



the code of practice on local authority accounting in the united kingdom 2011/12

invitation to comment

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1 introduction

- 1.1 Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper practices'. This is defined, for the purposes of local government legislation, as meaning compliance with the terms of the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code), prepared by the CIPFA/LASAAC Local Authority Code Board (CIPFA/LASAAC). The Code is reviewed continuously and is normally updated annually.
- 1.2 The edition of the Code that is applicable for a financial year is based on accounting standards in effect on 1 January prior to the start of the financial year. For the 2011/12 Code which is the subject of this consultation, this means that accounting standards with an effective date of 1 January 2011 or earlier will need to be taken into account.
- 1.3 This invitation to comment (ITC) sets out CIPFA/LASAAC's proposals for developing the current (2010/11) Code with the resulting amendments to be included in a new edition of the Code (the 2011/12 Code) to apply to accounting periods commencing on or after 1 April 2011. The proposed developments are:
- (a) Incorporating additional requirements in relation to Heritage Assets, in line with FRS 30. This was originally raised in the consultation on the 2010/11 Code, but CIPFA/LASAAC agreed to defer implementation until 2011/12.
 - (b) Accounting for Carbon Reduction Commitment Allowances.
 - (c) Accounting for the Community Infrastructure Levy (England and Wales).
 - (d) Accounting for Business Rate Supplements (England).
 - (e) Incorporating additional disclosure requirements relating to remuneration reporting.
 - (f) Amending the authorised for issue process in Wales in line with recent legislative changes.
 - (g) Incorporating an additional disclosure requirement relating to compliance with the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.
 - (h) Other minor changes reflecting revisions to accounting standards, codes and legislation.

the consultation process

- 1.4 Where the CIPFA/LASAAC is interested in specific issues, consultation questions have been included in the ITC. However, CIPFA/LASAAC welcomes comments on any aspect of the draft Code for 2011/12. In order to assess comments properly CIPFA/LASAAC would prefer respondents to support comments with clear accounting reasons and, where applicable, preferred alternatives.
- 1.5 Responses to this Invitation to Comment will be regarded as on the public record unless confidentiality is specifically requested. Copies of all correspondence and an analysis of responses will be provided to the Financial Reporting Advisory Board.
- 1.6 A copy of the Exposure for the Draft 2011/12 Code in pdf format can be downloaded from the CIPFA website <http://www.cipfa.org.uk/pt/consultations.cfm>

1.7 To assist authorities to respond to the consultation, a response form (in Word format) is attached. We would be grateful if authorities could use this form to respond to the consultation as this will speed up the analysis.

1.8 Responses are required by 24 September 2010 and may be sent to:

The Secretary
CIPFA/LASAAC Local Authority Code Board
Policy and Technical Directorate
CIPFA
3 Robert Street
London
WC2N 6RL

Fax: 020 7543 5695

E-mail: code.responses@cipfa.org
(For ease of handling, e-mailed responses using the Word document form provided are preferred.)

2 accounting for heritage assets

- 2.1 Paragraph 1.1.6 of the Code sets out the hierarchy of standards used in preparing the Code. The third level in the hierarchy is UK GAAP. In the absence of an IFRS or IPSAS covering accounting for heritage assets, it is therefore proposed to adopt the requirements of the equivalent UK accounting standard, FRS 30 Heritage Assets, which was issued in June 2009. FRS 30 has already been adopted by the government's Financial Reporting Manual for all other areas of the public sector.
- 2.2 As part of the consultation on the 2010/11 Code, CIPFA/LASAAC proposed that FRS 30 be adopted in the Code. The majority of respondents agreed with this proposal, but concerns were raised regarding the availability of resources to implement the requirements at the same time as implementing IFRS. CIPFA/LASAAC therefore came to an agreement with the Financial Reporting Advisory Board that the Code would adopt FRS 30 in 2011/12, a year later than the rest of the public sector.
- 2.3 Heritage assets are defined as assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. Under the 2010 Code, such assets would normally have been accounted for as community assets. Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations; community assets are held primarily for use at present. The following table shows the expected future classification of assets previously accounted for as community assets:

Type of Asset	Community Asset	Heritage Asset
Parks (but not a golf course within a park)	✓	
Historic buildings (but not where they are used for operational purposes, eg a museum)		✓
Works of art, museum exhibits and statues		✓
Civic regalia		✓
Cemeteries and crematoria (land only)	✓	
Allotments (where there are restrictions on alternative uses)	✓	

- 2.4 An authority will recognise a heritage asset on the balance sheet where it has information on the cost or value of the heritage asset. Where this information is not available, and cannot be obtained at a cost which is commensurate with the benefits to users of the financial statements, the assets will not be recognised in the balance sheet. However, disclosure will be required where heritage assets are not recognised on the balance sheet.

- 2.5 Operational heritage assets, ie those that are used in the delivery of services, are accounted for as operational assets rather than as heritage assets.
- 2.6 Heritage assets are normally carried at fair value, except where it is not practicable to obtain a fair value. This compares to the previous treatment of the assets as community assets, when they would have been carried at historical cost. Depreciation or amortisation is not required on heritage assets which have indefinite lives.
- 2.7 Additional disclosures are required for all heritage assets, whether they are recognised on the balance sheet or not.
- 2.8 Adoption of FRS 30 amounts to a change in accounting policy. The Code requires changes to accounting policies to be accounted for retrospectively, and also requires a balance sheet to be prepared as at the start of the comparative period where changes to accounting policies are made retrospectively. This requirement need not be followed where the effect of restating the accounting policy is not material (see paragraph 2.1.2.7 of the Code), and therefore an opening balance sheet as at 1 April 2010 is only required where the adoption of FRS 30 results in a material change to the value of heritage assets or in the depreciation charged on those assets.

Accounting for Heritage Assets

- Q1 Do you agree that the Code accurately incorporates the requirements of FRS 30? If not, why not? What alternatives would you suggest?
- Q2 Do you agree that the definitions within the Code clearly define the boundary between heritage assets and community assets? If not, why not? What alternatives would you suggest?

3 accounting for carbon reduction commitment allowances

- 3.1 Authorities that are covered by the scheme will be required to account for carbon reduction commitment allowances from 1 April 2011.

Assets

- 3.2 Purchased allowances are recognised as an asset. Allowances are revalued where required.
- 3.3 A key decision to be made in accounting for Carbon Reduction Commitment (CRC) scheme allowances is whether the allowances should be classified as current assets or intangible assets. The Government's Financial Reporting Manual includes a section on the EU Greenhouse Gas Emission Allowance Trading Directive. This states that 'Allowances intended to be held for use on a continuing basis should be classified as intangible assets. If not, they should be classified as current assets, within current asset investments.'
- 3.4 The IASB is considering this issue, and is expecting to publish an Exposure Draft in the final quarter of 2010, followed by a new IFRS in the final quarter of 2011. At this stage, the IASB has yet to decide whether the resulting asset in respect of allowances should be classified as a current asset or an intangible asset.

- 3.5 The intention of the CRC scheme is that allowances are purchased in April to cover the emissions of the participating entity during that financial year. By the end of the financial year, the liability to surrender the allowances will have been established. This suggests that generally the appropriate treatment would be to classify allowances as current assets unless they were being purchased with a specific intention to hold them for a period of more than twelve months.
- 3.6 The Code Exposure Draft is phrased in terms of allowances being current assets unless there is an intention to hold the asset for more than twelve months. However, CIPFA/LASAAC would welcome views on this area, which is very much an area of ongoing debate.
- 3.7 If allowances were instead classified as intangible assets, they would be within the scope of the capital financing framework. In this case, CIPFA/LASAAC understands that governments would be minded to consider amending regulations or statutory guidance to ensure that the costs of allowances were met from revenue.
- 3.8 CIPFA has also worked with HM Treasury to ensure that both the Code Exposure Draft and the Financial Reporting Manual (FReM) Exposure Draft on this topic cover the key issues on the same basis. The FReM Exposure Draft is available at [insert link when available].

Liabilities, expenses and income from recycled allowances

- 3.9 A liability and an expense to deliver allowances is recognised as energy is consumed. The liability will usually be measured at the present market price of the number of allowances required to cover emissions made up to the reporting period date.
- 3.10 Authorities will receive income from recycled allowances. This income is based on an entity's emissions in the base year (2010/11) adjusted for the entity's subsequent performance relative to other scheme participants. An entity need not have purchased allowances from the pool in order to receive income from recycled allowances. CIPFA/LASAAC has concluded that there is therefore no direct link between an authority's purchase of allowances or carbon emissions and the income to be received. As a result, an authority shall recognise income from recycled allowances as it becomes receivable rather than accruing for the income based on its performance in the year.

Accounting for Carbon Reduction Commitment Scheme Allowances

- Q3 Should allowances be recognised as current assets or as intangible assets? Please provide reasons in support of your answer.
- Q4 Do you agree that a liability and an expense should be recognised as energy is consumed? If not, why not? What alternatives would you suggest?
- Q5 Do you agree that income from recycled allowances should be recognised as it becomes receivable? If not, why not? What alternatives would you suggest?

4 accounting for the community infrastructure levy (England and Wales)

- 4.1 This section of the Code incorporates the requirements of the existing legislation and regulations in force at the time the Exposure Draft was prepared. However, authorities will need to be aware that the Coalition Government has indicated that it will review this area, and the levy (and therefore the accounting treatment set out in the Exposure Draft) is therefore subject to amendment or cancellation.
- 4.2 The Community Infrastructure Levy (CIL) is a discretionary charge which relevant local authorities in England and Wales are empowered to charge on new development in their area. CIL must be applied to fund infrastructure.
- 4.3 CIL is charged on a formula basis. CIL income need not be spent on projects directly related to the developments providing the income. As such, there is no relationship between the contribution made by a developer and the benefits (if any) received by the developer. CIPFA/LASAAC has therefore concluded that CIL is a non-exchange transaction within the scope of IPSAS 23.
- 4.4 CIL must be applied to fund infrastructure amounts, which means that the income (with the exception of amounts applied to cover administration costs) must be used for capital purposes. As there is no requirement to repay CIL income, CIPFA/LASAAC has concluded that the requirement to apply CIL to fund infrastructure amounts to a restriction rather than a condition under the Code and IPSAS 23, and that the income should be recognised immediately. The proposed addition to the Code therefore treats CIL income in a similar manner to those capital grants received without a condition; CIL income would be reported as part of the Capital Receipts Reserve.

Accounting for the Community Infrastructure Levy

- Q6 Do you agree with the CIPFA/LASAAC's conclusion that the Community Infrastructure Levy (CIL) is a non-exchange transaction? If not, why not? What alternatives would you suggest?
- Q7 Do you agree with CIPFA/LASAAC's conclusion that the requirement to apply CIL to fund infrastructure amounts to a restriction rather than a condition? If not, why not? What alternatives would you suggest?

5 accounting for business rate supplements (England)

- 5.1 The Business Rate Supplements Act 2009 confers powers on relevant local authorities in England to impose a levy on non-domestic ratepayers to raise money for expenditure on projects expected to promote economic development.
- 5.2 Business Rate Supplements (BRS) is levied on non-domestic ratepayers in an area. BRS must be used to fund specific projects. There is no direct relationship between the levies paid by a ratepayer and the benefits (if any) received. CIPFA/LASAAC has therefore concluded that BRS is a non-exchange transaction within the scope of IPSAS 23.
- 5.3 BRS (with the exception of amounts applied to cover administration costs) must be used to fund specific projects. There is a requirement to repay BRS income to

ratepayers if it remains unapplied at the end of the scheme. CIPFA/LASAAC has concluded that the requirement to apply BRS to fund specific projects amounts to a condition under the Code and IPSAS 23, and that the income should be recognised immediately only when the condition is satisfied. Until that point, receipts will be recognised as a creditor.

Accounting for the Business Rate Supplements

- Q8 Do you agree with the CIPFA/LASAAC's conclusion that Business Rate Supplements (BRS) are non-exchange transactions? If not, why not? What alternatives would you suggest?
- Q9 Do you agree with CIPFA/LASAAC's conclusion that the requirement to apply BRS to fund specific projects, with income refunded if not spent at the end of the scheme, amounts to a condition? If not, why not? What alternatives would you suggest?

6 remuneration reporting (England and Wales)

- 6.1 Amendments to the Accounts and Audit Regulations in England and Wales, issued after the 2010/11 Code had been prepared, introduced increased disclosure requirements in respect of remuneration reporting. These requirements first applied in 2009/10.
- 6.2 There are two proposed amendments to the Code in respect of remuneration reporting. The first of these is intended to reflect the requirements of the revised regulations; it does not introduce any disclosure requirements not included in the regulations. Respondents should note that there is an ongoing debate about the precise interpretation of some of the requirements of the regulations. It is expected that the position will have been clarified by the time the Code is published, and minor amendments to the text of the Code may be required to reflect any such clarification.
- 6.3 The second proposed amendment relates to the fact that HM Treasury and the Cabinet Office have recently agreed with the Financial Reporting Advisory Board that the 2011/12 Government Financial Reporting Manual will require disclosure of exit packages agreed by an organisation. CIPFA/LASAAC is proposing to include a similar disclosure in the 2011/12 Code to ensure consistency with the rest of the public sector. A sample disclosure is shown at Appendix A.

Remuneration Reporting

- Q10 Do you agree that the amendments to the Code in respect of remuneration reporting reflect the revised Accounts and Audit Regulations? If not, why not? What alternatives would you suggest?
- Q11 Do you agree with the proposal to require the disclosure of information in relation to exit packages in the notes to the accounts? If not, why not? What alternatives would you suggest?

7 authorised for issue (Wales)

- 7.1 Amendments to the Accounts and Audit Regulations in Wales, issued after the 2010/11 Code had been prepared, introduced a revised authorised for issue procedure. Members are now required to approve the financial statements prior to their publication by 30 September each year, rather than prior to 30 June.
- 7.2 The proposed amendments to the Code are intended to reflect the requirements of the revised regulations; they do not introduce any requirements not included in the regulations.

Authorised for Issue

Q12 Do you agree that the amendments to the Code in respect of the authorised for issue process in Wales reflect the revised Accounts and Audit Regulations? If not, why not? What alternatives would you suggest?

8 cipfa statement on the role of the chief financial officer

- 8.1 In CIPFA's Statement on the Role of the Chief Financial Officer in Local Government, CIPFA recommends that local authorities should use the Statement as a framework to benchmark their existing arrangements, and that they should report publicly on compliance to demonstrate commitment to good practice in both governance and financial management. CIPFA also recommends that organisations should report publicly where their arrangements do not conform with the compliance framework, explaining the reasons for this, and how they deliver the same impact as those in the Statement.
- 8.2 In the Application Note to Delivering Good Governance in Local Government: a Framework, published in March 2010, CIPFA recommended that local authorities should include a statement regarding compliance with the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) in their Annual Governance Statement. This is on a voluntary basis for 2009/10 and 2010/11.
- 8.3 CIPFA/LASAAC is now proposing that, following this period of voluntary disclosure within the Annual Governance Statement, the requirements of the Statement on the Role of the Chief Financial Officer in Local Government should become mandatory from 2011/12.
- 8.4 Scottish local authorities are not required to produce an Annual Governance Statement, but may do so voluntarily. Where they do not produce an Annual Governance Statement, they are required to provide a statement on the system of internal financial control. CIPFA/LASAAC is proposing to require Scottish local authorities that do not produce an Annual Governance Statement to include a statement regarding compliance with the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) in their statement on the system of internal financial control from 2011/12.

CIPFA Statement on the Role of the Chief Financial Officer

Q13 Do you agree that the Code should require that authorities include a statement regarding compliance with the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) in their Annual Governance Statement? If not, why not? What alternatives would you suggest?

9 other minor changes reflecting revisions to accounting standards, codes and legislation

9.1 Further revisions to accounting standards and legislation are also reflected in the proposed 2011/12 Code. Proposed changes to the 2011/12 Code arise from:

- A revised version of IAS 24 Related Party Disclosures; this may result in less detailed disclosures in respect of transactions with central government departments, NHS bodies and other local authorities.
- Improvements to IFRS, issued in April 2009 (see Appendix B for further details).
- Various new and revised IFRS and IPSAS, where the amendments do not result in any substantive changes to the text of the Code (see Appendix C for further details).
- Improvements to IFRS, issued in May 2010 (see Appendix D for further details); note that these amendments may need to be revised if the improvements are not adopted by the EU.
- Changes to the statutory accounting resulting from regulations and statutory guidance introduced to mitigate the effect of transition to IFRS; these changes were introduced after the 2010/11 Code was prepared, but apply from 2010/11.

9.2 The changes to the statutory accounting in respect of short-term accumulating compensated absences (eg holiday pay) will require the use of an adjustment account. CIPFA/LASAAC is proposing to call this account the Statutory Adjustment Account. CIPFA/LASAAC is also proposing to rationalise the various adjustment accounts required by the Code. A number of these accounts would be combined into an overall Statutory Adjustment Account that could be shown on the face of the balance sheet. Authorities would then report an analysis of this account in the notes to the financial statements. The following table summarises the accounts that CIPFA/LASAAC is proposing should be maintained in accordance with the Code:

Account	Comprises (as included in the 2010/11 Code unless otherwise stated)
Creditor Accounts	
Donated Assets Account	<ul style="list-style-type: none"> • Donated Assets Account
Donated Inventories Account	<ul style="list-style-type: none"> • Donated Inventories Account
Useable Reserves	
Capital Grants Unapplied Account	<ul style="list-style-type: none"> • Capital Grants Unapplied Account
Capital Receipts Reserve	<ul style="list-style-type: none"> • Capital Receipts • Community Infrastructure Levy (New)
Housing Repairs Account	<ul style="list-style-type: none"> • Housing Repairs Account
Major Repairs Reserve	<ul style="list-style-type: none"> • Major Repairs Reserve
Unusable Reserves	
Available-for-Sale Financial Instruments Reserve	<ul style="list-style-type: none"> • Available-for-Sale Financial Instruments Reserve
Capital Adjustment Account	<ul style="list-style-type: none"> • Capital Adjustment Account
Pensions Reserve	<ul style="list-style-type: none"> • Pensions Reserve
Revaluation Reserve	<ul style="list-style-type: none"> • Revaluation Reserve
Statutory Adjustment Account	<ul style="list-style-type: none"> • Collection Fund Adjustment Account • Employee Statutory Adjustment Account (New, required by Finance Circular 8/2010 in Scotland) • Financial Instruments Adjustment Account • Short-Term Accumulating Compensated Absences (New; referred to as 'Accumulated Absences Account' in Transitional Guidance) • Unequal Pay Back Pay Account

- 9.3 No further accounting standards or legislation requiring amendment of the Code have been identified to date. However, it is possible that additional legislation, regulations or statutory guidance relating to 2011/12 will be issued prior to the Code being finalised. If this is the case, CIPFA/LASAAC will incorporate the requirements into the published Code.

Other minor changes reflecting revisions to accounting standards, codes and legislation

Q14 Do you agree that the amendments to the Code accurately reflect the amendments to accounting standards? If not, why not? What alternatives would you suggest?

Q15 Do you agree that the amendments to the Code accurately reflect the regulations and statutory guidance introduced to mitigate the impact of the transition to IFRS? If not, why not? What alternatives would you suggest?

Q16 Do you agree with the proposals to rationalise the accounts required by the Code? If not, why not? What alternatives or additional rationalisation would you suggest?

Q17 Are there any further accounting standards or legislative changes that need to be reflected in the Code?

10 further guidance

- 10.1 CIPFA/LASAAC would be interested to hear respondents' views on whether there are any areas within the Code where additional guidance would be welcomed or improvements to the Code could be made. Respondents are asked to identify areas where additional guidance or improvements would be helpful, and provide details of any difficulties being experienced.

Further Guidance

Q18 Are there any areas within the Code where additional guidance or improvements to the Code would be helpful? Please support your answer by giving details of the difficulties being experienced.

11 financial reporting

- 11.1 CIPFA/LASAAC is committed to keeping financial reporting as simple as possible within the requirement to ensure that financial statements are compliant with IFRS as interpreted and/or adapted for the public sector.
- 11.2 This process began with the 'Back to Basics' consultation, and saw the removal of some Notes to the Accounts derived from legislation in the SORP 2009. In preparing the 2010/11 Code, CIPFA/LASAAC agreed that it would be appropriate to exclude from the Code requirements a number of disclosures required by IFRS. A list of these disclosures, and the reason why they were excluded from the Code, is provided in Appendix E.
- 11.3 CIPFA/LASAAC will continue this process, and reviews of disclosures, supporting information and annual reports are expected to be completed in time for the preparation of the 2012/13 Code.
- 11.4 In the interim, CIPFA/LASAAC would welcome any suggestions for disclosures included in the Code that practitioners and other respondents feel do not add value, and could be eliminated from future Codes. In this context, CIPFA/LASAAC

will be considering disclosures that are capable of being withdrawn for every authority; individual authorities are already able to omit disclosures that are not relevant to themselves on the grounds of materiality.

Financial Reporting

Q19 Are there any disclosures within the Code that could be removed while remaining compliant with relevant IFRS requirements? Please provide reasons to support your recommendations.

disclosure of exit packages (comparative year in brackets)

(a)	(b)	(c)	(d)
Exit package cost band (including special payments)	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band [(b) + (c)]
£0 - £20,000	1 (2)	4 (2)	5 (4)
£20,001 - £40,000	3 (4)	6 (8)	9 (12)
...			
£100,000 - £150,000			
...			
Total number of exit packages	4 (6)	10 (10)	14 (16)
Total cost of exit packages	£118,000 (£153,000)	£239,000 (£313,000)	£357,000 (£466,000)

annual improvements to IFRS (issued April 2009)

IFRS	Subject of amendment	Ref
IFRS 2 <i>Share-based Payment</i>	Scope of IFRS 2 and revised IFRS 3	A.6.1
IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations	4.1.4.4 4.9.4.2
IFRS 8 <i>Operating Segments</i>	Disclosure of information about segment assets	3.4.1.6 (deleted); 3.4.6.1
IAS 1 <i>Presentation of Financial Statements</i>	Current/non-current classification of convertible instruments	3.4.2.58
IAS 7 <i>Statement of Cash Flows</i>	Classification of expenditures on unrecognised assets	N/A – clarification only, already implicit in Code
IAS 17 <i>Leases</i>	Classification of leases of land and buildings	4.2.2.7; 4.2.2.9; 4.2.6.1
IAS 18 <i>Revenue</i>	Determining whether an entity is acting as a principal or as an agent	N/A – amendment adds an additional example but no changes to standard.
IAS 36 <i>Impairment of Assets</i>	Unit of accounting for goodwill impairment test	N/A – Code refers to IAS 36 re goodwill
IAS 38 <i>Intangible Assets</i>	Additional consequential amendments arising from revised IFRS 3 Measuring the fair value of an intangible asset acquired in a business combination	N/A – affects guidance rather than principles and unlikely to apply to local authorities

IFRS	Subject of amendment	Ref
<i>IAS 39 Financial Instruments: Recognition and Measurement</i>	1) Treating loan prepayment penalties as closely related embedded derivatives 2) Scope exemption for business combination contracts 3) Cash flow hedge accounting	1) N/A as Code refers to IAS 39 2) 7.1.1.7 7.1.2.2 3) N/A as Code refers to IAS 39
<i>IFRIC 9 Reassessment of Embedded Derivatives</i>	Scope of IFRIC 9 and revised IFRS 3	7.1.1.8 7.1.6.8
<i>IFRIC 16 Hedges of a Net Investment in a Foreign Operation</i>	Amendment to the restriction on the entity that can hold hedging instruments	7.1.1.8 7.1.7.3

various new and revised IFRS and IPSAS, where the amendments do not result in any substantive changes to the text of the Code

Standard	Date Issued	Ref
IAS 39 and IFRIC 9 (<i>Embedded Derivatives</i>)	March 2009	7.1.1.8 7.1.6.8
IFRS 2 <i>Share based payments</i>	June 2009	A.6.1
IFRS 1 <i>First time adoption of IFRS</i>	July 2009	N/A – no first time adoption in 2011/12
IAS 32 (<i>Classification of Rights Issues</i>)	October 2009	N/A as local authorities will not make rights issues
IFRIC 14 (<i>Prepayments of Minimum Funding Requirement for a Pension Fund</i>)	November 2009	6.4.1.1
IFRIC 19 <i>Extinguishing Financial Liabilities with Equity Instruments</i>	November 2009	N/A as authorities do not issue equity instruments and IFRIC 19 does not address the accounting by the creditor (see IFRIC 19.2)
IPSAS 27 <i>Agriculture</i> [converged with IFRS]	December 2009	A.1.5
IPSAS 28, 29 & 30 <i>Financial Instruments</i> [converged with IFRS]	January 2010	7.1.1.1 7.1.1.6 7.4.2.2
IPSAS 31 <i>Intangible Assets</i> [converged with IFRS]	January 2010	4.5.1.1; see also 4.5.1.3 in consequential amendments to Heritage Assets
<i>Annual Improvements to IPSAS</i> [converged with IFRS]	January 2010	N/A – relate to amendments to IFRS already incorporated into the Code

annual improvements to IFRS (issued May 2010) (subject to EU approval)

IFRS	Subject of amendment	Ref
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	1) Accounting policy changes in the year of adoption 2) Revaluation basis as deemed cost 3) Use of deemed cost for operations subject to rate regulation	N/A – no first time adoption in 2011/12
IFRS 3 <i>Business Combinations</i>	1) Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS 2) Measurement of non-controlling interests 3) Un-replaced and voluntarily replaced share-based payment awards	N/A as Code refers to IFRS 3
IFRS 7 <i>Financial Instruments: Disclosures</i>	Clarification of disclosures	7.1.1.6 and section 7.4.3
IAS 1 <i>Presentation of Financial Statements</i>	Clarification of statement of changes in equity	N/A – clarification that information can be presented in the statement or in the notes is already reflected in the Code
IAS 27 <i>Consolidated and Separate Financial Statements</i>	Transition requirements for amendments arising as a result of IAS 27 Consolidated and Separate Financial Statements	N/A – the transition requirements do not affect local authorities as they did not apply the previous IFRSs; instead, authorities applied IFRS 1 in 2010/11
IAS 34 <i>Interim Financial Reporting</i>	Significant events and transactions	N/A – local authorities do not produce interim financial reports
IFRIC 13 <i>Customer Loyalty Programmes</i>	Fair value of award credits	N/A – Code does not refer to IFRIC 13

disclosure notes not included in the 2010/11 Code

Disclosure Note	Reason for not including Note in draft Code
<i>Property, Plant & Equipment (IAS 16):</i>	
<p>73 (e). A reconciliation of the carrying amount at the beginning and end of the period showing:</p> <p>(iii) acquisitions through business combinations.</p> <p>(viii) the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity.</p>	<p>Not expected to be relevant to local authorities:</p> <p>(iii) acquisitions through business combinations are unlikely to take place;</p> <p>(viii) authorities are unlikely to hold assets outside the UK.</p>
<p>74. The financial statements shall also disclose:</p> <p>(a) the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities.</p> <p>(d) if it is not disclosed separately in the Statement of Comprehensive Income, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit and loss.</p>	<p>Not expected to be relevant to local authorities:</p> <p>(a) legislation does not allow authorities to pledge assets as security;</p> <p>(d) not considered to affect decisions made by readers of the accounts.</p>
<p>77. If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:</p> <p>(d) the extent to which the items' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;</p> <p>(e) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model;</p> <p>(f) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.</p>	<p>Not expected to be relevant to local authorities:</p> <p>(d) will be covered in valuation statement;</p> <p>(e) not considered to affect decisions made by readers of the accounts;</p> <p>(f) change in period will be reported as part of Movement in Reserves Statement or notes; restrictions on the distribution of the balance to shareholders does not apply to local authorities.</p>

<p>79. Users of financial statements may also find the following information relevant to their needs:</p> <p>(a) the carrying amount of temporarily idle property, plant and equipment;</p> <p>(b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;</p> <p>(c) the carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with chapter 4 section 9; and</p> <p>(d) when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.</p>	<p>Disclosure recommended but not required by IFRS. Omitted in line with Back to Basics objective of minimising size of financial statements.</p>
<p><i>Leases (IAS 17):</i></p>	
<p>Lessees – Finance Leases:</p> <p>31 (e). A general description of the lessee's material leasing arrangements including, but not limited to, the following:</p> <p>(i) the basis on which contingent rent payable is determined;</p> <p>(ii) the existence and terms of renewal or purchase options and escalation clauses; and</p> <p>(iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.</p>	<p>Expected to be covered by the accounting policies where material</p>
<p>Lessees – Operating Leases:</p> <p>35 (d). A general description of the lessee's material leasing arrangements including, but not limited to, the following:</p> <p>(i) the basis on which contingent rent payable is determined;</p> <p>(ii) the existence and terms of renewal or purchase options and escalation clauses; and</p> <p>(iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.</p>	<p>See above</p>
<p><i>Investment Property (IAS 40):</i></p>	
<p>75. An entity shall disclose:</p> <p>(a) Whether the authority applies the fair value model or the cost model.</p> <p>(c) When classification is difficult the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business.</p> <p>(d) The methods and significant</p>	<p>Not expected to be relevant to local authorities:</p> <p>(a) fair value model mandatory, and will be covered by accounting policies;</p> <p>(c) interpretation of definition of "investment property" as solely to generate rental income or capital appreciation is expected to avoid difficulties in</p>

<p>assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the authority shall disclose)</p> <p>(e) The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.</p> <p>(f) (iv) The amounts recognised in profit and loss for: the cumulative change in fair value recognised in profit or loss on a sale of investment property from a pool of assets in which the cost model is used into a pool in which the fair value model is used.</p>	<p>classification arising;</p> <p>(d) & (e) expected to be covered by the valuation statement;</p> <p>(f)(iv) not relevant as cost mode is not permitted</p>
<p>76. A reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:</p> <p>(b) additions resulting from acquisitions through business combinations.</p> <p>(e) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity.</p>	<p>Not expected to be relevant to local authorities:</p> <p>(b) acquisitions through business combinations are unlikely to take place;</p> <p>(e) authorities are unlikely to hold investment property outside the UK.</p>
<p>77. When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example to avoid double-counting of assets or liabilities that are recognised as separate assets and liabilities as described in paragraph 50, the entity shall disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognised lease obligations that have been added back, and any other significant adjustments.</p>	<p>Not expected to apply to local authorities.</p>
<p>78. In the exceptional cases referred to paragraph 53, when an entity measures investment property using the cost model in IAS 16, the reconciliation required by paragraph 76 shall disclose amounts relating to that investment property separately from amounts relating to other</p>	<p>Not expected to apply to local authorities as it is expected that investment property held by authorities will be capable of being measured at fair value.</p>

<p>investment property. In addition, an entity shall disclose:</p> <p>(a) a description of the investment property;</p> <p>(b) an explanation of why fair value cannot be determined reliably;</p> <p>(c) if possible, the range of estimates within which fair value is highly likely to lie; and</p> <p>(d) on disposal of investment property not carried at fair value:</p> <p>(i) the fact that the authority has disposed of investment property not carried at fair value;</p> <p>(ii) the carrying amount of that investment property at the time of sale; and</p> <p>(iii) the amount of gain or loss recognised.</p>	
<p><i>Intangible Assets (IAS 38):</i></p>	
<p>118 (e). a reconciliation of the carrying amount at the beginning and end of the period showing:</p> <p>(vii) net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the authority.</p>	<p>Not expected to be relevant to local authorities as they are unlikely to hold intangible assets outside the UK.</p>
<p>122 (d). The existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities.</p>	<p>Not expected to be relevant to local authorities as regulations do not permit assets to be pledged for security.</p>
<p>126. An authority shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period.</p>	<p>Not expected to apply to local authorities.</p>
<p>128. An entity is encouraged, but not required, to disclose the following information:</p> <p>(a) a description of any fully amortised intangible asset that is still in use; and</p> <p>(b) a brief description of significant intangible assets controlled by the authority but not recognised as assets because they did not meet the recognition criteria (see chapter 4 section 5) or because they were acquired or generated before the version of IAS 38 Intangible Assets issued in 1998 was effective.</p>	<p>Disclosure recommended but not required by IFRS. Omitted in line with Back to Basics objective of minimising size of financial statements.</p>
<p><i>Impairment of Assets (IAS 36):</i></p>	
<p>129. An entity that reports segmental information in accordance with IFRS 8 shall</p>	<p>Not considered appropriate for local authorities. Significant impairment will be</p>

Impairment

<p>disclose the following for each reportable segment:</p> <p>(a) the amount of impairment losses recognised in profit and loss and in other comprehensive income during the period.</p> <p>(b) the amount of reversals of impairment losses recognised in profit and loss, and in other comprehensive income during the period.</p>	<p>separately disclosed; requiring separate disclosure by segment is not expected to affect decisions made by readers of the accounts and would increase the length of disclosures.</p>
<p>130 (d) for a cash-generating unit:</p> <p>(i) a description of the cash-generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, or a reportable segment as defined in IFRS 8);</p> <p>(ii) the amount of the impairment loss recognised or reversed by class of assets and, if the entity reports segment information in accordance with IFRS 8, by reportable segment; and</p> <p>(iii) if the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount (if any), a description of the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified.</p>	<p>Local authorities are not expected to have cash-generating units in the manner anticipated by the standard.</p>
<p>131. An entity shall disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no information is disclosed in accordance with paragraph 130:</p> <p>(a) the main classes of assets affected by impairment losses and the main classes of assets affected by reversals of impairment losses.</p> <p>(b) the main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.</p>	<p>Where material, this information is expected to be provided by other disclosures.</p>
<p>133. If, in accordance with paragraph 84, any portion of the goodwill acquired in a business combination during the period has not been allocated to a cash-generating unit (group of units) at the reporting date, the amount of the unallocated goodwill shall be disclosed together with the reasons why that amount remains unallocated.</p>	<p>Goodwill is not expected to be relevant to local authorities.</p>
<p><i>Assets Held for Sale and Discontinued Operations (IFRS 5):</i></p>	
<p>41. An entity shall disclose the following information in the period in which a non-</p>	<p>Omitted in line with Back to Basics objective of minimising size of financial</p>

current asset (or disposal group) has been either classified as held for sale or sold: (a) a description of the non-current asset (or disposal group); (b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal; (d) if applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance with IFRS 8.	statements.
42. If either paragraph 26 or paragraph 29 applies, an entity shall disclose, in the period of the decision to change the plan to sell the non-current asset (or disposal group), a description of the facts and circumstances leading to the decision and the effect of the decision on the results of operations for the period and any prior periods presented.	Omitted in line with Back to Basics objective of minimising size of financial statements.
<i>Inventories (IAS 2):</i>	
36. The financial statements shall disclose: (a) the accounting policies adopted in measuring inventories, including the cost formula used. (h) the carrying amount of inventories pledged as security for liabilities.	(a) Expected to be covered by the accounting policies where material. (h) Legislation does not allow authorities to pledge assets as security;
<i>Work in Progress (Construction Contracts) (IAS 11):</i>	
42. An entity shall present: (a) the gross amount due from customers for contract work as an asset; and (b) the gross amount due to customers for contract work as a liability.	Where material, this information is expected to be provided by other disclosures.
<i>Financial Instruments (IFRS 7):</i>	
14. An entity shall disclose: (a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities; and (b) the terms and conditions relating to its pledge.	Under statute local authorities cannot pledge their assets as collateral.
<i>Cash Flow Statement (IAS 7):</i>	
50. Additional information may be relevant to users in understanding the financial position and liquidity of the entity. Disclosure of this information, together with a commentary by management, is encouraged and may include:	Omitted in line with Back to Basics objective of minimising size of financial statements.

<p>(a) The amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities;</p> <p>(b) The aggregate amounts of the cash flows from each of operating, investing and financing activities related to interests in joint ventures reported using proportionate consolidation;</p> <p>(c) The aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity;</p> <p>(d) The amount of the cash flows arising from the operating, investing and financing activities of each reportable segment.</p>	
<p><i>Group Accounts (IAS 27, IAS 28, IAS 31):</i></p>	
<p>Subsidiaries (IAS 27):</p> <p>42. When separate financial statements are prepared for a parent that, in accordance with paragraph 10, elects not to prepare consolidated financial statements, those separate financial statements shall disclose:</p> <p>(a) the fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name and country of incorporation or residence of the entity whose consolidated financial statements that comply with International Financial Reporting Standards have been produced for public use; and the address where those consolidated financial statements are obtainable;</p> <p>(b) a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and</p> <p>(c) a description of the method used to account for the investments listed under (b).</p>	<p>Paragraph 10 of IAS 27 covers situations that are not relevant to local authorities.</p>
<p>43. When a parent (other than a parent covered by paragraph 42), venturer with an interest in a jointly controlled entity or an investor in an associate prepares separate financial statements, those separate financial statements shall disclose:</p> <p>(a) the fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law;</p>	<p>The draft Code includes an interpretation of IAS 27; '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', and therefore in the context of the draft Code, an authority's single entity financial</p>

<p>(b) a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and</p> <p>(c) a description of the method used to account for the investments listed under (b);</p> <p>and shall identify the financial statements prepared in accordance with paragraph 9 of this Standard or IAS 28 and IAS 31 to which they relate</p>	<p>statements are deemed to be separate financial statements and as such the disclosure note is not relevant.</p>
<p>Associates (IAS 28):</p> <p>37. The following disclosures shall be made:</p> <p>(h) the fact that an associate is not accounted for using the equity method in accordance with paragraph 13 (b) and (c).</p>	<p>Paragraph 13 (b) and (c) of IAS 31 cover situations that are not relevant to local authorities.</p>