

# Foreword

This Code of Practice is based on International Financial Reporting Standards (IFRSs), and has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board.

The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance. The Code has been prepared on the basis of accounting standards and interpretations in effect for accounting periods commencing on or before 1 January 2011.

This edition of the Code applies for accounting periods commencing on or after 1 April 2011. It supersedes the edition published in December 2009 (the 2010/11 Code).

The key accounting changes in this edition of the Code include:

List to be added once the Code has been approved

Under the oversight of the Financial Reporting Advisory Board, the CIPFA/LASAAC Code Board is in a position to issue mid-year updates to the Code. This will only be done in exceptional circumstances. It is anticipated that a bulletin will be issued to provide accounting guidance on any regulations, statutory guidance or accounts directions that are enacted after the publication of the Code to mitigate its impact on council tax.

In England and Wales, the local authority Code constitutes a 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. In Scotland, the local authority Code constitutes proper accounting practice under section 12 of the Local Government in Scotland Act 2003. In Northern Ireland, the status and authority of the local authority Code derives from regulation 3(1) of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006 and through the relevant accounts direction issued by the Department of the Environment (Northern Ireland) of that Act.

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**Deleted:** The format of the Code differs from that of the SORPs. Chapters and sections are now more closely related to the relevant accounting standards. Other significant changes to the format are:  
In the Code, terms are defined at the start of each section or chapter. In the SORPs, terms were defined in a glossary at the end of the SORP.  
In the Code, disclosure requirements are included at the end of each section. In the SORPs, disclosure requirements were included in a section on the Notes to the Accounts. Whilst the Code specifies the disclosures required, it does not prescribe the format of those disclosures, and local authorities may choose to present notes to the accounts that cover more than one disclosure requirement.  
The move to an IFRS-based Code from a UK GAAP-based SORP results in a number of significant changes in accounting practice.

**Deleted:** Grants and contributions for capital purposes will be recognised as income immediately rather than being deferred and released to revenue to match depreciation (section 2.3).  
The main financial statements have changed, and there are additional requirements regarding segment reporting (section 3.4).  
There is a greater emphasis on component accounting, and a greater emphasis on derecognising parts of an asset that are replaced (section 4.1).  
Property leases are classified and accounted for as separate leases of land and buildings. Local authorities will also need to assess whether other arrangements contain the substance of a lease (section 4.2).  
Investment properties are measured at fair value, with gains and losses recognised in Surplus or Deficit rather than through the revaluation reserve (section 4.4).  
Impairment losses will be taken initially to the revaluation reserve to the extent that there is a balance on that reserve relating to the specific asset (section 4.7).  
The Code introduces a new classification of non-current assets held for sale. Specific criteria apply to this classification (section 4.9).  
All employee benefits are accounted for as they are earned by the employee. This will require accruals for items such as holiday pay (section 6.2).  
The definition of associates is based on the ability to control rather than actual control, and may lead to a change in the group boundary (chapter nine).

# CHAPTER ONE

## Introduction

### 1.4 ACCOUNTING STANDARDS

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1.4.2 The requirements of International Financial Reporting Standards and other pronouncements by the International Accounting Standards Board in effect for accounting periods commencing on or before 1 January 2011 (as adopted by the EU) apply unless specifically interpreted or adapted by the Code.

### 3.1 EXPLANATORY FOREWORD

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#### 3.1.4 Disclosure Requirements

3.1.4.1 It is recommended that the foreword include the following items that are likely to be significant to the understanding of the accounts (these recommended topics are not intended to restrict the content of the foreword):

- a) An explanation of which statements follow, their purpose and the relationship between them.
- b) Service expenditure, interest payable and other operating costs, income from grants, local taxpayers and other sources, compared in overall terms to the budget.
- c) A brief note of any material assets acquired or liabilities incurred. If these are unusual in scale, having regard to the normal activities of the authority, or for any other reason, the circumstances shall be explained.
- d) A brief note explaining the significance of any pensions liability or asset disclosed.
- e) An explanation of any material and unusual charge or credit in the accounts. This shall be provided whether the charge is made as part of the cost of services or as an adjustment to the cost of services.
- f) Any significant change in accounting policies. The reason for the change, and the effect on the accounts, shall be explained.
- g) Any major change in statutory functions, eg local government reorganisation, which has a significant impact on the accounts. In addition, a comment on planned future developments in service delivery,

**Deleted:** For 2010/11, this will require an explanation of the significance of the move from a UK GAAP basis to an IFRS basis.

including a summary of revenue and capital investment plans, distinguishing between expenditure intended to maintain existing levels of service provision and that intended to expand existing services or develop new services.

- h) A brief note of the authority's current borrowing facilities and capital borrowing, outlining the purpose and impact of financing transactions entered into during the year and major fixed asset acquisitions and disposals.
- i) A summary of the authority's internal and external sources of funds available to meet its capital expenditure plans and other financial commitments including PFI schemes.
- j) Details of significant provisions or contingencies and material write-offs. To cover new items and any significant changes to existing items.
- k) Details of any material events after the reporting date (up to the date the accounts are authorised for issue).
- l) An explanation of the impact of the current economic climate on the authority and the services it provides.

### 3.1.6 Changes since the 2010/11 Code

3.1.6.1 An explanation of the significance of the move from a UK GAAP basis to an IFRS basis was included in the 2010/11 Code. This has been removed from the 2011/12 Code.

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**Deleted:** The recommended topics include some topics not included in SORP 2009. These are significant provisions, contingencies and write-offs; material events after the balances sheet; and an explanation of the impact of the current economic climate on the authority. The latter topic was recommended in LAAP Bulletin 81. ¶ 3.1.6.2 In addition, a recommended topic regarding changes of accounting policy has been expanded to include, in 2010/11, the transition to an IFRS-based accounting basis.