

REPORT

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Committee	CIPFA/LASAAC LOCAL AUTHORITY CODE BOARD
Venue	Barceló Carlton Hotel, North Bridge, Edinburgh
Date	15 December 2008
Author	Paul Mason, Technical Manager, Local Government Accounting
Subject	Investment Property 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 investment property 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	Investment property defined as “property (land and / or buildings) held solely to earn rentals or for capital appreciation or both” (based on <i>IPSAS 16</i>). Use of the cost model in <i>IAS 40</i> is not permitted
IPSASB Compliance / Adaptations	Use of the cost model in <i>IPSAS 16</i> is not permitted
i-FReM Compliance / Adaptations	Full compliance, no adaptations
Changes to SORP	Yes (detailed in paragraph 3.2)
Impact on Taxation	None

3. DRAFT CODE

- 3.1. The accounting requirements for investment property are detailed in *IAS 40 Investment Property*. *IPSAS 16 Investment Property* is based on *IAS 40* and provides additional guidance on issues that might arise in the public sector. The definition of investment property in *IPSAS 16* provides a clearer definition for the

public sector, and is adopted in the Code. Recent changes to *IAS 40* have yet to be reflected in *IPSAS 16*.

3.2. Many of the requirements are similar to those previously included in the SORP. Changes to the requirements are summarised below:

- The SORP requires investment property to be carried at the lower of net current replacement cost or net realisable value (effectively market value). The Code requires investment property to be carried at fair value; as fair value will normally be based on market value, this change is not expected to result in any change to the carrying amount of investment property.
- The SORP requires revaluations of investment property to be adjusted through the revaluation reserve in the first instance. The Code requires changes to fair value to be taken to the Income and Expenditure Account (and then reversed out to the Capital Adjustment Account).
- The SORP requires investment property under construction to be accounted for at cost. The Code requires investment property under construction to be accounted for at fair value once an authority is able to measure reliably the fair value of the investment property.
- The SORP requires investment property held under a lease to be depreciated where the unexpired term was 20 years or less. This requirement has been removed in the Code, although the requirement to fair value the lease interest will have a similar effect.

3.3. The draft Code interprets the requirements of *IAS 40* as follows:

- The definition of investment property from *IPSAS 16* has been used as this is more relevant to the public sector.
- The Code does not permit use of the cost model option in *IAS 40*.

3.4. The section of the Code covering investment property is included as Appendix A.

3.5. The section of the Code covering the transition arrangements for investment property is included as Appendix B. Two presentations are given, and CIPFA/LASAAC is requested to indicate the level of detail to be included in the Code.

3.6. Under *IAS 40*, where an asset is transferred from operational assets to investment property, the asset is revalued to fair value on transfer and the gain or loss is recognised in the Revaluation Reserve; this balance is retained in the Revaluation Reserve until the investment property is derecognised. The transition arrangements propose that this requirement is adopted prospectively; this is due to the fact that prior to 1 April 2007, there was no requirement to maintain a revaluation record for each asset.

4. RECOMMENDATION

CIPFA/LASAAC is asked to approve the investment property section of the IFRS-based Code of Practice on Local Authority Accounting, or comment on areas where further analysis or changes are requested. CIPFA/LASAAC is also asked to decide on the level of detail to be included for transitional arrangements.