

### **Balance Sheet under IFRS - Discussion Points**

In IFRS, the Balance Sheet is referred to as the "Statement of Financial Position". However, this name does not have to be used in the Statement of Accounts, and CIPFA could use any name for this statement provided it helped users understand the purpose of the statement.

**The Working Group is asked for its views as to whether CIPFA should refer to the statement as a Balance Sheet, Statement of Financial Position or another title. It would be helpful if the group could indicate why the preferred title would help users understand the purpose of the statement.**

*IAS 1 Presentation of Financial Statements* sets out the lines that are required to be included in the Balance Sheet. These are the minimum requirements, and the lines can be disaggregated where this will help users to understand the accounts. Sub-totals and headings can also be added to provide more information that will make the statement more understandable, and the order of the lines can be amended if this will make the statement easier to follow. Current and Non-Current items (short term and long term in current terminology) also have to be shown separately (unless items are shown in order of liquidity, which would not be relevant to local authorities).

Using just the minimum lines required by IAS 1 would result in a Balance Sheet that included less detail than the current Balance Sheet format in the SORP. In the sample formats provided, this minimum level is shown as IFRS Format 1. A consequence of this reduced level of detail in the Balance Sheet might be that more information would be required in the Notes to the Accounts.

**The Working Group is asked to consider if this minimum level of detail is the appropriate level of detail for local authority accounts? Will the reduced length assist users to understand the statement, or will the reduced level of detail make understanding more difficult?**

The examples IFRS Format 2 and IFRS Format 3 show differing levels of detail in the Balance Sheet. IFRS Format 3a is a variation on IFRS Format 3, and is discussed in the next section. IFRS Format 4 is based on a discussion paper issued by the International Accounting Standards Board (along with the American FASB) and is discussed at the end of these notes.

These examples show that the format of the Balance Sheet needs to balance additional clarity by including more detailed lines and simplicity, achieved by including fewer lines. The examples have increase clarity by subdividing single lines in earlier examples, but it would also be possible to further subdivide other lines. For example Non Current Financial Assets such as investments could be shown on different lines depending on the type of asset or investment, and how the value on the Balance Sheet was measured. This would result in different lines for investments recorded using the amortised cost method and investments that were classified as available for sale.

**The Working Group is asked to comment on the sample formats, indicating their preference for a format, and also indicating whether other lines should be subdivided or whether some lines should be combined (provided the minimum requirements of IAS 1 are still achieved). It would be helpful if the Working Group could indicate how its preferences would assist users to understand the accounts, and how specific changes to a format would achieve this.**

In the example IFRS Formats, the decision has been taken to show reserves in two groups - those available to fund services (such as the General Fund and Capital Receipts Reserve) and those that are not available to fund services, but arise out of the operation of proper accounting practices or regulations / statutory guidance (such as the Capital Adjustment

Account and Revaluation Reserve). This decision is based on responses to the Back to Basics consultation, which suggested that many users would not understand the nature of the reserves, and may therefore assume the funds available to a local authority are different to the true position. Example IFRS Format 3a shows the reserves split into three groups, the second group of reserves (those that are not available to fund services) being further separated into two sub groups - those that represent unrealised gains or losses (such as the Revaluation Reserve and the Available-for-Sale Financial Instruments Reserve), which will not be available to fund services unless and until the assets etc. are sold; and those that represent items whose impact on taxation has been deferred by regulations / statutory guidance (such as the Capital Adjustment Account and Pensions Reserve), which will be charged / credited to the General Fund (or HRA) over time. This example is included as this additional separation may make it easier to explain the purpose and nature of the reserves.

**The Working Group is asked to consider whether separating the reserves into two groups will assist users to understand the accounts. Will keeping those reserves which can be used to fund services separate from those that cannot make it easier to identify the resources available to local authorities? Should the second group of reserves be further subdivided as suggested above? Would this further subdivision assist users to understand the nature of the reserves, or would the additional complexity make the statement less clear? If reserves are divided into those that are available to fund services, those that represent unrealised gains and those that will be charged or credited to the General Fund / HRA over time, how should these be described in the statement to make their purpose clear to users of the accounts?**

In the example IFRS Format 3a, the Pensions Reserve is shown in the Reserves (deferred impact on taxation) section of the Balance Sheet. However, at present the reserve collects two types of transactions. The first set of transactions is the difference between the FRS 17 charges to the Income and Expenditure Account and the amount that can be charged to the General Fund under regulations. The second set of transactions is the actuarial gains and losses that FRS 17 does not require to be charged to the Income and Expenditure Account. At present, the first set of transactions appears in the Statement of Movement on the General Fund Balance (SMGFB), and the second in the Statement of Total Recognised Gains and Losses (STRGL). It might be easier for both users and practitioners to relate the Balance Sheet to the STRGL if the Pensions Reserve were separated into two parts; entries in the STRGL would then be represented solely by changes in the "Reserves (unrealised gains or losses)" group of reserves and changes in that part of Pensions Reserve dealing with actuarial gains and losses. Please note that both the SMGFB and STRGL will change under IFRS, but the principles will remain.

**The Working Group is asked to consider whether separating the Pensions Reserve into two elements would assist users in understanding the purpose of the reserves and the links to other statements in the accounts.**

As mentioned above, the International Accounting Standards Board has issued a joint discussion paper with the American FASB. This paper considers the format of financial accounts and how these could be made more useful to users. The discussion is centred on the needs of the private sector, and elements would not be relevant to local authorities. For example, many of the proposed changes are aimed at assisting investors identify how much of a business's revenue has been generated from cash sales and how much from credit; this is unlikely to be relevant to users of local authority accounts. However, one item that may be worth considering is how the statements of accounts are grouped. Under IFRS, the Cash Flow Statement is shown in three sections - Operating, Investment and Financing. These sections do not appear always appear in the other statements, and the discussion paper suggests that the other statements are reformatted to follow this structure, so that users can trace transactions across all the financial statements. The example IFRS Format 4 takes the example in IFRS Format 3 and puts it into the revised format proposed in the discussion paper. A summary of the discussion paper and a quick introduction to the paper as well as the full paper itself can be downloaded from the IASB web site at

<http://www.iasb.org/Current+Projects/IASB+Projects/Financial+Statement+Presentation/Financial+Statement+Presentation.htm>. Note that the relevant papers can be found in the "Phase B" section of the web page.

**The Working Group is asked to comment on the proposed format, bearing in mind the similar changes that would be made to the other statements. Would this additional grouping assist users in understanding the accounts? Would the changes enable users to identify the assets and liabilities that were primarily used to deliver services, and those that had other purposes? Does the working group agree that the suggested categorisation of assets and liabilities into the three groups is correct?**

As part of the process of reducing the size of the Statement of Accounts, it might be possible to present a single balance sheet containing both the authority's accounts and the group accounts. This presentation is used in the private sector, and also by some local authorities (for example, Transport for London). An extract from the Transport for London accounts is shown below (please note that in the extract, "Corporation" is the equivalent of the authority's own accounts):

## Group and Corporation Balance Sheets

as at 31 March

	Note	Group 2008 £m	Group 2007 £m	Corporation 2008 £m	Corporation 2007 £m
<b>Tangible fixed assets</b>					
Infrastructure and other property		13,272.7	12,485.9	2,033.9	2,126.5
Rolling stock		1,374.5	1,366.6	-	-
Plant and equipment		496.1	493.7	146.3	162.5
Non-operational assets		1,572.6	1,003.1	193.6	180.7
<b>Total tangible fixed assets</b>	10a,b	<b>16,715.9</b>	<b>15,349.3</b>	<b>2,373.8</b>	<b>2,469.7</b>
Investment in subsidiaries and joint venture	11	-	-	22.5	22.5
Long term debtors	13	-	-	1,322.2	-
<b>Total long term assets</b>		<b>16,715.9</b>	<b>15,349.3</b>	<b>3,718.5</b>	<b>2,492.2</b>
<b>Current assets</b>					
Stocks	12	4.2	4.3	2.1	1.9
Debtors	13	562.0	302.7	340.2	751.7
Short-term investments		1,870.0	2,004.3	1,832.7	1,970.6
Cash at bank and in hand	14	33.1	23.5	3.4	3.3
<b>Total current assets</b>		<b>2,469.3</b>	<b>2,334.8</b>	<b>2,178.4</b>	<b>2,727.5</b>

Using this type of presentation can also reduce the size of the Notes to the Accounts, as a single set of notes could incorporate information about both the authority and the group.

**The Working Group is asked to consider whether a combined authority / group format for the Balance Sheet, along the lines of that used by Transport for London, would be appropriate for all local authorities. Would this assist users to understand the accounts, or lead to greater confusion? It would be helpful if the reasons for any preferences are explained.**

Information in the balance sheet will also form the basis of some of the information required as part of the Whole of Government Accounts (WGA) return. WGA will also be based on IFRS, and the process of preparing WGA returns may be simplified if the Statement of Accounts adopted a similar format to that used for WGA. However, there is a risk that this might not assist users in their understanding of the accounts; it may be possible to overcome this problem by presenting the balance sheet in a format that suits the users whilst ensuring the lines used on the balance sheet map readily to a WGA balance sheet line.

**Does the Working Group believe that the balance sheet format should be designed with ease of reconciliation to the WGA balance sheet in mind?**

## **Income and Expenditure Account and Statement of Total Recognised Gains and Losses under IFRS – Discussion Points**

In IFRS, the term “Statement of Comprehensive Income” is used in relation to a financial statement that covers both the current Income and Expenditure Account and the current Statement of Total Recognised Gains and Losses (STRGL). However, this name does not have to be used in the Statement of Accounts, and CIPFA could use any name for this statement provided it helped users understand the purpose of the statement. IFRS also allows the information to be presented in two separate statements – an Income Statement (equivalent to the Income and Expenditure Account) and a Statement of Comprehensive Income (starting with the surplus or deficit on the Income Statement and incorporating Other Comprehensive Income – equivalent to the STRGL). However, this option may be removed in future, and a single statement would then be mandatory. CIPFA recommends this approach is adopted now to minimise further changes in the future.

**The Working Group is asked for its views as to whether CIPFA should require the use of a single statement. Should the Statement of Accounts refer to the statement as a Statement of Comprehensive Income or another title – or if two statements are used, should these be the Income Statement and Statement of Comprehensive Income, or should other titles be used? It would be helpful if the group could indicate why the preferred title(s) would help users understand the purpose of the statement(s).**

*IAS 1 Presentation of Financial Statements* sets out the lines that are required to be included in the Statement of Comprehensive Income. These are the minimum requirements, and the lines can be disaggregated where this will help users to understand the accounts. Sub-totals and headings can also be added to provide more information that will make the statement more understandable, and the order of the lines can be amended if this will make the statement easier to follow. Some information can be included in either the Statement of Comprehensive Income or the Notes to the Accounts (for example, a subjective analysis including - as a minimum - employee benefits; depreciation, amortisation and impairment; financing costs; and other expenses is required). A balance will need to be struck between additional clarity, achieved by including more detailed lines (but fewer notes); and simplicity, achieved by including fewer lines (but more notes).

*IAS 1* requires an analysis of the income and expenditure included in the statement. This can be either on a “nature of expense” basis, which for local authorities would equate to a subjective analysis, or a “function of expense” basis, which would equate to a service analysis. It may also be possible to combine these two requirements, although if this were done at a detailed level, it would create a large, complex grid.

**The Working Group is asked for its views as to whether the use of the subjective analysis or the service analysis in the Statement of Comprehensive Income would be more useful to users of the accounts. It would be helpful if the group could indicate the reasons for its preference.**

In coming to a decision, the group should be aware that information about services is expected to be included in the Notes to the Accounts. This is a requirement of *IFRS 8 Operating Segments*. The Working Group will be asked for its views on *IFRS 8* at a later date.

A number of example formats are provided as a starting point for the discussions. Formats 1 – 3 are based on the subjective analysis; Format 1 shows the minimum level of detail required by IFRS. Formats 2 and 3 include increased levels of detail.

**The Working Group is asked to consider if the minimum level of detail is the appropriate level of detail for local authority accounts? Will the reduced length assist users to understand the statement, or will the reduced level of detail make understanding more difficult? If more detail is required, is the level of detail shown in Format 2 or Format 3 appropriate?**

Format 4 shows a service analysis, using the level of detail from Format 3 for the non-Service sections. The level of detail in these sections could be amended to match that in Formats 1 or 2.

These formats follow the order of the lines in IAS 1. As such, they do not provide an equivalent to the "Net Cost of Services" line in the current Income and Expenditure Account. One reason for this is that local authorities have, up to now, separated income into that related to services (and included in the Net Cost of Services) and general income (which is provided through taxation). As this general income would not generally occur in the private sector, IAS 1 does not address this issue. The public sector standard, IPSAS 1 also does not address the presentation of this income. CIPFA believes that the Net Cost of Services is likely to be a figure that is of interest to users of the accounts. As such, the format of the Statement of Comprehensive Income may need to be adapted to incorporate the Net Cost of Services Figure.

**The Working Group is asked whether, in its view, the Net Cost of Services figure is a key figure for the users of the accounts.**

The International Accounting Standards Board has issued a joint discussion paper with the American FASB. Details of the paper, and the proposed changes (including revised groupings for all the financial statements) were included in the Discussion Paper on the Balance Sheet format, circulated earlier. A summary of the discussion paper as well as the full paper can be downloaded from the IASB web site at <add link>.

The examples IFRS Format 5 and Format 6 use the revised format proposed in the discussion paper (Format 5 is based on the subjective analysis and Format 6 on the service analysis). A further example, Format 7 is included. This adapts the discussion paper format to include income and expenditure by service, in a similar manner to the current Income and Expenditure Account.

As part of the grouping in these three examples, the Net Cost of Services is shown separately.

**The Working Group is asked to comment on the proposed formats, bearing in mind the similar changes that would be made to the other statements. Would this additional grouping assist users in understanding the accounts?**

**The Working Group is also asked to comment on its preferred format, and any changes that it would like to see implemented.**

## **Statement of Changes in Equity under IFRS - Discussion Points**

In IFRS, the Statement of Changes in Equity describes a statement that shows the changes in the various components of equity and the source of these changes. In local government, this equates to the movement on the various funds, reserves and accounts that are maintained by an authority. There is no direct equivalent in the current SORP, but the Statement of Changes in Equity could replace all or part of the following statements in the SORP - the Statement of Movement on the General Fund Balance (and notes); the Statement of Movement on the HRA Balance (and notes); and the notes on the movements in reserves.

The name "Statement of Changes in Equity" does not have to be used in the Statement of Accounts, and CIPFA could use any name for this statement provided it helped users understand the purpose of the statement. The term equity is misleading in local government, and the recent Back to Basics consultation asked for suggestions for alternative names. Following the responses, the suggested name is the "Statement of Statutory Financial Performance and Changes in Reserves". It was felt that the word statutory was required to distinguish the performance reported in this statement (based on the taxation position) from the financial performance reported in the current Income and Expenditure Account. However, no final decision as to the name of the statement has been made, and suggestions by the Working Group would be welcomed.

### **Does the Working Group agree with the proposed name for this statement of "Statement of Statutory Financial Performance and Changes in Reserves" or can the group suggest alternative titles?**

The Back to Basics consultation also asked if authorities' financial statements should include budget information. The general view was that budget information was important, but that as budgets were generally prepared on the statutory basis and the accounts on a proper practice basis, it would not be possible to directly compare budgets and actual performance within the Income and Expenditure Account without restating the budget. Most respondents therefore favoured including budget information in the explanatory foreword.

CIPFA accepts that comparing the budget with the Income and Expenditure Account would require the budget to be restated, which would require additional work by authorities. However, it would be possible to include high level budget information in the Statement of Statutory Financial Performance and Changes in Reserves without restating the budget. CIPFA is proposing to include high level budget information in this statement. The proposed budgetary information to be included would be the budget for the General Fund and HRA, before transfers to or from reserves, along with budgeted transfers to reserves. Authorities would have this information as part of their normal budgetary processes.

### **The Working Group is asked to consider whether the inclusion of budgetary information in this statement will make the accounts more useful to readers of the accounts. The group is also asked to consider whether the budgetary information to be included in the statement should be the original budget used to set Council Tax and HRA rents, the revised budget, or both.**

A number of sample formats for the Statement are provided. The formats vary from the minimum level of detail required to meet the requirements of *IAS 1 Presentation of Financial Statements*, which sets out the lines that are required to be included in the Statement of Changes in Equity (IFRS Format 1) to a detailed format that would fully replace the Statement of Movement on the General Fund Balance and potentially the movement on reserves note (IFRS Format 5). Where information about the reasons for the movement in a specific fund, reserve or account is not included in the statement, this is likely to require disclosure in a note to the accounts. A balance will need to be struck between additional clarity, achieved by including more information (but therefore fewer notes); and simplicity, achieved by including fewer lines (but more notes).

The sample formats provided separate reserves into three categories - those that are available

to support services, those that represent unrealised gains or losses, and those that represent amounts whose impact on taxation / rents has been deferred. This classification is based on one of the sample Balance Sheet formats previously circulated (IFRS Format 3a), and discussed in the Discussion Points to the Balance Sheet paper. The format of this statement would therefore need to be amended if a different format for the Balance Sheet were to be agreed.

**The Working Group is asked to consider the sample formats provided, and indicate its preferred format, along with any suggested amendments to that format. In particular, the group is asked to consider the level of detail to be included in terms of the reasons for the movements, and the extent to which reserves should be shown individually or grouped. It would be helpful if the group could explain the reasons for its preferences, and how these would help users to better understand the accounts.**

The terminology used in the sample formats is taken primarily from the notes to the Statement of Movement on the General Fund (or HRA) Balance. Whilst the descriptions explain the reasons for each line, alternatives may be more readily understood by readers of the accounts.

**The Working Group is asked to consider the terminology used in the sample formats, and suggest alternative wording where appropriate, indicating how this will assist readers to better understand the accounts.**

The sample formats IFRS Format 1 – IFRS Format 5 assume that the current treatment of the HRA in the SORP will continue, i.e. that all amounts are initially charged to the General Fund, and an amount is then transferred between the General Fund and the HRA equal to the net amount owing to or from the HRA. Under this approach, information currently included in the Statement of Movement on the HRA Balance is not included in the Statement of Statutory Performance and Changes in Reserves.

An alternative presentation would be to disaggregate the Income and Expenditure Account and statutory transfer figures between the General Fund and HRA, and show these separately. The sample format IFRS Format 6 adopts this approach for the example in IFRS Format 1, and the same approach could be adopted for the other formats.

**The Working Group is asked to consider whether the statement should present HRA information in line with the current SORP, or whether information should be disaggregated between the General Fund and the HRA. The group is also asked to consider whether, if General Fund and HRA information is disaggregated, a total of the two should be provided, as this would better reflect the current Statement of Movement on the General Fund Balance.**

## **Service Information under IFRS - Discussion Points**

International Financial Reporting Standards require service information to be provided as part of the financial statements. IFRS 8 *Operating Segments* requires segment information to be provided on the basis of internal management reporting, based on local decisions as to what information is provided and to whom. However, this requirement has been adapted elsewhere in the public sector. The equivalent International Public Sector Accounting Standard, IPSAS 18 *Segment Reporting* is based on the older standard, IAS 14 *Segment Reporting*. IPSAS 18 will be updated as part of the IPSASB convergence programme but until then the Code will not follow IPSAS 18.

The Core Principle of IFRS 8 is that ***'An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates'***. For the private sector, IFRS 8 complies with the principle by requiring entities to make disclosures based on how they are managed. For local authorities, the legislative and financial framework in which they operate may mean that users would better be able to evaluate the activities of an authority if service information were provided on a consistent basis throughout the sector.

Providing service information on the basis of Best Value Accounting Code of Practice (BVACOP) would be consistent with existing requirements to produce information in line with BVACOP, and would provide comparability across authorities. Information about how private sector companies are managed is useful to users because each company may be providing different goods or services in different areas, and information about how the companies are managed will be useful for investment decisions. Local authorities on the other hand provide a well defined, comparable range of services, and there is not the same need to have information that will be of use to investors.

Service information that allows users to compare the performance of different authorities for a particular service may be of more benefit to users, and would best be provided by service information following BVACOP.

Providing service information on the basis of BVACOP would also avoid the need for additional reconciliations of service information to the authority's Income and Expenditure Account, thus simplifying the accounts. The Government currently collects data on a service basis (e.g. Revenue Outturn Forms) and the transition to IFRS is not expected to change this requirement. BVACOP is expected to remain the basis on which this data is collected. The production of service information on the basis of BVACOP is likely to be more consistent with these external reporting requirements.

Providing service information on the basis of internal management reports would have the advantage that the information would match reporting to members throughout the financial year, and would allow authorities to concentrate on local issues. The disadvantages are that, as information produced in this manner is unlikely to be on the same basis as that used in the Income and Expenditure Account (see explanation below), reconciliations between the service information and the Income and Expenditure Account would need to be provided. Service information produced on the basis of internal management reporting is also unlikely to match other external reporting requirements.

CIPFA consulted on this issue as part of the Back to Basics consultation. Responses were inconclusive, with no option gaining the favour of a majority of respondents.

**The Working Group is asked to consider whether local authorities should report service information on the basis of segments as defined by IFRS 8 (subject to any public sector amendments that are required) or on the basis of BVACOP (updated as required for the transition to IFRS). The group is asked to explain the reasoning for its preference.**

In determining reportable segments, IFRS 8 uses revenue and profit or loss as key factors in the determination. These may not be appropriate bases for local authorities. For example, some key services may not earn revenues as envisaged by IFRS 8; in many cases services are provided without charge and thus would not earn revenue. There are also difficulties in using the profit or loss approach. Income received by a local authority is often received generally rather than by a specific service, for example Revenue Support Grant and Council Tax income. Unless these amounts were to be apportioned to services, it would not be possible to produce a true segment profit or loss. Internal management reports are generally based on the net cost of services rather than profit or loss.

A further criterion used in IFRS 8 in determining operating segments is segment assets. CIPFA believes that at present, assets (fixed assets, stocks, debtors etc.) are not regularly included in internal management reports, and are not regularly reported on a segment or service basis. The availability of such information, and the extent to which assets can be identified to a service or segment, will be important in deciding whether segment assets is a suitable criteria for determining operating segments in local authorities. This will also affect the presentation of segment balance sheet information (see later in this paper).

If the criteria used in IFRS 8 are not considered appropriate for determining the reporting segments for a local authority, other criteria will be required. Local authorities are concerned with providing services to the public, and as such are more likely to incur expenditure (which is funded from general taxation) rather than earn revenues. Gross expenditure could therefore be more relevant than revenue; and net cost of services (i.e. the amount to be funded from general taxation) could be more relevant than profit or loss. The appropriateness (or otherwise) of segment or service assets will depend on whether these assets are identified with specific services.

**The Working Group is asked to consider whether the criteria used in IFRS 8 to determine operating segments would be appropriate for local authorities if the decision was taken to report service information on the basis of internal management information in line with IFRS 8. If the criteria used in IFRS 8 are not appropriate, which criteria should be used to determine which segments should be reported? The group is asked to provide explanations for its preferences.**

If service information is provided on the basis of internal management reporting, IFRS 8 would require information to be disclosed on the basis of internal reports provided to the 'chief operating decision maker'. The 'chief operating decision maker' is defined in IFRS 8 as a function not an individual. This could equate to the authority's senior management team, cabinet (or equivalent group of leading members) or another group or person.

**The Working Group is asked to indicate whether it considers that the 'chief operating decision maker' will be the same in each authority, and if so which group or individual that would be. The group is asked to provide reasons for its conclusions.**

Reports to the 'chief operating decision maker' may not include a number of items that appear in the Income and Expenditure Account, for example gains or losses on disposal of fixed assets and pension costs. Items that do not affect the General Fund (or HRA) balance are more likely not to be reported to the 'chief operating decision maker' as part of the normal monitoring process. Under IFRS 8, these items would not need to be included in the service information, but would form part of the reconciliation between services' income and expenditure and the authority's income and expenditure. Further reconciling items will be required where service reporting is based on thresholds and not all services are reported. Where service assets and liabilities are reported, these will also need to be reconciled to the Balance Sheet. These reconciliations are required to enable users to understand the relationships between the service information and the other accounting statements. Without the reconciliations, a user would not be able to identify amounts included in the Income and Expenditure Account and Balance Sheet, but excluded from the service information.

**Does the Working Group agree that, if it is decided that service information should be provided on the basis of internal management reporting, reconciliations between the service information and the Income and Expenditure Account, and between the service information and the Balance Sheet will be required to enable users to fully understand the service information? The group is asked to provide explanations for its conclusions.**

The SORP currently requires authorities to provide a service analysis on the basis of BVACOP in the financial statements. Under UK GAAP, this is normally within the Income and Expenditure Account, although authorities are able to present a locally determined service analysis within the Income and Expenditure Account, as long as a BVACOP service analysis is provided in the notes. An option to present both a locally determined and a BVACOP based service analysis would be possible under IFRS.

If it was decided that service information were to be reported on the basis of internal management reporting, service information could not be included in the Income and Expenditure Account, except in the unusual circumstances that internal management reporting was on the same basis as the Income and Expenditure Account, and that all services were included. As the BVACOP based service analysis would be consistent with the Income and Expenditure Account, service information could be included on the face of the Income and Expenditure Account.

**The Working Group will need to bear this in mind when considering the format of the Income and Expenditure Account.**

As mentioned above, the option to present both a locally determined and a BVACOP based service analysis would be possible under IFRS. As BVACOP would be consistent with the Income and Expenditure Account, it might be possible for the BVACOP service analysis to form the reconciliation between the service information based on internal management reporting and the Income and Expenditure Account. The downside of this approach would be that the accounts would include two sets of service information, which might be confusing to users.

**The Working Group is asked to consider whether it supports giving authorities the option to include service information based on both internal management reporting and BVACOP. The group is asked to provide explanations for its recommendation.**

IFRS 8 requires revenues from transactions with other operating segments to be reported as part of the information relating to the service profit or loss; but also notes that corporate headquarters may not meet the definition of an operating segment under IFRS 8. Conversely, BVACOP requires service costs to be based on Total Cost, which includes all internal charges and apportionments of overheads. If it were decided that service information should be based on BVACOP, the use of total cost would result in a presentation that does not identify internal transactions separately. However, it would be possible to comply with BVACOP and also show internal transactions by including one or more segments for support services, and lines for internal recharges or apportionment of overheads.

This approach has been considered by a number of the groups considering the Service Expenditure Analysis within BVACOP over recent years. The purpose of this presentation would be to allow managers to see the cost of the services for which they had control, with recharges being shown separately. The presentation could also be used for benchmarking, helping authorities to identify where overheads were significantly higher than comparative authorities. The difficulty with this approach is that authorities can be organised in different ways, and a service that is provided by a support service in one authority may be provided by the service itself in another. The benchmarking may therefore not provide an accurate picture of overheads between authorities. Where charges are based on usage of a service, it may also be the case that overheads can be controlled to an extent by the manager, so the separation of costs into those that can be controlled by the manager and those that cannot may be artificial.

**The Working Group is asked to consider whether, if service information is to be reported on the basis of BVACOP, a reporting segment for support services should be used, with internal recharges and apportionment of overheads shown as separate lines. If so, should a single segment be included, or would additional segments be more meaningful to users of the accounts? The group is asked to provide explanations for its recommendations.**

IFRS 8 requires total assets for each reportable segment to be reported, along with liabilities for each reportable segment if such an amount is regularly provided to the 'chief operating decision maker'. Segment assets and liabilities will need to be reconciled to the total assets and liabilities of the authority where the segments do not include all assets and liabilities. For both assets and liabilities, the measure required by IFRS 8 is the amount reported to the 'chief operating decision maker'.

In local authorities, assets and liabilities for each segment or service may not be reported to the 'chief operating decision maker'. Issues that will need to be considered are whether the Code should specify the assets to be included in service information, or require authorities to report segments assets as reported to the 'chief operating decision maker'; whether the Code should specify liabilities to be included in service information, specify that liabilities should not be included in service information, or require authorities to report segments assets as reported to the 'chief operating decision maker'; and whether, if service information is based on BVACOP, an 'Other' segment should be required, incorporating assets and liabilities that are not part of the normal segment information, thus avoiding the need for a separate reconciliation between the service information and the Balance Sheet.

**The Working Group is asked to indicate the assets and liabilities that are currently reported as part of internal management reporting in their authorities; this will help the group and CIPFA form a view on the best way of reporting service (segment) assets and liabilities.**

**The Working Group is also asked to indicate its preference for reporting service (segment) assets and liabilities, including whether these should be specified in the Code or based on authorities' own arrangements. If service information were to be based on BVACOP, should a segment for "Other" be included to incorporate assets and liabilities not included elsewhere in the service information? The group is asked to provide explanations for its recommendations.**

Authorities may produce both single entity and group accounts as part of their statement of accounts. Where this is the case, IFRS 8 only requires service information to be included in the group accounts, although they could be produced for the single entity accounts as well.

**The Working Group is asked to consider whether service information should only be produced for the group accounts, or whether it should be included in both the single entity and group accounts. The group is asked to provide explanations for its recommendation.**

IFRS 8 requires information on an authority-wide basis to be disclosed (where not already disclosed as part of the service information). The disclosures are in relation to information about products and services (which is expected to be included in the service information disclosures); information about geographical areas (i.e. operations in other countries, not expected to be relevant to local authorities); and information about major customers (authorities will need to disclose the fact that the majority of their income is received from taxation, but otherwise not expected to be relevant to local authorities).

**The Working Group is asked to consider whether additional authority-wide disclosures will be required in these areas. The group is asked to provide explanations for its conclusion.**

Two sample formats are provided. IFRS Format A shows the use of a separate support services segment (and recharging lines); IFRS Format B allocates these amounts to the services directly on the total cost basis. Both formats include two services (plus non-distributed costs) as examples; the exact number of services and their nature will depend on whether service information is reported based on internal management reporting or BVACOP.

The examples use the minimum level of detail permitted; the exact level of detail will depend on decisions made as to the format of the Income and Expenditure Account as IFRS 8 requires material items of income and expenditure to be included in the disclosures and these are likely to match the level of detail in the Income and Expenditure Account.

**The Working Group is asked to consider the principles behind the formats, and to indicate whether it believes the formats satisfy the requirements for reporting service information; or whether any additional or amended information is required.**

## **Notes to the Accounts under IFRS – Discussion Points**

Under IFRS, the notes to the accounts are derived from two main sources. The first source is *IAS 1 Presentation of Financial Statements*, which specifies the format of the financial statements. IAS 1 requires some information to be included either in the financial statements or in the notes to the accounts (see the extract from IAS 1 for details). The level of detail (if any) contained in the notes to the accounts for these items will therefore be dependent on the level of detail in the financial statements, and the Working Group will need to take this into account when considering the preferred format of the financial statements.

**When considering the financial statements, the Working Group is asked to indicate which information should be included in the financial statements and which in the notes to the accounts.**

The second main source from which the notes to the accounts are derived are the disclosure requirements of other IFRSs. Each standard will contain details of the information that is to be disclosed; examples of the disclosure requirements for three standards are provided, showing a comparison of these requirements and the existing SORP requirements. In many cases, the disclosure requirements are similar to the existing SORP requirements, although additional disclosures are normally required by IFRS. IFRS also requires the notes to disclose information for the comparative year as well as the current year; this is not always the case in the SORP (for example, the reconciliation of the movement in fixed assets values – which shows additions, disposals, depreciation and impairment, etc. – is only required for the current year in the SORP but would be required for both years under IFRS).

If authorities are required to include all the disclosures required by IFRS, it is expected that the size of the accounts would grow significantly. However, paragraph 31 of IAS 1 states that “An entity need not provide a specific disclosure required by an IFRS if the information is not material.” CIPFA expects that there will be disclosures required by IFRS that are not material in a local authority context (either for all authorities or for some authorities), and those disclosures could therefore be excluded from the accounts.

A similar approach can be taken under UK GAAP; however anecdotal evidence suggests that many authorities include all the disclosures required by the SORP in the format suggested by the Guidance Notes, whether these are material or not. This is sometimes the case even when the Guidance Notes state that they are not providing a template to be followed, but a framework that needs to be adapted to local circumstances (e.g. the financial instrument risk disclosures). One reason for authorities following the Guidance Notes so closely may be that they expect less challenge by auditors if they are following the formats set out in the Guidance Notes, and providing all the disclosures required by the SORP, irrespective of materiality. Whilst this is understandable, it has the disadvantage of increasing the length of the financial statements, and making them more complex than is required by including potentially lengthy disclosures of non-material items.

To assist authorities to determine which items should be disclosed under IFRS, CIPFA suggests that it may be helpful for the IFRS-based Code to list the disclosure requirements under three headings: those items that are expected to be material (and therefore required) for all authorities; those items that are expected to be material for some (but not all) authorities, and which authorities will disclose where the item is material for that authority; and those items that are expected to be immaterial for authorities except in exceptional cases; authorities would still need to provide disclosures on these items where they were material, but the expectation would be that disclosures were not required. Exceptional cases would include transactions or circumstances in a particular year that were not usual for that authority, but would also include those situations where a few authorities may be engaging in transactions that would not occur in the majority of authorities.

**The Working Group is asked to consider whether non-material items should be excluded from the Statement of Accounts.**

**If so, should the IFRS-based Code separate disclosure requirements into the three groups discussed above, or should this decision be left to authority's discretion with no guidance in the Code?**

**The Working Group is also asked to consider which disclosures (if any) required by IAS 16, IAS 36 and IAS 38 (see examples) they would consider to be immaterial in a local authority context (either for some or all authorities).**

**NOTE:** The working papers refer to sample formats. These have not been included in this appendix, but can be provided to Board members on request.