

report

Paper CL 05 05-09

Committee	CIPFA/LASAAC Local Authority Code Board
Venue	Barcelo Carlton Hotel, Edinburgh
Date	15 May 2009
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Subject	New Sections of Draft 2010 IFRS-Based 'Code'

Issue:	<p>To consider the IFRS-based Code of Practice on Local Authority Accounting, specifically in relation to:</p> <p><i>Proposed amendments to sections approved at previous meetings</i></p> <ul style="list-style-type: none">(a) Pension Fund Accounts(b) Leases(c) Property, Plant and Equipment <p><i>Principles already discussed</i></p> <ul style="list-style-type: none">(d) Financial Statements (including segment reporting and notes to the accounts) <p><i>No or limited changes to the SORP requirements</i></p> <ul style="list-style-type: none">(e) Taxation Income (Council Tax, Residue Community Charge, National Non-Domestic Rates (NNDR) and Rates)(f) Statement of Responsibilities(g) Explanatory Foreword(h) Annual Governance Statement(i) Events after the Reporting Period(j) Related Party Disclosures(k) Financial Instruments and Insurance Contracts(l) Provisions, Contingent Liabilities and Contingent Assets(m) Housing Revenue Account(n) Collection Fund (England)/Council Tax Income Account (Scotland)/Non-Domestic Rate Account (Scotland)(o) Changes in Foreign Exchange Rates(p) Share Based Payments(q) Reporting in Hyperinflationary Economies(r) Principal and Agent Transactions(s) Unequal Pay(t) VAT
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	<p>(u) Trade and Other Payables (v) Landfill Allowance Schemes (w) Business Improvement District Schemes (x) Income Tax Liabilities (Assets) (y) Machinery of Government Changes (e.g. Local Government Reorganisation)</p> <p><i>New material</i></p> <p>(z) Introduction (aa) Concepts and Principles (ab) Accounting Policies, Change in Accounting Estimates and Errors (ac) Group Accounts (ad) Insurance Contracts</p>
Impact on guidance:	The Local Authority SORP is to be replaced from 2010/11; content will be included in the IFRS-Based Code of Practice on Local Authority Accounting
IAS/IFRS compliant?	Yes, except for the same interpretations as the i-FReM in respect of (c), (i), (j), (o), (q) and (y); and interpretations in respect of (a), (d), (i), (j), (k), (u), (ab) and (ac).
IPSAS compliant?	Yes, except for the same interpretations as the i-FReM in respect of (i) and (o); and interpretations in respect of (d), (i), (ab) and (ac).
SORP consistent?	Yes, except for differences in respect of (a), (b), (c), (d), (i), (j), (x), (aa), (ab), (ac) and (ad).
i-FreM consistent?	Yes, except for differences in respect of (a), (c), (d), (g), (i), (j), (k), (u), (aa), (ab) and (ac).
Impact on Taxation	No, except for (b).
Recommendation:	That the Board approves: <ul style="list-style-type: none"> (i) the proposed IAS/IFRS and IPSAS adaptations/interpretations arising from the local authority context and i-FReM differences; and (ii) the attached sections of the draft IFRS-based Code of Practice on Local Authority Accounting.
Timing:	2010/11

DETAIL

Background

- At its meeting held on 15 April 2008, CIPFA/LASAAC agreed the format and structure of the IFRS-based Code of Practice.
- This report considers the sections of the draft IFRS-based Code of Practice on Local Authority Accounting listed above. The report considers these sections on an exceptions basis, with any differences from IAS / IFRS, IPSAS and the i-FReM highlighted for consideration. Differences from the SORP, and any possible impact on taxation are also

highlighted for information. CIPFA/LASAAC is asked to consider and approve the sections of the draft IFRS-based Code, or suggest amendments.

Sections of the Code

Proposed amendments to sections approved at previous meetings

(a) Pension Fund Accounts

IAS/IFRS compliant?	Yes except that Pension Fund accounts for Police and Fire and Rescue Services are based on statutory requirements, and that a restriction is placed on the option to include pension liabilities in the financial statements.
IPSAS compliant?	N/A (no IPSAS yet on retirement benefit plans).
SORP consistent?	Yes, except for the additional requirement that the “the actuarial present value of promised retirement benefits” be disclosed.
i-FreM consistent?	Yes, with the exception that the i-FReM specifies the presentation of the pension liabilities whereas the Code retains the options set out in IAS 26.
Impact on Taxation	None.

4. The Code Board approved the Code section on ‘Accounting and Reporting by Pension Funds’ except that it was agreed:

- (a) including requirements additional to the minimum *IAS 26* requirements needed to be carefully considered and justified;
- (b) minor wording amendments should be made to paragraphs 6.5.1.2 and 6.5.1.3; and
- (c) it should be made clear that where disclosure ‘Option A’ (ie inclusion of the ‘actuarial present value of promised retirement benefits’ in the Net Assets Statement) is chosen, a full actuarial valuation at the Balance Sheet date was not required but that rather it was acceptable to roll forward the last triennial valuation using the same actuarial techniques as would be used between full triennial valuations.

5. *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 standards apply to the extent that they are not superseded by specific *IAS 26* requirements. This means most particularly that where relevant and not countermanded by specific *IAS 26* requirements, the financial instruments standards and *IAS 19* postemployment benefits requirements have significant application. It is the Secretariat’s view, that it is appropriate to include key requirements from other IFRS standards in the section in order to make the section more compete, meaningful and useful to practitioners. The changes from the document considered by CIPFA/LASAAC in March 2009 are shown track-changed in the revised section of the Code.

(b) Leases

IAS/IFRS compliant?	Yes
IPSAS compliant?	Yes
SORP consistent?	Yes, except for the requirement to separate leases of land and buildings
i-FreM consistent?	Yes
Impact on Taxation	Possible impact where leases are reclassified, subject to any mitigating regulations introduced by governments.

5. The draft Code implements the requirements of IAS 17 and IPSAS 13 in full with no adaptations or interpretations. The accounting requirements in the draft Code are therefore consistent with those in the i-FReM.

6. Since CIPFA/LASAAC Code board last considered this section of the Code, amendments have been made to the charges to the General Fund in respect of finance leases in Scotland and Northern Ireland, and the transitional arrangements now reflect the need for updated statutory guidance in respect of MRP adjustments. Guidance on the implications of IFRIC 4 has also been incorporated into the section.

7. With these exceptions, no changes to the principles previously agreed have been made.

(c) Property, Plant and Equipment

IAS/IFRS compliant?	Yes, except the draft Code adopts the interpretation of 'value in use for assets that are not held for the purposes of generating cash flows in the same way as in the i-FReM and IPSAS 17.
IPSAS compliant?	Yes
SORP consistent?	Yes, except: <ul style="list-style-type: none">• The draft Code uses the same recognition criteria for subsequent expenditure as initial expenditure with regard to capitalisation. The SORP has separate criteria for enhancement expenditure i.e. expenditure can be capitalised where the expenditure '<i>extends the economic life of the asset</i>', which is not a requirement of the draft Code. However, it is not expected that this will result in different accounting treatments.• A greater emphasis is placed on component accounting under <i>IAS 16</i> i.e. the requirement to separately identify two or more components of an asset for depreciation purposes where the useful life or depreciation method is different and the cost of the components are significant in relation to the total cost of the asset• The draft Code requires where a component is replaced or restored, the carrying amount of the old component is derecognised and the new component reflected in the carrying amount. This requirement must be done irrespective of whether the component has been separately identified for depreciation purposes (see

	bullet point above). This is not a requirement under the SORP
	<ul style="list-style-type: none"> • Unlike the SORP, renewals accounting is not permitted under the draft Code
i-FreM consistent?	Yes, except: <ul style="list-style-type: none"> • The option to use either the cost model or valuation model after initial recognition for certain classes of PPE assets is retained, • The draft Code follows a different accounting treatment of revaluation gains or losses for fixed assets financed from government grants
Impact on Taxation	Nil

8. Since CIPFA/LASAAC Code Board last considered this section of the Code, discussions have taken place with the FRAB Secretariat and HM Treasury, in relation to the meaning of 'fair value' when valuing PPE that are required to be carried at fair value under the draft Code. The following amended definition (which has been agreed in principle with the RICS) has been included in the draft Code:

'Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arms length transaction. For this section of the Code, fair value is to be interpreted as the amount that would be paid for the asset in its existing use. This requirement is met by providing the exiting use value (EUV) in accordance with UKPS 1.3 of the RICS Valuation Standards'.

9. The reasons for proposing this amended definition are as follows:

- Existing use value better reflects the service potential of the asset, including the fact that any alternative use value may not be realisable in practice (e.g. where there is a service requirement to have a school in a particular area, the option of disposing of the site will often not be available);
- This approach is consistent with that adopted in the i-FReM and will avoid consolidation adjustments being required; and
- The IASB has yet to clarify the definition of fair value, and moving to an alternative use basis now could lead to two changes in the basis for valuations in quick succession.

10. The definition of fair has also been amended in the relevant sections of the draft Code with regard to investment property and assets held for sale, to clarify that assets classified under these sections of the draft Code will be valued at market value. The amended definition is as follows:

'Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. For this section of the Code, fair value is to be interpreted as the amount that would be paid for the asset in its highest and best use, ie market value'.

Principles already discussed

(d) Financial Statements (including segment reporting and notes to the accounts)

IAS/IFRS compliant?	Yes, with the exception that the Code is more prescriptive in the requirements for financial statements, and adopts an interpretation of IFRS 8.
IPSAS compliant?	Yes, with the exception that the Code is more prescriptive in the requirements for financial statements.
SORP consistent?	The format of the financial statements have been amended
i-FreM consistent?	The format of the financial statements are different to those in the i-FReM, reflecting the differing governance positions and different audiences for the financial statements.
Impact on Taxation	Nil

11. The Code sets out the minimum requirements for presenting financial statements. These requirements are consistent with IAS 1 and IPSAS 1, however by specifying the format of the statements the Code effectively removes options within the standards.

12. The Code interprets the requirements of IFRS 8 by permitting authorities to report segment information on the basis of either BVACOP or internal management arrangements.

13. The i-FReM also interprets the format of the statements and the requirements of IFRS 8, but these interpretations are different from those in the Code as the entities covered have different governance arrangements and different audiences for the financial statements.

14. The Code's requirements are different from those of the SORP as different financial statements, different formats and different notes are required. These differences are presentational, and have no implications for taxation.

No or limited changes to the SORP requirements

(e) Taxation Income (Council Tax, Residue Community Charge, National Domestic Rates (NDR) and Rates)

IAS/IFRS compliant?	Yes
IPSAS compliant?	Yes
SORP consistent?	Yes
i-FreM consistent?	N/A
Impact on Taxation	Nil

15. The accounting principles follow those contained in the draft Code (ie principal and agent transactions) and as such follow IAS, IFRS and IPSAS. The accounting for council tax, residue community charge, national domestic rates (NDR) and rates is not relevant to central government and therefore are not covered by the i-FReM.

16. The Code continues the SORP's accounting treatment.

(f) Statement of Responsibilities

IAS/IFRS compliant?	N/A
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IPSAS compliant?	N/A
SORP consistent?	Yes
i-FreM consistent?	Yes
Impact on Taxation	Nil

17. There is no requirement in IFRS or IPSAS to include a statement of responsibilities with the financial statements. The Code continues the SORP requirement to present such a statement. This is in line with the i-FReM.

(g) Explanatory Foreword

IAS/IFRS compliant?	N/A
IPSAS compliant?	N/A
SORP consistent?	Yes
i-FreM consistent?	The i-FReM requires a directors' report to be produced
Impact on Taxation	Nil

18. There is no requirement in IFRS or IPSAS to include an explanatory foreword with the financial statements. The Code continues the SORP requirement to present such a foreword. Whilst this requirement is different to that of the i-FReM, which requires a directors' report to be produced, the aim and content of the foreword is similar to that of the directors' report. The detail of the information required is different, reflecting the differing legal status of the bodies and different users of the accounts.

(h) Annual Governance Statement / Statement of Internal Control

IAS/IFRS compliant?	N/A
IPSAS compliant?	N/A
SORP consistent?	Yes
i-FreM consistent?	Yes
Impact on Taxation	Nil

19. There is no requirement in IFRS or IPSAS to include an Annual Governance Statement or Statement of Internal Control with the financial statements. The Code continues the SORP requirement to present such a statement. The i-FReM requires entities to present a Statement of Internal Control; whilst an Annual Governance Statement would be more wide-ranging than a Statement of Internal Control, both statements have the same purpose.

(i) Events after the Reporting Period

IAS/IFRS compliant?	Yes, except for the same interpretation as the i-FReM in respect of going concern and an interpretation to reflect regulations in respect of the authorised for issue date.
IPSAS compliant?	Yes, except for the same interpretation as the i-FReM in respect of going concern and an interpretation to reflect regulations in respect of the authorised for issue date.

SORP consistent?	Yes, except that authorised for issue process in Northern Ireland will be the same as for England, Wales and Scotland.
i-FreM consistent?	Yes, except for the interpretation to reflect regulations in respect of the authorised for issue date.
Impact on Taxation	Nil

20. The Code interprets IAS 10 and IPSAS 14 by stating explicitly that a machinery of government change does not negate the going concern presumption. This is in line with the i-FReM.

21. For local authorities, regulations and accounts directions define the process by which accounts are authorised for issue. The Code interprets IAS 10 and IPSAS 14 to ensure compliance with the regulations and accounts directions. The i-FReM has a similar interpretation that reflects the specific circumstances in central government.

22. SORP 2009 was amended to reflect the legal advice obtained by the Wales Audit Office. The treatment for England, Scotland and Wales is therefore broadly comparable. As the wording of the regulations in Northern Ireland is the same as those in Wales, the Code adopts this treatment for all four jurisdictions. As the approach is the same across the UK, the need for detailed tables is removed and the Code sets out the requirements in narrative format.

(j) Related Party Disclosures

IAS/IFRS compliant?	Yes, except for the same interpretation as the i-FReM regarding materiality in terms of disclosures, and the additional guidance provided by IPSAS 20 which covers entities that are not deemed to be related parties, ie providers of finance, trade unions, and entities with which the relationship is solely that of an agency.
IPSAS compliant?	Yes
SORP consistent?	Yes, except for the disclosure of additional information
i-FreM consistent?	Yes, except for the additional guidance provided by IPSAS 20
Impact on Taxation	Nil

23. The draft Code interprets IAS 24 by stating that materiality shall be judged from the viewpoint of both the authority and the related party and is therefore consistent with the i-FReM.

24. The additional guidance from IPSAS 20 has been incorporated within the draft Code. This guidance covers entities that are not deemed to be related parties, ie providers of finance in the course of their business in that regard and trade unions, 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.

25. The draft Code requires additional information to be disclosed compared to the SORP. This additional information relates to the disclosure of outstanding balances.

(k) Financial Instruments

IAS/IFRS compliant?	Yes except for: <i>(a) 'Regular way' trades of financial assets</i>
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IAS 39 permits either 'trade date' or 'settlement date' accounting to be used for 'regular way' trades of financial assets. This discretion is not permitted by the Code, which required the trade date to be used.

(b) Designation of the category of a financial instrument

Under *IAS 39*, subject to restrictions, it is in certain circumstances permitted to 'designate' a financial instrument to a different category to the one to which it would inherently belong under *IAS 39*. The Code does not permit such designation.

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

The Code provides an interpretation of how the 'prevailing interest rate' at which a borrower to whom it has advanced a 'soft loan' could have borrowed in an arm' length transaction.

(d) Soft loans received by an authority – 'prevailing interest rate'

For the purposes of calculating the fair value on initial recognition of a soft received by a local authority, the Code provides an interpretation of how the 'prevailing interest rate' at which it could have borrowed in an arm' length transaction shall be determined.

(e) Lender Option Borrower Option Loans (LOBOs)

The Code requires options embedded in a LOBO shall not be separately accounted; and that the contractual life and contractual cash flows shall be used as the expected life of a LOBO when calculating the effective interest rate on initial recognition. However, the requirements have been caveated in the Code by the phrases "*unless after considering the contractual terms of the instrument the authority concludes that IAS 39 would require the embedded options to be accounted for separately*" and "*unless on considering the contractual terms of the instrument the authority concludes it is able to estimate reliably the expected cash flows or expected life*".

(f) Accounting for immaterial transaction costs on initial recognition

The Code gives an option to write off immediately to surplus or deficit on services transaction costs that the Code would usually require to be applied to adjust a financial instrument's initial carrying amount, where they are immaterial.

(g) Exchanges of debt instruments

The Code (and IAS 39) requires under defined circumstances, the gain or loss on an exchange of debt instruments between an existing borrower and lender to be used to adjust the carrying amount, rather than be recognised immediately in surplus or deficit on services. The Code has interpreted this as requiring the exchange of loan instruments and associated settlement of any fees or costs incurred (ie premiums and discounts) to take place on the same day and as not requiring 'net settlement' as long as any payments between the lender and borrower are made on the same day.

IPSAS compliant?	Compliant with IPSAS exposure drafts on financial instruments, which are currently out for consultation.
SORP consistent?	Yes – the UK financial instruments accounting standards on which the SORP was based are converged with the equivalent IFRS standards and the two sets of standards are substantively identical.
i-FreM consistent?	Yes
Impact on Taxation	None

26. The 2009 SORP has the same requirement with regard to 'Trade Date' accounting for *'Regular way' trades of financial assets* and its aim is to ensure local authorities follow a consistent approach.

27. The 2009 SORP has the same requirement with regard to not permitting 'designation' of the category of a financial instrument. Its aim is to ensure local authorities follow a consistent approach.

28. The 2009 SORP has the same requirement with regard to the interpretation of 'prevailing interest rate' in the context of an authority advancing a 'soft loan'. Local voluntary bodies, to which such loans are often advanced, may not have an easily ascertainable 'credit rating' and its aim is to suggest a practical approach to deal with this.

29. The 2009 SORP did not cover soft loans received by a local authority but the matter was included in the SORP Guidance Notes. It has been included in the Code. The accounting requires the prevailing interest rate at which the authority could have borrowed on similar terms in an arm's length transaction to be determined so that amount of the 'grant' (or subsidy) being received by the authority can be calculated. The PWLB interest rate would usually be the appropriate arm's length rate and authorities are required to use it unless they have reliable evidence that they could borrow more cheaply from another lender.

30. SORP 2009 contains similar requirements with regard to accounting for LOBOs. It is CIPFA/LASAAC's view that the known types of LOBOs would be required to be accounted for in this way under UK GAAP (*FRS 29*). In the Secretariat's view, this accounting analysis remains valid under IFRS (*IAS 39*) and the Code contains the same requirements. However, in the Code these requirements have been caveated to emphasis that the accounted analysis depends on the particular contractual terms of the specific financial instrument for which the authority needs to account.

31. With regard to exchanges of debt instruments, overwhelmingly the main lender to local authorities is the Public Works Loan Board (PWLB), which is not permitted to settle debts which are redeemed net of the funds advanced in 'replacement loans' even where the transactions occur on the same day. The Code has interpreted 'exchange' in a way that would not automatically rule out debt restructuring involving PWLB loans being accounted for as a loan exchange. The 2009 SORP contains a similar requirement.

(l) Provisions, Contingent Liabilities and Contingent Assets

IAS/IFRS compliant?	Yes
IPSAS compliant?	Yes
SORP consistent?	Yes
i-FreM consistent?	Yes
Impact on Taxation	Nil

32. The draft Code implements the requirements of IAS 37 and IPSAS 19 in full with no adaptations or interpretations. The accounting requirements in the draft Code are therefore consistent with those in the i-FReM.

(m) Housing Revenue Account

IAS/IFRS compliant?	Yes
IPSAS compliant?	Yes
SORP consistent?	Yes
i-FreM consistent?	Yes
Impact on Taxation	Nil

33. The HRA is a statutory account. The Code requires authorities to account for the HRA in accordance with proper accounting practice, and in this regard the requirements are consistent with IFRS, IPSAS and the i-FReM. Where amounts to be charged to the HRA in accordance with statute differ from those in accordance with proper practice, the differences are addressed as movements in reserves.

34. The format of the HRA statements has been amended since the SORP to reflect the format of the new financial statements elsewhere in the Code. There are no substantive changes.

(n) Collection Fund (England)/Council Tax Income Account (Scotland)/Non-Domestic Rate Account (Scotland)

IAS/IFRS compliant?	N/A
IPSAS compliant?	N/A
SORP consistent?	Yes
i-FreM consistent?	N/A
Impact on Taxation	Nil

35. The Collection Fund (England), Council Tax Income Account (Scotland) and Non-Domestic Rate Account (Scotland) are statutory statements.

36. There is no requirement in IFRS, IPSAS or i-FReM to include these Statements. The Code continues the SORP requirement to present these statements.

(o) Changes in Foreign Exchange Rates

IAS/IFRS compliant?	Yes, except for the same interpretation as the i-FReM regarding the functional and presentational currency.
IPSAS compliant?	Yes, except for the same interpretation as the i-FReM regarding the functional and presentational currency.
SORP consistent?	Yes
i-FreM consistent?	Yes
Impact on Taxation	Nil

37. IAS 21 permits entities to choose a presentational currency, and sets out the translation process to be followed. The Code interprets IAS 21 and requires authorities to adopt pounds sterling as the presentational currency. The i-FReM has the same interpretation.

38. The requirements of the Code are the same as those in the SORP.

(p) Share Based Payments

IAS/IFRS compliant?	Yes
IPSAS compliant?	N/A (No IPSAS on share based payments)
SORP consistent?	Yes
i-FreM consistent?	Yes
Impact on Taxation	Nil

39. The Code notes that it is unlikely that local authorities will make any payments that meet the definition of a share-based payment. However, where they do so they are required to account for the payments in accordance with IFRS 2. The i-FReM adopts the same approach.

40. The requirements of IFRS 2 are the same as those in the SORP.

(q) Reporting in Hyperinflationary Economies

IAS/IFRS compliant?	Yes, expect for the same interpretation as the i-FReM regarding the clarification of which organisation will notify classification of the economy as hyperinflationary.
IPSAS compliant?	Yes
SORP consistent?	Yes
i-FreM consistent?	Yes
Impact on Taxation	Nil

41. The draft Code implements IAS 29 and IPSAS 10 in full, with one interpretation which states that HM Treasury will notify classification of the economy as hyperinflationary if appropriate. The i-FReM has the same interpretation.

42. The requirements of the Code are the same as those in the SORP.

(r) Principal and Agent Transactions

IAS/IFRS compliant?	Yes
IPSAS compliant?	Yes
SORP consistent?	Yes
i-FreM consistent?	Yes
Impact on Taxation	Nil

43. This section of the draft Code covers the accounting treatment of transactions within an authority's financial statements with regard to the general principle of whether the authority is acting as the principal or agent. This is consistent with the treatment required in IFRS, IPSAS and the i-FReM.

44. The SORP incorporated the general principle of whether the authority is acting as the principal or agent, and there are therefore no changes from the SORP requirements.

(s) Unequal Pay

IAS/IFRS compliant?	Yes
IPSAS compliant?	Yes
SORP consistent?	Yes
i-FreM consistent?	Yes
Impact on Taxation	Nil

45. The Code requires authorities to follow proper practice in recognising provisions for claims for unequal pay, and in this regard is consistent with IFRS, IPSAS and the i-FReM.

46. The Code also sets out the accounting treatment in relation to the statutory provisions on unequal pay. These are unchanged since the SORP, and there are therefore no taxation implications.

(t) VAT

IAS/IFRS compliant?	N/A
IPSAS compliant?	N/A
SORP consistent?	Yes
i-FreM consistent?	Yes
Impact on Taxation	Nil

47. There is no IAS, IFRS or IPSAS specifically in relation to Value Added Tax (VAT) and as a result the draft Code follows SSAP 5 Accounting for Value Added Tax, in line with the agreed hierarchy of Standards. Authorities apply specific rules for the recovery of VAT. The i-FReM is silent on the accounting for VAT, although central government departments' following SSAP 5 for the account of VAT and apply specific rules for the recovery of VAT.

48. As the requirements are based on UK GAAP, there are no changes from the SORP requirements.

(u) Trade and Other Payables

IAS/IFRS compliant?	Yes, except for the interpretation of IAS 39 in respect of the measurement of trade and other payables arising from non-exchange transactions
IPSAS compliant?	Yes
SORP consistent?	Yes
i-FreM consistent?	Yes, except for the interpretation of IAS 39 in respect of the measurement of trade and other payables arising from non-exchange transactions
Impact on Taxation	Nil

49. The draft Code follows the principles of expenditure recognition, and the relevant elements of; IAS 18, IAS 39 and IPSAS 23. The i-FReM does not specifically deal with trade and other payables, although the general principle of accruals is applied.

50. The draft Code includes an interpretation of IAS 39, which has a direct impact on the measurement of trade and other payables, where payables arising from non-exchange transactions (i.e. council tax) shall be measured at the full amount payable. This is because, for non-exchange transactions, there can be no difference between the delivery and payment dates. The i-FReM is silent on this issue.

(v) Landfill Allowance Schemes

IAS/IFRS compliant?	N/A
IPSAS compliant?	N/A
SORP consistent?	Yes
i-FreM consistent?	Yes
Impact on Taxation	Nil

51. Landfill Allowance Trading Schemes in England and Scotland are 'cap and trade' schemes. As there is currently no IFRS, IPSAS or UK GAAP that covers these transactions, the Code adopts the accounting treatment set out in the proposed UITF Abstract on Emission Rights (Information Sheet No. 61). The i-FReM adopts the same approach for EU Greenhouse Gas Emission Allowance Trading Directive.

52. Landfill Allowance Schemes in Wales and Northern Ireland are not 'cap and trade' schemes, and follow the normal Code requirements for recognition of income and expenditure.

53. The treatment adopted in the Code is the same as that in the SORP. There are therefore no changes since the SORP, and no taxation implications.

(w) Business Improvement District Schemes

IAS/IFRS compliant?	Yes
IPSAS compliant?	Yes
SORP consistent?	Yes
i-FreM consistent?	Yes

Impact on Taxation	Nil
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54. The Code sets out the accounting requirements for Business Improvement District (BID) schemes. The Code requires authorities to follow proper accounting practice by accounting for BID schemes on either a principal or agent basis as appropriate. The treatment is therefore consistent with that required by IFRS, IPSAS and the i-FReM.

55. The SORP also required authorities to account for BID schemes on either a principal or agent basis as appropriate, and there is therefore no change to the requirements.

(x) Income Tax Liabilities (Assets)

IAS/IFRS compliant?	Yes
IPSAS compliant?	N/A (No IPSAS on Income Tax Liabilities (Assets))
SORP consistent?	Yes, except for the different accounting treatment of deferred tax in terms of discounting and recognition
i-FreM consistent?	Yes
Impact on Taxation	Nil

56. The draft Code implements IAS 12 in full with no adaptations or interpretations and is therefore consistent with the i-FReM. The draft Code includes different accounting treatment in relation to deferred tax:

- The Code does not permit the discounting of deferred tax, but the SORP allows discounting, but does not require it.
- Under the Code, deferred tax is recognised on the basis of temporary differences (subject to certain exceptions). Temporary differences include all timing differences and many permanent differences. Under the SORP, deferred tax is recognised on the basis of timing differences (subject to certain exceptions) and should not be recognised on permanent differences.
- Under the Code, deferred tax should always be recognised on revaluation gains (the difference between the revalued amount of the asset and its tax base). Under the SORP, deferred tax on revaluation gains is only recognised under certain conditions.

(y) Machinery of Government Changes (e.g. Local Government Reorganisation)

IAS/IFRS compliant?	Yes, expect for the same interpretation of IFRS 3 as the i-FReM in respect of machinery of government changes which will be accounted for using merger accounting
IPSAS compliant?	N/A (No IPSAS on Business Combinations)
SORP consistent?	Yes
i-FreM consistent?	Yes
Impact on Taxation	Nil

57. The draft Code sets out the accounting requirements for machinery of government changes. Chapter 10 of the Code (Group Accounts) includes an interpretation of IFRS 3 that machinery of government changes (e.g. local government reorganisation) are deemed to be

a combination of businesses under common control and as such excluded from the scope of IFRS 3 and therefore accounted for using merger accounting. This treatment is consistent with the i-FReM.

58. The SORP also required authorities to account for machinery of government changes to be accounted for using merger accounting, and therefore there is no change to the requirements.

New Material

(z) Introduction

IAS/IFRS compliant?	N/A
IPSAS compliant?	N/A
SORP consistent?	Yes
i-FreM consistent?	N/A
Impact on Taxation	Nil

59. The introduction sets out the objective and applicability of the Code, and outlines the relationship of the Code and the hierarchy of accounting standards.

60. The introduction is broadly consistent with the introduction to the SORP, but reflects the new hierarchy of standards and makes the link with the standards more explicit.

(aa) Concepts and Principles

IAS/IFRS compliant?	Yes (in relation to Framework)
IPSAS compliant?	Yes (in relation to Framework)
SORP consistent?	Yes, except the draft Code introduces different criteria for recognition and basis of measurement for some elements of the financial statements
i-FreM consistent?	Yes, except for the different criteria for recognition and basis of measurement for some elements of the financial statements
Impact on Taxation	Nil

61. The draft Code sets out the objective, underlying assumptions and qualitative characteristics of financial statements, as set out in the IAS Framework for the Preparation and Presentation of Financial Statements.

62. The draft Code is consistent with the I-FReM and SORP except the relevant sections of the draft Code include different criteria for recognition and basis of measurement for some elements of the financial statements. These differences have been highlighted when reporting the sections to CIPFA/LASAAC Code Board.

(ab) Accounting Policies, Change in Accounting Estimates and Errors

IAS/IFRS compliant?	Yes, except for the interpretation of IAS 8 in respect of disclosing information about the impact of IFRS issued but not in effect.
IPSAS compliant?	Yes, except for the interpretation of IPSAS 3 in respect of disclosing information about the impact of IPSAS issued but not

	in effect.
SORP consistent?	New requirement
i-FreM consistent?	Yes, except for the interpretation of IAS 8 in respect of disclosing information about the impact of IFRS issued but not in effect.
Impact on Taxation	Nil

63. IAS 8 and IPSAS 3 require an entity to disclose the effect of an IFRS or IPSAS that has been issued but not yet come into effect. The i-FReM adopts this requirement. The Code interprets this requirement.

64. Regulations define proper practice for local authorities as compliance with the Code rather than compliance with the standards. It is therefore appropriate that local authorities make disclosures based on a new edition of the Code rather than standards that have been issued, as the Code may interpret or adapt the standard. Changes to be disclosed will be identified in the later edition of the Code.

65. The SORP requires authorities to correct prior period errors where the errors are fundamental. The Code, in line with IAS 8 and IPSAS 3, requires restatement for material errors, which may lead to restatements being required more frequently. The i-FReM has also adopted this approach.

66. The Code requires disclosure of future changes to accounting policies; this is not required by the SORP.

(ac) Group Accounts

IAS/IFRS compliant?	Yes, except for the interpretation of IAS 27 which requires an authority to produce group accounts where it has investments in associates and/or interests in joint ventures (jointly controlled entities) but no interests in subsidiaries, and the interpretation of IFRS 3 in respect of machinery of government changes which will be accounted for using merger accounting
IPSAS compliant?	Yes
SORP consistent?	Yes, except for: <ul style="list-style-type: none"> • the differences in the timeframes of consolidating non-coterminous reported financial statements of subsidiaries, associates or joint venture's • the different calculation of the gain or loss on disposal of a subsidiary • the potential expansion of boundaries for consolidation of associates and jointly controlled entities • the different methods of consolidation of jointly controlled entities (ie proportionate consolidation and equity method) • differences in the timing of when fair value of assets, liabilities and goodwill are measured and recognised (ie where the acquisition takes place in stages), differences with regard to accounting for goodwill (ie impairment) and differences in the treatment of 'negative goodwill'

i-FreM consistent?	Yes, except for the interpretation of IAS 27 (see above) and the interpretation within the i-FReM relating to criteria for the consolidating of central government departments by the reporting central government department
Impact on Taxation	Nil

67. The draft Code implements IAS 27, IAS 28, IAS 31 and IFRS 3 in full, with two interpretations:

- IAS 27 interpretation; Where an authority has investments in associates and/or interests in joint ventures (jointly controlled entities) but no interests in subsidiaries, group accounts that include these interests in associates and joint ventures (jointly controlled entities) shall still be prepared.
- IFRS 3 interpretation; Machinery of government changes (ie local government reorganisation) are deemed to be a combination of businesses under common control and as such machinery of government changes are excluded from the scope of this section of the draft Code (see (y) Machinery of Government Changes (e.g. Local Government Reorganisation), above).

68. The interpretation of IFRS 3 above follows the i-FReM. The i-FReM also includes an additional interpretation in relation to the inclusion of criteria for consolidating central government departments by the reporting central government department. The relationship between central government departments is different than in local government and therefore this interpretation is not required in the draft Code.

69. The draft Code is consistent with the SORP, except for:

- The draft Code allows consolidation of non-coterminous reported financial statements where the subsidiary, associate or joint venture's period end is within three months of the period end of the authority. The SORP permits consolidation of the subsidiary, associate or joint venture's reported results where their period end is no more than three months before the authority's reporting year end.
- The calculation of the gain or loss on disposal of a subsidiary differs. Under the draft Code, it excludes goodwill previously written off to reserves. Under the SORP goodwill previously written off to reserves is included in the calculation of the gain or loss on disposal.
- The SORP's definition of an associate focuses on 'the ability to exercise' significant influence whereas under the draft Code the focus is on the 'power to participate in the financial and operating policy decisions of the investee'. This could mean some differences in interpretation of those entities brought into the group accounts.
- Under the SORP, joint ventures are defined as 'an entity in which the reporting authority has an interest on a long-term basis and is jointly controlled by the reporting authority and one or more other entities under a contractual or other binding arrangement'. The draft Code defines joint ventures as 'a contractual or binding arrangement whereby two or more parties undertake an activity which is subject to joint control'. The SORP's definition is therefore narrower than the draft Code, which could mean some differences in interpretation of those entities brought into the group accounts.

- The SORP requires the use of the gross equity method for the consolidation of jointly controlled entities. The draft Code requires the use of proportionate consolidation or equity method.
- There are differences to the SORP in respect of the timing of when fair value of assets, liabilities and goodwill are measured and recognised (ie where the acquisition takes place in stages). Differences also exist with regard to accounting for goodwill; under IFRS 3 goodwill is not amortised but subject to impairment testing as required by IAS 36 Impairment of Assets (see chapter 4 section 7 of the Code), under the SORP, there is a rebuttable presumption that the useful life of goodwill does not exceed 20 years, but it permits an indefinite useful life and includes annual impairment reviews. In addition there are differences in the accounting treatment of 'excess of acquirer's interest in the net fair value of acquiree's' (referred to as 'negative goodwill' in the SORP).

(ad) Insurance Contracts

IAS/IFRS compliant?	Yes
IPSAS compliant?	N/A (no IPSAS on Insurance Contracts)
SORP consistent?	Insurance contracts were not covered by the SORP
i-FreM consistent?	Yes
Impact on Taxation	Nil

70. IFRS 4 sets out specific accounting requirements for insurance contracts. These apply only to entities issuing insurance contracts, not policy holders and are therefore unlikely to apply to local authorities. In line with the i-FReM, the Code requires authorities to comply with the IFRS where they issue contracts covered by the standard.

71. Insurance contracts were not covered by the SORP, as there was no UK standard that addressed this issue. An Insurance SORP applied to insurance companies.