponding credit to the Major Repairs Reserve in accordance with the requirements of *The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012*.
- Where an authority funds capital expenditure on dwellings from the Major Repairs Reserve, this shall be accounted for by debiting the Major Repairs Reserve and crediting the Capital Adjustment Account, this transfer to be

reported in the Movement in Reserves Statement.

- Where repayments of principal of any amounts borrowed, or repayments to meet any liability in respect of credit arrangements (other than any liability which, in accordance with proper practices, must be charged to a revenue account), are to be funded from the Major Repairs Reserve, this shall be accounted for by debiting the Major Repairs Reserve and crediting the Capital Adjustment Account, this transfer to be reported in the Movement in Reserves Statement.
- An authority is permitted by *The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012* to make an additional voluntary credit transfer to the Major Repairs Reserve for an amount '*in excess of any charge for depreciation to its Major Repairs Reserve'*.

4.1.3.7 **Scotland:** Depreciation for HRA dwellings and non-dwellings charged to Surplus or Deficit on the Provision of Services are not proper charges to the Housing Revenue Account (see part 2 of Appendix B for the legislative basis). Such amounts shall be transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement and replaced with HRA loans fund principal, via a transfer from the Capital Adjustment Account.

4.1.3.8 **Wales:** Depreciation for HRA dwellings and non-dwellings charged to Surplus or Deficit on the Provision of Services are not proper charges to the Housing Revenue Account (see part 2 of Appendix B for the legislative basis). Such amounts shall be transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement and replaced with HRA Minimum Revenue Provision, via transfer.

Revaluation gains or losses

4.1.3.9 The General Fund and Housing Revenue Account ~~(as defined in CIPFA's *Service Reporting Code of Practice*)~~ shall be charged in certain instances with revaluation gains or losses in accordance with this section of the Code.

4.1.3.10 Revaluation gains or losses charged to Surplus or Deficit on the Provision of Services are not proper charges to the General Fund (see part 2 of Appendix B for the legislative basis). Such amounts shall be transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Gains or losses on derecognition

4.1.3.11 Net gains or losses on derecognition shall be charged to other operating expenditure.

4.1.3.12 The gain or loss is not a proper charge to the General Fund or Housing Revenue Account (see part 2 of Appendix B for the legislative basis). As a result the General Fund or Housing Revenue Account should be debited (in the case of a gain) or credited (in the case of a loss) with an amount equal to the gain or loss on disposal of the asset (net of any disposal costs), with the double entries being:

- a credit to the Capital Receipts Reserve or (in Scotland) a statutory capital fund of an amount equal to the disposal proceeds (subject to paragraph 4.1.2.52)
- a debit to the Capital Adjustment Account of an amount equal to the carrying amount of the fixed asset disposal (less any balance transferred from the Donated Assets Account).

4.1.3.13 If the asset derecognised was carried at a revalued amount an additional entry is required; the balance on the Revaluation Reserve in respect of asset derecognised is written off to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

4.1.3.14 In England and Wales only, the proportion that is required to be paid over to central government as a 'housing pooled capital receipt' should be charged to Surplus or Deficit on the Provision of Services and the same amount appropriated from the Capital Receipts Reserve and credited to the General Fund Balance and reported in the Movement in Reserves Statement.

Minimum Revenue Provision and Loans Fund Charges

4.1.3.15 Minimum Revenue Provision (England, Northern Ireland and Wales) and Loans Fund Charges (Scotland) are proper charges to the General Fund, but do not appear in the Comprehensive Income and Expenditure Statement. Such amounts shall be transferred from the Capital Adjustment Account and reported in the Movement in Reserves Statement. The amounts of Minimum Revenue Provision or Loans Fund Charges to be charged to the General Fund for the year are set out in the appropriate regulations and statutory guidance (see part 2 of Appendix B for the legislative basis).

4.1.4 Disclosure Requirements

4.1.4.1 Where authorities conclude that following the requirements of this section of the Code results in accounting entries that are immaterial, authorities need not follow this section of the Code and include the de minimis level within the disclosure of accounting policies (see section 3.4 of the Code).

4.1.4.2 Disclosure of accounting policies in relation to property, plant and equipment is required (see section 3.4 of the Code). An authority shall disclose information within these accounting policies that helps users to understand the valuation techniques used to develop the current value measurements for significant categories of property, plant and equipment.

4.1.4.3 Having regard to paragraph 3.4.2.26 of the Presentation of Financial Statements section of the Code, which permits authorities not to provide a specific disclosure if information is not material, authorities shall disclose the following notes in relation to property, plant and equipment and transport infrastructure assets:

1) The financial statements shall disclose, for each class of property, plant and equipment and transport infrastructure assets:
   a) the measurement bases used for determining the gross carrying amount
   b) the depreciation methods used
   c) the useful lives or the depreciation rates used
   d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period, and
   e) a reconciliation of the carrying amount at the beginning and end of the period showing:
      i) additions
      ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with section 4.9 of the Code and other disposals
      iii) increases or decreases resulting from revaluations under section 4.1 of the Code and from impairment losses recognised or reversed in Other Comprehensive Income and Expenditure and taken to the Revaluation Reserve in accordance with section 4.7 of the Code
      iv) impairment losses recognised in Surplus or Deficit on the Provision of Services in accordance with section 4.7 of the Code
      v) impairment losses reversed in Surplus or Deficit on the Provision of Services in accordance with section 4.7 of the Code
      vi) depreciation, and
      vii) other changes.
2) The financial statements shall also disclose the amount of contractual commitments for the acquisition of property, plant and equipment and transport infrastructure assets.
3) In accordance with section 3.3 of the Code, an authority discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant and equipment and transport infrastructure assets, such disclosure may arise from changes in estimates with respect to:
   a) residual values
   b) the estimated costs of dismantling, removing or restoring items of property, plant and equipment
   c) useful lives, and
   d) depreciation methods.
4) If items of property, plant and equipment are stated at revalued amounts, the

following shall be disclosed:

a) the effective date of the revaluation

b) whether an in-house or external valuer was involved, and

c) the methods and significant assumptions applied in estimating the items' current values.

5) A s~~S~~ummary of capital expenditure during the reporting period, including assets acquired under finance leases, analysed for each category of fixed assets, together with the sources of finance and capital financing requirement. This disclosure may be combined with the same disclosure for the Highways Network Asset.

4.1.4.4 Paragraph 4.1.2.2 of the Code sets out the classes of property, plant and equipment used in the Code, ie council dwellings, other land and buildings, vehicles, plant, furniture and equipment, infrastructure assets (now excluding the Highways Network Asset), community assets, assets under construction and surplus assets (those assets that are surplus to service needs but that do not meet the criteria to be classified as either investment property or assets held for sale). Authorities shall disclose the information set out in paragraph 4.1.4.3 on this basis.

4.1.4.5 An authority may elect (but is not required) to make disclosures in respect of community assets in accordance with section 4.10 of the Code (Heritage Assets) rather than in accordance with this section of the Code. An authority may elect (but is not required) to separately disclose those community assets reported in the Balance Sheet that it holds on trust. As property, plant and equipment items, the disclosures in paragraphs 4.1.4.1 to 4.1.4.4 apply to surplus assets. However, as surplus assets are measured at fair value, the disclosures in section 2.10 will apply to surplus assets, where relevant, and subject to the materiality judgements of the authority.

4.1.5 Statutory Disclosure Requirements

4.1.5.1 There are no statutory disclosures required in relation to property, plant and equipment.

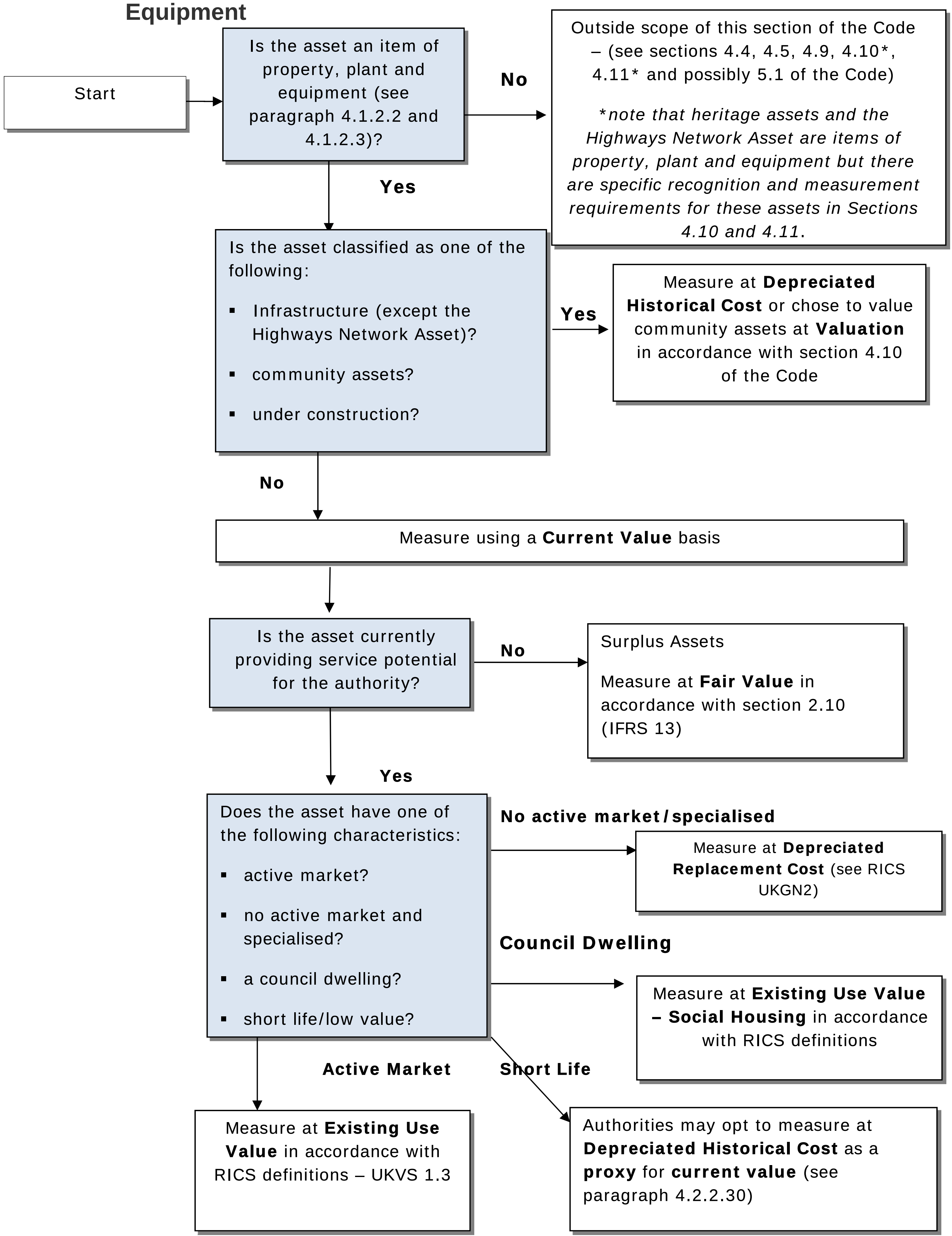
4.1.6 Changes since the ~~2014~~2015/~~15~~ 16 Code

4.1.6.1 The ~~2015~~2016/~~16~~ 17 Code clarifies ~~the current adaptation of the measurement requirements for property, plant and equipment following the adoption of IFRS 13 and has introduced the concept of current value. Current value in this section of the Code includes four measurement bases. Note that this new definition of current value means that the measurement requirements for property, plant and equipment providing service potential for an authority have not changed from the 2014/15 Code. The 2015/16 Code has changed the measurement requirements for assets classified as surplus assets. These assets are now to be measured at fair value in accordance with the definition in IFRS 13 and without any adaptations~~

~~to that definition~~introduces the new measurement requirements for the Highways Network in Section 4.11. The property, plant and equipment section of the Code includes consequential amendments for the definitions, measurement and disclosure provisions.

4.1.6.2 The ~~2015/16~~2016/17 Code ~~introduces an interpretation to clarify what a short period means for the measurement of a class of assets for local authorities~~includes clarifications on the treatment of accumulated depreciation and impairment following consideration of the Annual Improvements 2010 to 2012.

Measurement Decision for an Item of Property, Plant and Equipment



6.5 ACCOUNTING AND REPORTING BY PENSION FUNDS

6.5.1 Introduction

6.5.1.1 The objective of IAS 26 *Retirement Benefit Plans* is to provide guidance on the form and content of the financial statements prepared by retirement benefit plans ~~(which were referred to as Pension Funds in the 2009 SORP)~~. However, IAS 26 does not require retirement benefit plan statements to be prepared; rather it requires IAS 26 to be applied *'where such statements are prepared'*. It complements IAS 19 *Employee Benefits*, which deals with the determination of the cost of retirement benefits in the financial statements of employers. Authorities shall account for retirement benefit plans in accordance with IAS 26, except where adaptations to fit the public sector are detailed in the Code.

6.5.1.2 IAS 26 (unlike the Pension SORP under UK GAAP, ~~on which the local authority SORP requirements were based~~) does not set out to comprehensively specify the requirements for preparing financial statements for a retirement benefit plan; and other relevant provisions of IFRS apply to the extent that they are not superseded by specific IAS 26 requirements. So, for example, to the extent that they are not superseded by specific IAS 26 requirements:

- the IFRS financial instruments standards (IAS 39, IAS 32 and IFRS 7 (as adapted by the Code)) govern the recognition, measurement, presentation and disclosure of financial instruments as specified in section 7.4 of the Code (although many requirements are inapplicable since all material financial instruments are carried at fair value through profit or loss), and
- the section of IAS 19 (as adapted by the Code) on post-employment benefits governs the measurement of a plan's obligation to provide pension benefits.
- the IFRS 13 scope exclusion for fair value investment disclosures for IAS 26 has been adapted (and therefore removed) in section 2.10 of the Code such that the IFRS 13 fair value disclosures apply to those investments.

6.5.1.3 Similarly, this section of the Code does not by itself specify all the requirements for preparing retirement benefit plan financial statements; other relevant provisions of the Code apply to the extent they are not superseded by this section of the Code. However, to facilitate preparation of retirement benefit plan statements, this Code includes some requirements drawn from other parts of IFRS and legislation where these are clearly applicable (eg because a plan holds financial instruments) in addition to specific IAS 26 based requirements.

6.5.1.4 Under IAS 26 and the Code, a retirement benefit plan is a reporting entity separate from the employers of the participants in the fund for financial reporting purposes. This is congruent with 2009 SORP, which required authorities that administer pension funds (administering authorities) to include pension fund accounts in their Statements of Accounts. Retirement benefit plans are more commonly referred to in the UK as pension funds and 'pension fund' is the terminology adopted by the Code.

Pension fund annual reports

6.5.1.5 Under the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (as amended), administering authorities of LGPS funds are required to prepare a pension fund annual report. The annual report is not required to be included in the administering authority's main Statement of Accounts, but is required to be published separately. Regulations[1] require pension fund annual reports to include a *'Fund Account and Net Assets Statement with supporting notes and disclosures prepared in accordance with proper practices'*.

6.5.1.6 The proper practices for the preparation of both the pension fund accounts included in an administering authority's Statement of Accounts and those required to be included in the pension fund annual report are contained in the Code.

6.5.1.7 After consulting with key stakeholders on the matter, CIPFA/LASAAC has concluded that the statutory requirement for administering authorities to prepare pension fund annual reports does not change the requirement for them to include pension fund accounts in their Statements of Accounts. CIPFA/LASAAC has raised with key stakeholders the issue of whether, for the future, legislation should be amended to allow administering authorities that publish an annual pension fund report containing pension fund accounts prepared in accordance with proper practices not to include pension fund accounts in their main Statement of Accounts, but rather to disclose how the pension fund annual report can be accessed or obtained.

6.5.1.7 The Scottish Government has specified in Finance Circular ~~1~~6/~~2011~~ 2015[2] that Scottish authorities administering local government pension schemes should publish separate financial statements for these schemes. The statutory guidance stipulates the minimum disclosure requirements within the administering authority's financial statements. These disclosures are set out in paragraph 6.5.5.~~3~~4. The guidance that accompanies the statutory guidance confirms that the Code will continue to be regarded as proper accounting practices to be observed in the preparation and publication of Scottish local authority pension fund accounts.

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1 Section 76B of the Local Government Pension Scheme Regulations (England and Wales) or regulation 31A of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.

2 The original requirements for this move were contained in Scottish Government Finance Circular 1/2011. This was replaced by Circular 6/2015.

6.5.2 Adaptation for the Public Sector Context

Requirement to prepare pension fund accounts

6.5.2.1 IAS 26 does not require pension fund accounts to be prepared or indicate the circumstances that it would be appropriate to prepare pension fund accounts. Local policing bodies (local policing bodies in this section of the Code are those bodies defined in section 96 of the Police and Social Responsibility Act 2011) and fire and rescue service pension funds are single employer and unfunded and therefore the benefit of preparing IAS 26 compliant pension fund accounts is reduced since the police or fire and rescue services main Statement of Accounts will contain much of the relevant information. The Code does not require local policing bodies and fire and rescue service authorities to prepare IAS 26 based pension fund accounts. However, each individual local policing body and fire and rescue service authority (FRSA) in England and Wales is required by legislation to operate a pension fund and include pension fund accounts in its Statement of Accounts. This requirement was introduced in 2007/08 in England and Wales, when the funding arrangement changed from one where the police or FRSA met pension benefits directly, to one where the employer was required to pay an employer's contribution at a specified percentage rate and operate a pension fund.

6.5.2.2 For pension funds participating in the following pension schemes, pension fund accounts in accordance with paragraphs 6.5.3.1 to 6.5.5.1 of the Code shall be prepared by the local authority that administers the Pension Fund:

a) the Local Government Pension Scheme (in England and Wales)

b) the Local Government Pension Scheme (in Scotland).

For pension funds participating in the following pension schemes, pension fund accounts in accordance with paragraphs 6.5.6.1 to 6.5.6.6 shall be prepared:

a) the Firefighters' Pension Scheme for England

b) the Firefighters' Pension Scheme for Wales

c) the Police Pension Scheme in England and Wales.

Valuation of financial instruments

6.5.2.3 IAS 26 is a very old standard dating back to 1988 and one of its provisions is incompatible with the much more recently issued IAS 19. IAS 26 includes an option to carry securities that have a fixed redemption value and that have been acquired to match the obligations of the plan, or specific part thereof '*at amounts based on their ultimate redemption value assuming a constant rate to maturity*'. IAS 19 does not permit this and the option shall not be used under the Code.

6.5.2.4 IAS 26 requires marketable securities to be carried at market value; the Code clarifies that the market value that shall be used is the bid price in accordance with the provisions of IAS 39 *Financial Instruments: Recognition and Measurement* for determining the fair value of financial instruments.

Analysis of investment assets and income

6.5.2.5 Paragraph 35 of IAS 26 requires the net assets available for benefit at the end of the period to be *'suitably classified'*. In order to ensure comparability between different local authority pension fund disclosures in this key area, requirements based on the *Financial Reports of Pension Schemes – A Statement of Recommended Practice* 2015 (2015 Pension SORP) have been included. For similar reasons, an analysis of investment income based on the Pension SORP has been adopted by the Code to ensure authorities also disclose comparable information in this area.

Additional voluntary contributions

6.5.2.6 The matter of additional voluntary contributions (AVCs) paid by members and separately invested outside the pension fund is not covered by IAS 26. The Code requires note disclosure of such AVC transactions. The Code note is based on the similar ~~2009~~ 2015 Pension SORP disclosure.

Actuarial present value of promised retirement benefits

6.5.2.7 IAS 26 requires the '*actuarial present value of promised retirement benefits'* to be disclosed, which is the IAS 26 terminology for what IAS 19 refers to as the '*defined benefit obligation'*. IAS 26 permits the valuation to be based on either current salary levels or projected salary levels. IAS 19 (and the Code) requires projected salary levels to be used when measuring the defined benefit obligation of an employer. Therefore, for consistency between what the employers participating in a pension fund disclose in their Statements of Accounts, and what the pension fund discloses as the 'defined benefit obligation' for the pension fund accounts as a whole, the option to use current salary levels is not permitted when measuring the actuarial present value of promised retirement benefits of a pension fund.

6.5.2.8 IAS 26 requires the actuarial present value of promised retirement benefits to be disclosed. However, it gives three options for disclosure:

- **Option A** – in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit
- **Option B** – in the notes to the accounts
- **Option C** – by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS 26 requires the most recent valuation (which should be based on IAS 19, not the pension fund's funding assumptions) to be used as a base and the date of the valuation disclosed. The Code Board is of the view that the options B and C outlined above do not require the assets and liabilities in the pension fund to represent the position at the end of the reporting period. The Code Board's preferred approach is Option A in order that the assets and liabilities in the pension fund are disclosed at the end of the reporting period. However, the Code permits the use of options B and C.

6.5.2.9 In the Code Board's view, it would be unhelpful to present as a surplus or deficit on the pension fund an amount derived by comparing the pension fund's assets at the Balance Sheet date with its pension liabilities at an earlier date. Option A may only be used where the actuarial present value of promised retirement benefits being disclosed is at the end of the reporting period. However, Option A does not require a full actuarial valuation to be undertaken every year; the same actuarial techniques for rolling forward the last full triennial actuarial revaluation used to estimate individual employers' IAS 19 pension liabilities between triennial revaluations may be used.

Financial instruments

6.5.2.10 There is a general requirement under IFRS to disclose matters that are material to an understanding of the financial position and financial performance of an entity, as well as specific requirements in IFRS 7 to report on the risks to which financial instruments expose the entity. With regard to this, investments in non-sterling securities are subject to extra risk in the form of exchange rate risk; and stock lending is in the nature of a trading activity rather than an investing activity, and entails counter-party default risks. Note disclosures concerning these have been included in the Code.

6.5.3 Accounting Requirements (excluding police and fire and rescue service pension funds)

6.5.3.1 Pension funds may be either defined contribution funds or defined benefit funds. Defined contribution funds, if they occur at all, are rare in local authorities: all the pension schemes in which significant numbers of local authority employees participate provide pension benefits on a defined benefit basis. Defined contribution pension funds are not covered in detail by the Code; should they occur the requirements of IAS 26 shall be followed.

Scottish Administering Authorities

6.5.3.2 Scottish authorities administering local government pension schemes are required to publish separate financial statements. Scottish local authorities shall therefore provide separate financial statements under the reporting requirements of this Code (and specifically this section of the Code). Statutory guidance for the reporting requirements of separate financial statements is provided under Scottish Local Government Finance Circular No. 6/2015.

Valuation of plan assets for all plans

6.5.3.~~2~~3 Pension fund investments shall be carried at fair value. In the case of marketable securities, fair value shall be market value and the current bid price shall be used.

Defined benefit pension funds

6.5.3.~~3~~4 The objective of reporting by a defined benefit pension fund is periodically to provide information about the financial resources and activities of the pension fund that is useful in assessing the relationships between its benefit obligations and the accumulation of resources available to meet those benefit obligations over time.

6.5.3.~~4~~5 The financial statements of a defined benefit pension fund shall contain:

a) A **fund account** disclosing changes in net assets available for benefits (see paragraphs 6.5.3.5 and 6.5.6.6. Where presentation Option A (see paragraph 6.5.2.8) is followed the change in the actuarial present value of promised retirement benefits for the period and the resulting surplus or deficit for the period is also shown.

b) A **net assets statement** showing the assets available for benefits at the ~~year end~~year-end (see paragraphs 6.5.3.5 and 6.5.6.6. Where presentation Option A (see paragraph 6.5.2.8) is followed, the actuarial present value of promised retirement benefits and the net pension liability or asset at the period end is also shown.

c) **Notes to the accounts** - (see paragraphs 6.5.5.1 and 6.5.6.7).

Defined Benefit Pension Funds (excluding police and fire and rescue services pension funds)

6.5.3.5 The presentation and disclosure requirements Defined Benefit Pension Funds (excluding police and fire and rescue services pension funds) are shown below.

a) Fund Account

Note: the major categories are indicated in bold. The unbolded items ~~may~~ shall be analysed in the notes to the accounts, if not shown on the face of the Fund Account or Net Assets Statement.

Contributions

- Employer contributions
- Member contributions

Transfers in from other pension funds

- Group Transfers from other schemes or funds
- Individual Transfers from other schemes or funds

Other income

Benefits

- Pensions
- Commutation of pensions and lump sum retirement benefits
- Purchased annuities
- Lump sum death benefits

Payments to and on account of leavers

- Refunds to members leaving scheme or fund
- Payments for members joining state scheme or fund
- Group transfers to other schemes or funds
- Individual transfers to other schemes or funds

Other payments

~~Administrative~~ Management expenses[3][4]

Subtotal: Net additions/(withdrawals) from dealings with members *(Net amount of income or expenditure represented by the items above)*

Investment income

- Dividends from equities
- Income from bonds
- Net rents from properties (any material netting off should be disclosed)
- Income from pooled investment vehicles
- Income from derivatives
- Interest on cash deposits
- Share of profit/losses from associates and joint ventures
- Other

~~Interest from fixed interest securities~~

~~Dividends from equities~~

~~Income from index-linked securities~~

~~Income from pooled investment vehicles~~

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[3] The Code uses the term management expenses as this is a better description of the costs incurred by pension funds; however, this has the same meaning as administrative expenses in IAS 26.

[4] ~~The Code refers to 'administrative expenses' in accordance with the requirements of IAS 26.~~ CIPFA has issued guidance, *Accounting for Local Government Pension Scheme Management Costs*. This guidance does not change the accounting requirements for administrative expenses in IAS 26 but describes them instead as 'management expenses or costs'. It does, however, suggest additional disclosure requirements. CIPFA/LASAAC recommends that local authorities have due regard to this guidance.

~~Net rents from properties~~

~~Interest on cash deposits~~

~~Share of profit/losses from associates and joint ventures~~

~~Income from derivatives~~

~~Other (for example stock lending or underwriting)~~

Profit and losses on disposal of investments and changes in value of investments

Taxes on income

Subtotal: Net return on investments

Net increase (decrease) in the net assets available for benefits during the year

Note: only where presentation Option A has been adopted (see paragraph 6.5.2.8) also show the following.

Change in actuarial present value of promised retirement benefits

Vested benefits

Non-vested benefits

Surplus/(deficit) on the pension fund for the year

b) Net Assets Statement

Investment assets

- ~~Fixed interest securities (analysed between public sector and other)~~
- Equities (including convertible shares)

~~Index-linked securities (analysed between public sector and other)~~

- Bonds
- Pooled investment vehicles (analysed between unit trusts, unitised insurance policies and other managed funds (including open-ended investment trusts, OEICSs, and assets held in limited liability – partnerships), showing separately those funds invested in property)
- Derivative contracts (including futures, options, forward foreign exchange contracts and swaps)
- Property
- Insurance policies (with profit contracts, unitised with-profits contracts and annuity and deferred annuity contracts)
- Loans
- Other investments (such as works of art)
- Cash deposits (including fixed term deposits, certificates of deposit, floating rate notes and other cash instruments)

- Other investment balances (such as debtors in respect of investment transactions where these form part of the net assets available for investment within the investment portfolio; and other assets and liabilities directly connected with investment transactions, accrued dividend entitlements and recoverable withholding tax, suitably analysed where material)

Investment liabilities

- Derivative contracts (including futures, options, forward foreign exchange contracts and swaps)
- Other investment balances (such as creditors in respect of investment transactions and other liabilities directly connected with investment transactions)

Borrowings

- Sterling
- Foreign currency

Current assets

- Contributions due from employers
- Other current assets
- Cash balances (not forming part of the investment assets)

Current liabilities

- Unpaid benefits
- Other current liabilities (such as accrued expenses, other than liabilities to pay pensions and other benefits in the future)

Net assets of the scheme available to fund benefits at the period end

Note: only where presentation Option A has been adopted (see paragraph 6.5.2.8) also show the following.

Actuarial present value of promised retirement benefits

Vested benefits

Non-vested benefits

Net pension liability or asset at the reporting period end

6.5.4 Statutory Accounting Requirements for Defined Benefit Pension Funds (excluding police and fire and rescue services pension funds)

6.5.4.1 There are no statutory accounting requirements for defined benefit pension funds (excluding police and fire and rescue service pension funds).

6.5.5 Disclosures for Defined Benefit Pension Funds

(excluding police and fire and rescue services pension funds)

6.5.5.1 The financial statements of a defined benefit retirement benefit fund (excluding police and fire and rescue services pension funds) shall contain the following information, if applicable and if not disclosed on the face of the financial statements:

a) A description of the fund and the effect of any changes in the fund during the period.

b) ~~A summary of~~The significant accounting policies for the pension fund.

c) Assets at the end of the period suitably classified (see paragraph 6.5.3.4 for the minimum requirements).

d) The basis of valuation of assets for each significant class of asset.

e) Where investments are held for which an estimate of fair value is not possible, disclosure shall be made of the reason why fair value is not used.

f) A reconciliation between the opening and closing value of investments analysed into meaningful categories such as by major asset class, named investment managers or investment strategy. For investments that have purchase costs or sale proceeds, the total amount of sales and purchases should be disclosed. For derivatives, the nature of the amounts included in purchases and sales should be explained.

g) The market value (current bid price for quoted securities and unitised securities) of the assets (at the Balance Sheet date) which were under the management of fund managers should be disclosed, as should the proportion managed by each manager. Where a market value is not available, assets should be valued at fair value in accordance with the valuation basis specified by the Code – see Section 2.10 and IFRS 13.

h) An analysis of investment assets between 'UK' and 'overseas' and between 'quoted' and 'unquoted'.

i) The amount of sales and purchases of investment assets should be disclosed including the market value of futures and options at the ~~Balance Sheet date~~end of the reporting period (if any).

j) A breakdown of derivative contracts by their main types including futures, options, forward foreign exchange contracts and swaps. A summary of the key terms and notional amount of the derivative contracts held at the year end. An explanation of the objectives and policies for holding derivatives and the strategies for achieving those objectives that have been followed during the period.

k) The effective date of revaluation of property assets~~;~~ and whether ~~whether~~ an independent valuer was used.~~;~~ Reference should be made to section 2.10 for fair value disclosure requirements of investment properties. This would include but is not limited to:

- the methods and significant assumptions applied in estimating the fair value;
- the extent to which the item's fair values were determined directly by reference to observable prices in an active market in an orderly transaction or were estimated using other valuation techniques (see section 2.10 and IFRS 13 for the valuation techniques and the levels within the fair value hierarchy which apply to the measurement of the fair value of the investment properties).

~~the methods and significant assumptions applied in estimating the fair value; the extent to which the item's fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's-length terms or were estimated using other valuation techniques.~~

l) Details of any single investment exceeding either 5% of the net assets available for benefits or 5% of any class or type of security.

m) Liabilities other than the actuarial present value of promised retirement benefits.

n) A description of the funding policy, ie the basis upon which the contribution rate has been set for both the administering and the scheduled body.

o) An indication of the actuarial position of the fund, including the relationship between the actuarial present value of promised retirement benefits and the net assets available for benefits, and the policy for funding the promised benefits.

p) A description of the significant actuarial assumptions made and the method used to calculate the actuarial present value of promised retirement benefits.

q) The total contributions receivable and benefits payable analysed between the administering authority, scheduled bodies and admitted bodies and split by members contributions, employers normal contributions, employers deficit recovery contributions and employers augmentation contributions.

r) Information in respect of material transactions with related parties, not disclosed elsewhere, including investments and loans made at any time during the period.

s) The total amount of stock released to a third party under a stock lending arrangement within a regulated market at the period end, together with a description of the related collateral.

t) The amount and nature of any material contingent assets, liabilities and contractual commitments of the scheme at the period end. Details of any material non-adjusting events occurring subsequent to the period end.

u) The amount of additional voluntary contributions paid by members during the year and the value at the Balance Sheet date of separately invested additional voluntary contributions. It should be disclosed that these amounts are not included in the pension fund accounts in accordance with regulation 4(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

v) CIPFA/LASAAC considers that it is vitally important that the cost of management expenses are clearly understood by the users of pension fund financial statements and therefore the Code recommends that the total amount of direct transaction costs of all significant asset classes (ie investment types) should be disclosed in the notes to the financial statements under the investments reconciliation table in f) above. It also recommends that the notes to the financial statements should include explanation to enable users to understand the nature of the transaction costs and how they arise for different types of investment.

Administering Authorities in Scotland– Management commentary and annual governance statement in the Abstract of Accounts

~~Management commentary and annual governance statement – Scottish authorities~~

6.5.5.2 Section 3.1 of the Code sets out the requirements in accordance with the Local Authority Accounts (Scotland) Regulations 2014 to provide a Management Commentary. The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (the Administration Regulations) require Scottish local authorities to include a report about the management and financial performance during the year of each of the pension funds maintained by the authority. Guidance issued by the Scottish Government, Scottish Government Finance Circular 7/2014 on the Local Authority Accounts (Scotland) Regulations 2014, recommends that one report is published in the Pension Fund Annual Report and Annual Accounts which satisfies the legislative requirements of both sets of regulations. Reporting requirements for administering authorities in Scotland are now provided under Scottish Government Finance Circular 6/2015.

6.5.5.3 Section 3.7 of the Code sets out the requirements in accordance with the Local Authority Accounts (Scotland) Regulations 2014 to provide an Annual Governance Statement. Scottish local government pension fund financial statements are required by the Administration Regulations to include a governance compliance statement. Scottish Government Guidance, issued in Scottish Government Finance Circular 7/2014, recommends that one report is published in the Pension Fund Annual Report and Annual Accounts which satisfies the legislative requirements of both sets of regulations. Reporting requirements for administering authorities in Scotland are now provided under Scottish Government Finance Circular 6/2015.

Statutory disclosures for administering authorities in Scotland in the local authority financial statements

6.5.5.4 Administering authorities in Scotland are required by statutory guidance (Scottish Government Finance Circular ~~1~~6/~~2011~~ 2015 *Accounting for Local Authority Pensions*) to disclose the following in the notes to the local authority financial statements:

a) A statement to the effect that the local authority is an administering authority for the Local Government Pension Scheme.

b) A statement listing the pension funds it is responsible for together with a general description of each fund and its membership.

c) A statement setting out the statutory requirements for the publication of a separate pension fund annual report, and the contents of that report.

d) A note setting out how the pension fund annual report can be accessed or obtained.

6.5.6 The Police Pension Scheme in England and Wales, the Firefighters' Pension Scheme in England, and the Firefighters' Pension Scheme in Wales

6.5.6.1 The Police Pension Scheme in England and Wales, the Firefighters' Pension Scheme in England and the Firefighters' Pension Scheme in Wales are unfunded but authorities do not meet the pension outgo directly: rather they pay an employer's pension contribution based on a percentage of pay into the pension fund.

6.5.6.2 Subject to scrutiny and approval by the Secretary of State/Minister and Parliament/Welsh Government, central government pays pension top-up grant for the year up to the amount by which the amount payable from the pension fund/account for the year exceeded the amount receivable. The current expectation is that top-up grant of 100% of the deficit will be paid. Where the amounts receivable by the pension fund/account for the year exceeds the amounts payable, the surplus on the pension fund/account is payable to central government.

6.5.6.3 While the funding arrangements for the various pension schemes are similar, the regulations are not uniform with regard to the way the surplus or deficit on the pension fund/account for the year is funded.

Police Pension Scheme (England and Wales)

6.5.6.4 The funding arrangements for police pension funds are contained in the Police Pension Fund Regulations 2007 (SI 2007/1932). The regulations require that if the pension fund does not have enough funds to meet the cost of pensions in any year, ie the amount receivable by the pension fund for the year is less than the amount payable, the amount required to meet the deficit must be transferred from the local policing bodies to the pension fund. Subject to Parliamentary scrutiny and approval, up to 100% of this amount is then recouped by the local policing body in the form of a top-up grant paid by central government (the current expectation is that 100% grant will be paid). Conversely, if the police pension fund is in surplus for the year, the surplus is required to be transferred from the pension fund to the local policing body, which in turn is required pay the amount to central government.

Firefighters' Pension Scheme (England and Wales)

6.5.6.5 The funding arrangements for the Firefighters' Pension Scheme for England are contained in the Firefighters' Pension Scheme (Amendment) (England) Order 2006 (SI 2006/1810). The funding arrangements for the Firefighters' Pension Scheme for Wales are contained in Part 13 of the Firefighters' Pension Scheme (Wales) Order 2007 (WSI 2007/1072). These orders require that every amount paid or repaid to or by an authority shall be credited or, as the case may be, debited, to their firefighters' pension fund. Therefore where the pension shows a deficit for year, the top-up grant is payable to the pension fund. Conversely, if the fund is in surplus for the year, an amount equal to the surplus is payable by the pension fund to central government. If the pension fund account is not balanced to nil by pension top-up grant receivable or by the amount payable to central government, the pension fund should be balanced to nil by a supplementary contribution from the authority to the pension fund or by the pension fund returning contribution to the authority.

6.5.6.6 The ~~minimum~~ presentation and disclosure requirements for police pension funds/accounts and firefighters' pension funds/accounts are shown below.

Information to be included in the pension fund (England and Wales) accounting statements of local policing bodies and fire and rescue service authorities

(The amounts that must be debited and credited to the Pension Fund/Account are specified by regulation. There are separate regulations for the Police Pension Scheme for England and Wales, the Firefighters' Pension Scheme for England, and the Firefighters' Pension Scheme for Wales. The underlying principles are broadly the same for all the schemes but the details of the way the amounts are determined may vary and the amounts should be determined in accordance with the relevant regulations in force for the financial year.)

a) Fund Account[5] (England and Wales)

Contributions receivable

[5] Bullets have been added to this statement for ease of presentation they have not been tracked.

- from employer
  - normal
  - early retirements
  - other (specify, eg reimbursement of unabated pensions of '30+' police officers)
- from members
- **Transfers in**
  - individual transfers in from other schemes
  - other (specify)
- **Benefits payable**
  - pensions
  - commutations and lump sum retirement benefits
  - lump sum death benefits
  - other (specify)
- **Payments to and on account of leavers**
  - refunds of contributions
  - individual transfers out to other schemes
  - other (specify)

(For Firefighters' Pension Schemes in England and Wales) Sub-total: Deficit/Surplus for the year before top-up grant receivable/amount payable to central government

(For Firefighters' Pension Schemes in England and Wales) Top-up grant receivable/amount payable to central government

(For Police Pension Schemes) Additional funding payable by the local policing body/Police Operating Account to meet deficit/amount payable to the local policing body/Police Operating Account in respect of the surplus for the year

Net amount payable/receivable for the year

b) Net Assets Statement[6] (England and Wales only)

- **Current assets**
  - contributions due from employer
  - (for Firefighters' Pension Scheme) pension top-up grant receivable from central government

[6] Bullets have been added to this statement for ease of presentation they have not been tracked.

  - (for Police Pension Scheme) funding to meet deficit receivable from local policing body
  - other current assets
- **Current liabilities**
  - unpaid pension benefits
  - (for Firefighters' Pension Scheme) amount payable to central government
  - (for Police Pension Scheme) surplus for year payable to local policing body
  - other current liabilities (other than liabilities to pay pensions and other benefits in the future)

Information to be disclosed in notes to the Pension Fund Accounts of local policing bodies and FRSAs

6.5.6.7 The following information shall be disclosed in the notes to the Pension Funds Accounts of local policing bodies and FRSAs:

a) (For Firefighters' Pension Funds in England and Wales) A general description of the fund's operations including the fact that there are no investment assets and that the fund is balanced to nil each year by receipt of pension top-up grant from central government if there is a deficit or by paying over the surplus to central government, together with an explanation of how the fund is administered and managed.

b) (For Police Pension Funds in England and Wales) A general description of the fund's operations including the fact that there are no investment assets and that if there is a deficit for the year the fund is balanced to nil by the local policing body transferring an amount equal to the deficit to the pension fund, which it recoups from central government, or if there is a surplus for the year by transferring the surplus from the pension fund to the local policing body, which it pays over to central government, together with an explanation of how the fund is administered and managed.

c) The accounting policies followed in dealing with items which are judged material in accounting for, or reporting on, the transactions and net assets of the fund/account together with the estimation techniques adopted that are significant.

d) An explanation that the fund's/account's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. Information on where details of the authority's long-term pension obligations can be found in the main statements shall be disclosed.

6.5.7 Changes since the ~~2014~~2015/~~15~~ 16 Code

6.5.7.1 The ~~2015/16 Code~~2016/17 Code includes amendments ~~to reflect the changes to the requirements and guidance for financial reporting in relation to pension funds in Scotland as a result of the Local Authority Accounts (Scotland) Regulations 2014 and Scottish Government Finance Circular 7/2014~~as a result of the review of the Accounting and Reporting by Pension Funds Section of the Code. These amendments include:

- Update to the format of the fund account and the net asset statements to be consistent with the new 2015 Pensions SORP,
- Changes to the approach to the actuarial present value of promised retirement benefits
- Recommendations for a new disclosure on investment management transaction costs
- A new Annex setting out the application of other sections of the Code, and
- Other minor drafting improvements.

6.5.7.1 The 2016/17 Code also includes new updated reference to Scottish Government Circular 6/2015.

ANNEX TO SECTION 6.5[7]

Table: Overview of Application of other Sections of the Code to Pension Fund Statements

A.6.5.1 This table in intended to assist local authorities in preparing their authority pension fund accounts preparers to identify the other sections of the Code which apply to them. Local authorities should ensure that they are content that they have identified all the material transactions that might occur and consider the relevant sections of the Code that apply to them.

Section or Chapter of the Code	Commentary on the Substantial Areas of Application for Local Authority Pension Funds
Chapter One: Introduction	▪ The Code applies to administering authorities for the Local Government Pension Scheme and other pension funds in the United Kingdom. ▪ Application to local authorities will be by means of the relevant accounts or accounts and audit regulations in England, Scotland and Wales. ▪ Further details on the application of the requirements of the Code are also found in Section 6.5 of the Code.
Section 2.1: Concepts	▪ The Concepts section of the Code applies fully to the pension fund accounts, insofar as there are relevant transactions in the pension funds. It is unlikely for example that consideration of service potential in the definition of an asset or a liability will have substantial application to pension funds. ▪ In relation to the objectives of the financial statements the focus will be on members, prospective members, deferred pensioners pensioners and other beneficiaries. ▪ Materiality considerations in the Code also apply equally to pension fund financial statements.
Section 2.3:Government and Non-Government Grants	▪ This will apply to section 6.5 where government grants are paid into pension funds, though the statutory accounting requirements are unlikely to apply to the pension fund itself.

[7] Exposure Draft Footnote only – The Annex is wholly new and therefore has been presented without tracked changes to improve the readability of the new text.

Section or Chapter of the Code	Commentary on the Substantial Areas of Application for Local Authority Pension Funds
Section 2.5: Local Government Reorganisation and Other Combinations	▪ This is unlikely to apply to pension funds. However, the principles might apply under any reorganisation of pension funds.
Section 2.7: Revenue Recognition	▪ Income recognised in the pension fund would be recognised in accordance with this section of the Code.
Section 2.8: Tax Income (Council Tax, Residual Community Charges, Non-Domestic Rates (NDR) and Rates)	▪ Does not directly apply to pension funds.
Section 2.9: Value Added Tax	▪ Value Added Tax may apply to pensions fund transactions, for example, to purchases of services needed to support the fund.
Section 2.10: Fair Value Measurement	▪ The measurement and disclosure requirements for fair value apply but see particularly paragraph 6.5.2.4.
Section 3.1: Narrative Report	▪ This applies to local authority financial statements and therefore applies to pension funds within the local authority statements. Administering authorities in England and Wales are likely to wish to add additional brief commentary on the Pension Fund though this is likely to be met by the description of the Fund in paragraph 6.5.5.1 a). ▪ Scottish local authorities – are required to provide a separate management commentary in the pension fund abstract of accounts – see Scottish Local Government Finance Circular No. 6/2015.
Section 3.2: Statement of Responsibilities	▪ This should be covered by the Statement of Responsibilities for the authority's main financial statements. ▪ Local authorities in Scotland are likely to need a separate statement of responsibilities for the

Section or Chapter of the Code	Commentary on the Substantial Areas of Application for Local Authority Pension Funds
	pension fund abstract of accounts.
Section 3.3: Accounting Policies, Changes in Accounting Estimates and Errors	▪ This section applies in full to local authority pension funds. ▪ This includes the reporting requirements for: – Changes in accounting policies (paragraph 3.3.4.2) – Impact of accounting changes required by new standards that have been issued, but not yet adopted (paragraph 3.3.4.3) – Estimates (paragraph 3.3.4.4), and – Errors (paragraph 3.3.4.5).
Section 3.4: Presentation of Financial Statements	▪ This section of the Code applies to local authority pension funds statements. However, the main financial statements are specified in section 6.5 of the Code ie paragraphs 6.5.3.4 and 6.5.5.6 (the latter for local policing bodies and FRSAs in England and Wales). ▪ Section 6.5 also includes specific pensions fund statement disclosures at paragraph 6.5.5.1 (this paragraph does not apply to local policing bodies or FRSAs – the disclosures for these bodies are included under paragraph 6.5.5.6). ▪ Items that are particularly important include reporting requirements for: – fair presentation (paragraphs 3.4.2.19 to 3.4.2.22 and 3.4.2.25)) – going concern (paragraphs 3.4.2.23 and section 2.1) – accruals accounting (paragraph 3.4.2.24 and section 2.1) – materiality (paragraph 3.4.2.26 and section 2.1) – comparative information (paragraphs 3.4.2.29) – offsetting (paragraphs 3.4.2.28 to 3.4.2.29 and also see section 7.4.5) – reclassification (paragraphs 3.4.2.30 to 3.4.2.31) – consistent presentation (paragraph 3.4.2.32 and

Section or Chapter of the Code	Commentary on the Substantial Areas of Application for Local Authority Pension Funds
	section 2.1) – notes and their presentation (paragraphs 3.4.2.78 to 3.4.2.79) – basis of preparation (paragraphs 3.4.2.80 to 4.4.2.81) – significant accounting policies (paragraph 3.4.2.80 and 3.4.2.82 and 6.5.5.1 b)) – critical judgements (paragraphs 3.4.2.82) – information about the assumptions an administering authority makes about the future, and other major sources of estimation uncertainty at the end of the reporting period (see paragraphs 3.4.2.83 to 3.4.2.84).
Section 3.7: Statements Reporting Reviews of Internal Controls	▪ For pension funds for administering authorities in England and Wales this should be covered by the Statement of Responsibilities in a local authority's main statement of accounts. ▪ Scottish local government pension fund financial statements are required by the Administration Regulations to include a governance compliance statement. Scottish Government Guidance, issued in Scottish Government Finance Circular 7/2014, recommends that one report is published in the Pension Fund Annual Report and Annual Accounts which satisfies the legislative requirements of both sets of regulations. See also Scottish Local Government Finance Circular No. 6/2015.
Section 3.8: Events After the Reporting Period	▪ Applies fully to pension fund statements.
Section 3.9: Related Party Disclosures	▪ This section applies to pension fund financial statements in full. ▪ Administering local authorities in England and Wales may be able to rely in part on cross referencing to the main financial statements. Particular related parties for the pension fund would need to be reported separately – see also paragraph 6.5.5.1 paragraph r).

Section or Chapter of the Code	Commentary on the Substantial Areas of Application for Local Authority Pension Funds
	▪ Scottish pension fund abstract of accounts would need to apply section 3.9 in full and also report under paragraph 6.5.5.1 paragraph r).
Section 4.1: Property, Plant and Equipment	▪ It is unlikely that this section of the Code will apply substantially to pension funds as they will normally only hold property for investment purposes.
Section 4.2: Leases and Lease Type Arrangements	▪ This section of the Code will apply where the pension fund accounts for transactions as a lessor and may apply where the pension fund uses lease arrangements to support the work of the fund.
Section 4.4: Investment Property	▪ This section of the Code is likely to have a substantial application for pension funds. It therefore applies in full and is also likely to require cross reference to the fair value measurement requirements of section 2.10 of the Code and any relevant requirements under paragraph 6.5.5.1.
Section 4.5: Intangible Assets	▪ It is unlikely that this section of the Code will apply substantially to local authority pension funds.
Section 4.7: Impairment of Assets	▪ This section will apply where relevant circumstances exist, for example, it may apply to investment properties that are impaired, or to an impairment of a financial asset.
Section 4.8: Borrowing Costs	▪ It is considered unlikely that this section of the Code will apply to local authority pension funds.
Section 4.9: Non-current Assets Held for Sale and Discontinued Operations	▪ This section will apply where relevant transactions or circumstances exist.
Section 4.10: Heritage Assets	▪ It is unlikely that this section of the Code will apply substantially to pension funds as they will normally only hold property for investment purposes and not for historical, artistic, technological or environmental

Section or Chapter of the Code	Commentary on the Substantial Areas of Application for Local Authority Pension Funds
	purposes.
Section 5.1: Current Assets: Inventories	▪ This section of the Code will apply to pension funds where relevant transactions or circumstances exist.
Section 5.2: Current Assets: Work in Progress (Construction Contracts)	▪ It is considered unlikely that this section of the Code will apply to local authority pension funds.
Section 5.3: Debtors	▪ This section of the Code will apply to pension funds.
Section 6.1: Employee Benefits: Introduction and Definitions	▪ The section of the Code applies where relevant transactions or circumstances exist.
Section 6.2: Benefits Payable During Employment	▪ This section might apply where relevant employee benefits (staff costs) are directly attributable to the pension fund.
Section 6.3: Termination Benefits	▪ This section might apply where relevant employee benefits (staff costs) are directly attributable to the pension fund.
Section 6.4: Post-employment Benefits	▪ Paragraph 6.5.1.2 notes that section 6.4 of the Code governs the measurement of a plan's obligation to provide pension benefits. ▪ This section might apply where relevant employee benefits (staff costs) are directly attributable to the pension fund.
Section 6.5: Accounting and Reporting by Pension Funds	▪ Wholly applicable to pension funds.
Section 7.1: Financial Instruments: Introduction, Scope, Recognition and Initial Measurement, Hedge Accounting, Derivatives and Embedded Derivatives and	▪ Chapter seven applies fully to pension fund where relevant transactions exist. Paragraph 6.5.1.2 stipulates that the financial instruments standards (IAS 39, IAS 32 and IFRS 7) govern the recognition of financial instruments (although it notes that many

Section or Chapter of the Code	Commentary on the Substantial Areas of Application for Local Authority Pension Funds
Definitions	requirements are inapplicable since all material financial instruments are carried at fair value through profit or loss). Note that the relevant fair value measurement disclosures apply.
Section 7.2: Accounting for Financial Liabilities after Initial Recognition	▪ See comments for section 7.1 and the requirements of paragraph 6.5.2.4 on the measurement of financial instruments).
Section 7.3: Accounting for Financial Assets after Initial Recognition	▪ See comments for section 7.1 and the requirements of paragraph 6.5.2.4 on the measurement of financial instruments).
Section 7.4: Financial Instruments – Disclosure and Presentation Requirements	▪ The disclosure requirements including the fair value disclosures apply in full insofar as the pension fund holds the relevant financial instruments. Note that the relevant fair value measurement disclosures apply.
Section 8.1: Liabilities: Creditors	▪ Applies in full where the relevant transactions exist.
Section 8.2: Liabilities: Provisions, Contingent Liabilities and Contingent Assets	▪ Applies in full where the relevant transactions exist (see also paragraph 6.5.5.1 t).
Chapter 9: Group Accounts	▪ It is possible that group accounts may be produced for pension fund financial statements. The pension fund account statement also allows for the possibility that income from associates and joint ventures may be recognised in the financial statements.
Appendix 1: IFRSs with limited application to local authorities	▪ IAS 12 *Income Taxes* (as amended), and SIC 25 Income Taxes – Changes in the Tax Status of an Entity or its Shareholders relate to taxes on an entity's income (for example, corporation tax) and may apply to the Pensions Funds. ▪ IAS 21 *The Effects of Changes in Foreign Exchange Rates* relates to accounting for exchange rates and

Section or Chapter of the Code	Commentary on the Substantial Areas of Application for Local Authority Pension Funds
	exchange rate movements and will to apply to Pensions Funds.

2.10 FAIR VALUE MEASUREMENT

2.10.1 Introduction

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

Adaptation and application for the public sector context

2.10.1.2 There ~~are no adaptations~~is only one adaptation to IFRS 13 for the public sector context (see paragraph 2.10.1.3 below). However, section 4.1 of this Code adapts IAS 16 to require that items of property, plant and equipment that are operational and therefore providing service potential for the authority are measured for their service potential at existing use value, existing use value – social housing or depreciated replacement cost (see section 4.1 of the Code), and not at fair value. Surplus assets (property, plant and equipment) are measured at fair value.

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

…

Scope

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

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

a) share-based payment transactions within the scope of IFRS 2 *Share-based Payments*

b) leasing transactions within the scope of section 4.2 (Lease and Lease Type Transactions) of the Code and IAS 17 *Leases*, and

c) measurements that have some similarities to fair value but are not fair value, such as net realisable value in section 5.1 (Inventories) or value in use in section 4.7 (Impairment of Assets) of the Code.

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

a) plan assets measured at fair value in accordance with sections 6.1 to 6.4 of the Code

~~b) retirement benefit plan investments measured at fair value in accordance with section 6.5 (Accounting and Reporting by Pension Funds) of the Code, and~~

~~c~~b) assets for which recoverable amount is fair value less costs of disposal in accordance with section 4.7 (Impairment of Assets) of the Code.

…

2.10.6 Changes since the 2014/15 Code

2.10.6.1 The 2015/16 Code ~~introduced the requirements of IFRS 13 *Fair Value Measurement* as adapted for public sector circumstances~~removes the scope exclusion on the disclosures for retirement benefit plan investments measured at fair value in accordance with section 6.5 (Accounting and Reporting bu Pension Funds).

3.9 RELATED PARTY DISCLOSURES

3.9.1 Introduction

3.9.1.1 Authorities shall identify related party relationships and transactions, identify outstanding balances between the authority and its related parties, and identify the circumstances in which disclosures are required, in accordance with IAS 24 *Related Party Disclosures* except where adaptations to fit the public sector are detailed in the Code.

3.9.1.2 IPSAS 20 *Related Party Disclosures* is based on IAS 24, and provides additional guidance for public sector bodies.

Adaptation for the public sector context

3.9.1.3 The following adaptation of IAS 24 applies for the public sector context:

- In considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged 'in the surrounding circumstances'. Materiality should thus be judged from the viewpoint of both the authority and the related party.

3.9.2 Accounting Requirements

Definitions

3.9.2.1 **Close members of the family of a person** are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

that person's children and spouse or domestic partner

children of that person's spouse or domestic partner, and

dependants of that person or that person's spouse or domestic partner.

3.9.2.2 **Key management personnel** are all chief officers (or equivalent), elected members, chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

3.9.2.3 **Government** refers to government, government agencies and similar bodies whether local, national or international.

3.9.2.4 A **government-related** entity is an entity that is controlled, jointly controlled or significantly influenced by a government.

3.9.2.5 **Material***.* Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

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

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

a) A person or a close member of that person's family is related to a reporting entity if that person:

i) has control or joint control over the reporting entity

ii) has significant influence over the reporting entity, or

iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

b) An entity is related to a reporting entity if any of the following conditions apply:

i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

iii) Both entities are joint ventures of the same third party.

iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

vi) The entity is controlled or jointly controlled by a person identified in a).

vii) A person identified in a)i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

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

3.9.2.9 **Remuneration/allowance** is any consideration or benefit derived directly or indirectly by key management personnel from the authority for services provided in their capacity as elected members or otherwise as employees of the authority.

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

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

Related party disclosures

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

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

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

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

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

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

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

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

3.9.2.17 The disclosure of related party transactions and balances shall have regard to materiality. In considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged 'in the surrounding circumstances'. Materiality should thus be judged from the viewpoint of both the reporting entity and the related party.

3.9.3 Statutory Accounting Requirements

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

3.9.4 Disclosure Requirements

3.9.4.1 Having regard to paragraph 3.4.2.26 of the Presentation of Financial Statements section of the Code, which permits authorities not to provide a specific disclosure if information is not material, authorities shall disclose the following notes in relation to related party disclosures:

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

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

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

3.9.4.~~2~~3 Transactions with related parties may be disclosed on an aggregated basis (aggregation of similar transactions by type of related party) unless disclosure of an individual transaction, or connected transactions, is necessary for an understanding of the impact of the transactions on the financial statements of the authority or is required by law.

3.9.4.~~3~~4 The disclosure requirements of key management personnel under IAS 24 are satisfied by the disclosure requirements for officer remuneration and members' allowances in section 3.4 of the Code~~.~~, though authorities may need to separately consider the requirements at paragraph 3.9.4.2.

3.9.4.~~4~~5 The disclosure requirements of paragraph 3.9.4.1 do not apply to related party transactions with central government departments, government agencies, NHS bodies and other local authorities. Instead, authorities shall disclose:

2) The name of the government (ie UK Government, Scottish Government, Welsh Government or Northern Ireland Assembly) and the fact that the government exerts significant influence through legislation and grant funding.

3) The following information in sufficient detail to enable users of the reporting entity's financial statements to understand the effect of related party transactions on its financial statements:

   a) the nature and amount of each individually significant transaction, and

   b) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.

3.9.5 Statutory Disclosure Requirements

3.9.5.1 There are statutory disclosure requirements in relation to officer remuneration in England and Wales. These disclosure requirements are included in section 3.4 of the Code, Presentation of Financial Statements.

3.9.5.2 As stated in paragraph 3.9.4.3 above, the disclosure requirements of key management personnel under IAS 24 are satisfied by the disclosure requirements for officer remuneration and members' allowances in section 3.4 of the Code.

3.9.6 Changes since the 2014/15 Code

3.9.6.1 ~~There have been no changes in the reporting requirements for the related party disclosures section of the Code since the 2014/15 Code.~~The 2016/17 Code includes an addition to the definition of a related party for the entity, or any member of a group of which it is a part that provides key management personnel services to the reporting entity and a new disclosure on the provision of key management personnel services that are provided by a separate management entity as a result of the *Improvements to IFRSs 2010-2012 Cycle*.

CHAPTER NINE
Group accounts

9.1 GROUP ACCOUNTS

Joint arrangements

9.1.2.48 A joint arrangement is an arrangement of which two or more parties have joint control. A joint arrangement has the following characteristics:

a) The parties are bound by a contractual arrangement.

b) The contractual arrangement gives two or more of those parties joint control of the arrangement.

A joint arrangement is either a joint operation or a joint venture.

9.1.2.49 Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

9.1.2.50 A reporting authority shall determine the type of joint arrangement in which it is involved. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.

Financial statements of parties to a joint operation

9.1.2.51 A reporting authority that is a joint operator shall recognise in relation to its interest in a joint operation:

a) its assets, including its share of any assets held jointly

b) its liabilities, including its share of any liabilities incurred jointly

c) its revenue from the sale of its share of the output arising from the joint operation

d) its share of the revenue from the sale of the output by the joint operation, and

e) its expenses, including its share of any expenses incurred jointly.

9.1.2.52 When an authority acquires an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, it shall apply, to the extent of its share in accordance with paragraph 9.1.2.51, all of the principles on business combinations accounting in IFRS 3, and other IFRSs, that do not conflict with the guidance in this section of the Code (as it adopts IFRS 11) and IFRS 11 itself and disclose the information that is required in those IFRSs in relation to business combinations. This applies to the acquisition of both the initial interest and additional interests in a joint operation in which the activity of the joint operation constitutes a business. The accounting for the acquisition of an interest in such a joint operation is specified in paragraphs B33A–B33D of IFRS 11.

9.1.6 Changes since the ~~2014~~2015/~~15~~ 16 Code

9.1.6.1 The ~~2015~~2016/~~16~~ 17 Code has ~~removed the transitional provisions from the Group Accounts section of the Code as these provisions only apply to the 2014/15 financial year~~includes the amendment to IFRS 11 *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*.

2.1 CONCEPTS

2.1.1 Introduction

2.1.1.1 Authorities shall prepare financial statements (including Group Accounts) in accordance with the International Accounting Standards Board (IASB) *Framework for the Preparation and Presentation of Financial Statements* as adapted by this section of the Code.

2.1.1.2 In September 2010 the IASB issued the first phase of its new *Conceptual Framework for Financial Reporting 2010* (the Conceptual Framework). Two chapters, chapter 1 'The Objective of General Purpose Financial Reporting' and chapter 3 'Qualitative Characteristics of Useful Financial Information', have been issued. These chapters replace the relevant paragraphs in the *Framework for the Preparation and Presentation of Financial Statements*. It should be noted that the objective of general purpose financial reporting set out in chapter 1 of the IASB Conceptual Framework (paragraph OB2) has been expanded to reflect public sector circumstances. The remaining paragraphs of this chapter would also need to be considered against needs of the users of public sector financial statements (but see also the specific issues relating to paragraph OB10 per paragraph 2.1.2.2).

2.1.1.3 Paragraphs 2.1.2.1 and 2.1.2.2 have also been drafted (using the hierarchy of standards that applied in the 2012/13 Code and which is also consistent with the process set out in paragraph 1.1.6 of the Code) from the Accounting Standards Board's *Statement of Principles for Financial Reporting Interpretation for Public Benefit Entities*, from the text of the Code in previous editions and with support from the International Public Sector Accounting Standards Board's (IPSASB) Exposure Draft Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Phase 1).

2.1.1.4 The IPSASB Conceptual Framework *the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* was issued in October 2014 provides additional guidance for local authorities on issues raised by section 2.1.

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

a) objective of financial statements

b) underlying assumption

c) qualitative characteristics of financial statements

d) elements of financial statements

e) recognition of the elements of financial statements

f) measurement of the elements of financial statements.

2.1.1.~~5~~6 In particular, regard should be had to the qualitative characteristics in the selection and application of accounting policies and estimation techniques (see section 3.3 of the Code), and in the exercise of professional judgement. The Code specifies many of the accounting policies and estimation techniques to be adopted for material items. These policies and techniques have been selected to accord with the accounting concepts and principles set out in this section and, with International Financial Reporting Standards (as adapted for the public sector context, where necessary).

2.1.1.~~6~~7 Financial statements shall give a true and fair view of the financial position, financial performance and cash flows of an authority. A true and fair view requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Code. Although the IASB framework does not deal directly with such a concept, the application of the principal qualitative characteristics and compliance with the Code is presumed to result in the financial statements that convey a true and fair view. Nevertheless it remains the responsibility of the authority to ensure that its financial statements present a true and fair view of the financial position, performance and cash flows of the authority.

2.1.2 Accounting Requirements

Objectives of financial statements

2.1.2.1 Authorities need to be familiar with the objective of the financial statements. . For local authorities, the objective of the financial statements is ~~also~~ to provide information about the authority's financial performance, financial position and cash flows that is useful to a wide range of users for assessing the stewardship of the authority's management and for making economic decisions.~~ ~~ The objective is also ~~of the financial statements is~~ to provide financial information about the reporting authority that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to it ~~. For local authorities, the objective of the financial statements is also to provide information about the authority's financial performance, financial position and cash flows that is useful to a wide range of users for assessing the stewardship of the authority's management and for making economic decisions.~~ Financial reporting is not an end in itself. Its purpose is to provide information useful to users of the financial statements. The objectives of financial reporting are therefore determined by reference to the users of the financial statements, and their information needs. In the public sector, providing information that allows for an assessment of the stewardship and accountability of elected members and management for the resources entrusted to them is of paramount importance.

2.1.2.2 It should be noted that the IASB Conceptual Framework sets out that general purpose financial reports are not primarily directed to regulators and members of the public other than investors, lenders and other creditors (IASB Conceptual Framework, paragraph OB10). However, CIPFA/LASAAC is of the view that the nature of public sector financial statements would mean that this paragraph is not applicable to local authorities. It considers that, consistent with the views issued in previous editions of the Code, the presentation of the financial statements shall meet the common needs of most users, focusing on the ability of the users to make economic decisions, the needs of public accountability and the stewardship of an authority's resources.

2.1.2.3 Local authority financial statements are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require local authorities to disclose the information they need for accountability and decision-making purposes. Local authority members and members of parliament are also primary users of local authority financial statements, when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of Code, the primary users of the financial statements are service recipients and their representatives and resource providers and their representatives.

2.1.2.4 CIPFA/LASAAC would note that Government has prescribed the Code as a proper practice in legislation and relies on the assurance it obtains from local authorities producing a set of IFRS-based financial statements to ensure that local authority performance and financial position is accurately recorded and thus government may be described as an interested stakeholder in the local authority financial statements.

Financial performance reflected by accrual accounting

2.1.2.~~3~~4 An authority shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting, ie the authority recognises items as assets, liabilities, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Code. Accrual accounting depicts the effects of transactions and other events and circumstances on an authority's economic resources and claims in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period. This is important because information about an authority's economic resources and claims and changes in its economic resources and claims during a period provides a better basis for assessing the authority's past and future performance than information solely about cash receipts and payments during that period.

Underlying assumption

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

Qualitative characteristics of useful financial information

Fundamental qualitative characteristics

2.1.2.5 If financial information is to be useful it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable. Thus the fundamental qualitative characteristics of financial information are **relevance** and **faithful representation**. Information must be both relevant and faithfully presented to be useful.

2.1.2.6 **Relevance** – relevant financial information is capable of making a difference in the decisions made by users. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources. Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value or both.

2.1.2.7 Financial information has predictive value if it can be used as an input to processes employed by users to predict future outcomes. Financial information need not be a prediction or forecast to have predictive value.

2.1.2.8 Financial information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.

2.1.2.9 **Materiality** – information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting authority. In other words, materiality is an authority-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual authority's financial statements. Consequently, the Code cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation. An authority need not comply with the Code, as to both disclosure and accounting principles, if the information is not material to the 'true and fair' view of the financial position, financial performance and cash flows of the authority and to the understanding of users.

2.1.2.10 **Faithful representation** – the financial statements represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the phenomena that it purports to represent.[1] To be a perfectly faithful representation,

[1] Note that paragraph BC3.26 of the IASB Conceptual Framework states: *'Substance over*

a depiction would have three characteristics. It would be **complete, neutral** and **free from error**. The Code's objective is to maximise those qualities to the extent possible.

- A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations.
- A neutral depiction is without bias in the selection or presentation of financial information. A neutral depiction is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to increase the probability that financial information will be received favourably or unfavourably by users.
- Faithful representation does not mean accurate in all respects. Free from error means there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process. In this context, free from error does not mean perfectly accurate in all respects. For example, an estimate of an unobservable price or value cannot be determined to be accurate or inaccurate. However, a representation of that estimate can be faithful if the amount is described clearly and accurately as being an estimate, the nature and limitations of the estimating process are explained, and no errors have been made in selecting and applying an appropriate process for developing the estimate.

Enhancing qualitative characteristics

2.1.2.11 **Comparability, verifiability, timeliness** and **understandability** are qualitative characteristics that enhance the usefulness of information that is relevant and faithfully represented. The enhancing qualitative characteristics may also help determine which of two ways should be used to depict a phenomenon if both are considered equally relevant and faithfully represented.

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

- Consistency, although related to comparability, is not the same. Consistency

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form is not considered a separate component of faithful representation because it would be redundant. Faithful representation means that financial information represents the substance of an economic phenomenon rather than merely representing its legal form. Representing a legal form that differs from the economic substance of the underlying economic phenomenon could not result in a faithful representation.'

refers to the use of the same methods for the same items, either from period to period within a reporting entity or in a single period across entities. Comparability is the goal; consistency helps to achieve that goal.

- Comparability is not uniformity. For information to be comparable, like things must look alike and different things must look different. Comparability of financial information is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different. Application of the terms of the Code, and of the *Service Reporting Code of Practice*, where relevant, will ensure adequate disclosure and consistency, and thus comparability.

2.1.2.13 **Verifiability** helps assure users that information faithfully represents the economic phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Quantified information need not be a single point estimate to be verifiable. A range of possible amounts and the related probabilities can also be verified.

2.1.2.14 Verification can be direct or indirect. Direct verification means verifying an amount or other representation through direct observation; for example, by counting cash. Indirect verification means checking the inputs to a model, formula or other technique and recalculating the outputs using the same methodology.

2.1.2.15 It may not be possible to verify some explanations and forward-looking financial information until a future period, if at all. To help users decide whether they want to use that information, it would normally be necessary to disclose the underlying assumptions, the methods of compiling the information and other factors and circumstances that support the information.

2.1.2.16 **Timeliness** means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information, the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.

2.1.2.17 **Understandability** – classifying characterising and presenting information clearly and concisely makes it understandable. Some phenomena are inherently complex and cannot be made easy to understand. Excluding information about those phenomena from the financial statements might make the information in those financial statements easier to understand. However, those statements would be incomplete and therefore potentially misleading.

2.1.2.18 The financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. Some economic and other phenomena are particularly complex and difficult to represent in local authority financial statements and some users may need to seek the aid of an advisor to assist in their understanding of them. All efforts should be undertaken to represent economic and other phenomena included in the financial statements in a manner that is understandable to a wide range of users. However, information should not be excluded from financial statements solely because it may be too complex or difficult for some users to understand without assistance.

2.1.2.19 Enhancing qualitative characteristics should be maximised to the extent possible. However, the enhancing qualitative characteristics, either individually or as a group, cannot make information useful if that information is irrelevant or not faithfully represented.

2.1.2.20 Local authorities derive their powers from statute and their financial and accounting framework is closely controlled by primary and secondary legislation. It is a fundamental principle of local authority accounting that, where specific legislative requirements and accounting requirements conflict, legislative requirements shall apply. However, the Code deals with such conflicts by showing the position required by the Code's accounting requirements in the Comprehensive Income and Expenditure Statement, and the effect of the legislative requirements in the Movement in Reserves Statement.

Elements of financial statements

2.1.2.21 The elements directly related to the measurements of financial position in the Balance Sheet are assets, liabilities and reserves. The elements directly related to the measurement of the financial performance in the Comprehensive Income and Expenditure Statement are income and expenses. The presentation of these elements is shown in section 3.4 of the Code. The Cash Flow Statement reflects elements in both the Comprehensive Income and Expenditure Statement and the Balance Sheet.

2.1.2.22 In assessing whether an item meets the definition of an asset, liability or reserve, attention needs to be given to its underlying substance and economic reality and not merely its legal form.

2.1.2.23 **Assets** – a resource controlled by the authority as a result of past events and from which future economic benefits or service potential are expected to flow to the authority.

2.1.2.24 **Liabilities** – are present obligations of the authority arising from past events, the settlement of which is expected to result in an outflow from the authority of resources embodying economic benefits or service potential.

2.1.2.25 **Reserves** – the residual interest in the assets of the authority after deducting all its liabilities. The Movement in Reserves Statement shows the true economic cost of providing the authority's services, represented by the line 'Surplus or (deficit) on the provision of services'. Some income and expenditure is required to be recognised on a different basis or in a different accounting period (ie in accordance with legislation) in the General Fund and Housing Revenue Account. These differences are shown in the line ‘Adjustments between accounting basis and funding basis under regulations’. Voluntary transfers to or from the General Fund Balance and Housing Revenue Account Balance also affect the amount to be funded from council tax or council dwelling rents; these are shown in the line ‘Transfers to or from reserves available to fund services’. The Movement in Reserves Statement also shows Other Comprehensive Income and Expenditure, for example revaluation gains.

2.1.2.26 **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 activities and gains such as the revaluation of fixed assets.

2.1.2.27 **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

2.1.2.28 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.

Measurement of the elements of financial statements

2.1.2.29 Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the Balance Sheet and Comprehensive Income and Expenditure Statement. The relevant sections of the Code set out the basis of measurement for the elements of financial statements. The interpretation of fair value varies from section to section of the Code; the interpretations are summarised below.

Fair value

2.1.2.30 The concept of fair value is used throughout the Code. International Financial Reporting Standards now have a consistent definition of fair value introduced by IFRS 13 *Fair Value Measurement.* The measurement and disclosure requirements of the standard are included in section 2.10.

Current value measurement of property, plant and equipment

2.1.2.31 The Code has introduced the concept and definition of current value to the measurement of property, plant and equipment. Current value measurements reflect the economic environment prevailing for the service or function the asset is supporting at the reporting date (see paragraph 4.1.2.4).

2.1.2.32 The 2015/16 Code does not require infrastructure assets (eg roads) to be carried at current value. Infrastructure assets are carried at depreciated historical cost. See Appendix D for the Code's future approach to the measurement of transport infrastructure assets.

Measurement at fair value or the different current value measurements of property, plant and equipment

2.1.2.33 The following table demonstrates for accounts preparers when fair value or one of the property, plant and current value measurement bases[2] apply to the main income, expenditure, assets and liabilities classifications within local authority financial statements.

Circumstance	Fair Value or Current Value Measurement of Property, Plant and Equipment
Revenue recognition; this is the general definition that applies unless a more specific definition applies	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).
Property, plant and equipment	For non-specialised assets, current value should be interpreted as existing use value. In the RICS *Valuation – Professional Standards*, this is market value based on the assumption that property is sold as part of the continuing enterprise. This requirement is met by providing an existing use valuation in accordance with UKVS 1.3 of the RICS *Valuation – Professional Standards*. For specialised assets where no market exists, current value should be interpreted as the present value of the assets' remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential. Under these circumstances, property, plant and equipment is measured at Depreciated Replacement Cost. The current value of council dwellings shall be measured using existing use value–social housing (EUV–SH). The fair value of surplus assets is the price that would be received

2 The Surplus Assets class of Property, Plant and Equipment is measured at fair value as a current value measurement base.

Circumstance	Fair Value or Current Value Measurement of Property, Plant and Equipment
	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).
Leases	On initial recognition, fair value will be defined in accordance with section 4.2 of the Code. Subsequent measurement, at current value will follow the appropriate class of property, plant and equipment. Intangible assets are measured at fair value where relevant.
Service concession (PFI and PPP) arrangements	On initial recognition, fair value is the estimated cost to purchase the asset. Subsequently, the asset is measured at current value, which will follow the appropriate class of property, plant and equipment. Fair value measurement will apply, where relevant for intangible assets acquired under service concession arrangements.
Investment property	Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see section 2.10). As a non-financial asset an investment property shall be measured at highest and best use. The fair value of investment property held under a lease is the lease interest.
Intangible assets	IAS 38 allows an intangible asset to be carried at a revalued amount only where its fair value can be determined by reference to an active market. Where there is no active market, assets are carried at cost less any accumulated amortisation and any accumulated impairment loss. Where an intangible asset is required under section 4.5 of the Code to be measured at fair value, the definition in section 2.10 of the Code will apply.
Non-current assets held for sale	Non-current assets held for sale shall be measured in accordance with the measurement requirements of section 4.9 of the Code and IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations,* ie the lower of its carrying amount and fair value less costs to sell. Fair value in section 4.9 is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Section 2.10). When applying the definition of fair value, as non-financial assets, non-current assets held for sale shall be

Circumstance	Fair Value or Current Value Measurement of Property, Plant and Equipment
	measured at highest and best use. Fair value for social housing being disposed of under Right to Buy (RTB) legislation is the discounted RTB value.
Heritage assets	Heritage assets are carried at valuation rather than current or fair value, reflecting the fact that sales and exchanges of heritage assets are uncommon. Valuations may be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations. In some cases it may not be practicable to establish a valuation for a heritage asset, in which case the asset is carried at historical cost if this information is available. Authorities may elect to use this basis for community assets.
Inventories	Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see section 2.10).
Debtors	Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see section 2.10).
Financial instruments	Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see section 2.10).
Creditors	Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see section 2.10).
Employee benefits	Plan assets measured at fair value in accordance with sections 6.1 to 6.4 of the Code and IAS 19 *Employee Benefits* apply the definition and measurement requirements of fair value in accordance with chapter six of the Code and with the definition of fair value included in section 2.10 of the Code.
Pension fund plan investments	Retirement benefit plan investments measured at fair value in accordance with section 6.5 Accounting and Reporting by Pension Funds of the Code apply the definition and measurement requirements of fair value in accordance with chapter six of the Code and with the definition of fair value included in section 2.10

Circumstance	Fair Value or Current Value Measurement of Property, Plant and Equipment
	of the Code.

2.1.3 Statutory Accounting Requirements

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

2.1.4 Disclosure Requirements

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

2.1.5 Statutory Disclosure Requirements

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

2.1.6 Changes since the ~~2014~~2015/~~15~~ 16 Code

2.1.6.1 The ~~2015/16~~20/16/17 Code ~~includes an overview of the application of fair value and current value to the assets and liabilities held by local authorities following the Code's adoption of IFRS 13 and the confirmation of the concept of current value measurement for property, plant and equipment in section 4.1 of the Code~~has been updated for the issue of the IPSASB *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, particularly with regard to the users and the understandability of local authority financial statements.

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.

1.1.2 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 ~~(England)~~ Regulations ~~2011~~ 2015 and for Wales by the Accounts and Audit (Wales) Regulations 2014
- the audit of those accounts undertaken in accordance with the statutory framework established by section ~~5~~ 3 and 20 of the ~~Audit Commission Act 1998 f~~Local Audit and Accountability Act 2014 for England, and by sections 39 and 58 of the Public Audit (Wales) Act 2004 for Wales.

1.1.3 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.

1.1.4 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) ~~2006~~2015.

1.1.5 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

1 References to Statement of Accounts in this Code mean Annual Accounts for Scottish

performance and cash flows of the authority, which may mean the inclusion of additional information in accordance with the provisions of the Code.

1.1.6 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 considers it appropriate to adapt IFRSs, the accounting treatment is based on the approach in the Memorandum of Understanding between the Relevant Authorities.

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

1.1.8 In the unusual event that a local authority enters into a transaction, the accounting treatment and disclosure requirements of which are not covered by the Code, but which are covered by an extant IAS, IFRS, SIC Interpretation or IFRIC Interpretation, by an IPSAS or other reporting standards relevant to the public sector, the requirements of the relevant IAS, IFRS, SIC Interpretation, IFRIC Interpretation, IPSAS or other GAAP shall be followed.

1.2 APPLICABILITY OF THE CODE

1.2.1 This Code has effect for financial years commencing on or after 1 April ~~2015~~2016.

1.2.2 In England and 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 parish or 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 by

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authorities following the specifications of the Local Authority Accounts (Scotland) Regulations 2014. This chapter of the Code for the avoidance of doubt uses the term Annual Accounts for Scottish authorities.

the Accounts and Audit Regulations under section ~~27~~ 32 of the ~~Audit Commission Act 1998~~Local Audit and Accountability Act 2014 or section 39 of the Public Audit (Wales) Act 2004, except parishes and community 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.

1.2.3 ~~In practice this definition includes principal councils, police and crime commissioners, fire and rescue authorities, and the Greater London Authority and its functional bodies.~~ 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 or 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. ~~to them.~~ Specialised bodies should check against the definitions to determine whether they are covered.
~~A~~

1.2.4 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. ~~transitional provision order[2] confirmed that sections 21 and 22 of the Local Government Act 2003 apply to chief constables as they apply to a local authority. More specialised bodies should check against the definitions to decide whether they are covered. It is expected that bodies covered by the Accounts and Audit Regulations 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 to them.~~

1.2.45 The ~~Accounts and Audit (England) Regulations 2011~~ Local Audit and Accountability ~~introduced~~Act 2014 confirmed the ~~a new~~ threshold for smaller relevant ~~bodies~~ authorities in England below which a Statement of Accounts is not required to be prepared. However, these ~~bodies~~ authorities are permitted by legislation to follow the requirements for larger relevant ~~bodies~~ authorities in relation to the Statement of Accounts, which might mean the requirements of the

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[2] ~~See SI 2013/2319: The Police Reform and Social Responsibility Act 2011 (Transitional Provision) Order 2013.~~

Code. ~~-~~. ~~In addition the regulations require passenger transport executives to prepare a Statement of Accounts as if proper practices in relation to accounts were, as appropriate, applicable to an executive. They also require that internal drainage boards charge a revenue account with an amount equal to the payments and contributions statutorily payable in a year under an arrangement accounted for as a defined benefit pension plan or as other long-term employee benefits (as defined in accordance with proper practices). Passenger transport executives and internal drainage boards should apply the Code in accordance with the requirements of the regulations.~~

1.2.~~5~~6 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 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 and transport partnerships created under the Transport (Scotland) Act 2005). 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.

1.2.~~6~~7 In Northern Ireland, district councils are required to prepare Statements of Accounts under regulation ~~4~~ 7 of the Local Government (Accounts and Audit) Regulations (Northern Ireland) ~~2006~~ 2015 and the Code is part of the proper practices governing their preparation.

1.2.~~7~~8 This is the ~~sixth~~ seventh 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 ~~2014/15~~2015/16 Code. These changes are set out at the end of each section.

1.2.~~8~~9 Proper practice, as defined by regulations, also includes the requirements of other ~~codes of practice, such as the~~ *Service Reporting Code of Practice* (SeRCOP). Although this Code no longer requires statements or notes to be prepared in accordance with SeRCOP, in preparing relevant statistical information based on accounting records local authorities ~~In preparing their accounts, authorities shall~~ will need to ensure that they comply with the requirements of ~~these other codes~~ 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.

1.3 THE CONTEXT OF THE CODE'S RECOMMENDATIONS

1.3.1 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.

1.3.2 The Code sets out the accounting concepts and accounting principles which underpin the Statement of Accounts (Annual Accounts in Scotland). 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 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 are 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.

1.4 ACCOUNTING STANDARDS

1.4.1 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.

1.4.2 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 ~~2015~~ 2016 (as adopted by the EU) apply unless specifically adapted by the Code.

1.5 MATERIALITY

1.5.1 The Code provides a definition of materiality in paragraph 2.1.2.9 which is applied to information and disclosures in local authority financial statements. This Code only requires local authority financial statements to disclose information which is material.[3] CIPFA/LASAAC is of the view that local 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.

1.6 PURPOSE OF THE STATEMENT OF ACCOUNTS (ANNUAL ACCOUNTS IN SCOTLAND)

1.6.1 The Code has been prepared on the basis that the purpose of a local authority's published Statement of Accounts (Annual Accounts in 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?

1.6.2 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. ~~It is important that the costs of individual services are defined by local authorities in accordance with the CIPFA *Service Reporting Code of Practice* (separate service expenditure analyses exist for England and Wales, Scotland, and Northern Ireland).~~

1.6.3 Secondly, interpretation and explanation of the accounts are considered to be extremely important. The Code requires that there should be a~~n Explanatory Foreword~~Narrative Report to accompany ~~to~~ the financial statements /Statement of Accounts. The ~~Explanatory Foreword~~Narrative Report should explain the more significant features of the accounts (see Section 3.1 of the Code for further details 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.

1.6.4 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

[3] This position is based on paragraph 3.4.2.26 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 is not material.'*

sparingly. Where the use of technical terms cannot be avoided, they should always be explained clearly in a glossary.

1.6.5 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.

1.6.6 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.

1.7 PUBLICATION

1.7.1 The Statement of Accounts (Annual Accounts in Scotland) 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*. ~~The accounts must be prepared by 30 June.~~ In England each authority is required to prepare its accounts for certification by the responsible financial officer by the first 10 working days in July and to approve and publish them by 30 September,~~-~~ or as soon a reasonably practicable after the receipt of the auditors final findings (if later). In Northern Ireland and Wales, the requirement is to prepare and approve accounts by 30 June and to publish them by 3~~1~~0 ~~October~~ September. 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 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~~. ~~and Wales, each authority is required to prepare its accounts by 30 June and to approve and publish them by 30 September.~~ ~~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 Northern Ireland, the requirement is to prepare and approve accounts by 30 June and to publish them by 31 October.~~

1.7.2 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~~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. In Scotland, the financial statements are required to be included in the Annual Accounts.

1.7.3 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.

1.7.4 The complete set of financial statements as defined in paragraph 3.4.2.17, and including the ~~summary of~~ 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, Northern Ireland and Wales. These should be included in the Annual Accounts in Scotland. The statements should be published with an audit certificate and opinion in England, Wales and Northern Ireland and 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.

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 3.4.2.26 of this section of the Code, which permits authorities not to provide a specific disclosure if information is not material, authorities shall disclose the notes as set out in the other sections of the Code in addition to the following:

1) The nature of any acquired or discontinued operations and details of any outstanding liabilities in respect of discontinued operations.

2) The nature, turnover, and surpluses/deficits of any significant trading operation and for Scottish local authorities the cumulative surplus or deficit for the current year and two preceding financial years in accordance with the requirements of the Local Government in Scotland Act 2003.

3) The nature and amount of any significant agency income and expenditure.

4) Sufficient information on any partnership schemes under s75 of the National Health Service Act 2006, under the Community Care and Health (Scotland) Act 2002 and under s33 of the National Health Service (Wales) Act 2006 to allow for the understanding of the authority's financial affairs. As a minimum this includes the purpose of the partnership, the identities of partner bodies, the gross income and expenditure of the partnership and the authority's contribution.

5) The totals of members' allowances (and expenses) paid in the year. In Scotland all elements of members remuneration and reimbursement of actual expenditure under the heads of salaries, allowances and expenses.

6) ~~a) Number of employees and police officers whose remuneration in the year was greater or equal to £50,000, grouped in rising bands of £5,000, and/or other disclosures specified in regulations or statutory guidance (Northern Ireland).~~ [4]

~~b)~~ Number of exit packages agreed (grouped in rising bands of £20,000 up to £100,000, and bands of £50,000 thereafter), analysed between compulsory redundancies and other departures. Authorities shall also disclose the total cost of packages agreed in each band. Bands shall be combined where this is necessary to ensure that individual exit packages cannot be identified (except where disclosure of payments to the individuals is required elsewhere under regulations). Exit packages include compulsory and voluntary redundancy costs, pension contributions

[4] It is anticipated that this requirement will be superseded by the Remuneration Report requirements as stipulated by the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015.

in respect of added years, ex-gratia payments and other departure costs (England, Wales, Scotland and Northern Ireland). Scottish local authorities are required to include the disclosure of exit packages in the remuneration report.

7) The following amounts for the year:

a) Fees payable to auditors appointed ~~by the Audit Commission~~under the Local Audit and Accountability Act 2014 or the Auditor General for Wales with regard to external audit services carried out by the appointed auditor under the ~~Audit Commission's~~ *Code of Audit Practice* prepared by the Comptroller and Auditor General or Auditor General for Wales' *Code of Audit and Inspection Practice* in accordance with ~~s5~~ s18 of the ~~Audit Commission Act 1998~~ Local Audit and Accountability Act 2014 or s16 of the Public Audit (Wales) Act 2004.

b) Fees payable to ~~auditors appointed by the Audit Commission or~~ the Auditor General for Wales in respect of statutory inspection under s10 of the Local Government Act 1999.

c) Fees payable to ~~auditors appointed by the Audit Commission or~~ the Auditor General for Wales for the certification of grant claims and returns by the appointed auditor under ~~s28 of the Audit Commission Act 1998 or~~ s2 of the Public Audit (Wales) Act 2004.

d) Fees payable to Audit Scotland in respect of external audit services undertaken in accordance with the *Code of Audit Practice*.

e) In Northern Ireland, the amount payable to the Comptroller and Auditor General for Northern Ireland in respect of external audit services.

f) Fees payable in respect of any other services provided by the appointed auditor over and above the duties described in notes 7 a) to e) above.

8) In Wales, the following information is also to be disclosed:

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

b) The calculation of the council tax base, ie the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings.

c) The name of each authority which made a significant precept or demand on the account and the amount included for each authority.

9) In Northern Ireland, disclosure of details of the rates receivable by the authority (ie rate in the pound for domestic and non-domestic properties).

10) A breakdown of the movement of the amounts shown in the Movement in Reserves Statement that are adjustments between accounting basis and funding basis under regulations to be debited or credited to the General Fund and Housing Revenue Account for the year and the transfers to/from reserves.

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

Cash Flow Statement

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

3.4.5 Statutory Disclosure Requirements

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

1) The following disclosures on employee remuneration in accordance with the Accounts and Audit Regulations 2015 for English authorities and the Accounts and Audit (Wales) Regulations 2014.

    a) Number of employees and senior police officers (all police officers in Wales) (except those included in b) below) whose remuneration in the year was greater or equal to £50,000, grouped in rising bands of £5,000 (England and Wales), and

    b) An analysis by job title of the remuneration and employer's pension contributions (as defined by the regulations referred to in 1) above) in respect of senior employees and relevant police officers whose salary is £50,000 or more per year (or by name and job title where the salary is £150,000 or more per year) (England and Wales).

    c) In Wales, the reference to '£50,000' in a) and b) above shall be read as '£60,000'.

    d) In Wales, the remuneration ratio as required by the Accounts and Audit (Wales) Regulations 2014 (see Regulation 9(2)).

2) A brief explanation of the nature of any scheme under the Transport Act 2000 or the Transport (Scotland) Act 2001, including the gross income and expenditure of the scheme, and the net proceeds of the scheme (including for joint schemes the apportionment of such proceeds).

3) A disclosure that demonstrates whether the Dedicated Schools Grant (made under section 14 of the Education Act 2002) has been deployed in accordance with regulations made under sections 45A, 45AA, 47, 48(1) and (2) and 138(7) of, and paragraph 1(7)(b) of Schedule 14 to, the School Standards Framework Act 1998 (England).

Remuneration report (Northern Ireland)

3.4.5.2 Local authorities in Northern Ireland shall produce the statutory remuneration report required by the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015.[5]

Remuneration report (Scotland)

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

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

3.7 STATEMENTS REPORTING REVIEWS OF INTERNAL CONTROLS ~~OR INTERNAL FINANCIAL CONTROLS~~

3.7.1 Introduction

3.7.1.1 Regulation ~~4~~6(~~2~~1)(a) of the Accounts and Audit ~~(England)~~ Regulations ~~2011~~2015, ~~Regulation 5(2) of the Accounts and Audit (Wales) Regulations 2014,~~ Regulation ~~2A~~ 4(2) of the Local Government (Accounts and Audit) Regulations (Northern Ireland) ~~2006~~ 2015, ~~and~~ Regulation 5(2) of the Local Authority Accounts (Scotland) Regulations 2014 and Regulation 5(2) of the Accounts and Audit (Wales) Regulations 2014 require an authority to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts (England) (as a part of the Annual Accounts (Scotland)). Regulation ~~4~~6(~~3~~1)(b) of the Accounts and Audit ~~(England)~~ Regulations ~~2011~~ 2015, Regulation 4(4) of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 and Regulation 5(4) of the Local Authority Accounts (Scotland) Regulations 2014 require that for a local authority in England, Northern Ireland and Scotland the statement is an Annual Governance Statement.

3.7.2 Accounting Requirements

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

3.7.3 Statutory Accounting Requirements

3.7.3.1 Authorities (except in Scotland) are required to undertake and report on a review of internal controls.

3.7.4 Disclosure Requirements

3.7.4.1 A local authority shall undertake a review of its system of internal control in accordance with best practice. *Delivering Good Governance in Local Government*, published by CIPFA and SOLACE, recommends that the review be reported in an Annual Governance Statement.

3.7.4.2 The preparation and publication of an Annual Governance Statement in accordance with *Delivering Good Governance in Local Government* would fulfil the statutory requirement in England, Wales and Northern Ireland for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with its Statement of Accounts. The statement shall relate to the governance system as it applied during the financial year for the accounts that it accompanies. However, significant events or developments relating to the governance system that occur between the reporting date and the date on which the Statement of Accounts is signed by the responsible financial officer shall also be reported. Where an authority is in a group relationship with other entities and undertakes significant activities through the group, the review of the effectiveness of the system of internal control shall include its group activities.

3.7.4.3 The following information shall be included in the Annual Governance Statement:

a) An acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control).

b) An indication of the level of assurance that the systems and processes that comprise the authority’s governance arrangements can provide.

c) A brief description of the key elements of the governance framework, including reference to group activities where the activities are significant.

d) A brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements, including some comment on the role of the authority; the executive; the audit committee/overview and scrutiny committee/risk management committee; standards committee, internal audit and other explicit reviews/assurance mechanisms.

e) An outline of the actions taken, or proposed, to deal with significant governance issues, including an agreed action plan.

f) A specific statement on whether the authority’s financial management arrangements conform with the governance requirements of the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government* (2010) as set out in the Addendum (2012) to *Delivering Good Governance in Local Government: Framework* (CIPFA/SOLACE); and, where they do not, an explanation of how they deliver the same impact.

3.7.4.4 It is important to recognise that the governance statement covers all significant corporate systems, processes and controls, spanning the whole range of an authority’s activities, including in particular those designed to ensure that:

- the authority’s policies are implemented in practice
- high-quality services are delivered efficiently and effectively
- the authority’s values and ethical standards are met
- laws and regulations are complied with
- required processes are adhered to
- performance statements and other published information are accurate and reliable
- human, financial and other resources are managed efficiently and effectively.

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

3.7.5 Statutory Disclosure Requirements

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

3.7.6 Changes since the ~~2014~~2015/~~15~~ 16 Code

3.7.6.1 The ~~2015~~2016/~~16~~ 17 Code includes ~~the requirements under the Local Authority Accounts (Scotland) Regulations 2014 for Scottish local authorities to undertake a review of internal control and to produce an Annual Governance Statement as a part of the Annual Accounts.~~an update of the Section for Statements Reporting Reviews of Internal Controls for the new Accounts and Audit 2015 Regulations and the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015.

3.8 EVENTS AFTER THE REPORTING PERIOD

3.8.1 Introduction

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

Adaptation for the public sector context

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

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

3.8.2 Accounting Requirements

Definitions

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

a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and

b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

Authorised for issue

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

- the Accounts and Audit ~~(England)~~ Regulations ~~2011~~ 2015
- the Accounts and Audit (Wales) Regulations 2014
- the Local Government (Accounts and Audit) Regulations (Northern Ireland) ~~2006~~2015
- the Local Authority Accounts (Scotland) Regulations 2014.

3.8.2.3 Regulations in England require authorities to prepare a Statement of accounts prior to the commencement of the period for exercise of public rights. This should commence the first 10 working days of July.

3.8.2.4 Regulations in ~~England, Wales and~~ Northern Ireland and Wales require authorities to prepare a Statement of Accounts before 30 June following the reporting date.

3.8.2.5 In Scotland, the proper officer is required to submit the unaudited accounts to the appointed auditor by 30 June. The local authority or a committee of that authority whose remit includes audit or governance functions must meet to consider the unaudited Annual Accounts as submitted to the auditor by 31 August.

3.8.2.6 The responsible financial officer (proper officer in Scotland/chief financial officer in Northern Ireland) shall certify that the accounts give a true and fair view of the authority's financial position and financial performance. The Statement of Accounts shall reflect events after the reporting period up to the date the accounts were certified by the responsible financial officer, proper officer or chief financial officer.

3.8.2.~~4~~7 In England, regulations require the Statement of Accounts published by 30 September to be approved by a committee or local government body and signed by the chair of the relevant approving committee or body.

3.8.2.5 In Northern Ireland, regulations require an authority to publish its audited Statement of Accounts by ~~31~~ 30 ~~October~~ September following the reporting period. ~~Where the audit has not been completed by this date, the authority shall publish its unaudited Statement of Accounts by this date and its audited Statement of Accounts as soon as practicable thereafter.~~

3.8.2.7 Regulations in Scotland require the local authority to aim to approve the Annual Accounts for signature no later than 30 September and to publish them no later than 31 October.

3.8.2.7 In ~~England and~~ Wales, regulations require the Statement of Accounts published by 30 September (and ~~in Wales~~ any subsequent Statement of Accounts issued following the conclusion of the audit) to be approved by a committee or local government body and signed by the chair of the relevant approving body. ~~Where an authority is unable to publish its audited financial statements on or before the statutory publication deadlines, the authorised for issue date is the date that the Statement of Accounts on which the auditors are to give their opinion is certified by the responsible financial officer.~~

3.8.2.~~5~~8 The published Statements of Accounts shall reflect events after the reporting period up to the date the accounts were authorised for issue. The date the accounts were authorised for issue shall be:

- Unaudited accounts – the date on which the responsible financial officer (proper officer in Scotland/chief financial officer in Northern Ireland) certifies that the accounts give a true and fair view of the authority's financial position and financial performance in advance of approval.
- Audited accounts – England, the authorised for issue date is the date the responsible financial officer re-certifies the financial statements before the committee, authority or body approves the financial statements in accordance

with the Accounts and Audit Regulations 2015. The re-certification by the responsible officer shall include a statement on the face of the Balance Sheet regarding the status of the accounts; examples are 'These financial statements replace the unaudited financial statements certified by [responsible financial officer] on [insert date]'; or 'The unaudited accounts were issued on [insert date] and the audited accounts were authorised for issue on [insert date]'.

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

- ~~(where opinion issued in advance of conclusion of audit (England, Wales and Northern Ireland only)) – the date on which the responsible financial officer (chief financial officer in Northern Ireland) re-certifies that the accounts give a true and fair view of the authority's financial position and financial performance. This re-certification shall include a statement on the face of the Balance Sheet regarding the status of the accounts; examples are 'These financial statements replace the unaudited financial statements approved at the meeting of [insert committee name or body] on [insert date]'; 'These financial statements replace the unaudited financial statements certified by [responsible financial officer] on [insert date]'; or 'The unaudited accounts were issued on [insert date] and the audited accounts were authorised for issue on [insert date]'.~~
- ~~Audited accounts (where no opinion issued prior to the conclusion of audit) – the date on which the responsible financial officer (chief financial officer in~~

~~Northern Ireland) re-certifies that the accounts give a true and fair view of the authority's financial position and financial performance. This re-certification shall include a statement on the face of the Balance Sheet regarding the status of the accounts; examples are 'These financial statements replace the unaudited financial statements approved at the meeting of [insert committee name or body] on [insert date]' (Northern Ireland); 'These financial statements replace the unaudited financial statements certified by [responsible financial officer] on [insert date]' (England and Wales).~~

- ~~Audited accounts (where opinion previously issued prior to the conclusion of audit (Wales and Northern Ireland only)) – the date on which the responsible financial officer (chief financial officer in Northern Ireland) re-certifies that the accounts give a true and fair view of the authority's financial position and financial performance. This re-certification shall include a statement on the face of the Balance Sheet that 'These financial statements replace the financial statements certified by me on [insert date]'.~~
- Audited Accounts (Scotland) – the authorised for issue date is the date on which the proper officer re-certifies the balance sheets after approval by the authority or relevant committee. The re-certification by the section 95 officer shall include a statement on the face of the Balance Sheet regarding the status of the accounts; examples are 'These financial statements replace the unaudited financial statements certified by [responsible financial officer] on [insert date]'; or 'The unaudited accounts were issued on [insert date] and the audited accounts were authorised for issue on [insert date]'.

Events after the reporting period

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

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

Going concern

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

3.8.3 Statutory Accounting Requirements

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

3.8.4 Disclosure Requirements

3.8.4.1 An authority shall disclose the following:

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

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

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

   a) the nature of the event, and

   b) an estimate of its financial effect, or a statement that such an estimate cannot be made.

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

3.8.5 Statutory Disclosure Requirements

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

3.8.6 Changes since the ~~2014~~2015/~~15~~ 16 Code

3.8.6.1 There ~~2015/16~~2016/17 ~~-~~Code has been updated to reflect the requirements of the Accounts and Audit Regulations 2015 for English Authorities and the~~-~~ Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015~~Local~~ and has rationalised the authorised for issue date guidance ~~Authority Accounts (Scotland) Regulations 2014~~ for events after the reporting period.

CHAPTER FOUR
Non-current assets

4.1 PROPERTY, PLANT AND EQUIPMENT

4.1.3 Statutory Accounting Requirements

Housing Revenue Account – depreciation

4.1.3.3 The Housing Revenue Account Income and Expenditure Statement shall be charged with depreciation.

4.1.3.4 On a revalued asset, a transfer between the Revaluation Reserve and Capital Adjustment Account shall be carried out which represents the difference between depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's historical cost.

4.1.3.5 **England:** Depreciation is not a proper charge to the General Fund. However, for HRA non-dwellings, depreciation charged to the Surplus or Deficit on the Provision of Services in the Housing Revenue Account in England shall be charged in accordance with the requirements of *The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012*.

4.1.3.6 To ensure compliance with the Accounts and Audit Regulations and *The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012* requirements for the Major Repairs Reserve, depreciation for HRA dwellings charged to the Housing Revenue Account is subject to statutory provisions designed to specify the impact on the HRA (see part 2 of Appendix B for the legislative basis). The following entries are required or permitted in respect of the Major Repairs Reserve:

- The Major Repairs Reserve shall be credited, and Housing Revenue Account balances debited, with an amount equal to the depreciation charged to the HRA in accordance with this Code. This transfer is required to meet the requirements of the Accounts and Audit ~~(England)~~ Regulations ~~2011~~ 2015 (Regulation 7(5)(a)). In order to neutralise the impact on the HRA of this entry, a corresponding transfer is also required where Housing Revenue Account balances are credited and the Capital Adjustment Account is debited. Both these transfers shall be reported in the Movement in Reserves Statement.
- Where depreciation charges for HRA dwellings are greater than the notional Major Repairs Allowance (MRA), an amount equal to the difference is permitted to be transferred to the Housing Revenue Account from the Major

Repairs Reserve and reported in the Movement in Reserves Statement. (Note that this transfer is permitted on a transitional basis as specified by *The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012.*)

- A debit to the HRA equal to the amount that has been credited to the HRA for decent homes backlog funding and a corresponding credit to the Major Repairs Reserve in accordance with the requirements of *The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012*.
- Where an authority funds capital expenditure on dwellings from the Major Repairs Reserve, this shall be accounted for by debiting the Major Repairs Reserve and crediting the Capital Adjustment Account, this transfer to be reported in the Movement in Reserves Statement.
- Where repayments of principal of any amounts borrowed, or repayments to meet any liability in respect of credit arrangements (other than any liability which, in accordance with proper practices, must be charged to a revenue account), are to be funded from the Major Repairs Reserve, this shall be accounted for by debiting the Major Repairs Reserve and crediting the Capital Adjustment Account, this transfer to be reported in the Movement in Reserves Statement.
- An authority is permitted by *The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012* to make an additional voluntary credit transfer to the Major Repairs Reserve for an amount '*in excess of any charge for depreciation to its Major Repairs Reserve*'.

4.1.3.7 **Scotland:** Depreciation for HRA dwellings and non-dwellings charged to Surplus or Deficit on the Provision of Services are not proper charges to the Housing Revenue Account (see part 2 of Appendix B for the legislative basis). Such amounts shall be transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement and replaced with HRA loans fund principal, via a transfer from the Capital Adjustment Account.

4.1.3.8 **Wales:** Depreciation for HRA dwellings and non-dwellings charged to Surplus or Deficit on the Provision of Services are not proper charges to the Housing Revenue Account (see part 2 of Appendix B for the legislative basis). Such amounts shall be transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement and replaced with HRA Minimum Revenue Provision, via transfer.

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 ~~Audit Commission Act 1998~~The 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 Accounts and Audit (England) Regulations 2011 (SI 2011/817)~~

15 The Local Audit and Accountability Act 2014

~~17~~16 The Accounts and Audit (Wales) Regulations 2014 (Welsh SI 2014/3362)

1~~6~~7 The Accounts and Audit ~~(England)~~ Regulations 201~~1~~5 (SI 201~~1~~5/~~817~~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

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 (Accounts and Audit) Regulations (Northern Ireland) 2006~~

~~5~~4 The Local Government Companies (Best Value) Order (Northern Ireland) 2006

~~6~~5 Local Government Finance Act (Northern Ireland) 2011

~~7~~6 The Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 (SRNI 2011/326)

~~4~~7 The Local Government (Accounts and Audit) Regulations (Northern Ireland) 20~~06~~15 (SRNI 2015/106)

CHAPTER SEVEN
Financial instruments

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

7.1.8 Definitions

7.1.8.1 The following terms are used in this Code with the meanings specified:

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.

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.

Note 1: in practice b) is not applicable to local authorities as they do not issue equity instruments.

Note 2: The *Annual Improvements to IFRSs 2010 – 2012 Cycle* added:

"It is contingent consideration of an acquirer in a business combination to which IFRS 3 *Business Combinations* applies." to the conditions for a financial asset or financial liability at fair value through profit or loss

CHAPTER EIGHT
Liabilities

8.2 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

8.2.1 Introduction

8.2.1.1 Authorities shall account for provisions, contingent liabilities and contingent assets in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, IFRIC 5 *Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* and IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*, except where adaptations to fit the public sector are detailed in the Code.

8.2.1.2 IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* is based on IAS 37, and provides additional guidance for public sector bodies.

8.2.1.3 This section of the Code does not cover provisions, contingent liabilities and contingent assets in relation to:

- those provisions and contingent liabilities arising from social benefits provided by an authority for which it does not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits (other than through the normal accruals process)
- financial instruments (including 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).

8.2.3 Statutory Accounting Requirements[1]

8.2.3.1 In England and Wales, regulations and in Scotland statutory guidance (see part 2 of Appendix B for the legislative basis) permit an authority to defer the impact of any provision made for back pay arising out of unequal pay claims on a revenue account. In Scotland, Statutory Guidance in Scottish Government Finance Circular 4/2015 also allows deferral of serverance pay.

8.2.3.2 Where an authority elects to apply the regulation, the difference between the amount of expenditure included in Surplus or Deficit on the Provision of Services in each year and the amount charged under the regulations shall be debited to the Unequal Pay Back Pay Account, with a corresponding credit to the appropriate revenue account.

8.2.3.3 To the extent that a provision is derecognised (for example where payments are made to a group of employees), an authority shall credit the Unequal Pay Back Pay Account, with a corresponding debit to the appropriate revenue account. In Scotland the account shall be the Equal pay provision statutory adjustment account and for severance a Severance provision statutory adjustment account.

8.2.3.4 There are no equivalent provisions in ~~Scotland and~~ Northern Ireland; authorities in ~~those countries~~Northern Ireland shall account for any provisions in relation to back

[1] ED Footnote only this minor amendment follows the requirement for new statutory provisions for equal pay and serverance.

pay arising out of unequal pay claims in accordance with the Code.

APPENDIX E

Accounting for schools in local authorities in England and Wales

E.1.2 CIPFA/LASAAC is of the view that, based on the indicators of control identified under the requirements of the Code's adoption of IFRS 10, the balance of control lies with local authorities for all maintained schools. The recognition of non-current assets used by schools shall be determined in accordance with the definition of an asset in paragraph 2.1.2.23 and with the relevant standards adopted by chapter four Non-current Assets of this Code as appropriate to the arrangements for the assets. These assets shall be recognised in a local authority's Balance Sheet if they meet the appropriate recognition criteria (see chapter four) either for the local authority or for a school[2] within the local authority area.

2 Where the school is an entity in accordance with paragraph E1.1.