

report

Paper CL 04 06-10

Committee	CIPFA/LASAAC
Venue	Barceló Carlton Hotel, Edinburgh
Date	15 June 2010
Author	Paul Mason, Technical Manager – Local Government Accounting
Subject	2011/12 Code of Practice on Local Authority Accounting – Proposed Exposure Draft and Invitation to Comment

The purpose of this report is to seek approval of the Code of Practice on Local Authority Accounting for 2011/12 Exposure Draft and Invitation to Comment.

1 introduction

1.1 At the CIPFA/LASAAC meeting held on 23 February 2010, the Board considered a report on the development of the 2011/12 Code, and agreed that the Secretariat should develop the following matters for inclusion in the 2011/12 Code:

- (a) Heritage Assets
- (b) Carbon Reduction Commitment Scheme Allowances
- (c) Community Infrastructure Levy
- (d) Business Rate Supplements
- (e) Amendments to the Accounts and Audit Regulations
- (f) Regulations and Statutory Guidance to mitigate the impact of IFRS
- (g) Scottish Police and Fire Pension Schemes
- (h) Statement on the Role of the Chief Financial Officer
- (i) Related Party Disclosures
- (j) Annual Improvements to IFRS
- (k) Other Amendments to Accounting Standards

1.2 In addition, the following IFRSs were to be considered if they had been issued and had an effective date of 1 January 2011 or earlier.

- (a) Discontinued Operations (IFRS 5)
- (b) Joint Arrangements (IFRS X)
- (c) Termination Benefits (IAS 19)

1.3 The proposed Exposure Draft and Invitation to Comment incorporate these matters, with the exception of the Scottish Police and Fire Pension Schemes where the Scottish Government has not yet brought in any new arrangements, and the items mentioned in paragraph 1.2, where the revised IFRSs have yet to be issued. Discontinued Operations is now expected to be issued in the third or fourth quarter of 2010, and is therefore unlikely to need to be considered in the 2011/12

Code. Joint Arrangements and Termination Benefits are expected to be issued during June 2010, and may therefore need to be incorporated into the Exposure Draft and Invitation to Comment. A further amendment to IFRS (covering the disclosure requirements in relation to unconsolidated Special Purpose Entities) is also expected to be issued in June 2010.

- 1.4 If these standards are issued sufficiently early, the Secretariat proposes to incorporate the changes into the Exposure Draft and Invitation to Comment prior to obtaining approval for the consultation to be issued from PFMB and LASAAC (assuming that the effective date of the amendments is 1 January 2011 or earlier). Changes would be agreed with CIPFA/LASAAC electronically before being incorporated into the Exposure Draft and Invitation to Comment.
- 1.5 If the standards were not issued sufficiently early to be incorporated into the Exposure Draft and Invitation to Comment, the Secretariat proposes to include a statement in the Invitation to Comment that further amendments of IFRSs are expected and will be considered by CIPFA/LASAAC in October (assuming that the effective date of the amendments is 1 January 2011 or earlier).
- 1.6 CIPFA/LASAAC also considered a request from the Audit Commission to consider the applicability of the Code to smaller local government bodies, requested further information. This issue is considered later in the report.

2 heritage assets

- 2.1 When developing the 2010/11 Code, CIPFA/LASAAC agreed that FRS 30 Heritage Assets would be adopted in the 2011/12 Code, a year later than in the rest of the public sector. The implementation of FRS 30 in the Exposure Draft is consistent with that in the FReM.
- 2.2 CIPFA/LASAAC is asked to consider the following matters in respect of heritage assets:
 - IPSAS 31 (intangible assets) would require a reconciliation between the opening and closing balances of intangible heritage assets, and the gross carrying amount and accumulated amortisation and impairment to be shown. CIPFA/LASAAC will need to consider whether to require this for:
 - a) all heritage assets;
 - b) intangible heritage assets; or
 - c) adapt IPSAS 31 and not require the disclosures.
 - The Exposure Draft includes an interpretation of IAS 1 that a third balance sheet is not required following the change of accounting policy unless there is a material increase in the assets included on the balance sheet. Are CIPFA/LASAAC members content with this interpretation?

3 carbon reduction commitment scheme allowances

- 3.1 The Exposure Draft is based on the legislation. The accounting arrangements have been discussed with HM Treasury, although no FReM exposure draft has been issued yet. The arrangements included in the Exposure Draft are also in line with the section in the 2010/11 FReM regarding 'EU Greenhouse Gas Emission Allowance Trading Directive'.

- 3.2 Under the approach set out in the 2010/11 FReM, allowances may be classified as intangible assets. This is consistent with the fact that the allowances may be held for more than 12 months. However, the fact that the allowances are non-current potentially brings them into the capital control regime. This is not desirable, as it would permit authorities to borrow to purchase allowances, and any sales of the allowances would be capital receipts. Classification of the allowances as inventory would present difficulties with valuation.
- 3.3 CIPFA/LASAAC is asked for its views on addressing this concern. Two possible options are:
- define the allowances as current assets in the Code, thus avoiding capital control issues
 - define the allowances as intangible assets in the Code (where appropriate), but discuss with governments the possibility of amendments to regulations so that allowances are excluded from the definition of capital for capital control purposes.
- 3.4 The Exposure Draft concludes that recycled allowances should be accounted for as income when they are received. CIPFA/LASAAC is asked for its views on this conclusion. An analysis of the recycling process (provided by John Maddocks, CIPFA Technical Manager with responsibility for sustainability) is attached as Appendix A for further information.

4 community infrastructure levy (CIL)

- 4.1 The Exposure Draft, which follows the legislation, considers that CIL amounts to a non-exchange transaction (in accordance with IPSAS 23) that is not subject to a condition, and that the collection of CIL by a collecting authority that is not a charging authority is in substance an agency arrangement (ie treated in a similar manner to NDR collection). Are CIPFA/LASAAC members content that these approaches are correct?
- 4.2 Because CIL income is not subject to a condition, but is subject to a restriction that it can only be used for capital purposes, the Exposure Draft requires that amounts received but not applied to fund expenditure are transferred to an unapplied account (in a similar manner to capital grants). The Exposure Draft proposes naming this account the CIL Unapplied Account. Is the Board content with this treatment? Is 'CIL Unapplied Account' the preferred name, or does the Board have an alternative?

5 business rates supplements (BRS)

- 5.1 The Exposure Draft, which follows the legislation, considers that BRS amounts to a non-exchange transaction (in accordance with IPSAS 23) that is subject to a condition, and that the collection of BRS by a billing authority that is not a levying authority is in substance an agency arrangement (ie treated in a similar manner to NDR collection). Is the Board content that these approaches are correct?

6 remuneration reporting

- 6.1 Amendments to the Accounts and Audit Regulations in England and Wales introduced additional reporting requirements in respect of remuneration. There are no regulations in respect of remuneration reporting in Scotland and Northern

Ireland. The SORP and the Code have extended the English requirements to Scotland and Northern Ireland in the past, and CIPFA/LASAAC is asked to consider whether it would wish to incorporate the new regulations on this basis (the draft text currently does not extend the requirements to Scotland and Northern Ireland). The views of the Scottish and Northern Ireland Governments would be particularly helpful here.

- 6.2 HM Treasury has recently issued a proposal to include an additional disclosure in relation to exit packages. The proposed wording to be incorporated into the FReM is as follows:

‘Entities shall provide summary data on their use of exit packages agreed in year, and in the format proposed by the Cabinet Office.’

- 6.3 The proposed format can be seen in the FReM Exposure Draft, which can be downloaded from:

http://www.hm-treasury.gov.uk/d/10_01_frem_exposure_draft.pdf

- 6.4 CIPFA/LASAAC is asked to consider whether it wishes to consult on incorporating a similar requirement in the 2011/12 Code.

7 authorisation changes (Wales)

- 7.1 Amendments to the Accounts and Audit Regulations in Wales mean that members are now required to sign off the published accounts rather than the set of accounts issued in June. This is reflected in the Exposure Draft.

- 7.2 In addition, ‘responsible finance officer’ has been changed to ‘responsible financial officer’ throughout the Exposure Draft as this matches the terminology in the Accounts and Audit Regulations.

8 regulations and statutory guidance to mitigate the impact of IFRS

- 8.1 The Exposure Draft includes the various regulations and statutory guidance that has been issued (or is in the process of being issued) to mitigate the impact of IFRS on Council Tax. CIPFA/LASAAC is asked to note that further regulations or statutory guidance may be issued; where this is the case, amendments may need to be brought to the October meeting.

- 8.2 The Exposure Draft incorporates a new account in relation to the holiday pay adjustments, and suggests that this is called the Accumulated Absences Account. Does the Board have any alternative suggestions for the name of the account?

9 statement on the role of the chief financial officer

- 9.1 The Exposure Draft incorporates the requirement within the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government (2010)* to include within the Annual Governance Statement a specific statement as to whether the authority's financial management arrangements comply with the Statement, and where they do not, an explanation of why and how they deliver the same impact. The wording in the Exposure Draft is taken directly from the statement. The Board is asked to confirm that it is content to incorporate this requirement within the Code

10 related party disclosures

- 10.1 In the Exposure Draft, paragraph 3.9.1.4 has been deleted as no interpretation of IAS 24 is required.
- 10.2 Discussions with HM Treasury indicate that it is unlikely that any changes to the FReM will be required as there are no proposed changes to the interpretations of IAS 24. The changes to the Code would be consistent with the adoption of IAS 24 in the FReM.

11 annual improvements to IFRS and other amendments to accounting standards

- 11.1 The Exposure Draft incorporates minor changes arising out of the Improvements to IFRS (issued 2009) and other changes to standards are shown.
- 11.2 Further changes arising out of the Improvements to IFRS (issued 2010) are also incorporated into the Exposure Draft; however the Board should be aware that the changes may need to be withdrawn in the unlikely event that it becomes apparent EU adoption would not be forthcoming.
- 11.3 CIPFA/LASAAC considered a list of areas where changes might be required at its February meeting, and a checklist is attached as Appendix B, highlighting those paragraphs of the Code have been updated for each of the changes.

12 application of the code to smaller local government bodies

- 12.1 At its February meeting, CIPFA/LASAAC considered a request from the Audit Commission to consider the applicability of the Code to smaller local government bodies. A list of these bodies is attached at Appendix C.
- 12.2 Since the request was made, the Commission has approached CLG with a view to moving other relevant smaller bodies on to the limited assurance regime, requiring only an annual return rather than full accounts. The timing of any required change to the Accounts and Audit Regulations is not yet clear, however the potential exists for these bodies to be moved to the FRSSE based approach for one year, depending on size, only for them then to move to the limited assurance approach soon after. The Secretariat therefore recommends that CIPFA/LASAAC defers any decision until its October meeting, when it is expected that there will be more clarity regarding the timing of any changes to the regulations.

recommendation

CIPFA/LASAAC is asked to:

- 1) Agree the Exposure Draft of the 2011/12 Code.
- 2) Agree the Invitation to Comment on the 2011/12 Code.

basic notes on recycling of April allowances sale revenue

- The organisation's bonus/penalty rate is adjusted to balance the recycling process
- The organisation's baseline emissions (the baseline year is always year 1) are used as the starting point for calculating an organisation's share of the recycling 'pot'
- The organisation's baseline emissions are adjusted by a revised bonus/penalty percentage
- This adjusted baseline emission figure is calculated as a percentage of total baseline emissions
- This percentage is then applied to the total of all allowances purchased in April
- The result can be more or less than the maximum bonus or penalty rate for that year

Example

The figures are taken from examples included in government response to consultation and on the Environment Agency website. Note that numbers have been rounded.

Oct 2011 – Max bonus 10% - Org 'B' is 5th of 10

Org.	Allowances Purchased 2011		Recycling Payment Calculation						
	No. bought 2011	Bought @ £12 each	Actual & baseline Emissions 2010/11	League Position	% Bonus/ Penalty	Adjusted baseline emissions	% of adjusted baseline	Recycling Payment	% Diff'nce to allowances purchased
B	270	£3,240	250	5	2.49%	256	2.895%	£2,724	-16%
Total	7,840	£94,080	8,850			8,850		£94,080	

1. B's baseline emissions = $250/8,850 = 2.82\%$
2. B's size coefficient = $20\% \times 2.82\% = 0.56\%$
3. B's bonus R value = 10% less the size coefficients of all the organisations above them in the league table = 2.77%
4. Subtract B's size coefficient midpoint from R value, i.e.: $2.77\% - (0.56\% \div 2) = \mathbf{2.49\% \text{ bonus}}$

5. Add bonus to baseline = 2.895%

6. 2.895% of £94,080 allowance 'pot' = **£2,724**

Note that in the above example, although organisation B had a performance bonus of 2.49% this bears little relation to the outcome which was a recycled amount which was 16% lower than the amount of allowances they purchased.

The reason they received less back was because, although they purchased more than their baseline emissions, other organisations chose to buy less than their baseline emissions. So, as a whole, fewer allowances were purchased (only 7,840 compared to actual baseline emissions of 8,850).

The nature of the recycling process results in a weak link between: allowances purchased during government sale, amount received back, allowances surrendered.

A key event effecting an organisation's recycling amount is how many allowances all participants buy during April sale.

Two scenarios to highlight this

Scenario 1:

- An organisation doesn't buy during April sale (buying allowances from the April sale is voluntary)
- The organisation buys from secondary market and safety valve instead
- However it still receives recycled allowances money based on its share of baseline (year 1) emissions plus or minus a bonus/penalty
- No link between recycled allowances money received and allowances purchased and surrendered against emissions. Weak link to performance.

Scenario 2:

- An organisation buys enough allowances, during April sale, to cover likely emissions during the coming year
- However, participants as a whole purchase fewer allowances than will be required to be surrendered next year
- The organisation receives back less than the amount spent on purchasing allowances regardless of league table position
- Small size of recycling 'pot' is a major factor in amount received back through recycling. Weak link to purchasing and league table performance.

annual improvements to IFRS (issued April 2009)

IFRS	Subject of amendment	Ref
IFRS 2 <i>Share-based Payment</i>	Scope of IFRS 2 and revised IFRS 3	A.6.1
IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations	4.1.4.4 4.9.4.2
IFRS 8 <i>Operating Segments</i>	Disclosure of information about segment assets	3.4.1.6 (deleted); 3.4.6.1
IAS 1 <i>Presentation of Financial Statements</i>	Current/non-current classification of convertible instruments	3.4.2.58
IAS 7 <i>Statement of Cash Flows</i>	Classification of expenditures on unrecognised assets	N/A – clarification only, already implicit in Code
IAS 17 <i>Leases</i>	Classification of leases of land and buildings	4.2.2.7; 4.2.2.9; 4.2.6.1
IAS 18 <i>Revenue</i>	Determining whether an entity is acting as a principal or as an agent	N/A – amendment adds an additional example but no changes to standard.
IAS 36 <i>Impairment of Assets</i>	Unit of accounting for goodwill impairment test	N/A – Code refers to IAS 36 re goodwill
IAS 38 <i>Intangible Assets</i>	Additional consequential amendments arising from revised IFRS 3 Measuring the fair value of an intangible asset acquired in a business combination	N/A – affects guidance rather than principles and unlikely to apply to local authorities

IFRS	Subject of amendment	Ref
<i>IAS 39 Financial Instruments: Recognition and Measurement</i>	1) Treating loan prepayment penalties as closely related embedded derivatives 2) Scope exemption for business combination contracts 3) Cash flow hedge accounting	1) N/A as Code refers to IAS 39 2) 7.1.1.7 7.1.2.2 3) N/A as Code refers to IAS 39
<i>IFRIC 9 Reassessment of Embedded Derivatives</i>	Scope of IFRIC 9 and revised IFRS 3	7.1.1.8 7.1.6.8
<i>IFRIC 16 Hedges of a Net Investment in a Foreign Operation</i>	Amendment to the restriction on the entity that can hold hedging instruments	7.1.1.8 7.1.7.3

various new and revised IFRS and IPSAS, where the amendments do not result in any substantive changes to the text of the Code

Standard	Date Issued	Ref
IAS 39 and IFRIC 9 (<i>Embedded Derivatives</i>)	March 2009	7.1.1.8 7.1.6.8
IFRS 2 <i>Share based payments</i>	June 2009	A.6.1
IFRS 1 <i>First time adoption of IFRS</i>	July 2009	N/A – no first time adoption in 2011/12
IAS 32 (<i>Classification of Rights Issues</i>)	October 2009	N/A as local authorities will not make rights issues
IFRIC 14 (<i>Prepayments of Minimum Funding Requirement for a Pension Fund</i>)	November 2009	6.4.1.1
IFRIC 19 <i>Extinguishing Financial Liabilities with Equity Instruments</i>	November 2009	N/A as authorities do not issue equity instruments and IFRIC 19 does not address the accounting by the creditor (see IFRIC 19.2)
IPSAS 27 <i>Agriculture</i> [converged with IFRS]	December 2009	A.1.5
IPSAS 28, 29 & 30 <i>Financial Instruments</i> [converged with IFRS]	January 2010	7.1.1.1 7.1.1.6 7.4.2.2
IPSAS 31 <i>Intangible Assets</i> [converged with IFRS]	January 2010	4.5.1.1; see also 4.5.1.3 in consequential amendments to Heritage Assets
<i>Annual Improvements to IPSAS</i> [converged with IFRS]	January 2010	N/A – relate to amendments to IFRS already incorporated into the Code

annual improvements to IFRS (issued May 2010) (subject to EU approval)

IFRS	Subject of amendment	Ref
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	1) Accounting policy changes in the year of adoption 2) Revaluation basis as deemed cost 3) Use of deemed cost for operations subject to rate regulation	N/A – no first time adoption in 2011/12
IFRS 3 <i>Business Combinations</i>	1) Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS 2) Measurement of non-controlling interests 3) Un-replaced and voluntarily replaced share-based payment awards	N/A as Code refers to IFRS 3
IFRS 7 <i>Financial Instruments: Disclosures</i>	Clarification of disclosures	7.1.1.6 and section 7.4.3
IAS 1 <i>Presentation of Financial Statements</i>	Clarification of statement of changes in equity	N/A – clarification that information can be presented in the statement or in the notes is already reflected in the Code
IAS 27 <i>Consolidated and Separate Financial Statements</i>	Transition requirements for amendments arising as a result of IAS 27 Consolidated and Separate Financial Statements	N/A – the transition requirements do not affect local authorities as they did not apply the previous IFRSs; instead, authorities applied IFRS 1 in 2010/11
IAS 34 <i>Interim Financial Reporting</i>	Significant events and transactions	N/A – local authorities do not produce interim financial reports
IFRIC 13 <i>Customer Loyalty Programmes</i>	Fair value of award credits	N/A – Code does not refer to IFRIC 13

list of smaller local government bodies

Adur and Worthing Joint Committee
Anglia Revenues and Benefits Partnership Joint Committee
Association of Greater Manchester Authority
Bramcote Crematorium Joint Committee
Broads Authority
Central Durham Crematorium Joint Committee
Chichester Harbour Conservancy
Chilterns Crematorium Joint Committee
Chorley and South Ribble Shared Services Joint Committee
CNC Building Control Partnership Joint Committee
Colchester And Ipswich Museum Service Joint Committee
Cotswolds Conservation Board
Devon Building Control Partnership Joint Committee
Eastern Sea Fisheries Joint Committee
Eastern Shires Purchasing Organisation
Eltham Crematorium Joint Committee
Humber Bridge Board
Lee Valley Regional Park Authority
Lincs Building Consultancy Joint Committee
London Housing Consortium
London Waste And Recycling Board
National Parking Adjudication Service Joint Committee
Norfolk Joint Museums Committee
Norfolk Joint Records Committee
North Midlands Helicopter (Support Unit) Joint Members Panel
North of England Open Air Museum
Norwich Highways Agency Committee
Partnership For Urban South Hampshire
Portchester Crematorium Joint Committee
Somerset Waste Partnership Joint Committee
South Downs Joint Committee
South East London Waste Disposal Group
South London Waste Partnership
South Thames Gateway Building Control Partnership
South Worcestershire Shared Services Partnership Joint Committee
South Yorkshire Joint Secretariat
Staffordshire E-Government Partnership Joint Committee
Tamar Bridge and Torpoint Ferry Joint Committee
Tees Valley Joint Strategy Unit
Transport For South Hampshire
Tyne and Wear Archives And Museums Joint Committee
West Hertfordshire Crematoria Joint Committee
West Mercia Supplies Joint Committee
West Yorkshire Joint Services Committee
Yorkshire Purchasing Organisation