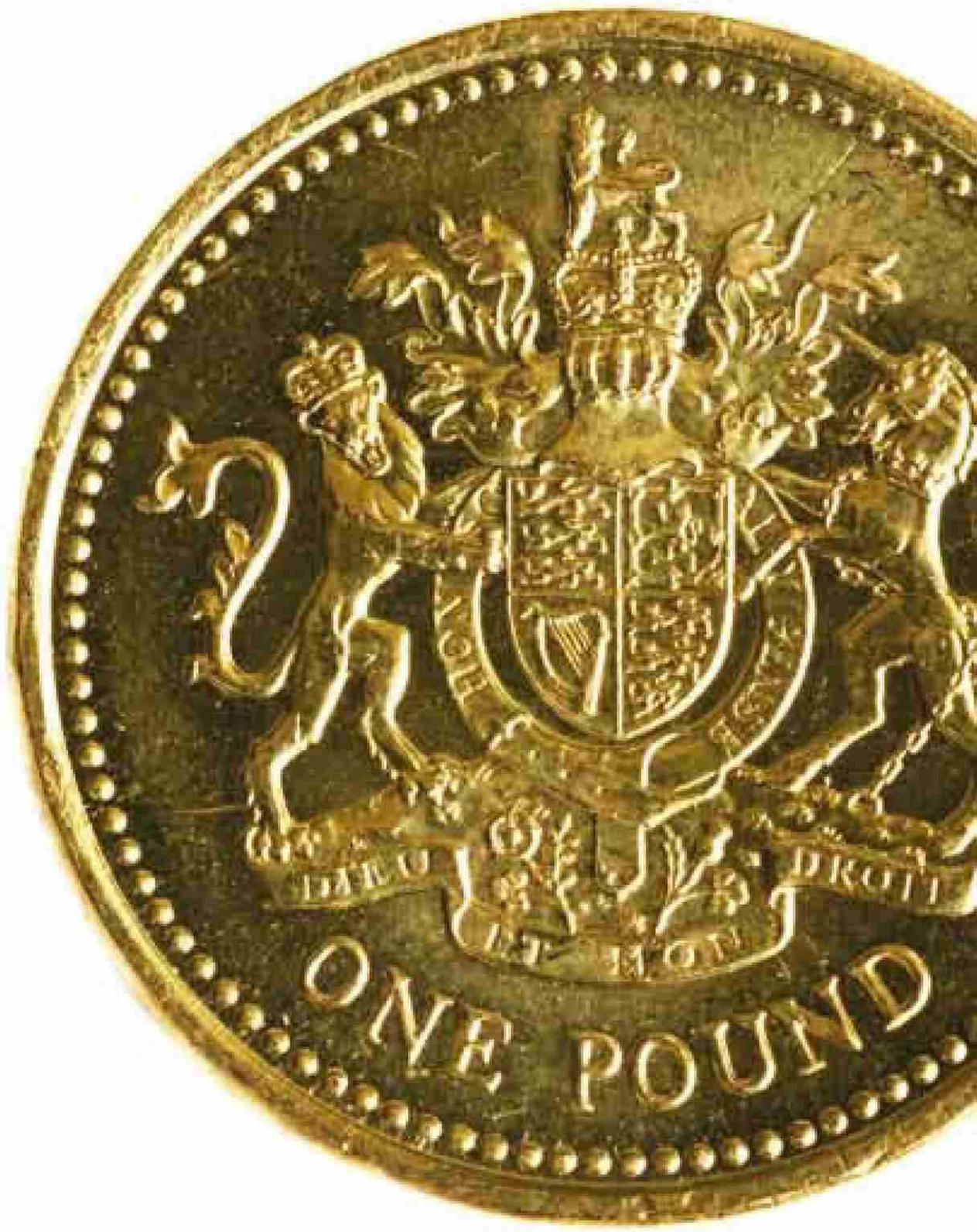
CIPFA The Chartered Institute of Public Finance & Accountancy

code of practice on local authority accounting

in the United Kingdom 2010/11

Based on International Financial Reporting Standards



LASAAC

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Foreword

This Code of Practice is the first to be 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 2010.

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

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. The key accounting changes include:

- 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).

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.

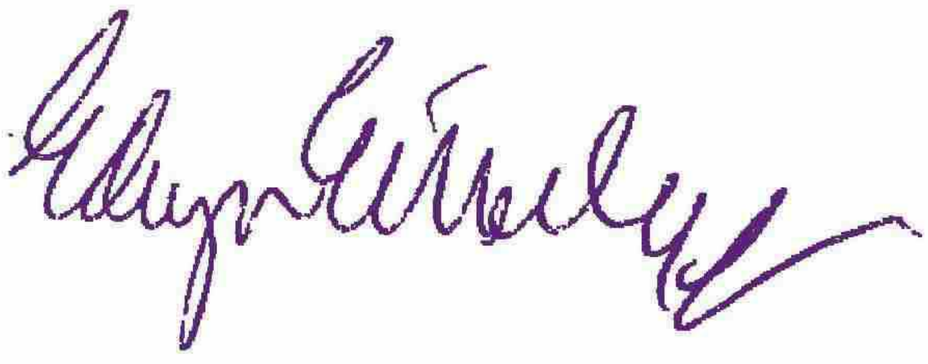
STATEMENT BY THE FINANCIAL REPORTING ADVISORY BOARD ON THE 'CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING IN THE UNITED KINGDOM 2010/11'

The Financial Reporting Advisory Board's role is to promote the highest possible standards in financial reporting by Government and to help to ensure that any adaptations of, or departures from, GAAP are justified and properly explained. The Financial Reporting Advisory Board (FRAB) is responsible for providing independent advice to the relevant authorities on financial reporting principles and standards. The 'relevant authorities' for this purpose are HM Treasury in respect of central government, the Scottish Government, the Northern Ireland Assembly and the Welsh Assembly Government in respect of central government and the health sector in their territories, the Department of Health and Monitor in respect of the health sector in England, and CIPFA/LASAAC in respect of local authority accounts across England, Wales, Scotland and Northern Ireland.

The CIPFA/LASAAC Local Authority Code Board (the Code Board), a standing committee of CIPFA and LASAAC, is responsible for developing the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code), and shares the FRAB's aim of promoting the highest possible standards in financial reporting. In developing the Code, the Code Board has followed the Memorandum of Understanding with the FRAB.

Statement

The FRAB has reviewed the Code, and concluded that it is consistent with International Financial Reporting Standards as applied by the Government Financial Reporting Manual for 2009-10 (as on publication of the Code the Government Financial Reporting Manual for 2010-11 had not yet been approved), except for the differences shown in the Annex.



ELWYN EILLEDGE CBE
CHAIR
FINANCIAL REPORTING ADVISORY BOARD

Date: 30 October 2009

ANNEX

Differences between the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) and the Government's Financial Reporting Manual (the FReM)

Section 2.3 of the Code requires immediate recognition of grants for capital purposes. The 2009/10 FReM requires such grants to be deferred, and income recognised to match depreciation (though this treatment may be changed in the 2010/11 FReM).

Section 3.1 of the Code requires authorities to produce an explanatory foreword. The FReM requires a directors' report to be produced.

The content of the statement of responsibilities in section 3.2 of the Code is less detailed than that in the FReM.

The formats of the financial statements in section 3.4 of the Code are different to those in the FReM, reflecting the differing governance positions and different audiences for the financial statements.

Section 3.8 of the Code includes an interpretation to reflect regulations in respect of the authorised for issue date. No interpretation is required in the FReM.

Under section 3.9 of the Code, providers of finance and trade unions (in the normal course of their businesses) are not classed as related parties; this interpretation is not included in the FReM.

Section 4.1 of the Code retains the use of the cost model for certain classes of asset (such as infrastructure assets and community assets). All classes of asset are carried at fair value under the FReM.

Section 4.5 of the Code requires intangible assets to be carried at historical cost (less accumulated amortisation and impairment) where no active market exists. The FReM requires such assets to be revalued using indices or some suitable model.

Section 4.8 of the Code permits authorities to select an accounting policy of expensing or capitalising borrowing costs on qualifying assets. The FReM requires borrowing cost to be expensed.

Unlike the FReM, section 4.9 of the Code withdraws the option to present assets held for sale in the notes as opposed to on the face of the Balance Sheet.

Section 6.2 of the Code permits authorities to account for certain long-term disability payments in the same way as post employment benefits. This is not permitted by the FReM.

The FReM specifies the presentation of the pension liabilities in pension fund accounts whereas section 6.5 of the Code retains the options set out in IAS 26.

Chapter seven of the Code includes minor interpretations and additional guidance covering 'regular way' trades of financial assets; a prohibition on the designation of the category of a financial instrument; soft loans advanced and received by an authority –

'prevailing interest rate'; Lender Option Borrower Option Loans (LOBOs); accounting for immaterial transaction costs on initial recognition; and exchanges of debt instruments.

Chapter nine of the Code requires an authority to produce Group Accounts where it has investments in associates and/or interests in joint ventures (jointly controlled entities) but no interests in subsidiaries. The FReM includes criteria for the consolidation of entities subject to in-year budgetary and spending control which are not relevant to local authorities.

In addition, a number of sections of the Code incorporate additional guidance on non-exchange transactions that is not explicitly included in the FReM. These interpretations of IAS 39 are in sections 2.7, 5.3 and 8.1 of the Code.

Contents

CHAPTER ONE

Introduction

1.1 OBJECTIVE OF THE CODE

1.1.1 The *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position and transactions of a local authority, including group financial statements where a local authority has material interests in subsidiaries, associates or joint ventures.

1.1.2 The Code sets out the proper accounting practices required by section 21(2) of the Local Government Act 2003. These proper practices apply to:

- Statements of Accounts prepared in accordance with the statutory framework established for England by the Accounts and Audit Regulations 2003 and for Wales by the Accounts and Audit (Wales) Regulations 2005.
- the audit of those accounts undertaken in accordance with the statutory framework established by section 5 of the Audit Commission Act 1998 for England, and by sections 39 and 58 of the Public Audit (Wales) Act 2004 for Wales.

1.1.3 In Scotland, the Code constitutes proper accounting practice under section 12 of the Local Government in Scotland Act 2003. These proper practices apply to:

- Statements of Accounts prepared under the statutory framework established by the Local Authority Accounts (Scotland) Regulations 1985.
- the audit of those accounts, undertaken in accordance with the statutory framework established by section 99 of the Local Government (Scotland) Act 1973.

1.1.4 In Northern Ireland, the statutory framework for the accounts and audit is established by Article 24 of the Local Government (Northern Ireland) Order 2005 and the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006.

1.1.5 In the unusual event that other statutory provisions require departures from the Code, then those statutory provisions shall be followed. Regard will still need to be given, however, to the need for the Statement of Accounts to give a 'true and fair' view of the financial position and transactions of the authority, which may mean the inclusion of additional information in accordance with the provisions of the Code.

1.1.6 The Code prescribes the accounting treatment and disclosures for all normal transactions of a local authority, and is based on the following hierarchy of standards:

- International Financial Reporting Standards (IFRSs) (including International Accounting Standards (IASs) and International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC) interpretations) as adopted by the European Union (ie EU-adopted IFRS).

- International Public Sector Accounting Standards (IPSASs).
- UK Generally Accepted Accounting Practice (GAAP) (Financial Reporting Standards (FRSs), Statements of Standard Accounting Practice (SSAPs) and Urgent Issues Task Force (UITF) Abstracts).

On the few occasions where the CIPFA/LASAAC Code Board considered it appropriate to adapt IFRSs, the accounting treatment in those standards lower in the hierarchy was used to inform decisions regarding the appropriate treatment to be adopted.

In the unusual event that a local authority enters into a transaction, the accounting treatment and disclosure requirements of which are not covered by the Code, but which are covered by an extant IAS, IFRS, SIC Interpretation or IFRIC Interpretation, by an IPSAS or by UK GAAP, the requirements of the relevant IAS, IFRS, SIC Interpretation, IFRIC Interpretation, IPSAS or UK GAAP shall be followed.

1.1.7 The Code involves interpretations and adaptations of International Accounting Standards and other pronouncements by the International Accounting Standards Board (IASB). These will be clearly identified in the Code. In all other cases, the Code implements the requirements of the International Accounting Standards. Where users experience difficulties interpreting this Code, they shall refer back to the relevant International Accounting Standard or other pronouncement for further guidance. Where any interpretations and adaptations of International Accounting Standards contained in the Code are in line with the guidance contained in International Public Sector Accounting Standards, or in line with UK GAAP, authorities shall refer to those standards for further guidance.

1.2 APPLICABILITY OF THE CODE

1.2.1 This Code has effect for financial years commencing on or after 1 April 2010.

1.2.2 In England and Wales, the Code is part of the 'proper practices' requirements governing the preparation of an authority's Statement of Accounts referred to in section 21 of the Local Government Act 2003. However, the Code does not apply to any parish or community councils, even those required to prepare Statements of Accounts. Alternative guidance is applicable to these councils. All authorities to which section 21 applies that are required to prepare a Statement of Accounts by the Accounts and Audit Regulations under section 27 of the Audit Commission Act 1998 or section 39 of the Public Audit (Wales) Act 2004, except parishes and community councils, therefore have a statutory duty to comply with Code requirements.

1.2.3 In practice this definition includes principal councils, police authorities, fire and rescue authorities, and the Greater London Authority and its functional bodies. More specialised bodies should check against the definitions to decide whether they are covered. It is expected that bodies covered by the Accounts and Audit Regulations requirements to prepare a Statement of Accounts but not by the definition of proper practices in section 21 of the Local Government Act 2003 will adopt the Code as a source of proper practices, unless adoption is ruled out by legislation or a more specialised accounting code applies to them.

1.2.4 Scottish local authorities have a duty under section 12 of the Local Government in Scotland Act 2003 to observe proper accounting practices. The Code is recognised as setting out

proper accounting practices in this regard. Local authorities are defined as a council constituted under section 2 of the Local Government (Scotland) Act 1994, the Strathclyde Partnership for Transport, and those bodies to which section 106(1) of the Local Government (Scotland) Act 1973 applies (ie committees, joint committees and joint boards, the members of which are appointed by local authorities, charities, etc; the trustees of which are local authorities or their members and transport partnerships created under the Transport (Scotland) Act 2005). Where a section 106 body complies with the accounting requirements of the Charities and Trustee Investment (Scotland) Act 2005 and associated regulations it should follow the Charities SORP. Where a Common Good Fund (or other trust fund) is a registered charity, it should follow the financial reporting requirements of the Office of the Scottish Charity Regulator. Where the fund is not a registered charity, it should follow the requirements of this Code.

1.2.5 In Northern Ireland, district councils are required to prepare Statements of Accounts under Regulation 4 of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006 and the Code is part of the proper practices governing their preparation.

1.2.6 This edition of the Code is the first to implement International Financial Reporting Standards. As such there are a number of changes to accounting practice since the 2009 SORP. These changes are set out at the end of each section of the Code.

1.2.7 Proper practice, as defined by regulations, also includes the requirements of other codes of practice, such as the Best Value Accounting Code of Practice. In preparing their accounts, authorities shall comply with the requirements of these other codes of practice as well as the requirements of this Code.

1.3 THE CONTEXT OF THE CODE'S RECOMMENDATIONS

1.3.1 The Code is supported by a number of detailed accounting recommendations which have evolved as best accounting practice over many years. The provisions of the Code are updated where professional or statutory developments make it appropriate. The primary sources are set out in Appendix B.

1.3.2 The Code sets out the accounting concepts and accounting principles which underpin the Statement of Accounts. The following points are intended to put some of those requirements in context:

- The overriding requirement of the Code remains that the Statement of Accounts gives a 'true and fair' view of the financial position and transactions of the authority. Where there are changes in accounting policies or where the requirements of the Code are not met, then full disclosure and, where relevant, quantification in the Statement of Accounts are required.
- The Code represents the minimum requirement for disclosure and presentation (subject to materiality) and is not intended to prejudice the provision of further information by authorities.

1.4 ACCOUNTING STANDARDS

1.4.1 The Code is based on the approved accounting standards that form part of the standards hierarchy (see paragraph 1.1.6) and also reflects specific statutory accounting requirements. Compliance with the Code is therefore necessary (save in exceptional circumstances) in order that an authority's accounts give a 'true and fair' view of the financial position and financial performance of the authority.

1.4.2 The requirements of International Financial Reporting Standards and other pronouncements by the International Accounting Standards Board (as adopted by the EU) apply unless specifically interpreted or adapted by the Code.

1.5 PURPOSE OF THE STATEMENT OF ACCOUNTS

1.5.1 The Code has been prepared on the basis that the purpose of a local authority's published Statement of Accounts is to give electors, those subject to locally levied taxes and charges, members of the authority, employees and other interested parties clear information about the authority's finances. It should answer such questions as:

- What did the authority's services cost in the year of account?
- Where did the money come from?
- What were the authority's assets and liabilities at the year-end?

1.5.2 It is important for compliance with the Code that two particular aspects are understood clearly. First, all Statements of Accounts should reflect a common pattern of presentation, although this does not necessarily require them to be in an identical format. One of the main aims of the Code is to narrow the areas of difference and variety in accounting treatment and thereby to enhance the usefulness of published Statements of Accounts. It is important that the costs of individual services are defined by local authorities in accordance with the CIPFA *Best Value Accounting Code of Practice* (separate service expenditure analyses exist for England and Wales, Scotland, and Northern Ireland).

1.5.3 Secondly, interpretation and explanation of the accounts are considered to be extremely important. The Code requires that there should be an Explanatory Foreword to the Statement of Accounts. The Explanatory Foreword should explain the more significant features of the accounts. It should be based on the information contained in the Statement of Accounts and local authorities should ensure that it does not contain material inaccuracies or misleading statements in relation to the Statement of Accounts.

1.5.4 Wherever possible the Statement of Accounts and the supporting notes should be written in plain language and technical terms or jargon should be used only sparingly. Where the use of technical terms cannot be avoided, they should always be explained clearly in a glossary.

1.5.5 Where an authority also publishes a summarised or simplified version of its Statement of Accounts, it should contain a clear reference to the existence of the full Statement of Accounts and to its availability.

1.5.6 Information contained in the Statement of Accounts will be consolidated into the Whole of Government Accounts. The Code aims to narrow the areas of difference and variety in accounting treatment with the rest of the public sector, facilitating consolidation. As part

of the consolidation process, additional information to that disclosed in the Statement of Accounts may need to be submitted to government; such information is expected to be in line with the requirements of the Code.

1.6 PUBLICATION

1.6.1 The Statement of Accounts should be prepared promptly by authorities in a form which fulfils the purpose outlined above in accordance with the statutory timetable and CIPFA's *Standard of Professional Practice on Financial Reporting*. The accounts must be prepared by 30 June. In England and Wales, each authority is required to prepare and approve its accounts by 30 June and to publish them by 30 September. In Scotland, the proper officer is required to submit the unaudited accounts to the authority and the Controller of Audit by 30 June. The audited accounts must be laid before a meeting of the authority and published within two months of receipt of the audit certificate. In Northern Ireland, the requirement is to prepare and approve accounts by 30 June and to publish them by 31 October.

1.6.2 The publication of a Statement of Accounts is a statutory requirement. However, Statements of Accounts form part of reporting in its wider sense, and must, therefore, be considered in relation to annual reports. It is recommended that the Statement of Accounts should be included within the annual report. However, where this is not appropriate, the annual report should contain a fair summary of the Statement of Accounts, with a cross-reference to where and how the full Statement of Accounts may be obtained.

1.6.3 The Code states which accounts should be published as part of the Statement of Accounts, and the information to be included in each account. It also sets out recommendations regarding the order in which the financial statements and notes to the accounts are presented. Within the general framework and requirements of the Code, the layout of accounts and terminology used are at the discretion of authorities.

1.6.4 The financial statements, statement of accounting policies and notes to the accounts should form the relevant Statement of Accounts for the purpose of the auditor's certificate and opinion. The statements should be published with an audit certificate and opinion in England, Wales and Northern Ireland and with an audit certificate in Scotland. If the published Statement of Accounts has not been audited, this should be stated clearly on the front of the document.

CHAPTER TWO

Concepts and principles

2.1 CONCEPTS

2.1.1 Introduction

2.1.1.1 Authorities shall prepare financial statements (including group accounts) in accordance with the International Accounting Standards Board (IASB) *Framework for the Preparation and Presentation of Financial Statements* as interpreted by this section of the Code.

2.1.1.2 In presenting information in their financial statements, authorities shall have regard to the:

a) objective of financial statements

b) underlying assumptions

c) qualitative characteristics of financial statements

d) elements of financial statements

e) recognition of the elements of financial statements

f) measurement of the elements of financial statements.

2.1.1.3 In particular, regard should be had to the qualitative characteristics in the selection and application of accounting policies and estimation techniques (see section 3.3 of the Code), and in the exercise of professional judgment. The Code specifies many of the accounting policies and estimation techniques to be adopted for material items. These policies and techniques have been selected to accord with the accounting concepts and principles set out in this section and, with International Financial Reporting Standards (as adapted and interpreted for the public sector context, where necessary).

2.1.1.4 Financial statements shall give a true and fair view of the financial position, financial performance and cash flows of an authority. A true and fair view requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Code. Although the IASB framework does not deal directly with such a concept, the application of the principal qualitative characteristics and compliance with the Code is presumed to result in the financial statements that convey a true and fair view. Nevertheless it remains the responsibility of the authority to ensure that its financial statements present a true and fair view of the financial position, performance and cash flows of the authority.

2.1.1.5 The hierarchy of standards that authorities shall follow is shown in the Introduction section of the Code (see chapter one).

2.1.2 Accounting Requirements

Objectives of financial statements

2.1.2.1 Authorities need to be familiar with the objectives of financial statements. The financial statements of authorities shall provide information about their financial position, performance and cash flows. The presentation of the information shall meet the 'common needs of most users'.

2.1.2.2 The financial statements shall also show the results (ie information about an authority's financial position, performance and cash flows) of the stewardship and accountability of elected members and management for the resources entrusted to them, which is of paramount importance in the use of public funds.

Underlying assumptions

2.1.2.3 **Accrual basis** – an authority shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting, ie the authority recognises items as assets, liabilities, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Code. The accruals basis of accounting requires the non-cash effects of transactions to be reflected in the financial statements for the accounting period in which those effects are experienced and not in the period in which any cash is received or paid.

2.1.2.4 **Going concern** – an authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under machinery of government changes (such as local government reorganisation) do not negate the presumption of going concern.

Qualitative characteristics of financial statements

2.1.2.5 **Understandability** – users of financial statements are assumed to have a reasonable knowledge of accounting and local government, and reasonable diligence in reading the financial statements. However, an authority shall take all reasonable steps to enable the user of the financial statements to comprehend their meaning. This understanding will be enhanced when information is classified, characterised and presented clearly and concisely.

2.1.2.6 **Relevance** – the objective of financial statements is to provide information about an authority's financial position, performance and cash flows that is useful for assessing the stewardship of public funds and for making economic decisions.

2.1.2.7 **Materiality** – the relevance of information contained in the financial statements is affected by its nature and materiality. Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor. Therefore materiality provides a threshold or cut-off point rather than a primary qualitative characteristic which information must have if it is to be useful. An authority need not comply with the Code, as to

both disclosure and accounting principles, if the information is not material to the true and fair view of the financial statements and to the understanding of users.

2.1.2.8 **Reliability** – to be useful, information must also be reliable. Financial information is reliable if:

a) it can be depended upon to represent faithfully what it either purports to represent or could reasonably be expected to represent, and therefore reflects the substance of the transactions and other events that have taken place

b) it is free from bias (ie it is neutral)

c) it is free from material error

d) it is complete within the bounds of materiality and cost

e) under conditions of uncertainty, it has been prudently prepared (ie a degree of caution has been applied in exercising judgment and making the necessary estimates).

2.1.2.9 The financial statements must be prepared in accordance with their substance and economic reality and not merely their legal form. In determining the substance of a transaction, it is necessary to identify all of the transaction's aspects and implications. A group or series of transactions that achieves or is designed to achieve an overall economic effect should be viewed as a whole.

2.1.2.10 To be reliable, the information contained in financial statements must be neutral; that is, free from bias. Financial statements are not neutral if, by the selection or presentation of financial information, they influence the making of a decision or judgment in order to achieve a predetermined result or outcome.

2.1.2.11 Often there is uncertainty either about the existence of assets, liabilities, income and expenditure, or about the amount at which they are to be measured. Such uncertainty is a normal part of the accounting process. Prudence is the inclusion of a degree of caution in the exercise of the judgements required in making accounting policies and estimates in recognising and measuring those assets, liabilities, income and expenditure.

2.1.2.12 Sound stewardship of public funds calls for a prudent approach to financial management. It is not appropriate to use prudence in financial reporting as a reason to, for example, create hidden reserves or excessive provisions, deliberately understate assets or income, or deliberately overstate liabilities or expenditure, because this would mean that the financial statements are not neutral and therefore not reliable.

2.1.2.13 To be reliable, the information contained in financial statements must be complete within the bounds of materiality and cost. An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.

2.1.2.14 **Comparability** – the information contained in financial statements gains greatly in usefulness if it can be compared with similar information about the authority for some other period or point in time, and with similar information about other entities. Comparability depends upon consistency and adequate disclosure. Users must be informed of the accounting policies (see section 3.3 of the Code) employed in the preparation of the financial statements, any changes in those policies and the effects of such changes. In considering the accounting policies to be adopted and their disclosure, authorities should have regard to the importance of consistency and comparability. Nevertheless consistency is not an end in itself and therefore does not impede the introduction of improved accounting practices.

Application of the terms of the Code, and of the *Best Value Accounting Code of Practice* where relevant, will ensure adequate disclosure and consistency, and thus comparability.

2.1.2.15 In practice, a balance between the qualitative characteristics is often necessary. Generally the aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgement.

2.1.2.16 Local authorities derive their powers from statute and their financial and accounting framework is closely controlled by primary and secondary legislation. It is a fundamental principle of local authority accounting that, where specific legislative requirements and accounting requirements conflict, legislative requirements shall apply. However, the Code deals with such conflicts by showing the position required by the Code's accounting requirements in the Comprehensive Income and Expenditure Statement, and the effect of the legislative requirements in the Movement in Reserves Statement.

Elements of financial statements

2.1.2.17 The elements directly related to the measurements of financial position in the Balance Sheet are assets, liabilities and reserves. The elements directly related to the measurement of the financial performance in the Comprehensive Income and Expenditure Statement are income and expenses. The presentation of these elements is shown in section 3.4 of the Code. The cash flow reflects elements in both the Comprehensive Income and Expenditure Statement and the Balance Sheet.

2.1.2.18 In assessing whether an item meets the definition of an asset, liability or reserve, attention needs to be given to its underlying substance and economic reality and not merely its legal form.

2.1.2.19 **Assets** – a resource controlled by the authority as a result of past events and from which future economic or service potential is expected flow to the authority.

2.1.2.20 **Liabilities** – are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

2.1.2.21 **Reserves** – the residual interest in the assets of the authority after deducting all its liabilities. The Movement in Reserves Statement shows the true economic cost of providing the authority's services, represented by the line 'Surplus or (deficit) on the provision of services'. Some income and expenditure is required to be recognised on a different basis or in a different accounting period (ie in accordance with legislation) in the General Fund and Housing Revenue Account. These differences are shown in the line 'Adjustments between accounting basis and funding basis under regulations'. Voluntary transfers to or from the General Fund Balance and Housing Revenue Account Balance also affect the amount to be funded from council tax or council dwelling rents; these are shown in the line 'Transfers to or from reserves available to fund services'. The Movement in Reserves Statement also shows Other Comprehensive Income and Expenditure, for example revaluation gains.

2.1.2.22 **Income** – is the gross inflow of economic benefits or service potential during the reporting period when those inflows or enhancements of assets or decreases of liabilities result in an

increase in reserves. Income includes both revenue arising in the course of ordinary activities and gains such as the revaluation of fixed assets.

2.1.2.23 **Expenses** – are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or increases of liabilities that result in decreases in reserves. Expenses include expenses that arise in the course of the ordinary activities and losses such as revaluation of fixed assets.

Recognition of the elements of financial statements

2.1.2.24 Recognition is the process of incorporating in the Balance Sheet or Comprehensive Income and Expenditure Statement an item that meets the definition of an element and satisfies the criteria for recognition. The relevant sections of the Code set out the criteria for recognition of the elements of financial statements.

Measurement of the elements of financial statements

2.1.2.25 Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the Balance Sheet and Comprehensive Income and Expenditure Statement. The relevant sections of the Code set out the basis of measurement for the elements of financial statements. The interpretation of fair value varies from section to section of the Code; the interpretations are summarised below.

Fair value

2.1.2.26 The concept of fair value is used throughout the Code. International Financial Reporting Standards do not have a consistent definition of fair value; different definitions apply in different circumstances. In some cases, the Code interprets fair value to reflect service potential. To assist practitioners, the Code's provisions regarding fair value are summarised below.

Circumstance	Fair Value
Revenue recognition; this is the general definition that applies unless a more specific definition applies.	Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.
Property, plant and equipment	Fair value (for land and buildings) is to be interpreted as the amount that would be paid for the asset in its existing use. This requirement is met by providing a valuation on the basis of exiting use value (EUV) in accordance with UKPS 1.3 of the RICS Valuation Standards. The fair value of council dwellings shall be measured using existing use value–social housing (EUV–SH).
Leases	Fair value will follow the appropriate class of property, plant and equipment, or intangible assets.
PFI and PPP arrangements	On initial recognition, fair value is the cost to purchase the asset. Subsequently, fair value will follow the appropriate class of property, plant and equipment, or intangible assets.

Circumstance	Fair Value
Investment Property	Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction. For this section of the Code, fair value is to be interpreted as the amount that would be paid for the asset in its highest and best use, ie market value. The fair value of investment property held under a lease is the lease interest.
Intangible assets	IAS 38 allows an intangible asset to be carried at a revalued amount only where its fair value can be determined by reference to an active market. Where there is no active market, assets are carried at cost less any accumulated amortisation and any accumulated impairment loss.
Non-current assets held for sale	Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction. For this section of the Code, fair value is to be interpreted as the amount that would be paid for the asset in its highest and best use, ie market value. Fair value for social housing being disposed of under Right to Buy (RTB) legislation is the discounted RTB value.
Inventories	Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction.
Debtors	Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction.
Financial instruments	Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. Usually the best evidence of the fair value is the transaction price (ie the consideration) and unless the transaction was not at arm's-length this should be the value used. However, if the transaction is not based on market terms, a valuation technique shall be used to determine the appropriate fair value for initial recognition of the instrument.
Creditors	Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

2.1.2.27 The Code does not require infrastructure assets (eg roads) to be carried at fair value. Infrastructure is carried at depreciated historical cost although this will be reconsidered in future once the CIPFA project on infrastructure assets has been completed.

2.1.3 Statutory Accounting Requirements

2.1.3.1 There are no statutory accounting requirements regarding the concepts and principles.

2.1.4 Disclosure Requirements

2.1.4.1 Authorities shall apply the objective, underlying assumptions and qualitative characteristics of financial statements, in the selection and application of accounting policies and estimation techniques (see section 3.3 of the Code).

2.1.5 Statutory Disclosure Requirements

2.1.5.1 There are no statutory disclosure requirements in relation to the concepts and principles.

2.1.6 Changes since SORP 2009

2.1.6.1 There are no changes since the SORP in relation to the objective, underlying assumptions and qualitative characteristics of financial statements.

2.1.6.2 The Code introduces different criteria for recognition and basis of measurement for some elements of the financial statements.

PRINCIPLES OF INCOME AND EXPENDITURE RECOGNITION

2.2 BUSINESS IMPROVEMENT DISTRICT SCHEMES (ENGLAND, WALES AND SCOTLAND)

2.2.1 Introduction

2.2.1.1 Business Improvement District (BID) projects are projects for the benefit of a particular area that are financed (in whole or in part) by a BID levy paid by the non-domestic ratepayers, or a class of such ratepayers, in the BID area. There are two key participants – the billing authority for the area and the BID body.

2.2.1.2 There is no IFRS, IPSAS or UK GAAP covering BID schemes. The appropriate accounting treatment for the billing authority is determined by whether it acts as principal or agent, in accordance with section 2.6 of the Code. England and Wales has had a BID Scheme for some time; the Business Improvement Scheme for Scotland came into force on 1 April 2007 under the Business Improvement Districts (Scotland) Regulations 2007.

2.2.2 Accounting Requirements

2.2.2.1 If the billing authority acts as principal, the income received and expenditure incurred by the billing authority is included in the Net Cost of Services under the appropriate service heads. If the billing authority acts as an agent, only the following amounts are recognised in the billing authority's Comprehensive Income and Expenditure Statement:

- A contribution made by the billing authority to the BID project (ie grant-in-aid), which would be shown as service expenditure under the relevant service in the Comprehensive Income and Expenditure Statement.
- BID levy collection costs and associated (reimbursement) income, which would be shown in Net Cost of Services under the relevant service in the Comprehensive Income and Expenditure Statement.
- Income from services supplied by the billing authority to the BID project on a paid basis, which would usually be accounted for as a trading activity as part of Net Operating Costs in the Comprehensive Income and Expenditure Statement. However, where the service supplied for charge is a function of the authority, eg a planning application, it is accounted for in the same way as other income of that function.

2.2.3 Statutory Accounting Requirements

2.2.3.1 The billing authority for the area of a proposed BID is required to oversee the balloting arrangements and will incur the costs of this whether a BID is eventually established or

not. These costs would be shown in Net Cost of Services under the relevant service in the Comprehensive Income and Expenditure Statement.

2.2.4 Disclosure Requirements

2.2.4.1 There are no specific disclosure requirements for BID schemes. Authorities shall consider separate disclosure of the transactions within a BID scheme if these amounts are material.

2.2.5 Statutory Disclosure Requirements

2.2.5.1 There are no statutory disclosure requirements in relation to BID schemes.

2.2.6 Changes since SORP 2009

2.2.6.1 There are no changes to the requirements in SORP 2009.

2.3 GOVERNMENT AND NON-GOVERNMENT GRANTS

2.3.1 Introduction

2.3.1.1 Authorities shall account for and provide disclosures in relation to grants and contributions in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, except where interpretations or adaptations to fit the public sector are detailed in the Code. IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* provides additional guidance on the adaptations of IAS 20 adopted by the Code.

Adaptation and interpretation for the public sector context

2.3.1.2 The following adaptations of IAS 20 and IPSAS 23 for the public sector context apply.

Scope

- The scope of IAS 20 is extended to include grants and contributions from non-government organisations.

Recognition and presentation

- Grants and contributions for capital purposes shall be recognised immediately, unless any conditions have not been met; an authority shall not include grants and contributions deferred in the Balance Sheet.
- The transfer of assets for nil consideration or less than fair value (ie donated assets) shall be credited to a Donated Assets Account where any conditions of the transfer have not been met.

2.3.1.3 The following interpretation of IAS 20 and IPSAS 23 for the public sector context applies:

Recognition and presentation

- The option of deducting the grant from the carrying amount of the asset(s) is not permitted.

2.3.2 Accounting Requirements

Definitions

2.3.2.1 **Conditions on transferred assets** are stipulations that specify that the future economic benefits or service potential embodied in the asset are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

2.3.2.2 **Donated assets** are assets transferred at nil value or acquired at less than fair value.

2.3.2.3 **Grants and contributions** are assistance in the form of transfers of resources to an authority in return for past or future compliance with certain conditions relating to the operation of activities. They exclude those forms of assistance which cannot reasonably have a value placed upon them and transactions with organisations which cannot be distinguished from the normal service transactions of the authority.

2.3.2.4 **Non-exchange transactions** are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

2.3.2.5 **Restrictions on transferred assets** are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential are required to be returned to the transferor if not deployed as specified.

2.3.2.6 Further definitions are contained in IAS 20 and IPSAS 23.

Recognition and presentation – grants and contributions

2.3.2.7 Grants and contributions, including donated assets, shall not be recognised until there is reasonable assurance that:

- the authority will comply with the conditions attached to them, and
- the grants or contributions will be received.

2.3.2.8 Grants and contributions relating to capital and revenue expenditure shall be accounted for on an accruals basis, and recognised immediately in the Comprehensive Income and Expenditure Statement as income, except to the extend that the grant or contribution has a condition(s) (as opposed to restrictions) that the authority has not satisfied.

2.3.2.9 General grants and contributions, eg Revenue Support Grant, NNDR redistribution, Area Based Grant (England only), are required to be disclosed as one or more items on the face of the Comprehensive Income and Expenditure Statement.

2.3.2.10 Donated assets transferred to an authority for nil consideration shall be recognised immediately at fair value as an asset on the Balance Sheet. The asset shall be recognised in the Comprehensive Income and Expenditure Statement as income, except to the extent that the transfer has a condition(s) (as opposed to restrictions) that the authority has not satisfied. In this case the asset is credited to the Donated Assets Account and recognised in the Comprehensive Income and Expenditure Statement once the condition(s) has been satisfied.

2.3.2.11 Where donated assets have been acquired for less than fair value (ie a non-exchange transaction), the difference between the fair value of the asset and the consideration paid shall be recognised immediately in the Comprehensive Income and Expenditure Statement as income, or in the event that the transfer has a condition(s), recognised in the Donated Assets Account until such time as the condition(s) have been met. The measurement at fair value of an asset, acquired for no consideration or for less than fair value, does not constitute a revaluation.

2.3.2.12 A grant, contribution or donated asset may be received subject to a condition that it be returned to the transferor if a specified future event does or does not occur (for example, a grant may need to be returned if the authority ceases to use the asset purchased with that grant for a purpose specified by the transferor). In these cases, a return obligation does not arise until such time as it is expected that the condition will be breached and a liability is not recognised until that time. Such conditions do not prevent the grant, contribution or donated asset being recognised as income in the Comprehensive Income and Expenditure Statement.

2.3.2.13 After initial recognition, donated assets shall be re-valued and depreciated in line with section 4.1 of the Code (also see IAS 16 *Property, Plant and Equipment*) and impaired in line with section 4.7 of the Code (also see IAS 36 *Impairment of Assets)*.

2.3.2.14 The benefit of a loan at a below market rate[1] of interest is treated as a grant or contribution. The loan shall be recognised and measured in accordance with chapter seven of the Code (also see IAS 39 *Financial Instruments: Recognition and Measurement).* The benefit of the below market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with chapter seven of the Code and the proceeds received. It is expected that in the majority of circumstances the loan will be for the acquisition or enhancement of an asset and as such the benefit is accounted for in accordance with paragraph 2.3.2.8. An authority shall consider the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate.

Repayment of grants and contributions

2.3.2.15 A grant or contribution that becomes repayable shall be accounted for as a revision to an accounting estimate in line with paragraphs 3.3.2.14 to 3.3.2.17 of the Code (also see IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors)*. Repayment shall first be applied to any receipt in advance set up in respect of the grant or contribution (ie the balance on the Capital Grants Receipts in Advance). To the extent that the repayment exceeds any such receipt in advance, or where no receipt in advance exists, the repayment shall be recognised within the Comprehensive Income and Expenditure Statement as an expense.

2.3.2.16 Circumstances giving rise to repayment of a grant relating to an asset may require consideration to be given to the possible impairment of the asset (see section 4.7 of the Code).

1. PWLB loans are not loans at below market value for this purpose.

Transfers

2.3.2.17 IPSAS 23 includes the recognition and accounting treatment of debt forgiveness and assumption of liabilities; fines; bequests; gifts and donations, including goods in-kind and services in-kind. In the event that these areas are relevant, authorities should refer to IPSAS 23.

2.3.3 Statutory Accounting Requirements

Grants, contributions and donated assets

2.3.3.1 Grants, contributions and donated assets shall be credited to service revenue accounts, support services, trading accounts, the Housing Revenue Account and corporate accounts in accordance with CIPFA's *Best Value Accounting Code of Practice*.

2.3.3.2 Grants and contributions funding capital expenditure and donated assets that have been credited to the Comprehensive Income and Expenditure Statement are not proper income charges to the General Fund or Housing Revenue Account. This is as a consequence of the capital control regime[2] requiring capital expenditure to be financed as part of the Capital Financing Requirement (as defined in CIPFA's *Prudential Code for Capital Finance in Local Authorities*) unless other resources are set aside to finance the expenditure. Authorities shall account for these amounts in accordance with the following paragraphs.

Capital grants and contributions where conditions initially remain outstanding

2.3.3.3 Where a capital grant or contribution has been received, and conditions remain outstanding at the Balance Sheet date, no statutory accounting requirements apply; the grant or contribution will be recognised as part of the Capital Grants Receipts in Advance in accordance with paragraph 2.3.2.8 of the Code.

2.3.3.4 Once the condition has been met, the grant or contribution will be transferred from the Capital Grants Receipts in Advance and recognised as income in the Comprehensive Income and Expenditure Statement. At that point, an authority shall apply the appropriate statutory accounting requirements for grants and contributions with no conditions.

Capital grants and contributions where no conditions remain outstanding – expenditure has been incurred

2.3.3.5 Where a capital grant or contribution (or part thereof) has been recognised as income in the Comprehensive Income and Expenditure Statement, and the expenditure to be financed from that grant or contribution has been incurred at the Balance Sheet date, the grant or contribution shall be transferred from the General Fund (or Housing Revenue Account) to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure. This transfer shall be reported in the Movement in Reserves Statement.

2. See part 2 of Appendix B.

Capital grants and contributions where no conditions remain outstanding – expenditure has not been incurred

2.3.3.6 Where a capital grant or contribution (or part thereof) has been recognised as income in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed from that grant or contribution has not been incurred at the Balance Sheet date, the grant or contribution shall be transferred to the Capital Grants Unapplied Account (within the usable reserves section of the balance sheet), reflecting its status as a capital resource available to finance expenditure. This transfer shall be reported in the Movement in Reserves Statement.

2.3.3.7 When, at a future date, the expenditure to be financed from the grant or contribution is incurred, the grant or contribution (or part thereof) shall be transferred from the Capital Grants Unapplied Account to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure. This transfer shall be reported in the Movement in Reserves Statement or in the notes to the accounts.

Donated assets where conditions initially remain outstanding

2.3.3.8 Where a donated asset has been received, and conditions remain outstanding at the Balance Sheet date, no statutory accounting requirements apply; the donated asset will be recognised in the Donated Assets Account in accordance with paragraph 2.3.2.10 of the Code.

2.3.3.9 Once the condition has been met, and the donated asset has been transferred from the Donated Assets Account and recognised as income in the Comprehensive Income and Expenditure Statement, an authority shall transfer the income from the General Fund (or Housing Revenue Account) to the Capital Adjustment Account. This transfer shall be reported in the Movement in Reserves Statement.

Donated assets where no conditions remain outstanding

2.3.3.10 Where a donated asset has been recognised as income in the Comprehensive Income and Expenditure Statement, the income shall be transferred from the General Fund (or Housing Revenue Account) to the Capital Adjustment Account. This transfer shall be reported in the Movement in Reserves Statement.

Repayments of capital grants or contributions

2.3.3.11 A capital grant or contribution may become repayable in accordance with paragraph 2.3.2.15 of the Code. Where conditions in respect of the grant or contribution have not been met, the grant or contribution will have been recognised as part of the Capital Grants Receipts in Advance rather than as income in the Comprehensive Income and Expenditure Statement. The repayment shall be applied against the Capital Grants Receipts in Advance in accordance with paragraph 2.3.2.15 of the Code, and no statutory accounting requirements will apply.

2.3.3.12 Where the grant or contribution has previously been recognised as income in the Comprehensive Income and Expenditure Statement (or to the extent that the repayment exceeds the balance in respect of the specific grant or contribution in the Capital Grants Receipts in Advance), the repayment is recognised as an expense in the Comprehensive Income and Expenditure Statement.

2.3.3.13 In England and Wales, regulations specify that the repayment of grants and financial assistance given to an authority for capital purposes is to be capital expenditure. The repayment shall therefore be transferred from the General Fund (or Housing Revenue Account) to the Capital Adjustment Account. This transfer shall be reported in the Movement in Reserves Statement.

2.3.4 Disclosure Requirements

2.3.4.1 Having regard to paragraph 3.4.2.25 of the Presentation of Financial Statements section of the Code, authorities shall disclose the following notes in relation to grants and contributions, and donated assets:

1) The financial statements shall disclose:
   a) the accounting policy adopted for grants and contributions, and donated assets
   b) the nature and extent of grants and contributions, and donated assets recognised in the financial statements
   c) where the condition(s) of the grant and contributions, and donated assets have not been met, the breakdown of any balance of the liability (ie the Capital Grants Receipts in Advance and the Donated Asset Account).

2.3.5 Statutory Disclosure Requirements

2.3.5.1 There are no statutory disclosures required in relation grants and contributions.

2.3.6 Changes since SORP 2009

2.3.6.1 The Code requires grants and contributions relating to capital expenditure to be credited to the Comprehensive Income and Expenditure Statement once any condition(s) of the grant has been satisfied. The SORP 2009 treated the grant and contributions as deferred income, credited to the Income and Expenditure Account over the useful life of the relevant asset.

2.3.6.2 The Code requires a Donated Assets Account to be used in relation to donated assets transferred to the authority, where conditions of the transfer have not been met. The SORP 2009 treated donated assets as deferred income credited to the Government Grants Deferred Account and charged to the Income and Expenditure Account over the useful life of the relevant asset.

2.4 LANDFILL ALLOWANCE AND OTHER 'CAP AND TRADE' SCHEMES

2.4.1 Introduction

2.4.1.1 The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDAs) in England, Scotland, Wales and Northern Ireland to reduce the amount of biodegradable municipal waste (BMW) disposed to landfill. It also provides the legal framework for the:

- Landfill Allowance Trading Scheme, which commenced operation on 1 April 2005 in England

- Landfill Allowances Scheme (Wales) Regulations, which commenced operation on 1 October 2004
- Landfill Allowances Scheme (Scotland) Regulations, which came into force on 1 April 2005 and became a 'cap and trade' scheme from 1 April 2008
- Landfill Allowances Scheme (Northern Ireland) Regulations, which came into force on 1 April 2005.

2.4.1.2 There is no IFRS, IPSAS or UK GAAP covering 'cap and trade' schemes. In the absence of any approved standard or interpretation, the Code adopts the treatment for 'cap and trade' schemes set out in a proposed UITF Abstract on Emission Rights (Information Sheet No. 61) that was issued by the ASB for consultation in 2003 but not proceeded with.

2.4.1.3 The Landfill Allowance Trading Schemes in England and Scotland are the only 'cap and trade' schemes that currently affect local authorities. Should other 'cap and trade' schemes come into operation, they shall be accounted for on the same basis as the Landfill Allowance Trading Schemes in England and Scotland.

2.4.1.4 The Carbon Reduction Commitment (CRC) scheme will apply from 1 April 2010. However, the first compliance year of the scheme (2010/11) will be a reporting-only year. No allowances will be required for 2010/11, and consequently no liabilities will arise. No accounting for the CRC scheme is required in 2010/11.

2.4.2 Accounting Requirements

Landfill Allowance Schemes – England and Scotland

2.4.2.1 The Landfill Allowance Trading Schemes (LATS) that operate in England and Scotland are 'cap and trade' schemes and shall be accounted for in accordance with the treatment set out in Information Sheet No. 61.

2.4.2.2 The Landfill Allowances Trading Scheme gives rise to:

a) an asset for allowances held

b) LATS grant income

c) a liability for actual BMW landfill usage.

2.4.2.3 Allowances, whether allocated by DEFRA or the Scottish Government or purchased from another WDA, shall be recognised as assets and classified as current assets. They shall be measured initially at their fair value.

2.4.2.4 Landfill allowances are issued free by DEFRA or the Scottish Government. The fair value of the allowances issued to WDAs is a government grant that shall be accounted for as government grant in accordance with section 2.3 of the Code.

2.4.2.5 As landfill is used, a liability shall be recognised for actual BMW landfill usage. This liability is a provision that falls within the scope of section 8.2 of the Code and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The liability is discharged by using allowances to meet the liability, paying a cash penalty to DEFRA or the Scottish Government or a combination of both. The liability shall be measured at the best estimate of the expenditure required to meet the obligation at the reporting date. This will normally be the present market price at the reporting date of the number of allowances needed to cover actual

BMW landfill usage for the year. However, if, in a WDA's best estimate, some or the entire obligation will be met by paying a cash penalty to DEFRA or the Scottish Government, it shall measure that part of its liability at the cost of the penalty rather than at the market price of the relevant number of allowances.

2.4.2.6 After initial measurement, authorities shall remeasure the value of landfill allowances as the lower of cost or net realisable value.

2.4.2.7 Where there is no evidence of an active market for landfill allowances, for example where the number of allowances issued is greater than that required by authorities, the fair value of the allowances and the net realisable value of the allowances is likely to be nil.

Landfill allowance schemes – Wales and Northern Ireland

2.4.2.8 The landfill allowances schemes that operate in Wales and Northern Ireland are not 'cap and trade' schemes and therefore not covered by the requirements of Information Sheet No. 61. Authorities shall not recognise an asset for landfill allowances, grant income in respect of the allowances or liabilities for actual BMW landfill usage.

2.4.2.9 WDAs in Wales and district councils in Northern Ireland are required to meet annual target figures for the maximum amount of BMW that can be sent to landfill. For each tonne of BMW sent to landfill in excess of the target, an authority may be liable to a penalty of £200 (Wales) or £150 (Northern Ireland). However, current guidance indicates the penalty will be exercised with discretion rather than as an automatic consequence of exceeding the target. An authority shall recognise a provision for penalties payable to the Welsh Assembly Government or the Department of the Environment in Northern Ireland. Where a possible landfill allowance liability exists but the authority has concluded that it does not need to make a provision, the authority shall disclose a separate class of contingent liability in relation to the possible penalty.

2.4.3 Statutory Accounting Requirements

2.4.3.1 There are no statutory accounting requirements in respect of landfill allowances.

2.4.4 Disclosure Requirements

2.4.4.1 Assets, liabilities and government grant income in relation to landfill allowances shall be disclosed in accordance with the relevant sections of the Code.

2.4.5 Statutory Disclosure Requirements

2.4.5.1 There are no statutory disclosure requirements in relation to landfill allowances.

2.4.6 Changes since SORP 2009

2.4.6.1 There are no changes to the requirements in SORP 2009 for landfill allowances.

2.5 MACHINERY OF GOVERNMENT CHANGES

2.5.1 Introduction

2.5.1.1 Chapter nine of the Code (Group Accounts) includes an interpretation of IFRS 3 *Business Combinations* that machinery of government changes (eg local government reorganisation) are deemed to be a combination of businesses under common control and as such excluded from the scope of IFRS 3. This section of the Code sets out the accounting requirements for machinery of government changes.

2.5.2 Accounting Requirements

2.5.2.1 Public sector bodies such as local authorities are deemed to be under common control. The combination of two or more local authorities into one new authority, or the transfer of functions (in full or in relation to a geographic area) from the responsibility of one authority to another, shall be accounted for using the principles that apply to group reorganisations. Assets and liabilities shall normally be transferred at their carrying amount as at the transfer date, except where:

a) the authorities have agreed revised amounts (in accordance with their statutory duties), and

b) such amounts were agreed after authorities transferring the services had issued their accounts for the year immediately prior to the transfer date

in which case, assets and liabilities shall be transferred at their agreed amounts, and the difference between these agreed amounts and their previous carrying amounts shall be disclosed in a note to the financial statements.

2.5.2.2 Local government reorganisations normally take place at the start of a financial year. The reorganisation shall be achieved in the accounts by adjusting the opening Balance Sheet for the current year; transfers shall not be reflected in the Comprehensive Income and Expenditure Statement, but shall be separately disclosed in the Movement in Reserves Statement. The notes to the accounts shall separately identify transfers of assets and liabilities (and any consequential changes to reserves).

2.5.3 Statutory Accounting Requirements

2.5.3.1 There are no statutory accounting requirements in respect of machinery of government transfers.

2.5.4 Disclosure Requirements

2.5.4.1 For new authorities, no corresponding amounts for the previous year will be required in the financial statements. The notes to the accounts of the new authority shall include an opening Balance Sheet (ie transferred assets and liabilities and opening reserve balances). This shall be clearly identified as the opening balance on the creation of the new authority, not the previous year's Balance Sheet.

2.5.4.2 For continuing authorities, newly acquired functions (or functions in relation to a geographic area) shall be disclosed separately in the current year. Functions (or functions in relation to a geographic area) transferred to another authority shall be disclosed separately in the

comparative year. Where the transfer requires reporting in the notes to the accounts, a separate line disclosing the transfer shall be included after the balance brought forward from the previous year. A new sub-total shall be inserted to disclose the restated opening Balance Sheet figures. These lines will be required in the notes showing the movements in assets, liabilities and reserves, including the Movement in Reserves Statement and the Movement on the Housing Revenue Account Statement.

2.5.5 Statutory Disclosure Requirements

2.5.5.1 There are no statutory disclosures in respect of machinery of government changes.

2.5.6 Changes since SORP 2009

2.5.6.1 There are no changes to the accounting requirements in respect of machinery of government changes since the SORP 2009.

2.6 PRINCIPAL AND AGENT TRANSACTIONS

2.6.1 Introduction

2.6.1.1 The accounting treatment of transactions within an authority's financial statements shall have regard to the general principle of whether the authority is acting as the principal or agent, in line with IAS 18 *Revenue*, IPSAS 9 *Revenue from Exchange Transactions* and IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

2.6.2 Accounting Requirements

Definitions

2.6.2.1 *Agent* is where the authority is acting as an intermediary.

2.6.2.2 *Principal* is where the authority is acting on its own behalf.

Recognition and measurement

2.6.2.3 Where an authority is acting as a principal as opposed to acting as an agent, transactions shall be included in an authority's financial statements, following the relevant section of the Code.

2.6.2.4 Where an authority is acting as an agent, transactions shall not be reflected in an authority's financial statements, with the exception in respect of cash collected or expenditure incurred by the agent on behalf of the principal, in which case there is a debtor or creditor position and the net cash position being included in financing activities in the cash flow statement. Another exception is where the authority receives payment for acting as an agent, in which case any amount of commission received or receivable shall be recognised as revenue in the authority's financial statements.

2.6.2.5 Examples of where an authority is acting as an agent include: billing authorities for the collection of NNDR and council tax in England (see section 2.8 of the Code).