

REPORT

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Committee	CIPFA/LASAAC LOCAL AUTHORITY CODE BOARD
Venue	Barceló Carlton Hotel, North Bridge, Edinburgh
Date	15 December 2008
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Subject	Non-current Assets Held for Sale and Discontinued Operations Section of Draft IFRS-Based Code

1. INTRODUCTION

- 1.1. At its meeting held on 15 April 2008, CIPFA/LASAAC agreed the format and structure of the IFRS-based Code of Practice.
- 1.2. This report considers the Non-current Assets Held for Sale and Discontinued Operations section of the draft IFRS-based Code of Practice on Local Authority Accounting, and CIPFA/LASAAC is asked to approve the section or suggest amendments.

2. SUMMARY OF COMPLIANCE WITH STANDARDS / IMPACT

IFRS Compliance / Adaptations	The interpretations are in respect of: <ul style="list-style-type: none"> - 'value in use' for assets not held for the purpose of generating cash flows (detailed in paragraph 3.5) - events that are not deemed as 'discontinued operations' (detailed in paragraph 3.3)
IPSASB Compliance / Adaptations	Currently there is no IPSASB Standard and the development of a Standard has not been included in the IPSASB 2008-10 Work Plan approved in March 2008
i-FReM Compliance / Adaptations	The presentation of Assets Held for Sale in the notes as opposed to on the face of the balance sheet is not permitted in local government (detailed in paragraph 3.6)
Changes to SORP	Yes (detailed in paragraphs 3.2, 3.3 and 3.4)

Impact on Taxation	No impact on taxation; revaluations and impairments charged to Statement of Comprehensive Income, immediately before and following reclassification to 'Assets Held for Sale' are transferred to the Capital Adjustment Account and reported in the Statement of Changes in Equity
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3. DRAFT CODE

3.1. The accounting requirements for assets held for sale and discontinued operations are detailed in *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*. Currently there is no IPSASB Standard relating to non-current assets held for sale and discontinued operations. The development of an IPSASB Standard has not been included in the IPSASB 2008-10 Work Plan approved in March 2008.

3.2. Many of the requirements are different to those previously included in the SORP which follows *FRS 15 Tangible Fixed Assets* and *FRS 3 Reporting Financial Performance*. Changes to the requirements are summarised below:

- Unlike the SORP, *IFRS 5* requires assets classified as held for sale to be valued at their carrying amount where this amount is lower than fair value less costs to sell.
- Strict criteria as set out in *IFRS 5* have to be met before an asset can be reclassified as held for sale. The SORP does not include any such strict criteria.
- Assets classified as held for sale are categorised as current or non-current assets, subject to meeting the respective definitions.
- In the event that a sale is expected to occur beyond a year, the selling costs are measured at their present value¹. Where there is an increase in the present value due to the passage of time (i.e. where the selling costs have been paid in advance and therefore the benefit incurred has been deferred), any increase shall be presented as a financing cost in the Statement of Comprehensive Income.
- Assets classified as held for sale under *IFRS 5* are not subject to depreciation.
- *IFRS 5* introduces the concept of a 'disposal group'² in relation to assets that are to be grouped and sold in a single transaction.
- Unlike the SORP, any subsequent revaluation gains following reclassification to assets held for sale, are not recognised in excess of the cumulative impairment loss that has been recognised under *IFRS 5* or previously in accordance with *IAS 36 Impairment of Assets*.

3.3. Responsibilities transferred from one part of the public sector to another (such as 'machinery of government changes' i.e. local government reorganisation) are not discontinued operations. In order to qualify as 'discontinued operations', the activities must cease completely. The definition included in the draft Code varies from *IFRS 5* but is consistent with the i-FReM.

¹ It is not expected that selling costs will be material in the context of authorities

² It is not expected that 'disposal groups' will be common in authorities

- 3.4. The draft Code requires prior period adjustments to be made for discontinued operations so that the current and prior periods relate to all operations that have been discontinued by the end of the reporting period. The SORP (following *FRS 3 Reporting Financial Performance*), does not require such adjustments.
- 3.5. The draft Code identifies an area where the requirements of *IFRS 5* should be varied (in addition to the suggested variation in paragraph 3.3). This is in relation to the definition of 'value in use' for assets that are not held for the purpose of generating cash flows. The definition of 'value in use' in *IFRS 5* is the '*future cash flows expected to be derived from an asset or cash-generating asset*'. The interpretation for the public context assumes that 'value in use' is equal to the cost of replacing the service potential provided by the asset, unless there has been a reduction in service potential. This interpretation is consistent with the i-FReM.
- 3.6. The i-FReM states 'assets held for sale should be presented separately, either on the face of the balance sheet **or** in the notes...'. The draft Code does not follow this wording in terms of presenting assets held for sale in the notes to the balance sheet. Authorities will be required to present assets held for sale on the face of the balance sheet and where necessary accompanied by a note. However, CIPFA/LASAAC may wish to revisit the presentation of assets held for sale (and hence the wording in the draft Code) when considering the outputs of 'Back to Basics' practitioner working groups at its meeting in March 2009.
- 3.7. The draft section of the Code covering non-current assets held for sale and discontinued operations is included as Appendix A.
- 3.8. The draft section of the Code covering the transition arrangements for non-current assets held for sale and discontinued operations is included as Appendix B.
4. RECOMMENDATION

CIPFA/LASAAC is asked to approve the non-current assets held for sale and discontinued operations section of the IFRS-based Code of Practice on Local Authority Accounting, or comment on areas where further analysis or changes are requested.