2.6.3 Statutory Accounting Requirements

2.6.3.1 There are no statutory accounting requirements in relation to principal and agency transactions.

2.6.4 Disclosure Requirements

2.6.4.1 There are no specific disclosure requirements for principal and agent transactions. The transactions will be included in the disclosure requirements of other sections of the Code.

2.6.5 Statutory Disclosure Requirements

2.6.5.1 There are no statutory disclosures required in relation to principal and agent transactions.

2.6.6 Changes since SORP 2009

2.6.6.1 There have been no changes in accounting for principal and agent transactions since SORP 2009.

2.7 REVENUE RECOGNITION

2.7.1 Introduction

2.7.1.1 Authorities shall account for revenue recognition in accordance with IAS 18 *Revenue,* IPSAS 23 *Revenue from Non-Exchange transactions (Taxes and Transfers)* and SIC 31 *Barter Transactions involving Advertising Services.*

2.7.1.2 IPSAS 9 *Revenue from Exchange Transactions* is based on IAS 18, and provides additional guidance for public sector bodies.

2.7.1.3 This section of the Code does not cover revenue arising from construction contracts (see section 5.2), lease agreements (see section 4.2), dividends arising from investments in associates (see chapter nine), insurance contracts (see Appendix A, paragraph A.1.7), changes in fair value of financial assets and liabilities or their disposal (see chapter seven, and sections 4.1, 4.4 and 4.5), changes in the fair value of other assets and changes in fair value of investment property (see section 4.4), and revenue from agriculture produce (see Appendix A, paragraph A.1.5) and extraction of minerals (this is unlikely to apply to authorities – see IFRS 6).

2.7.1.4 This section of the Code shall be applied to the accounting for revenue arising from:

- the sale of goods (produced by an authority for the purpose of sale or purchased for resale)
- The rendering of services (excluding services directly related to construction contracts, ie project managers and architects, which are covered in section 5.2 of the Code)
- interest, royalties and dividends
- non-exchange transactions (ie council tax)
- where previously a liability had been recognised (ie creditor) on satisfying the revenue recognition criteria.

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Interpretation and adaptation for the public sector context

2.7.1.5 No interpretations or adaptations of IAS 18 and IPSAS 23 are required for the public sector context; these standards are applied in full in relation to the recognition and measurement of revenue.

2.7.1.6 IPSAS 9 includes a public sector adaptation which the Code has adopted. The adaptation is as follows:

Definitions

- The definition of revenue excludes the reference to 'ordinary activities'.

2.7.1.7 The Code includes an interpretation of IAS 39 which has a direct impact on the measurement of revenue, as follows:

Recognition and measurement

- Revenue relating to such things as council tax, general rates, etc shall be measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

2.7.1.8 The consensus in SIC 31 is that revenue from an exchange involving advertising services cannot be reliably measured by reference to the fair value of the services received. This is because reliable information is not available to the seller to support such measurement. However, a seller can reliably measure revenue at fair value of the advertising service it provides in a barter transaction by reference to its non-barter transactions that meet certain criteria specified in SIC 31. It is not expected that these transactions will be common for authorities. Where an authority considers it has relevant transactions, it shall refer to SIC 31.

2.7.2 Accounting Requirements

Definitions

2.7.2.1 **Exchange transactions** are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

2.7.2.2 **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.

2.7.2.3 **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.

2.7.2.4 **Revenue** is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth.

Recognition and measurement

2.7.2.5 Revenue shall be measured at the fair value of the consideration received or receivable except for a financial asset that is measured under chapter seven of the Code.

2.7.2.6 In most cases, the consideration receivable is in the form of cash and cash equivalents and the amount of revenue is the amount of cash and cash equivalents receivable. However, if payment is on deferred terms (ie beyond normal credit terms), the consideration receivable is recognised initially at the cash price equivalent (that is, the discounted amount). The difference between this amount and the total payments received is recognised as interest revenue in Surplus or Deficit on the Provision of Services (see chapter seven of the Code).

2.7.2.7 There is no difference between the delivery and payment dates for non-contractual, non-exchange transactions, ie revenue relating to council tax and general rates, and therefore these transactions shall be measured at their full amount receivable.

2.7.2.8 When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. This type of transaction is not expected to be common in authorities.

2.7.2.9 When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred. This type of transaction is not expected to be common in authorities.

2.7.2.10 The following cover the revenue recognition of the transactions and events referred to in paragraph 2.7.1.4:

- **The sale of goods**: revenue shall be recognised when all of the following conditions have been satisfied:
  a) the authority has transferred to the purchaser the significant risks and rewards of ownership of the goods
  b) the authority retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold
  c) the amount of revenue can be measured reliably
  d) it is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
  e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.
- **The rendering of services**: when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the percentage of completion method at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
  a) the amount of revenue can be measured reliably
  b) it is probable that the economic benefits or service potential associated with the transaction will flow to the entity
  c) the stage of completion of the transaction (using the percentage of completion method) at the reporting date can be measured reliably, and

d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

The requirements in section 5.2 of the Code (construction contracts) are generally applicable to the recognition of revenue and the associated expenses for a transaction involving the rendering of services over a period of time.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue should be recognised only to the extent of the expenses recognised that are recoverable.

- **Interest, royalties and dividends:** revenue shall be recognised when:

  a) it is probable that the economic benefits or service potential associated with the transaction will flow to the authority, and

  b) the amount of the revenue can be measured reliably.

  The accounting treatments (subject to the recognition criteria above being met) are as follows:

  a) interest should be recognised using the effective interest method as set out chapter seven of the Code (also see IAS 39)

  b) royalties should be recognised as they are earned in accordance with the substance of the relevant agreement, and

  c) dividends or their equivalents should be recognised when the authority's right to receive payment is established.

- **Non-exchange transactions:** revenue shall be recognised when:

  a) it is probable that the economic benefits or service potential associated with the transaction will flow to the authority, and

  b) the amount of the revenue can be measured reliably.

- **Where previously a liability had been recognised (ie creditor) on satisfying the revenue recognition criteria:** in the event that a liability had been recognised, revenue shall be recognised equal to the reduction of the carrying amount of a liability when the relevant revenue recognition criteria have been met.

2.7.2.11 In the event that the consideration is received but the revenue does not meet the recognition criteria set out in paragraph 2.7.2.10 above, an authority shall recognise a creditor (ie receipt in advance) in respect of that inflow of resources (see section 8.1 of the Code).

2.7.2.12 In the event that revenue meets the recognition criteria set out in paragraph 2.7.2.10, but the consideration has not been received, an authority shall recognise a debtor in respect of that inflow of resources (see section 5.3 of the Code).

2.7.2.13 Revenue is recognised only when it is probable that the economic benefits or service potential associated with the transaction will flow to the authority. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense (ie impairment of financial assets – see chapter seven), rather than as an adjustment of the amount of revenue originally recognised in the Comprehensive Income and Expenditure Statement.

2.7.3 Statutory Accounting Requirements

2.7.3.1 There are no statutory accounting requirements in relation to revenue recognition.

2.7.4 Disclosure Requirements

2.7.4.1 Disclosure of accounting policies in relation to revenue recognition is required (see section 3.3 of the Code).

2.7.4.2 There are no specific disclosure requirements covering revenue recognition, however transactions may be disclosed as part of the disclosure requirements of trade and other receivables (see section 5.3 of the Code) and trade and other payables (see section 8.1 of the Code).

2.7.5 Statutory Disclosure Requirements

2.7.5.1 There are no statutory disclosures required in relation to revenue recognition.

2.7.6 Changes since SORP 2009

2.7.6.1 There have been no changes in accounting for revenue recognition since SORP 2009.

2.8 TAX INCOME (COUNCIL TAX, RESIDUAL COMMUNITY CHARGES, NATIONAL NON-DOMESTIC RATES (NNDR) AND RATES)

2.8.1 Introduction

2.8.1.1 This section of the Code applies the accounting principles contained within the Code to the accounting requirements in respect of tax income collected by local authorities. There is no IFRS covering tax income. IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* sets out the principles that are to be followed.

2.8.2 Accounting Requirements

National Non-Domestic Rates (NNDR) (England, Wales, Scotland)

2.8.2.1 Billing authorities in England, Scotland and Wales collect NNDR under what is in substance an agency arrangement with each jurisdiction's Government. It therefore follows that:

a) NNDR income is not the income of the billing authority and shall not be included in its Comprehensive Income and Expenditure Statement. The cost of collection allowance received by billing authorities in England and Wales is the billing authority's income and shall be included in the Comprehensive Income and Expenditure Statement (in Scotland an amount for 'collection of non-domestic rates' is included in Revenue Support Grant).

b) NNDR debtor and creditor balances with taxpayers and the impairment allowance for doubtful debts are not assets and liabilities of the billing authority and shall not be recognised in the billing authority's Balance Sheet.

c) Cash collected from NNDR taxpayers by billing authorities (net of the cost of collection allowance in England and Wales) belongs to the Government and the amount not yet paid to the Government at the Balance Sheet date shall be included in the Balance Sheet as a creditor; similarly, if cash paid to the Government exceeds the cash collected from

NNDR taxpayers (net of the billing authority's cost of collection allowance in England and Wales), the excess shall be included in the Balance Sheet as a debtor.

d) Cash collected from NNDR taxpayers by a billing authority is collected for the Government and is therefore not an operating activity of the billing authority and shall not be included in the billing authority's Cash Flow Statement as a cash inflow except for the cash retained in respect of the cost of collection allowance. Similarly, the billing authority's payment into the NNDR national pool is not an operating activity and shall not be included in the billing authority's Cash Flow Statement as a cash outflow. The difference between the cash collected from NNDR taxpayers and the amount paid into the NNDR national pool shall be included within financing activities in the Cash Flow Statement.

e) Amounts are sometimes billed to NNDR taxpayers over and above the NNDR due, usually to recover the billing authority's costs of pursuing unpaid NNDR debts. Any amounts charged to NNDR taxpayers in respect of amounts that the authority is not required to account for to the Government are income of the billing authority.

Council tax (England)

2.8.2.2 Council tax income included in the Comprehensive Income and Expenditure Statement for the year shall be the accrued income for the year. Each major preceptor's share of the accrued council tax income would be available from the information that is required to be produced in order to prepare the Collection Fund Statement (see section 3.6 of the Code).

2.8.2.3 Since the collection of council tax is in substance an agency arrangement, the cash collected by the billing authority from council tax debtors belongs proportionately to the billing authority and the major preceptors. There will therefore be a debtor/creditor position between the billing authority and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of cash collected from council taxpayers.

2.8.2.4 If the net cash paid to a major preceptor in the year is more than its proportionate share of net cash collected from council tax debtors/creditors in the year, the billing authority shall recognise a debit adjustment for the amount overpaid to the major preceptor in the year and the major preceptor shall recognise a credit adjustment for the same amount to the debtor/creditor position between them brought forward from the previous year. If the cash paid to a major preceptor is less than its proportionate share of net cash collected in the year from council tax debtors/creditors, the billing authority shall recognise a credit adjustment for the amount underpaid to the major preceptor in the year and the major preceptor shall recognise a debit adjustment for the same amount to the debtor/creditor position between them brought forward from the previous year.

2.8.2.5 The Cash Flow Statement of the billing authority shall include within operating activities only its own share of council tax net cash collected from council tax debtors in the year; and the amount included for precepts paid shall exclude amounts paid to major preceptors. The difference between the major preceptors' share of the net cash collected from council tax debtors and net cash paid to major preceptors as precepts and settlement of the previous year's surplus or deficit on the Collection Fund shall be included within financing activities in the Cash Flow Statement.

2.8.2.6 The Cash Flow Statement of a major preceptor shall include within operating activities the net council tax cash received from the Collection Fund in the year (ie the precept for the year plus its share of Collection Fund surplus for the previous year, or less the amount paid to the Collection Fund in respect of its share of the previous year's Collection Fund deficit). The difference between the net cash received from the Collection Fund and the major preceptor's share of cash collected from council tax debtors by the billing authority in the year shall be included within financing activities in the Cash Flow Statement.

Residual community charge (England)

2.8.2.7 Any residual community charge income 'adjustments' (losses or gains) are also required to be included in the Collection Fund. Such adjustments, which will now often be nil or negligible, are borne wholly by the billing authority and are excluded from the Collection Fund surplus or deficit in calculating the amount that is shared between the billing authority and major preceptors. The community charge adjustment for the year shall be taken to Surplus or Deficit on the Provision of Services.

Council tax (Scotland)

2.8.2.8 Scotland does not have precepting authorities. The whole council tax income accruing in the year shall be included as council tax income of the authority collecting the tax. Council tax debtors and creditors and the impairment allowance for doubtful debts shall be wholly included in the authority's Balance Sheet. In the Cash Flow Statement the cash inflow for council tax received shall be included within operating activities and shall be the net cash collected from council tax debtors or creditors.

Council tax (Wales)

2.8.2.9 Billing authorities in Wales do not maintain a Collection Fund. Under regulation, major preceptors in Wales (in effect police authorities), like community councils, receive the exact amount of their precept. Major preceptors do not therefore share with the billing authority the risk that actual council tax outturn will be greater or less than assumed when setting council tax requirements.

2.8.2.10 Since the billing authority bears the whole risk of council tax income being higher or lower than estimated, it is acting as a principal rather than an agent in relation to major preceptors. All council tax income is therefore the income of the billing authority and shall be included as council tax income in the billing authority's Comprehensive Income and Expenditure Statement. Council tax debtors or creditors and impairment allowance for doubtful debts shall be included wholly in its Balance Sheet. The major preceptors' precepts shall be included as expenditure in the billing authority's Comprehensive Expenditure Statement. The council tax income for the year included in a major preceptor's Comprehensive Income and Expenditure Statement shall be its council tax precept for the year.

2.8.2.11 In a billing authority's Cash Flow Statement the amount included within operating activities in respect of council tax receipts shall be the net cash collected from council tax debtors or creditors including amounts arising in respect of the major preceptors' precepts. The amount included in respect of operating activities for precepts paid shall include the amounts paid to major preceptors.

Rates (Northern Ireland)

2.8.2.12 In Northern Ireland rates are levied on both domestic and non-domestic properties at a rate in the pound set by the authority as the proceeds of a penny rate product but are collected by the Land and Property Services Agency (LPSA), an executive agency of the Department of Finance and Personnel. The rate income for the year shall be the amount receivable for the year from the LPSA, ie the income shall be based on the 'actual penny rate product' for the year. Instalments of rates income are received from the LPSA during the year based on the 'estimated penny rate product' made when the authority's budget was set. A debtor or creditor for the 'actual penny rate product' adjustment for the year that will be made by the LPSA in the following year shall be included as a debtor or creditor. If the formal notification from the LPSA of the amount of the 'actual penny rate product' adjustment for the year is not available from the LPSA at the time the accounts are finalised, an estimated amount shall be accrued.

2.8.3 Statutory Accounting Requirements

Council tax (England)

2.8.3.1 For both the billing authority and major preceptors, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement.

Residual community charge (England)

2.8.3.2 The difference between the community charge adjustment included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be taken to the General Fund (ie the previous year's community charge adjustment) shall be taken to the Collection Fund Adjustment Account.

2.8.4 Disclosure Requirements

2.8.4.1 Tax income reported in the Comprehensive Income and Expenditure Statement shall be disclosed in line with the requirements of the Code set out in section 3.4 (Format of the Financial Statements), which include disclosures for council tax (Wales) and rates (Northern Ireland).

2.8.5 Statutory Disclosure Requirements

2.8.5.1 Statutory disclosures in respect of the Collection Fund (England), Council Tax Income Account (Scotland) and Non-Domestic Rates Account (Scotland) are set out in section 3.6 of the Code.

2.8.6 Changes since SORP 2009

2.8.6.1 There are no changes to the accounting requirements in relation to tax income since the SORP 2009.

2.9 VALUE ADDED TAX

2.9.1 Introduction

2.9.1.1 The preparation of the Code follows an agreed hierarchy of Standards; because there are no IFRS[3] or IPSAS specifically relating to value added tax (VAT), authorities shall account for VAT in accordance with SSAP 5 *Accounting for Value Added Tax*, and apply specific rules for the recovery of VAT.

Interpretation and adaptation for the public sector context

2.9.1.2 No interpretations or adaptations of SSAP 5 are required for the public sector context; this standard is applied in full.

2.9.2 Accounting Requirements

Definitions

2.9.2.1 Input tax is VAT charged on purchases.

2.9.2.2 Output tax is VAT charged in sales.

2.9.2.3 Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth.

2.9.2.4 VAT is an indirect tax levied on most business transactions and on many goods and some services.

Recognition and measurement

2.9.2.5 Revenue to be included in an authority's Comprehensive Income and Expenditure Statement shall be only the gross inflows of economic benefits or service potential received or receivable by an authority on its own behalf (see section 2.7 of the Code, revenue recognition) and therefore excludes VAT that must be passed on (where output tax exceeds input tax) or repaid (where input tax exceeds output tax) to HM Revenue and Customs.

2.9.2.6 The net amount due to or from HM Revenue and Customs in respect of VAT shall be included as part of creditors or debtors.

2.9.2.7 VAT should be included in the Comprehensive Income and Expenditure Statement, whether of a capital or revenue nature, only to the extent that it is irrecoverable.

2.9.3 Statutory Accounting Requirements

2.9.3.1 There are no statutory accounting requirements in relation to VAT.

2.9.4 Disclosure Requirements

2.9.4.1 Disclosure of accounting policies in relation to VAT is required (see section 3.4 of the Code).

3. IAS 18 *Revenue* makes a reference to VAT.

2.9.4.2 There are no specific disclosure requirements covering VAT, however transactions may be disclosed as part of the disclosure requirements of trade and other receivables (see section 5.3 of the Code) and trade and other payables (see section 8.1 of the Code).

2.9.5 Statutory Disclosure Requirements

2.9.5.1 There are no statutory disclosures required in relation to VAT.

2.9.6 Changes since SORP 2009

2.9.6.1 There have been no changes in accounting for VAT since SORP 2009.

CHAPTER THREE

Financial statements

3.1 EXPLANATORY FOREWORD

3.1.1 Introduction

3.1.1.1 The purpose of the foreword is to offer interested parties an easily understandable guide to the most significant matters reported in the accounts.

3.1.1.2 It shall provide an explanation in overall terms of the authority's financial position, and assist in the interpretation of the accounting statements, including the Group Accounts. It shall also contain a commentary on the major influences affecting the authority's income and expenditure and cash flow, and information on the financial needs and resources of the authority. It is not the purpose of the foreword to comment on the policies of the authority, rather to explain the financial facts. Content and style are left to local judgment.

3.1.2 Accounting Requirements

3.1.2.1 Information provided in the explanatory foreword shall reflect the accounting requirements of the Code.

3.1.3 Statutory Accounting Requirements

3.1.3.1 There are no statutory accounting requirements in respect of the explanatory foreword.

3.1.4 Disclosure Requirements

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

a) An explanation of which statements follow, their purpose and the relationship between them.

b) Service expenditure, interest payable and other operating costs, income from grants, local taxpayers and other sources, compared in overall terms to the budget.

c) A brief note of any material assets acquired or liabilities incurred. If these are unusual in scale, having regard to the normal activities of the authority, or for any other reason, the circumstances shall be explained.

d) A brief note explaining the significance of any pensions liability or asset disclosed.

e) An explanation of any material and unusual charge or credit in the accounts. This shall be provided whether the charge is made as part of the cost of services or as an adjustment to the cost of services.

f) Any significant change in accounting policies. The reason for the change, and the effect on the accounts, shall be explained. For 2010/11, this will require an explanation of the significance of the move from a UK GAAP basis to an IFRS basis.

g) Any major change in statutory functions, eg local government reorganisation, which has a significant impact on the accounts. In addition, a comment on planned future developments in service delivery, including a summary of revenue and capital investment plans, distinguishing between expenditure intended to maintain existing levels of service provision and that intended to expand existing services or develop new services.

h) A brief note of the authority's current borrowing facilities and capital borrowing, outlining the purpose and impact of financing transactions entered into during the year and major fixed asset acquisitions and disposals.

i) A summary of the authority's internal and external sources of funds available to meet its capital expenditure plans and other financial commitments including PFI schemes.

j) Details of significant provisions or contingencies and material write-offs. To cover new items and any significant changes to existing items.

k) Details of any material events after the reporting date (up to the date the accounts are authorised for issue).

l) An explanation of the impact of the current economic climate on the authority and the services it provides.

3.1.5 Statutory Disclosure Requirements

3.1.5.1 There are no statutory disclosure requirements in relation to the explanatory foreword.

3.1.6 Changes since SORP 2009

3.1.6.1 The recommended topics include some topics not included in SORP 2009. These are significant provisions, contingencies and write-offs; material events after the balances sheet; and an explanation of the impact of the current economic climate on the authority. The latter topic was recommended in LAAP Bulletin 81.

3.1.6.2 In addition, a recommended topic regarding changes of accounting policy has been expanded to include, in 2010/11, the transition to an IFRS-based accounting basis.

3.2 STATEMENT OF RESPONSIBILITIES

3.2.1 Introduction

3.2.1.1 A local authority shall provide a Statement of Responsibilities setting out the responsibilities of the authority and the chief financial officer in respect of the Statement of Accounts.

3.2.2 Accounting Requirements

3.2.2.1 The Statement of Responsibilities shall confirm that the Statement of Accounts has been prepared in accordance with the requirements of the Code.

3.2.3 Statutory Accounting Requirements

3.2.3.1 There are no statutory accounting requirements in respect of the Statement of Responsibilities.

3.2.4 Disclosure Requirements

3.2.4.1 A local authority shall set out the responsibilities of the authority and the chief financial officer in respect of the statement of accounts. The following wording is recommended but not mandatory:

England, Wales and Scotland

The Authority's Responsibilities

The authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the chief financial officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts (in Scotland, the audited accounts must be laid before a meeting of the authority within two months of receipt of the audit certificate).

The Chief Financial Officer's Responsibilities

The chief financial officer is responsible for the preparation of the authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this Statement of Accounts, the chief financial officer has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the local authority Code.

The chief financial officer has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

In England and Wales, the chief financial officer should sign and date the Statement of Accounts, stating that it gives a true and fair view of the financial position of the authority at the reporting date and of its expenditure and income for the year ended 31 March 20XX. 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 within two months of receipt of the audit certificate.

Northern Ireland

The Council's Responsibilities

Under section 54 of the Local Government Act (Northern Ireland) 1972 the council shall make safe and efficient arrangements for the receipt of money paid to it and the issue of money payable by it, and those arrangements shall be carried out under the supervision of such officer of the council as the council designates as its chief financial officer.

The council is required to approve the Statement of Accounts.

The Chief Financial Officer's Responsibilities

Under Article 4 of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006 the chief financial officer is responsible for the preparation of the council's Statement of Accounts in the form directed by the Department of the Environment (NI).

The accounts must give a true and fair view of the expenditure and income and cash flows for the financial year and the financial position as at the end of the financial year.

In preparing this Statement of Accounts, the chief financial officer is required to:

- observe the Accounts Direction issued by the Department of the Environment (NI) including compliance with the *Code of Practice on Local Authority Accounting in the United Kingdom*
- follow relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis, and
- make judgements and estimates that are reasonable and prudent.

The chief financial officer is also required to:

- keep proper accounting records which are up to date, and
- take reasonable steps for the prevention and detection of fraud and other irregularities.

The chief financial officer should sign and date the Statement of Accounts, stating that it gives a true and fair view of the financial position of the authority at the reporting date and of its expenditure and income for the year ended 31 March 20XX.

3.2.5 Statutory Disclosure Requirements

3.2.5.1 There are no statutory disclosure requirements in relation to the Statement of Responsibilities.

3.2.6 Changes since SORP 2009

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

3.3 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

3.3.1 Introduction

3.3.1.1 Authorities shall select accounting policies, and account for changes in accounting policies, changes in accounting estimates and errors in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except where interpretations or adaptations to fit the public sector are detailed in the Code. IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* is based on IAS 8, and introduces no additional accounting requirements, although it provides additional guidance for public sector bodies.

3.3.1.2 IAS 8 requires entities to disclose the expected impact of new standards that have been issued but not yet adopted. Future editions of the Code may therefore prescribe retrospective disclosure requirements relating to changes to accounting policies.

3.3.2 Accounting Requirements

Definitions

3.3.2.1 **Accounting policies** are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

3.3.2.2 A **change in accounting estimate** is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not correction of errors.

3.3.2.3 **Impracticable**. Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

a) the effects of the retrospective application or retrospective restatement are not determinable

b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period, or

c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:

   i) provides evidence of circumstances that existed on the date(s) at which those amounts are to be recognised, measured or disclosed, and

   ii) would have been available when the financial statements for that prior period were authorised for issue

   from other information.

3.3.2.4 **Material**. 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

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misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

3.3.2.5 **Prior period errors** are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue, and
b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

3.3.2.6 **Prospective application** of a change in accounting policy and of recognising the effect of a change in an accounting estimate, respectively, are:

a) applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed, and
b) Recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.

3.3.2.7 **Retrospective application** is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

3.3.2.8 **Retrospective restatement** is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

Accounting policies

3.3.2.9 When the Code specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Code. Those policies need not be applied when the effect of applying them is immaterial. Where the Code does not specifically apply to a transaction, other event or condition, management shall use its judgment in developing and applying an accounting policy that results in information that is:

a) relevant to the decision-making needs of users, and
b) reliable, in that the financial statements:
   i) represent faithfully the financial position, financial performance and cash flows of the entity
   ii) reflect the economic substance of transactions, other events and conditions and not merely the legal form
   iii) are neutral, ie free from bias
   iv) are prudent, and
   v) are complete in all material respects.

3.3.2.10 In making the judgment management shall refer to, and consider the applicability of, the Code requirements dealing with similar and related issues; and definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described elsewhere in the Code. Management may also consider the most recent pronouncements of standard-setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these do not conflict with the requirements of the Code.

3.3.2.11 An authority shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless the Code specifically requires or permits categorisation of items for which different policies may be appropriate. If the Code requires or permits such categorisation (for example different classes of property, plant and equipment), an appropriate accounting policy shall be selected and applied consistently to each category.

3.3.2.12 An authority shall change an accounting policy only if the change is required by the Code or results in the financial statements providing reliable and more relevant information about the effects of transactions, other events and conditions on the entity's financial position, financial performance or cash flows.

3.3.2.13 Where an authority changes an accounting policy, it shall apply the changes retrospectively unless the Code specifies transitional provisions that shall be followed. A change in accounting policy shall be applied retrospectively by adjusting the opening balance of each affected component of net worth for the earliest period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.

Changes in accounting estimates

3.3.2.14 As a result of the uncertainties inherent in delivering services, conducting trading or other activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest available, reliable information. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

3.3.2.15 An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error. A change in the measurement basis applied is a change in an accounting policy and is not a change in an accounting estimate.

3.3.2.16 The effect of a change in an accounting estimate (other than a change to which paragraph 3.3.2.15 applies) shall be recognised prospectively by including it in surplus or deficit in:

a) the period of the change, if the change affects the period only, or

b) the period of the change and future periods, if the change affects both.

3.3.2.17 To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net worth, it shall be recognised by adjusting the carrying amount of the related asset, liability or net worth item in the period of change.

Errors

3.3.2.18 Except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error, an authority shall correct material prior period errors

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retrospectively in the first set of financial statements authorised for issue after their discovery by:

a) restating the comparative amounts for prior period(s) presented in which the error occurred, or

b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net worth for the earliest prior period presented.

3.3.2.19 When it is impracticable to determine the period specific effects of an error on comparative information for one or more prior periods presented, an authority shall restate the opening balances of assets, liabilities and net worth for the earliest period for which retrospective restatement is practicable (which may be the current period).

3.3.3 Statutory Accounting Requirements

3.3.3.1 There are no statutory accounting requirements in relation to the selection of accounting policies, or accounting for changes in accounting estimates and errors.

3.3.4 Disclosure Requirements

Accounting policies

3.3.4.1 An authority shall disclose information about its accounting policies as required by section 3.3 of the Code. Accounting policies that relate to statutory accounting requirements are accounted for in the same manner as other accounting policies.

3.3.4.2 Where a change of accounting policy is required by the Code, an authority shall disclose the information required by the Code. For other changes in accounting policy, an authority shall disclose:

a) the nature of the change in accounting policy

b) the reasons why applying the new accounting policy provides reliable and more relevant information

c) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected

d) the amount of the adjustment relating to periods before those presented, to the extent practicable, and

e) if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

3.3.4.3 An authority shall disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (ie on or before 1 January 2011 for 2010/11). Disclosure requirements are expected to be included in a subsequent edition of the Code.

Changes in accounting estimates

3.3.4.4 An authority shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect on future periods.

Errors

3.3.4.5 Where a prior period error is corrected, an authority shall disclose the following:

a) the nature of the prior period error

b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected, and

c) the amount of the correction at the beginning of the earliest prior period presented.

Financial statements of subsequent periods need not repeat these disclosures.

3.3.5 Statutory Disclosure Requirements

3.3.5.1 There are no statutory disclosures required in relation to the selection of accounting policies, or accounting for changes in accounting estimates and errors. Accounting policies that relate to statutory accounting requirements are disclosed in the same manner as other accounting policies.

3.3.6 Changes since SORP 2009

3.3.6.1 SORP 2009 requires authorities to correct prior period errors where the errors are fundamental. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. A fundamental error is an order of magnitude greater than a material error. The Code, in line with IAS 8 and IPSAS 3, requires restatement for material errors, which may lead to restatements being required more frequently. Material is defined in paragraph 3.3.2.4 above.

3.3.6.2 The Code requires disclosure of future changes to accounting policies that is not required by the SORP.

3.4 PRESENTATION OF FINANCIAL STATEMENTS

3.4.1 Introduction

3.4.1.1 Authorities shall prepare financial statements in accordance with IAS 1 *Presentation of Financial Statements*, IAS 7 *Statement of Cash Flows* and IFRS 8 *Operating Segments*, as interpreted by this section of the Code.

3.4.1.2 IPSAS 1 *Presentation of Financial Statements* is based on IAS 1, and IPSAS 2 *Cash Flow Statements* is based on IAS 7. These standards provide additional guidance for public sector bodies.

Interpretation and adaptation for the public sector context

3.4.1.3 IAS 1 specifies the information to be included in the financial statements, but does not prescribe a format. IAS 1 also specifies information that must be disclosed either on the face

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of the financial statements or in the notes to the financial statements. IAS 1 permits the terminology used to be adapted to suit the reporting entity.

3.4.1.4 The Code interprets the requirements of IAS 1 by specifying the format of the statements, disclosures and terminology that are appropriate for local authorities. In doing so, the Code adopts the interpretation of IAS 1 included in IPSAS 1 *Presentation of Financial Statements* that 'function of expenses' is equivalent to a service analysis. The Code adopts the principle of specifying the minimum level of detail for the financial statements, whilst permitting authorities to include more detail where it is appropriate to do so.

3.4.1.5 Where an authority prepares group accounts, the Code requires the authority to prepare authority-only accounts and group accounts incorporating all financial statements. Authorities may elect to present the group accounts alongside the authority-only accounts (ie a columnar approach) or as separate statements. An authority need not apply the same approach to each statement.

3.4.1.6 The requirements of IFRS 8 in relation to reporting segment assets are based on a presumption that entities will be reporting segment assets internally. This is often not the case in local authorities, and the Code requirements therefore do not include this assumption. Instead, the Code requires segment assets and/or liabilities to be presented in the financial statements only where they are reported internally.

3.4.2 Accounting Requirements

Definitions

3.4.2.1 **Cash** comprises cash on hand and demand deposits.

3.4.2.2 **Cash equivalents** are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.4.2.3 **Cash flows** are inflows and outflows of cash and cash equivalents.

3.4.2.4 **Financing activities** are activities that result in changes in the size and composition of the principal, received from or repaid to external providers of finance.

3.4.2.5 **Impracticable**: applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

3.4.2.6 **Investing activities** are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

3.4.2.7 **Material**. 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.

3.4.2.8 **Notes** contain information in addition to that presented in the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.

3.4.2.9 **Other Comprehensive Income and Expenditure** comprises items of expense and income (including reclassification adjustments) that are not recognised in the Surplus or Deficit on the Provision of Services as required or permitted by the Code. Examples include changes in revaluation surplus; actuarial gains and losses on defined benefit plans; and gains and losses on remeasuring available-for-sale financial assets.

3.4.2.10 **Operating activities** are the activities of the entity that are not investing or financing activities.

3.4.2.11 **Reclassification adjustments** are amounts reclassified to Surplus or Deficit on the Provision of Services in the current period that were recognised in Other Comprehensive Income and Expenditure in the current or previous periods.

3.4.2.12 **Surplus or Deficit on the Provision of Services** is the total of income less expenses, excluding the components of Other Comprehensive Income and Expenditure.

3.4.2.13 **Total Comprehensive Income and Expenditure** comprises all components of Surplus or Deficit on the Provision of Services and of Other Comprehensive Income and Expenditure.

Cash and cash equivalents

3.4.2.14 Cash and cash equivalents shall include bank overdrafts that are an integral part of an authority's cash management.

3.4.2.15 Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. There are no strict criteria to follow relating to the nature and maturity of items treated as cash equivalents and as such an authority shall disclose the policy that it adopts in determining the composition of cash equivalents.

Financial statements

3.4.2.16 The objectives of financial statements are to provide information about the financial position, financial performance and cash flows of an authority that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of financial reporting in the public sector should be to provide information useful for decision making, and to demonstrate the accountability of the authority for the resources entrusted to it.

3.4.2.17 A complete set of financial statements comprises:

a) Movement in Reserves Statement for the period

b) Comprehensive Income and Expenditure Statement for the period

c) Balance Sheet as at the end of the period

d) Cash Flow Statement for the period

e) Notes, comprising a summary of significant accounting policies and other explanatory information, and

f) Balance Sheet as at the beginning of the earliest comparative period (ie a third Balance Sheet) when an authority applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

3.4.2.18 Authorities shall present with equal prominence all of the financial statements in a complete set of financial statements. The order of the first four statements above is recommended but not required. Authorities shall present the statements in the order that best enables users to understand the statements.

3.4.2.19 Financial statements shall give a true and fair presentation of the financial position, financial performance and cash flows of an authority. A true and fair presentation 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. Compliance with the Code is presumed to result in financial statements that achieve a true and fair presentation.

3.4.2.20 An authority cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.

3.4.2.21 In the extremely rare circumstances in which management concludes that compliance with a requirement of the Code would be so misleading that it would prevent the financial statements achieving a true and fair view, an authority shall depart from that requirement. In doing so, and authority shall disclose that:

a) management has concluded that the financial statements present a true and fair view of the entity's financial position, financial performance and cash flows
b) it has complied with the Code, except that it has departed from a particular requirement to achieve a true and fair presentation
c) the nature of the departure, including the treatment that the Code would require, the reason why that treatment would be so misleading in the circumstances that it would prevent the financial statements presenting a true and fair view, and the treatment adopted, and
d) for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.

3.4.2.22 A local 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.

3.4.2.23 A local 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.

3.4.2.24 A local authority shall present separately each material class of similar items. A local authority shall present separately items of a dissimilar nature or function unless they are immaterial.

3.4.2.25 A local authority need not provide a specific disclosure required by the Code if the information is not material.

3.4.2.26 A local authority shall not offset assets and liabilities or income and expenses, unless required or permitted by the Code.

3.4.2.27 A local authority shall present a complete set of financial statements (including comparative information) annually.

3.4.2.28 Except when the Code permits or requires otherwise, a local authority shall disclose comparative information in respect of the previous period for all amounts reported in the current period's financial statements.

3.4.2.29 When a local authority changes the presentation or classification of items in its financial statements, the authority shall reclassify comparative amounts unless reclassification is impracticable. When comparative amounts are reclassified, the authority shall disclose:

a) the nature of the reclassification

b) the amount of each item or class of items that is reclassified, and

c) the reason for the reclassification.

3.4.2.30 When it is impracticable to reclassify comparative amounts, an authority shall disclose:

a) the reason for not reclassifying the amounts, and

b) the nature of the adjustments that would have been made if the amounts had been reclassified.

3.4.2.31 A local authority shall retain the presentation and classification of items in the financial statements from one period to the next unless:

a) it is apparent, following a significant change in the nature of the authority's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in the Code, or

b) the Code requires a change in presentation.

3.4.2.32 A local authority shall present group accounts in addition to its single entity accounts where required by chapter nine of the Code.

3.4.2.33 When presenting group accounts, an authority that recognises its interest in a jointly controlled entity using proportionate consolidation shall either:

- combine its share of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items, line by line, in its financial statements, or
- include separate line items for its share of the assets, liabilities, income and expenses of the jointly controlled entity in its financial statements.

Structure and content of financial statements

3.4.2.34 A local authority shall clearly identify the financial statements and distinguish them from other information in the same published document.

3.4.2.35 An entity shall clearly identify each financial statement and the notes. In addition, a local authority shall display the following information prominently, and repeat it when necessary for the information presented to be understandable:

a) the name of the authority

b) the date of the end of the reporting period or the period covered by the set of financial statements or notes, and

c) the level of rounding used in presenting amounts in the financial statements.

Movement in Reserves Statement

3.4.2.36 A local authority shall present a Movement in Reserves Statement. Where a local authority presents group accounts as well as authority-only accounts, the authority shall present either separate Movement in Reserves Statements for the authority-only accounts and the group accounts, or a single Movement in Reserves Statement showing both the authority-only and group reserves.

3.4.2.37 An authority shall include a description of the purpose of the statement, either in the explanatory foreword or on the face of the statement (or both). The following description is recommended but not mandatory.

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

3.4.2.38 The Movement in Reserves Statement shall show, for each classification of reserves:

a) balance as at the end of the previous reporting period
b) surplus or (deficit) on the provision of services (accounting basis)
c) other comprehensive income and expenditure
d) total comprehensive income and expenditure
e) adjustments between group accounts and authority accounts (group accounts only)
f) net increase/decrease before transfers (group accounts only)
g) adjustments between accounting basis and funding basis under regulations
h) net increase or decrease before transfers to earmarked reserves (England and Wales) or other statutory reserves (Scotland)
i) transfers to or from earmarked reserves (England and Wales) or other statutory reserves (Scotland)
j) increase or (decrease) in year
k) balance as at the end of the current reporting period.

3.4.2.39 A local authority shall present, either in the Movement in Reserves Statement or in the notes, an analysis of the amounts included in items c), e), g) and i) of the statement. The analysis of item g) shall include the following items where relevant:

- depreciation and impairment of non-current assets (in England this should exclude depreciation charged to HRA services)
- in England only, the excess of depreciation charged to HRA services over the Major Repairs Allowance element of housing subsidy

- capital grants and contributions credited to the Comprehensive Income and Expenditure Statement
- movement in Donated Assets Account
- revenue expenditure funded from capital under statute
- net gain or loss on sale of non-current assets
- amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements
- amount by which pension costs calculated in accordance with the Code (ie in accordance with IAS 19) are different from the contributions due under the pension scheme regulations
- amount by which council tax income and residual community charge adjustment included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulation (England only)
- statutory provision for repayment of debt
- capital expenditure charged to the General Fund Balance
- transfer from Capital Receipts Reserve equal to the amount payable into the Housing Capital Receipts Pool (in England and Wales only)
- any voluntary provision for repayment of debt
- net transfer to or from earmarked reserves required by legislation.

3.4.2.40 The classification of reserves presented in the Movement in Reserves Statement shall include, as a minimum, the following items:

a) General Fund Balance (in Scotland, includes earmarked portion of General Fund Balance)
b) Earmarked General Fund Reserves (not Scotland) (recommended but not mandatory)
c) Housing Revenue Account Balance (in Scotland, includes earmarked portion of Housing Revenue Account Balance)
d) Earmarked Housing Revenue Account Reserves (not Scotland) (recommended but not mandatory)
e) Revenue statutory funds (Scotland)
f) Capital Receipts Reserve (England and Wales); Capital statutory funds (Scotland)
g) Total usable reserves
h) Unusable reserves
i) Total reserves of the authority
j) Authority's share of the reserves of subsidiaries, associates and joint ventures (group accounts only)
k) Total reserves (group accounts only).

3.4.2.41 A local authority shall present, either in the Movement in Reserves Statement or in the notes, an analysis of the amounts included in each line of the classification of reserves required by paragraph 3.4.2.40. This analysis shall present amounts held for capital purposes separately from those held for revenue purposes, and shall separately identify the total reserves held by schools.

Comprehensive Income and Expenditure Statement

3.4.2.42 A local authority shall present a Comprehensive Income and Expenditure Statement. Where a local authority presents group accounts as well as authority-only accounts, the authority shall present either separate Comprehensive Income and Expenditure Statements for the authority-only accounts and the group accounts, or a single Comprehensive Income and Expenditure Statement showing both the authority-only and group transactions. An authority shall include a description of the purpose of the statement, either in the explanatory foreword or on the face of the statement (or both). The following description is recommended but not mandatory.

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

3.4.2.43 As a minimum, the Comprehensive Income and Expenditure Statement shall include line items that present the following amounts for the period:

a) Gross expenditure, gross income and net expenditure of continuing operations, analysed by service. Authorities shall present the service analysis on the basis of the *Best Value Accounting Code of Practice.*

b) Other operating expenditure (comprising precepts (paid to non-principal authorities in England and all authorities in Wales) and levies; payments to the Housing Capital Receipts Pool; and gains or losses on the disposal of non-current assets).

c) Financing and investment income and expenditure (comprising interest payable and similar charges; pensions interest cost and expected return on pensions assets; interest income; income, expenditure, changes in the fair values of investment properties; and other investment income).

d) Profit or loss on discontinued operations.

e) Taxation and non-specific grant income (comprising council tax income, NNDR distribution, non-ringfenced government grants, and all capital grants and contributions).

f) Surplus or deficit on the provision of services.

g) Associates and joint ventures accounted for on an equity basis (group accounts only).

h) Tax expenses (group accounts only; taxation of group entities and reporting authority's share of taxation of associates and joint ventures shall be shown on separate lines).

i) Group surplus or deficit (group accounts only).

j) Surplus or deficit on revaluation of non-current assets.

k) Surplus or deficit on revaluation of available-for-sale financial assets.

l) Actuarial gains or losses on pension assets and liabilities.

m) Share of other comprehensive income and expenditure of associates and joint ventures (group accounts only).

n) Other comprehensive income and expenditure.

o) Total comprehensive income and expenditure.

3.4.2.44 Where a local authority presents group accounts, the authority shall disclose separately those amounts of Surplus or Deficit on the Provision of Services and Other Comprehensive Income and Expenditure that are attributable to the local authority and those that are attributable to any minority interest, eg impairment of goodwill, share of profits of subsidiaries.

3.4.2.45 A local authority shall present, either in the Comprehensive Income and Expenditure Statement or in the notes, an analysis of the amounts included in items b), c) and e) of the statement.

3.4.2.46 An authority shall not present any items of income or expense as extraordinary items, either in the Comprehensive Income and Expenditure Statement or in the notes.

Surplus or Deficit on the Provision of Services

3.4.2.47 An authority shall recognise all items of income and expense in a period in Surplus or Deficit on the Provision of Services unless the Code requires or permits otherwise.

Other Comprehensive Income and Expenditure for the period

3.4.2.48 Where an authority prepares group accounts, the authority shall disclose the amount of income tax relating to each component of Other Comprehensive Income and Expenditure, including reclassification adjustments, either in the Comprehensive Income and Expenditure Statement or in the notes.

3.4.2.49 An entity may present components of Other Comprehensive Income and Expenditure either:

a) net of related tax effects, or

b) before related tax effects with one amount shown for the aggregate amount of income tax relating to those components.

3.4.2.50 An authority shall disclose reclassification adjustments relating to components of Other Comprehensive Income and Expenditure.

Information to be presented either in the Comprehensive Income and Expenditure Statement or in the notes

3.4.2.51 When items of income or expense are material, an authority shall disclose their nature and amount separately. Examples include:

a) disposals of items of property, plant and equipment

b) disposals of investments, and

c) other reversals of provisions.

Balance Sheet

3.4.2.52 A local authority shall present a Balance Sheet. Where a local authority presents group accounts as well as authority-only accounts, the authority shall present either separate Balance Sheets for the authority-only accounts and the group accounts, or a single statement showing both the authority-only and group Balance Sheets. An authority shall include a description of the purpose of the statement, either in the explanatory foreword or on the face of the statement (or both). The following description is recommended but not mandatory.

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, ie those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

3.4.2.53 As a minimum, the Balance Sheet shall include line items that present the following amounts:

a) property, plant and equipment
b) investment property
c) intangible assets (including goodwill for group accounts only)
d) assets held for sale
e) long-term investments (including net pensions asset)
f) investments in associates and joint ventures (in Scotland where an authority has negative balances in respect of individual associates, eg police and fire boards, the authority shall include any such associates with a net negative balance in a separate 'liabilities in associates' line)
g) long-term debtors
h) deferred tax asset (group accounts only)
i) long-term assets (sub-total)
j) short-term investments
k) inventories
l) short-term debtors
m) cash and cash equivalents
n) assets held for sale
o) provisions
p) current tax asset (group accounts only)
q) current assets (sub-total)
r) bank overdraft
s) short-term borrowing
t) short-term creditors
u) liabilities in disposal groups
v) current tax liability (group accounts only)
w) current liabilities (sub-total)
x) long-term creditors
y) provisions

z) long-term borrowing

aa) other long-term liabilities (comprising net pensions liability, deferred liabilities and any other long-term liabilities)

ab) Donated Assets Account

ac) Capital Grants Receipts in Advance

ad) deferred tax liability (group accounts only)

ae) long-term liabilities (sub-total)

af) net assets (total)

ag) usable reserves

ah) unusable reserves (including group reserves where appropriate)

ai) total reserves (total).

3.4.2.54 Bank overdrafts are shown separately from cash and cash equivalents where they are not an integral part of an authority's cash management. Where they are an integral part of an authority's cash management (ie the bank balance often fluctuates from being positive to overdrawn) they are shown as part of cash and cash equivalents; where appropriate this figure may be shown as a current liability rather than current assets.

3.4.2.55 An authority shall present other lines (for example, biological assets) where relevant.

3.4.2.56 An authority shall present additional line items when such presentation is relevant to an understanding of the authority's financial position. For example, an authority may separately disclose one or more categories of property, plant and equipment.

Current assets

3.4.2.57 An authority shall classify an asset as current when:

a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle (the normal operating cycle for a local authority shall be assumed to be 12 months, however the normal operating cycle of other group members may be different)

b) it holds the asset primarily for the purpose of trading

c) it expects to realise the asset within 12 months after the reporting period, or

d) the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

An authority shall classify all other assets as long term.

Current liabilities

3.4.2.58 An authority shall classify a liability as current when:

a) it expects to settle the liability in its normal operating cycle (the normal operating cycle for a local authority shall be assumed to be 12 months, however the normal operating cycle of other group members may be different)

b) it holds the liability primarily for the purpose of trading

c) the liability is due to be settled within 12 months after the reporting period, or

d) the authority does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

An authority shall classify all other liabilities as long term.

Information to be presented either in the Balance Sheet or in the notes

3.4.2.59 An authority shall disclose, either in the Balance Sheet or in the notes, further sub-classifications of the line items presented, classified in a manner appropriate to the authority. Examples include:

a) items of property, plant and equipment are disaggregated into classes
b) receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts, and
c) provisions are disaggregated into provisions for employee benefits and other items.

3.4.2.60 An authority shall disclose in the Balance Sheet, in the Movement in Reserves Statement, or in the notes a description of the nature and purpose of each reserve, the carrying amount of each reserve as at the Balance Sheet date and the movement in the reserve in the period. An authority shall present amounts held for capital purposes separately from those held for revenue purposes, and shall separately identify the total reserves held by schools.

Cash Flow Statement

3.4.2.61 A local authority shall present a Cash Flow Statement. Where a local authority presents group accounts as well as authority-only accounts, the authority shall present either separate Cash Flow Statements for the authority-only accounts and the group accounts, or a single Cash Flow Statement showing both the authority-only and group cash flows. An authority shall include a description of the purpose of the statement, either in the explanatory foreword or on the face of the statement (or both). The following description is recommended but not mandatory.

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the authority.

3.4.2.62 An authority shall report cash flows from operating activities using either:

a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed, or
b) the indirect method, whereby net Surplus or Deficit on the Provision of Services is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of revenue or expense associated with investing or financing cash flows.

3.4.2.63 As a minimum, the Cash Flow Statement prepared using the direct method shall include line items that present the following amounts:

a) operating activities
b) investing activities
c) financing activities
d) net increase or decrease in cash and cash equivalents
e) cash and cash equivalents at the beginning of the reporting period
f) cash and cash equivalents at the end of the reporting period.

3.4.2.64 The amounts to be included (where relevant) in lines a), b) and c) above are as follows:

Operating activities

a) taxation
b) grants
c) housing rents (housing authorities only)
d) sales of goods and rendering of services
e) interest received
f) other receipts from operating activities
g) cash inflows generated from operating activities (sub-total)
h) cash paid to and on behalf of employees
i) housing benefit paid out (housing authorities only)
j) national non-domestic rate payments to national pool (billing authorities only)
k) precepts paid (billing authorities only)
l) payments to the Capital Receipts Pool (in England and Wales only)
m) cash paid to suppliers of goods and services
n) interest paid
o) other payments for operating activities
p) cash outflows generated from operating activities (sub-total)
q) net cash flows from operating activities.

Investing activities

a) purchase of property, plant and equipment, investment property and intangible assets
b) purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)
c) other payments for investing activities
d) proceeds from the sale of property, plant and equipment, investment property and intangible assets
e) proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)
f) other receipts from investing activities
g) net cash flows from investing activities.

Financing activities

a) cash receipts of short- and long-term borrowing
b) other receipts from financing activities
c) cash payments for the reduction of the outstanding liability relating to finance leases and on-Balance Sheet PFI contracts
d) repayments of short- and long-term borrowing
e) other payments for financing activities
f) net cash flows from financing activities.

3.4.2.65 A local authority shall consider presenting the detail of the amounts of major classes of gross cash receipts and gross cash payments rising from operating, investing and financing activities (see paragraph 3.4.2.64) in the Cash Flow Statement based on the direct method where such presentation is relevant to an understanding of the authority's cash flow position, or otherwise in the notes.

3.4.2.66 Cash flows from interest and dividends received and paid (dividends paid will only be applicable to group accounts) shall be disclosed separately either in the Cash Flow Statement and classified as operating activities or in the notes. In the rare event that cash flows of a local authority (or group accounts) arise from transactions in a foreign currency, the cash flows shall be recorded in pounds sterling by applying to the foreign currency amount the exchange rate at the time of the cash flow.

3.4.2.67 Where an authority presents a Cash Flow Statement prepared using the indirect method, as a minimum the statement shall include line items that present the following amounts:

a) net surplus or deficit on the provision of services
b) adjust net surplus or deficit on the provision of services for noncash movements
c) adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities
d) net cash flows from operating activities
e) investing activities
f) financing activities
g) net increase or decrease in cash and cash equivalents
h) cash and cash equivalents at the beginning of the reporting period
i) cash and cash equivalents at the end of the reporting period.

3.4.2.68 The amounts to be included (where relevant) in lines b), c), e) and f) above are as follows:

Adjust net surplus or deficit on the provision of services for non-cash movements

a) depreciation
b) impairment and downward valuations
c) amortisation
d) increase in impairment provision for bad debts
e) increase in creditors
f) increase in debtors
g) decrease in stock

h) pension liability

i) carrying amount of non-current assets sold

j) other non-cash items charged to the net surplus or deficit on the provision of services.

Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities

a) purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)

b) proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)

c) proceeds from the sale of property plant and equipment, investment property and intangible assets.

Investing activities

a) purchase of property, plant and equipment, investment property and intangible assets

b) purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)

c) other payments for investing activities

d) proceeds from the sale of property, plant and equipment, investment property and intangible assets

e) proceeds from short- term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)

f) other receipts from investing activities

g) net cash flows from investing activities.

Financing activities

a) cash receipts of short- and long-term borrowing

b) other receipts from financing activities

c) cash payments for the reduction of the outstanding liability relating to a finance lease and on-Balance Sheet PFI contracts

d) repayments of short- and long-term borrowing

e) other payments for financing activities

f) net cash flows from financing activities.

3.4.2.69 A local authority shall consider presenting the detail of the amounts of major classes of gross cash receipts and gross cash payments rising from operating, investing and financing activities (see paragraph 3.4.2.68) in the Cash Flow Statement based on the indirect method where such presentation is relevant to an understanding of the authority's cash flow position, or otherwise in the notes.

3.4.2.70 In the rare event that cash flows arise from obtaining and losing control of subsidiaries or other businesses, authorities should refer to IAS 7.

3.4.2.71 Where an authority prepares group accounts, the authority shall also include (where relevant) lines in relation to operating activities – preference dividend paid to minority interest, equity dividends paid, income tax paid; investing activities – net overdraft acquired with subsidiary, net cash acquired with subsidiary; financing activities – purchase/redemption of share capital, issue of share capital and any other lines that may be relevant, and disclosed separately where material in the Cash Flow Statement or in the notes. Cash flows between the reporting authority and an associate or joint venture should be included under the appropriate cash flow heading for the activity giving rise to the cash flow. None of the other cash flows of an associate or joint venture should be included in the Cash Flow Statement of the group account.

3.4.2.72 Operating, investing and financing transactions that do not require the use of cash and cash equivalents shall be excluded from an authority's (or group) Cash Flow Statement.

3.4.2.73 An authority (and group accounts) shall disclose the components of cash and cash equivalents in the Cash Flow Statement or in the notes.

3.4.2.74 The impact on the Cash Flow Statement of the accounting requirements in England for council tax and NNDR are shown in section 2.8 of the Code.

Notes to the financial statements

3.4.2.75 A local authority shall present notes to the financial statements. Where a local authority presents group accounts as well as authority-only accounts, the authority shall present either separate notes to the financial statements for the authority-only accounts and the group accounts, or notes to the financial statements showing both authority-only and group information. The notes shall:

a) present information about the basis of preparation of the financial statements and the specific accounting policies used
b) disclose the information required by the Code that is not presented elsewhere in the financial statements, and
c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

3.4.2.76 An authority shall, as far as practicable, present notes in a systematic manner. An authority shall cross-reference each item in the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement to any related information in the notes.

3.4.2.77 An authority shall disclose in the summary of significant accounting policies:

a) the measurement basis (or bases) used in preparing the financial statements, and
b) the other accounting policies used that are relevant to an understanding of the financial statements.

3.4.2.78 An authority shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the authority's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

3.4.2.79 The summary of significant accounting policies shall include the following items where they have a significant effect on the amounts recognised in the financial statements:

a) accruals of expenditure and income
b) acquired operations

c) Area Based Grant (England only)

d) back pay arising from unequal pay claims

e) Business Improvement District schemes (England, Scotland and Wales)

f) cash and cash equivalents

g) contingent assets

h) contingent liabilities

i) discontinued operations

j) employee benefits

k) events after the Balance Sheet date

l) exceptional items and prior period adjustments

m) financial instruments

n) foreign currency translation

o) government grants and other contributions

p) intangible assets

q) inventories and long-term contracts

r) investment property

s) landfill allowances schemes

t) leases (separate policies required for operating and finance leases)

u) non-current assets held for sale

v) overheads

w) PFI schemes

x) property, plant and equipment

y) provisions

z) reserves

aa) revenue expenditure funded from capital under statute, and

ab) Value Added Tax.

3.4.2.80 A local authority shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

a) their nature, and

b) their carrying amount as at the end of the reporting period.

3.4.2.81 These disclosures are not required for assets and liabilities measured at fair value based on recently observed market prices. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting period.

Segment reporting

3.4.2.82 The aim of segment reporting is to disclose information to enable users of a local authority's financial statements to evaluate the nature and financial effects of the activities in which it engages and the economic environments in which it operates.

3.4.2.83 An authority shall present information on reportable segments within the notes. Reportable segments shall be based on an authority's internal management reporting, for example departments, directorates or portfolios. Where more than one presentation is used for internal management reporting, the authority shall select the presentation most commonly used by the individual or group within the authority (for example cabinet, board or senior directors) when considering the allocation of financial resources. Segments may include support services.

3.4.2.84 An authority need not report all segments. A segment shall be reported where its expenditure is 10% or more of the gross expenditure within the net cost of services; or its income is 10% or more of the gross income within the net cost of services. An authority may report segments that do not meet these criteria, either individually or combined with other segments.

3.4.2.85 Where the reportable segments identified by applying the criteria above do not include at least 75% of the expenditure within the net cost of services, additional segments or combinations of segments shall be treated as reportable segments until the reportable segments include at least 75% of the expenditure within the net cost of services.

3.4.2.86 For each reportable segment, an authority shall present an analysis of the income and expenditure for that segment (ie a subjective analysis), to include those items of income and expenditure that are reported as part of internal management reporting. Authorities should note that this analysis may include items that do not form part of the Comprehensive Income and Expenditure Statement (for example, that statutory provision for the repayment of debt) and exclude items that do form part of the Comprehensive Income and Expenditure Statement (for example, depreciation).

3.4.2.87 Production of the segment reporting analysis is not intended to be onerous, and it is expected that in most cases authorities will be able to use existing information (for example, outturn reports) as the basis of the analysis.

3.4.2.88 An authority shall present a reconciliation between the segment reporting analysis and the net cost of services in the Comprehensive Income and Expenditure Statement. The reconciliation will be dependent on the information included in the segment reporting analysis, but is expected to include items from the following areas:

- additional segments not included in the analysis
- amounts not included in the analysis but included in the Comprehensive Income and Expenditure Statement (for example, pension costs calculated in accordance with IAS 19)
- amounts included in the analysis but not included in the Comprehensive Income and Expenditure Statement (for example, pension contributions payable to the pension fund).

3.4.2.89 An authority shall present a reconciliation between the segment reporting analysis and an analysis of total income and expenditure (ie a subjective analysis). The analysis of total income and expenditure shall be prepared on a group accounts basis where the authority prepares group accounts and shall include as a minimum the following lines: