a) fees, charges and other service income
b) surplus or deficit on associates and joint ventures
c) interest and investment income
d) income from council tax
e) government grants and contributions
f) employee expenses
g) other service expenses
h) support service recharges
i) depreciation, amortisation and impairment
j) interest payments
k) precepts and levies
l) payments to Housing Capital Receipts Pool
m) gain or loss on disposal of non-current assets
n) surplus or deficit on the provision of services.

3.4.2.90 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)
- allocation of support service recharges
- allocation of lines in the segment reporting analysis that include items from more than one line of the analysis of total income and expenditure
- amounts reported below the net cost of services in the Comprehensive Income and Expenditure Statement.

3.4.2.91 The analysis of total income and expenditure also satisfies the requirement in IAS 1 to present information regarding the nature of expenses.

3.4.2.92 If an authority reports segment assets and/or liabilities internally, it shall present an analysis of segment assets and/or liabilities in the financial statements. This analysis shall be on the same basis as that used to report internally (ie assets and/or liabilities that are not reported on a segment basis internally are not presented in the analysis in the financial statements). Where an analysis of segment assets and/or liabilities is presented in the financial statements, the authority shall also present a reconciliation of segment assets and/or liabilities to the total assets and/or liabilities included in the Balance Sheet.

3.4.3 Statutory Accounting Requirements

3.4.3.1 There are no statutory accounting requirements regarding the presentation of financial statements in England, Scotland and Wales. In Northern Ireland, the format of the statements is prescribed by the Department for the Environment, and authorities should follow those requirements.

3.4.4 Disclosure Requirements

3.4.4.1 Authorities shall disclose the information in the financial statements as required by this section. Having regard to paragraph 3.4.2.25 of this section of the Code, authorities shall disclose the notes as set out in the other sections of the Code in addition to the following:

1) The nature of any acquired or discontinued operations and details of any outstanding liabilities in respect of discontinued operations.
2) The nature, turnover, and profits/losses of any significant trading operation and for Scottish local authorities the cumulative surplus or deficit for the current year and two preceding financial years in accordance with the requirements of the Local Government in Scotland Act 2003.
3) The nature and amount of any significant agency income and expenditure.
4) A brief explanation of the nature of any scheme under the Transport Act 2000 or Transport (Scotland) Act 2001, including the gross income and expenditure of the scheme, and the net proceeds of the scheme (including for joint schemes the apportionment of such proceeds).
5) Sufficient information on any partnership schemes under s31 of the Health Act 1999 and under the Community Care and Health (Scotland) Act 2002 to allow for the understanding of the authority's financial affairs. As a minimum this includes the purpose of the partnership, the identities of partner bodies, the gross income and expenditure of the partnership and the authority's contribution.
6) The totals of members' allowances (and expenses) paid in the year. In Scotland all elements of members remuneration and reimbursement of actual expenditure under the heads of salaries, allowances and expenses.
7) Number of officers whose remuneration in the year was greater or equal to £50,000 (or other minimum level specified in regulations), grouped in rising bands of £10,000 (or other bands specified in regulations), and any other disclosures as required by legislation (Scotland and Northern Ireland).
8) The following amounts for the year:
   a) Fees payable to auditors appointed by the Audit Commission or the Auditor General for Wales with regard to external audit services carried out by the appointed auditor under the Audit Commission's *Code of Audit Practice* or Auditor General for Wales' *Code of Audit and Inspection Practice* in accordance with s5 of the Audit Commission Act 1998 or s16 of the Public Audit (Wales) Act 2004.
   b) Fees payable to auditors appointed by the Audit Commission or the Auditor General for Wales in respect of statutory inspection under s10 of the Local Government Act 1999.
   c) Fees payable to auditors appointed by the Audit Commission or the Auditor General for Wales for the certification of grant claims and returns by the appointed auditor under s28 of the Audit Commission Act 1998 or s2 of the Public Audit (Wales) Act 2004.
   d) Fees payable to Audit Scotland in respect of external audit services undertaken in accordance with the *Code of Audit Practice*.

e) In Northern Ireland, the amount payable to the Comptroller and Auditor General for Northern Ireland in respect of external audit services.

f) Fees payable in respect of any other services provided by the appointed auditor over and above the duties described in notes 8 a) to e) above.

9) In Wales, the following information is also to be disclosed:

a) The total non-domestic rateable value at the year-end and the national non-domestic rate multiplier for the year.

b) The calculation of the council tax base, ie the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings.

c) The name of each authority which made a significant precept or demand on the account and the amount included for each authority.

10) In Northern Ireland, disclosure of details of the rates receivable by the authority (ie rate in the pound for domestic and non-domestic properties).

11) A breakdown of the movement of the amounts shown in the Movement in Reserves Statement that are adjustments between accounting basis and funding basis under regulations to be debited or credited to the General Fund and Housing Revenue Account for the year and the transfers to/from reserves.

12) A disclosure that demonstrates whether the Dedicated Schools Grant (made under section 14 of the Education Act 2002) has been deployed in accordance with regulations made under sections 45A, 45AA, 47, 48(1) and (2) and 138(7) of, and paragraph 1(7)(b) of Schedule 14 to, the School Standards Framework Act 1998 (England).

Cash Flow Statement

13) An analysis of the components of cash and cash equivalents.

14) An analysis of the amounts of major classes of gross cash receipts and gross cash payments rising from operating, investing and financing activities of the Cash Flow Statement where such presentation is relevant to an understanding of the authority's financial performance.

3.4.5 Statutory Disclosure Requirements

3.4.5.1 There are no statutory disclosure requirements in relation to the presentation of financial statements. Authorities shall disclose the statutory notes as set out in the other sections of the Code in addition to the following:

1) Number of officers whose remuneration in the year was greater or equal to £50,000 (or other minimum level specified in regulations), grouped in rising bands of £10,000 (or other bands specified in regulations), and any other disclosures as required by legislation (England and Wales).

3.4.6 Changes since SORP 2009

3.4.6.1 The Code introduces the Movement in Reserves Statement. This statement, along with any related notes, replaces the Statement of Movement on the General Fund Balance and the note on the movement in reserves.

3.4.6.2 The Code introduces the Comprehensive Income and Expenditure Statement, which replaces the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses.

3.4.6.3 The format of the Balance Sheet and the Cash Flow Statement are different under the Code than under the SORP.

3.4.6.4 The Code requires 'cash and cash equivalents' to be presented in the Balance Sheet and reported as cash flows in the Cash Flow Statement. The SORP (following FRS 1 *Cash Flow Statements)* did not use the concept of cash equivalents and required the movement of cash (cash in hand and deposits repayable on demand, less overdrafts) to be reported in the Cash Flow Statement.

3.4.6.5 The Code requires an authority to present a Balance Sheet as at the beginning of the earliest comparative period (ie a third Balance Sheet) when it 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. The SORP did not include this requirement.

3.4.6.6 The Code has different requirements to the SORP in relation to the notes to the financial statements; these include the disclosure of key sources of estimation uncertainty (see paragraph 3.4.2.80) and significant judgements in applying accounting policies (see paragraph 3.4.2.78).

3.4.6.7 The Code introduces segment reporting, which requires a subjective analysis to be included in the notes.

3.4.6.8 The Code does not permit authorities to present any items of income or expenditure as 'extraordinary'.

3.5 HOUSING REVENUE ACCOUNT

3.5.1 Introduction

3.5.1.1 The Housing Revenue Account (HRA) reflects a statutory obligation to maintain a revenue account for local authority housing provision in accordance with Part 6 of the Local Government and Housing Act 1989 (England and Wales) or the Housing (Scotland) Act 1987.

3.5.1.2 It includes the credit and debit items required to be taken into account in determining the surplus or deficit on the HRA for the year. The amounts included in the HRA differ from the amounts in respect of HRA services included in the Comprehensive Income and Expenditure Statement for the authority as a whole, which includes income and expenditure in accordance with the Code rather than that required by statute and non-statutory proper practices. For this reason the HRA statement has two parts:

- Movement on the Housing Revenue Account Statement – which shows how the HRA Income and Expenditure Account surplus or deficit for the year reconciles to the movement on the Housing Revenue Account Balance for the year, and
- HRA Income and Expenditure Statement – which shows in more detail the income and expenditure on HRA services included in the whole authority Surplus or Deficit on the Provision of Services (comprising as well as the amounts included in the whole authority

WED00000643_0078

Net Cost of Services for the HRA, the HRA's share of amounts included in the whole authority Net Service Cost but not allocated to individual services and the HRA's share of operating expenditure and income such as Pension Interest Costs and Expected Return on Pension Assets).

3.5.2 Accounting Requirements

3.5.2.1 The HRA Income and Expenditure Statement shall be prepared on the same basis as the whole authority Surplus or Deficit on the Provision of Services, following all the provisions of the Code. However, the HRA Income and Expenditure Statement shall be presented in accordance with the statutory accounting requirements.

3.5.3 Statutory Accounting Requirements

3.5.3.1 A housing authority shall present a HRA Income and Expenditure Statement. The statement shall include a description of the purpose of the statement. The following description is recommended but not mandatory.

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

The statement shall show:

Expenditure (including pension costs in accordance with the Code (IAS 19) basis):

a) repairs and maintenance
b) supervision and management (in Wales a management and maintenance item combines items a) and b))
c) rents, rates, taxes and other charges (England and Wales)
d) (negative) Housing Revenue Account subsidy payable (including in England the MRA element) (England and Wales)
e) depreciation and impairments of non-current assets
f) debt management costs (England and Wales)
g) sums directed by the Secretary of State or Welsh Assembly Government that are expenditure in accordance with the Code (England and Wales)
h) any other expenditure (Scotland)

Income:

i) dwelling rents (gross)
j) non-dwelling rents (gross)
k) charges for services and facilities (England and Wales)
l) contributions towards expenditure (England and Wales)
m) Housing Revenue Account subsidy receivable (including in England the MRA element) (England and Wales) or Housing Support Grant (Scotland)

n) sums directed by the Secretary of State or Welsh Assembly Government that are income in accordance with proper practices (England and Wales)

o) any other income (Scotland)

Subtotal: Net Cost of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement

p) HRA share of Corporate and Democratic Core

q) HRA share of other amounts included in the whole authority Net Cost of Services but not allocated to specific services

Sub-total: Net Cost of HRA Services

HRA share of the operating income and expenditure included in the whole authority Comprehensive Income and Expenditure Statement:

r) gain or loss on sale of HRA non-current assets

s) interest payable and similar charges

t) HRA interest and investment income

u) pensions interest cost and expected return on pensions assets

Surplus or deficit for the year on HRA services.

3.5.3.2 A housing authority shall present a Movement on the Housing Revenue Account Statement. The statement shall show:

a) balance on the HRA as at the end of the previous reporting period

b) surplus or (deficit) on the HRA Income and Expenditure Statement

c) adjustments between accounting basis and funding basis under regulations

d) net increase or decrease before transfers to or from reserves

e) transfers to or from reserves

f) increase or (decrease) in year on the HRA

g) balance on the HRA as at the end of the current reporting period.

3.5.3.3 A housing authority shall present, either in the Movement on the Housing Revenue Account Statement or in the notes, an analysis of the amounts included in items c) and e), to include the following:

a) difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute (England and Wales)

b) difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements (if any)

c) gain or loss on sale of HRA non-current assets

d) HRA share of contributions to or from the Pensions Reserve

e) capital expenditure funded by the Housing Revenue Account

f) sums directed by the Secretary of State, Welsh Assembly Government or Scottish Government Minister to be debited or credited to the HRA that are not expenditure or income in accordance with the Code

g) transfer to/from the Major Repairs Reserve (England only)

WED00000643_0080

h) transfer to/from the Capital Adjustment Account

i) transfer to/from Housing Repairs Account (England and Wales)

j) transfer to/from the Council Fund (Wales) or General Fund (Scotland)

k) transfers from the General Fund as directed by the Minister (Scotland only).

3.5.4 Disclosure Requirements

3.5.4.1 The Housing Revenue Account is a statutory memorandum account that forms part of a housing authority's General Fund. No separate HRA Balance Sheet is maintained. Disclosure of HRA items separately from other General Fund items is not required except for the statutory disclosures listed below, and any disclosures required under the paragraphs 3.4.2.36 to 3.4.2.41 and 3.4.2.82 to 3.4.2.92 of the Code (Movement in Reserves Statement and segment reporting).

3.5.5 Statutory Disclosure Requirements

3.5.5.1 Having regard to paragraph 3.4.2.25 of the Presentation of Financial Statements section of the Code, a housing authority shall disclose the following information in the notes to the HRA Statements.

England:

1) The number and types of dwelling in the authority's housing stock, the total Balance Sheet value of the land, houses and other property within the authority's HRA as at 1 April in the financial year, and the closing Balance Sheet value as at 31 March in the financial year, and the separate values as at 1 April and 31 March in the financial year of:
    a) operational assets, comprising
        – dwellings
        – other land and buildings, and
    b) non-operational assets.
2) The vacant possession value of dwellings within the authority's HRA as at 1 April in the financial year.
3) An explanation that the vacant possession value and Balance Sheet value of dwellings within the HRA show the economic cost to government of providing council housing at less than open market rents.
4) An analysis of the movement on the Major Repairs Reserve for the financial year showing:
    a) the balance on the Major Repairs Reserve on 1 April in the financial year
    b) the amount transferred to the Major Repairs Reserve during the financial year
    c) any amount transferred from the Major Repairs Reserve to the HRA during the financial year
    d) the debits to the Major Repairs Reserve during the financial year in respect of capital expenditure on the land, houses and other property within the authority's HRA
    e) the debits in respect of any repayment, made in the year, of the principal of any amount borrowed where the repayment was met by payment out of the Major Repairs Reserve

f) debits in respect of the meeting of any liability, in that year, in respect of credit arrangements, other than any liability, which in accordance with proper practices, must be charged to a revenue account, where the meeting of that liability was met by payments out of the Major Repairs Reserve

g) the balance on the Major Repairs Reserve on 31 March in the financial year.

5) An analysis of the movement on the Housing Repairs Account, where appropriate.

6) A summary of total capital expenditure on land, houses and other property within the authority's HRA during the financial year, broken down according to the following sources of funding:

a) borrowing

b) the Capital Receipts Reserve

c) revenue contributions (ie the debit under Item 2 of Part II of Schedule 4 to the Local Government and Housing Act 1989)

d) the Major Repairs Reserve.

7) A summary of total capital receipts from disposals of land, houses and other property within the authority's HRA during the financial year.

8) The total charge for depreciation for the land, houses and other property within the authority's HRA, and the charges for depreciation for:

a) operational assets, comprising:

– dwellings

– other land and buildings, and

b) non-operational assets.

9) The value of, and an explanation of, any impairment charges for the financial year in respect of land, houses and other property within the authority's HRA, calculated in accordance with proper practices.

10) The value of, and an explanation of, any charge calculated in accordance with proper practices in respect of revenue expenditure funded from capital under statute attributable to the HRA.

11) A breakdown of the amount of HRA subsidy payable to the authority for the financial year in accordance with the elements set out in the general formula in paragraph 3.1 of the General Determination of Housing Revenue Account Subsidy for the year.

12) An explanation of the HRA share of contributions to or from the Pensions Reserve.

13) The amount of rent arrears (excluding amounts collectable on behalf of other agencies) and the aggregate Balance Sheet provision in respect of uncollectable debts.

14) Explanation of any sums directed by the Secretary of State to be debited or credited to the HRA.

15) The nature and amount of any exceptional or prior year items not disclosed in the statement.

Wales:

16) The number and types of dwelling in the authority's housing stock.

17) The amount of rent arrears (excluding amounts collectable on behalf of other agencies) and the aggregate Balance Sheet provision in respect of uncollectable debts.

18) The nature and amount of any exceptional or prior year items not disclosed in the statement.
19) An analysis of the movement on the Housing Repairs Account, where appropriate.
20) A summary of total capital expenditure on land, houses and other property within the authority's HRA during the financial year, broken down according to the following sources of funding:
    a) borrowing
    b) the Capital Receipts Reserve
    c) revenue contributions (ie the debit under Item 2 of Part II of Schedule 4 to the Local Government and Housing Act 1989)
    d) the Major Repairs Reserve.
21) A summary of total capital receipts from disposals of land, houses and other property within the authority's HRA during the financial year.
22) The total charge for depreciation for the land, houses and other property within the authority's HRA, and the charges for depreciation for:
    a) operational assets, comprising:
        – dwellings
        – other land and buildings, and
    b) non-operational assets.
23) The value of, and an explanation of, any impairment charges for the financial year in respect of land, houses and other property within the authority's HRA, calculated in accordance with proper practices.
24) The value of, and an explanation of, any charge calculated in accordance with proper practices in respect of deferred charges attributable to the HRA.
25) An explanation of the HRA share of contributions to or from the Pensions Reserve.
26) Explanation of any sums directed by the Welsh Assembly Government to be debited or credited to the HRA.

Scotland:

27) The number and types of dwelling in the authority's housing stock.
28) The amount of rent arrears (excluding amounts collectable on behalf of other agencies) and the provision considered to be necessary in respect of uncollectable debts.
29) The nature and amount of any exceptional or prior year items not disclosed in the statement.

3.5.6 Changes since SORP 2009

3.5.6.1 The format of the HRA statements has changed to match the introduction of the Movement in Reserves Statement and Comprehensive Income and Expenditure Statement elsewhere in the Code.

3.5.6.2 There are no other changes to the presentation and disclosure requirements for the HRA in this section of the Code. However changes elsewhere in the Code may require transactions to be accounted for or presented differently.

3.6 COLLECTION FUND (ENGLAND)/COUNCIL TAX INCOME ACCOUNT (SCOTLAND)/NON-DOMESTIC RATE ACCOUNT (SCOTLAND)

3.6.1 Introduction

Collection Fund (England)

3.6.1.1 The Collection Fund Statement is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund in accordance with section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992).

3.6.1.2 The Collection Fund shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates. There is no requirement for a Collection Fund Balance Sheet since the assets and liabilities arising from collecting non-domestic rates and council tax belong to the bodies (ie major preceptors, the billing authority and the Government) on behalf of which the billing authority collects these taxes.

Council Tax Income Account (Scotland)

3.6.1.3 The Council Tax Income Account (Scotland) shows the net income raised from council taxes levied under the Local Government Finance Act 1992. The net income is transferred to the Comprehensive Income and Expenditure Statement of the authority.

Non-Domestic Rate Account (Scotland)

3.6.1.4 The Non-Domestic Rate Income Account (Scotland) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account that shows the net income from the rates levied under the Local Government (Scotland) Act 1975 as amended by the Local Government Finance Act 1992 on non-domestic property. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool. There is no requirement for a Non-Domestic Rate Income Account Balance Sheet since the assets and liabilities arising from collecting non-domestic rates belong to the Scottish Government on behalf of which the billing authority collects non-domestic rates.

3.6.2 Accounting Requirements

3.6.2.1 Even though taxation debtors are non-contractual debts and are excluded from the scope of IAS 39, the accounting requirements in the Collection Fund (England), Council Tax Income Account (Scotland) and Non-Domestic Rate Account (Scotland) in respect of the write-off of uncollectable debts and allowance for impairment of doubtful debts follow the impairment provisions of chapter seven (paragraphs 7.3.3.1 to 7.3.3.6) of the Code. However, the statements shall be presented in accordance with the statutory accounting requirements.

3.6.3 Statutory Accounting Requirements

Collection Fund (England)

3.6.3.1 The statement shall include a description of the purpose of the statement. The following description is recommended but not mandatory.

The Collection Fund (England) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

The accounting statement shall show:

Amounts required by statute to be credited to the Collection Fund

a) council tax (showing the amount receivable, net of benefits, discounts for prompt payments and transitional relief)

b) transfers from General Fund:
   - council tax benefits
   - transitional relief
   - discounts for prompt payment

c) income collectable from business ratepayers

d) contributions:
   - towards previous year's Collection Fund deficit
   - adjustment of previous years' community charges

Amounts required by statute to be debited to the Collection Fund

e) Precepts and demands from major preceptors (specify) and the authority

f) Business rate:
   - payment to national pool
   - costs of collection

g) impairment of debts/appeals:
   - write-offs of uncollectable amounts
   - allowance for impairment

h) contribution:
   - towards previous year's estimated Collection Fund surplus
   - adjustment of previous years' community charges

i) movement on fund balance.

Council Tax Income Account (Scotland)

3.6.3.2 The statement shall include a description of the purpose of the statement. The following description is recommended but not mandatory.

The Council Tax Income Account (Scotland) shows the gross income raised from council taxes levied and deductions made under Statute. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement of the authority.

WED00000643_0085

The accounting statement shall show:

a) gross council tax levied and contributions in lieu
b) council tax benefits (net of government grant)
c) discounts for prompt payment
d) other discounts and reductions
e) write-off of uncollectable debts and allowance for impairment
f) adjustment to previous years' community charge and council tax
g) transfers to General Fund.

Non-Domestic Rate Account (Scotland)

3.6.3.3 The statement shall include a description of the purpose of the statement. The following description is recommended but not mandatory.

The Non-domestic Rate Account (Scotland) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from the rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool.

The accounting statement shall show:

a) gross rates levied and contributions in lieu
b) reliefs and other deductions
c) payment of interest
d) write-offs of uncollectable debts and allowance for impairment
e) net non-domestic rate income
f) adjustment to previous years' national non-domestic rates
g) contribution to national non-domestic rate pool.

3.6.4 Disclosure Requirements

3.6.4.1 Disclosure of accounting policies in relation to impairment of debts is required (see section 3.4 of the Code).

3.6.5 Statutory Disclosure Requirements

3.6.5.1 Having regard to paragraph 3.4.2.25 of the Presentation of Financial Statements section of the Code, authorities shall disclose the following notes in relation to Collection Fund (England), Council Tax Income Account (Scotland) and Non-Domestic Rate Account (Scotland):

Collection Fund (England)

1) The total non-domestic rateable value at the year-end and the national non-domestic rate multiplier for the year.
2) The calculation of the council tax base, ie the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings.

3) The name of each authority which made a significant precept or demand on the fund and the amount included for each authority.

Council Tax Income Account (Scotland)

4) The calculation of the council tax base, ie the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) after providing for non-payment, as an equivalent number of band D dwellings and the level of non-payment provided for.

5) An explanation of the nature and actual amount of each charge fixed.

Non-Domestic Rate Account (Scotland)

6) Analysis of rateable values at the beginning of the year.

7) An explanation of the nature and amount of each rate fixed.

3.6.6 Changes since SORP 2009

3.6.6.1 There are no changes since the SORP.

3.7 STATEMENTS REPORTING REVIEWS OF INTERNAL CONTROLS OR INTERNAL FINANCIAL CONTROLS

3.7.1 Introduction

3.7.1.1 Regulation 4(2) of the Accounts and Audit Regulations 2003, regulation 4(2) of the Accounts and Audit (Wales) Regulations 2005 and regulation 2A of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006 require English, Welsh and Northern Irish authorities to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review with any Statement of Accounts. Scottish local authorities are not subject to such statutory requirements but may adopt them voluntarily.

3.7.2 Accounting Requirements

3.7.2.1 The review of internal controls or internal financial controls provides assurance that the Statement of Accounts gives a true and fair view of the authority's financial position at the reporting date and its financial performance during the year.

3.7.3 Statutory Accounting Requirements

3.7.3.1 Authorities (except in Scotland) are required to undertake and report on a review of internal controls.

3.7.4 Disclosure Requirements

English, Welsh and Northern Irish authorities and Scottish authorities that voluntarily conduct a review of the effectiveness of their system of internal control

3.7.4.1 A local authority shall undertake a review of its system of internal control in accordance with best practice. *Delivering Good Governance in Local Government*, published by CIPFA and SOLACE, recommends that the review be reported in an Annual Governance Statement.

3.7.4.2 The preparation and publication of an Annual Governance Statement in accordance with *Delivering Good Governance in Local Government* would fulfil the statutory requirement in England, Wales and Northern Ireland for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with its Statement of Accounts. The statement shall relate to the governance system as it applied during the financial year for the accounts that it accompanies. However, significant events or developments relating to the governance system that occur between the reporting date and the date on which the Statement of Accounts is signed by the responsible financial officer shall also be reported. Where an authority is in a group relationship with other entities and undertakes significant activities through the group, the review of the effectiveness of the system of internal control shall include its group activities.

3.7.4.3 The following information shall be included in the Annual Governance Statement:

a) An acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control).

b) An indication of the level of assurance that the systems and processes that comprise the authority's governance arrangements can provide.

c) A brief description of the key elements of the governance framework, including reference to group activities where the activities are significant.

d) A brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements, including some comment on the role of the authority; the executive; the audit committee/overview and scrutiny committee/risk management committee; standards committee, internal audit and other explicit reviews/assurance mechanisms.

e) An outline of the actions taken, or proposed, to deal with significant governance issues, including an agreed action plan.

3.7.4.4 It is important to recognise that the governance statement covers all significant corporate systems, processes and controls, spanning the whole range of an authority's activities, including in particular those designed to ensure that:

- the authority's policies are implemented in practice
- high-quality services are delivered efficiently and effectively
- the authority's values and ethical standards are met
- laws and regulations are complied with
- required processes are adhered to
- performance statements and other published information are accurate and reliable

- human, financial and other resources are managed efficiently and effectively.

3.7.4.5 The governance statement shall be approved at a meeting of the authority or delegated committee and signed by the chief executive and a leading member.

Scottish local authorities

3.7.4.6 Scottish local authorities, which are not required by legislation to conduct a review at least once in a year of the effectiveness of its system of internal control, shall consider doing so voluntarily and preparing an Annual Governance Statement. Authorities that do not voluntarily choose to do this shall include a statement on the system of internal financial control with their Statement of Accounts. This statement sets out the framework within which financial control is managed and reviewed and the main components of the system, including the arrangements for internal audit. Where the authority is in a group relationship with other entities and undertakes significant activities through the group, these activities shall be encompassed within the statement of internal financial control. The statement reports on significant identified weaknesses and the actions undertaken to rectify these.

3.7.4.7 The statement shall relate to the system of internal financial control as it applied during the financial year for the accounts that it accompanies. However, significant events or developments relating to the system of internal financial control that occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer shall also be reported.

3.7.4.8 The following information shall be included in the statement on the system of internal financial control:

a) An acknowledgement of responsibility for internal financial control.

b) An indication of the level of assurance that a system of internal financial control can provide.

c) A brief description of the main features of the system of internal financial control including controls relating to group activities where the activities are significant.

d) A brief description of the role of internal audit and the management and reporting arrangements for internal audit.

e) Details of any other reviews informing the assessment of the effectiveness and operation of internal financial control undertaken during the year.

f) A concise explanation of any identified significant weaknesses in the system of internal financial control, together with the actions undertaken or planned to address these.

3.7.4.9 The statement shall be signed, as a minimum, by the chief financial officer (or equivalent) of the authority. Authorities may choose to have the statement signed, in addition, by the chief executive (or equivalent). The following wording may be used but is not mandatory.

Statement on the System of Internal Financial Control

1 This statement is given in respect of the Statement of Accounts for the XYZ Council. I/We acknowledge our responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

2 The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

3 The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the council. In particular, the system includes:

- comprehensive budgeting systems
- regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts
- setting targets to measure financial and other performance
- the preparation of regular financial reports which indicate actual expenditure against the forecasts
- clearly defined capital expenditure guidelines, and
- as appropriate, formal project management disciplines.

4 [Note: This paragraph relates to internal audit arrangements. The wording will need to be tailored to reflect the particular way in which internal audit services are provided, but the following areas are those which, as a minimum, should be covered:

- a brief description of the internal audit arrangements
- confirmation that internal audit operates to defined standards – this might also include references to risk analyses and the reporting arrangements to, for example, the audit committee and the chief executive or responsible financial officer
- a note of the reporting arrangements undertaken by the chief internal auditor, and
- a note that the chief internal auditor provides an independent opinion on the adequacy and effectiveness of the system of internal financial control.]

5 My/Our review of the effectiveness of the system of internal financial control is informed by:

- the work of managers within the council
- the work of the internal auditors as described above, and
- the external auditors in their annual audit letter and other reports.

6 [This paragraph should provide either details of the action taken, or proposed, to correct significant identified weaknesses in the system of internal financial control, or an explanation of why corrective action is not considered necessary. The wording should be tailored to reflect the circumstances of the case.]

(Signed) ____________________________ (Dated) ____________________________

(Chief Financial Officer)

3.7.5 Statutory Disclosure Requirements

3.7.5.1 Statutory disclosure requirements will be met by complying with the disclosure requirements set out above.

3.7.6 Changes since SORP 2009

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

3.8 EVENTS AFTER THE REPORTING PERIOD

3.8.1 Introduction

3.8.1.1 Authorities shall account for events after the reporting period in accordance with IAS 10 *Events after the Reporting Period*, except where interpretations or adaptations to fit the public sector are detailed in the Code. IPSAS 14 *Events after the Reporting Date* is based on IAS 10, and introduces no additional accounting requirements, although it provides additional guidance for public sector bodies.

Interpretation and adaptation for the public sector context

3.8.1.2 The date the financial statements are authorised for issue is defined in the Code, based on legislative requirements.

3.8.1.3 Transfers of services under machinery of government changes (such as local government reorganisation) do not negate the presumption of going concern.

3.8.2 Accounting Requirements

Definitions

3.8.2.1 **Events after the reporting period** are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and

b) Those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

Authorised for issue

3.8.2.2 The financial statements of an authority are authorised for issue in accordance with the relevant legislation:

- the Accounts and Audit Regulations 2003 (England)
- the Accounts and Audit Regulations (Wales) 2005
- the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006
- the Local Authority Accounts (Scotland) Regulations 1985.

3.8.2.3 Regulations in England, Wales and Northern Ireland require authorities to prepare a Statement of Accounts before 30 June following the reporting date. In Scotland, regulations require a Statement of Accounts to be presented to the auditor by 30 June following the reporting date. The responsible finance officer (proper officer in Scotland/chief financial officer in Northern Ireland) shall certify that the accounts give a true and fair view of the authority's financial position and financial performance. The Statement of Accounts shall reflect events after the reporting period up to the date the accounts were certified by the responsible finance officer, proper officer or chief financial officer. Regulations require this Statement of Accounts to be approved by members and signed by the chair of the relevant approving body.

3.8.2.4 Regulations require an authority to publish its audited Statement of Accounts by 30 September (31 October in Northern Ireland) following the reporting period. Where the audit has not been completed by this date, the authority shall publish its unaudited Statement of Accounts by this date and its audited Statement of Accounts as soon as practicable thereafter.

3.8.2.5 The published Statements of Accounts shall reflect events after the reporting period up to the date the accounts were authorised for issue. The date the accounts were authorised for issue shall be:

- Unaudited accounts – the date on which the responsible finance officer (proper officer in Scotland/chief financial officer in Northern Ireland) certifies that the accounts give a true and fair view of the authority's financial position and financial performance in advance of approval (England, Wales and Northern Ireland) or issue (Scotland).
- Audited accounts (where opinion issued in advance of conclusion of audit (England, Wales and Northern Ireland only)) – the date on which the responsible finance officer (chief financial officer in Northern Ireland) re-certifies that the accounts give a true and fair view of the authority's financial position and financial performance. This re-certification shall include a statement on the face of the Balance Sheet regarding the status of the accounts; examples are *"These financial statements replace the unaudited financial statements approved at the meeting of [insert committee name or body] on [insert date]"*; or *"The unaudited accounts were issued on [insert date] and the audited accounts were authorised for issue on [insert date]"*.
- Audited accounts (where no opinion issued prior to the conclusion of audit) – the date on which the responsible finance officer (proper officer in Scotland/chief financial officer in Northern Ireland) re-certifies that the accounts give a true and fair view of the authority's financial position and financial performance. This re-certification shall include a statement on the face of the Balance Sheet regarding the status of the accounts; examples are *"These financial statements replace the unaudited financial statements approved at the meeting of [insert committee name or body] on [insert date]"* (England, Wales and Northern Ireland); *"These financial statements replace the unaudited financial statements issued on [insert date]"* (Scotland); or *"The unaudited accounts were issued on [insert date] and the audited accounts were authorised for issue on [insert date]"*.
- Audited accounts (where opinion previously issued prior to the conclusion of audit (England, Wales and Northern Ireland only)) – the date on which the responsible finance officer (chief financial officer in Northern Ireland) re-certifies that the accounts give a

true and fair view of the authority's financial position and financial performance. This re-certification shall include a statement on the face of the Balance Sheet that *"These financial statements replace the financial statements certified by me on [insert date]"*.

3.8.2.6 Although not required by regulations, it is good practice for the Statement of Accounts to be re-approved by the same committee or body that originally approved the Statement of Accounts, and for the chair to sign the amended Statement of Accounts.

Events after the reporting period

3.8.2.7 An authority shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period.

3.8.2.8 An authority shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period.

Going concern

3.8.2.9 An authority shall prepare its financial statements on a going concern basis unless there is an intention by government that the services provided by the authority will no longer be provided. An intention by government to transfer services from one authority to another (for example, as part of local government reorganisation) does not negate the presumption that the authority is a going concern.

3.8.3 Statutory Accounting Requirements

3.8.3.1 Financial statements are authorised for issue in accordance with legislative requirements (see paragraph 3.8.2.2).

3.8.4 Disclosure Requirements

3.8.4.1 An authority shall disclose the following:

1) The date when the financial statements were authorised for issue and who gave that authorisation. Where the statements may be amended following audit, the authority shall disclose that fact.
2) If an authority receives information after the reporting period, but before the financial statements are authorised for issue, about conditions that existed at the end of the reporting period, the authority shall update disclosures that relate to these conditions, in the light of the new information.
3) If non-adjusting events after the reporting date are material, non-disclosure could influence the decisions of users taken on the basis of the financial statements. Accordingly, an authority shall disclose the following for each material category of non-adjusting event after the reporting date:
    a) the nature of the event, and
    b) an estimate of its financial effect, or a statement that such an estimate cannot be made.
4) Where there is an intention by government to transfer services from the authority to another (for example, as part of local government reorganisation), the authority shall disclose that fact.

3.8.5 Statutory Disclosure Requirements

3.8.5.1 There are no statutory disclosure requirements in relation to events after the reporting period.

3.8.6 Changes since SORP 2009

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

3.9 RELATED PARTY DISCLOSURES

3.9.1 Introduction

3.9.1.1 Authorities shall identify related party relationships and transactions, identify outstanding balances between the authority and its related parties, and identify the circumstances in which disclosures are required, in accordance with IAS 24 *Related Party Disclosures* except where interpretations or adaptations to fit the public sector are detailed in the Code.

3.9.1.2 IPSAS 20 *Related Party Disclosures* is based on IAS 24, and provides additional guidance for public sector bodies.

Interpretation and adaptation for the public sector context

3.9.1.3 The following interpretation of IAS 24 applies for the public sector context:

- In considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged 'in the surrounding circumstances'. Materiality should thus be judged from the viewpoint of both the authority and the related party.

3.9.1.4 IPSAS 20 includes a public sector adaptation which the Code has adopted. The adaptation is as follows:

- Providers of finance in the course of their business in that regard and trade unions; in the course of their normal dealings with an authority by virtue only of those dealings, and an entity with which the relationship is solely that of an agency, are deemed not to be related parties.

3.9.2 Accounting Requirements

Definitions

3.9.2.1 **Close members of the family** of an individual are close relatives of the individual or members of the individual's immediate family who can be expected to influence, or be influenced by, that individual in their dealings with the authority:

- a spouse, domestic partner, dependent child or relative living in a common household
- a grandparent, parent, non-dependent child, grandchild, brother or sister, and
- the spouse or domestic partner of a child, a parent-in-law, a brother-in-law or a sister-in-law.

3.9.2.2 **Key management personnel** are all chief officers (or equivalent), elected members, chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

3.9.2.3 **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.

3.9.2.4 **Oversight** means the supervision of the activities of an authority, with the authority and responsibility to control, or exercise significant influence over, the financial and operating decisions of the authority.

3.9.2.5 **Related party** – parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control. Related parties include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (ie subsidiaries)
- associates
- joint ventures in which the authority is a venturer
- an entity that has an interest in the authority that gives it significant influence over the authority
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plan (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

3.9.2.6 **Related party transaction** is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the authority or the government of which it forms part.

3.9.2.7 **Remuneration/allowance** is any consideration or benefit derived directly or indirectly by key management personnel from the authority for services provided in their capacity as elected members or otherwise as employees of the authority.

3.9.2.8 **Significant influence** (for the purpose of this section of the Code) is the power to participate in the financial and operating policy decisions of an authority, but not control those policies. Significant influence may be exercised in several ways, usually by representation on the board of directors or equivalent governing body but also by, for example, participation in the policy-making process, material transactions between entities within an economic entity, interchange of managerial personnel or dependence on technical information. Significant influence may be gained by an ownership interest, statute or agreement.

3.9.2.9 The definitions above should be applied to the determination of related parties and hence the associated disclosure requirements.

Related party disclosures

3.9.2.10 In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

3.9.2.11 Where two entities have a member of key management personnel in common, it is necessary to consider the possibility, and to assess the likelihood, that this person would be able to affect the policies of both entities in their mutual dealings. However, the mere fact that there is a member of key management personnel in common does not necessarily create a related party relationship.

3.9.2.12 In the context of this section of the Code, the following are deemed not to be related parties:

- providers of finance in the course of their business in that regard and trade unions; in the course of their normal dealings with an authority by virtue only of those dealings, and
- an entity with which the relationship is solely that of an agency.

3.9.2.13 Related party relationships where control exists should be disclosed irrespective of whether there have been transactions between the related parties.

3.9.2.14 The disclosure of related party transactions and balances shall have regard to materiality. In considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged 'in the surrounding circumstances'. Materiality should thus be judged from the viewpoint of both the entity and the related party.

3.9.3 Statutory Accounting Requirements

3.9.3.1 There are no statutory accounting requirements in relation to related party disclosures.

3.9.4 Disclosure Requirements

3.9.4.1 Having regard to paragraph 3.4.2.25 of the Presentation of Financial Statements section of the Code, authorities shall disclose the following notes in relation to related party disclosures:

1) Information in respect of transactions with related parties, not disclosed elsewhere, including:
   a) the description of the nature of the related party relationships
   b) the amount of transactions that have occurred
   c) the amount of outstanding balances, and

   Related party relationships where control exists should be disclosed irrespective of whether there have been transactions between the related parties.

   Transactions with related parties may be disclosed on an aggregated basis (aggregation of similar transactions by type of related party) unless disclosure of an individual transaction, or connected transactions, is necessary for an understanding of the impact of the transactions on the financial statements of the authority or is required by law.

   The disclosure requirements of key management personnel under IAS 24 are satisfied by the disclosure requirements for officer remuneration and members' allowances in section 3.4 of the Code.

3.9.5 Statutory Disclosure Requirements

3.9.5.1 There are statutory disclosure requirements in relation to officer remuneration in England and Wales. These disclosure requirements are included in section 3.4 of the Code, Presentation of Financial Statements.

The disclosure requirements of key management personnel under IAS 24 are satisfied by the disclosure requirements for officer remuneration and members' allowances in section 3.4 of the Code.

3.9.6 Changes since SORP 2009

3.9.6.1 The Code does not deem certain parties as related parties, ie providers of finance in the course of their normal business in that regard and trade unions; in the course of their normal dealings with an authority by virtue only of those dealings, and an entity with which the relationship is solely that of an agency.

CHAPTER FOUR

Non-current assets

4.1 PROPERTY, PLANT AND EQUIPMENT

4.1.1 Introduction

4.1.1.1 Authorities shall account for tangible fixed assets in accordance with IAS 16 *Property, Plant and Equipment*, except where interpretations or adaptations to fit the public sector are detailed in the Code.

4.1.1.2 IPSAS 17 *Property, Plant and Equipment* is based on IAS 16, and introduces no additional accounting requirements, although it provides additional guidance for public sector bodies, ie the basis for determining fair value and introducing the concept of 'service potential'.

4.1.1.3 This section of the Code does not cover property, plant and equipment classified as Non-current Assets Held for Sale and Discontinued Operations in accordance with section 4.9 of the Code (also see IFRS 5). IAS 16 also refers to other areas where the Standard does not apply; however, these areas may not be common, if relevant at all, within authorities, ie exploration for and evaluation of mineral resources. Authorities should refer to IAS 16 for these areas.

4.1.1.4 Property, plant and equipment classified as finance leases under section 4.2 of the Code (also see IAS 17) shall follow section 2 in terms of recognition, however in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed in this section.

4.1.1.5 The section of the Code does not apply to investment property (including investment property under construction) classified under section 4.4 of the Code (also see IAS 40).

Adaptation and interpretation for the public sector context

4.1.1.6 The following adaptations of IAS 16 for the public sector context apply.

Recognition and measurement:

- Infrastructure, community assets and assets under construction (excluding investment property – see section 4.4 of the Code) shall be measured at historical cost; the option given in IAS 16 to measure the carrying amount of these classes of assets at fair value has been withdrawn.
- All other classes of asset shall be measured at fair value. If there is no market-based evidence of fair value because of the specialist nature of the asset and the asset is rarely sold, authorities may need to estimate fair value using a depreciated replacement cost approach. The fair value of council dwellings shall be measured using existing use value–social housing (EUV–SH).

- Where an asset is not held for the purpose of generating cash flows, *value in use* is the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential.
- An authority shall not implement the requirements of the Code in relation to accounting for the depreciation of significant components of an asset and the derecognition of old components and recognition of new components retrospectively. These requirements shall be applicable to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2010.

Definitions:

- For this section of the Code, fair value (for land and buildings) is to be interpreted as the amount that would be paid for the asset in its existing use. This requirement is met by providing a valuation on the basis of existing use value (EUV) in accordance with UKPS 1.3 of the RICS Valuation Standards.

4.1.2 Accounting Requirements

Definitions

4.1.2.1 **Carrying amount** is the amount at which an asset is recognised after deducting any accumulated depreciation and impairment losses.

4.1.2.2 **Class of property, plant and equipment** is a grouping of assets of a similar nature and use in an entity's operations.

4.1.2.3 **Cost** is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of acquisition or construction.

4.1.2.4 **Depreciable amount** is the cost of an asset, or other amount substituted for cost, less residual value.

4.1.2.5 **Depreciation** is the systematic allocation of the depreciable amount of an asset over its useful amount.

4.1.2.6 **Depreciated replacement cost[4] (DRC)** is a method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation. Where DRC is used as the valuation methodology, authorities should use the 'instant build' approach at the valuation date and the choice of an alternative site will normally hinge on the policy in respect of the locational requirements of the service that is being provided.

4.1.2.7 **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.

4.1.2.8 **Existing Use Value–Social Housing[5] (EUV–SH)** is the estimated amount for which a property should exchange, on the date of valuation, between a willing buyer and a willing

4. The Royal Institution of Chartered Surveyors Valuation Information Paper Number 10 *The Depreciated Replacement Cost Method of Valuation for Financial Reporting* provides guidance on this matter.
5. Defined by the RICS Valuation Standards.

seller, in an arm's-length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion, subject to the following further assumptions that:

- the property will continue to be let by a body and used for social housing
- at the valuation date, any regulatory body, in applying its criteria for approval, would not unreasonably fetter the vendor's ability to dispose of the property to organisations intending to manage their housing stock in accordance with that regulatory body's requirements
- properties temporarily vacant pending re-letting should be valued, if there is a letting demand, on the basis that the prospective purchaser intends to re-let them, rather than with vacant possession
- any subsequent sale would be subject to all of the above assumptions.

4.1.2.9 **Fair value** is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction. For this section of the Code, fair value (for land and buildings) is to be interpreted as the amount that would be paid for the asset in its existing use. This requirement is met by providing a valuation on the basis of exiting use value (EUV) in accordance with UKPS 1.3 of the RICS Valuation Standards.

4.1.2.10 **Historical cost** is deemed to be the carrying amount of an asset as at 1 April 2007 (ie b/f from 31 March 2007) or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment (if applicable).

4.1.2.11 **Property, plant and equipment** are tangible assets (ie assets with physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

4.1.2.12 **Qualified valuer** is a person conducting the valuations who holds a recognised and relevant professional qualification and having sufficient current local, national knowledge of the particular market, and the skills and understanding to undertake the valuation competently.

4.1.2.13 **Residual value** of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

4.1.2.14 **Useful life** is the period which an asset is expected to be available for use by an entity.

4.1.2.15 Further definitions, including definitions of entity-specific value and recoverable amount are contained in IAS 16.

Recognition

4.1.2.16 The cost of an item of property, plant and equipment falling under this section of the Code shall only be recognised (and hence capitalised) as an asset on a local authority balance sheet if, and only if:

- it is probable that the future economic benefits or service potential associated with the item will flow to the entity, and
- the cost of the item can be measured reliably.

4.1.2.17 Costs that meet the recognition principle in paragraph 4.1.2.16 include initial costs of acquisition and construction, and costs incurred subsequently to enhance, replace part of, or service the asset.

4.1.2.18 Subsequent costs arising from day-to-day servicing of an asset (ie labour costs and consumables), commonly referred to as 'repairs and maintenance', should not be capitalised if they do not meet the recognition principle in paragraph 4.1.2.16 because the expenditure does not add to the future economic benefits or service potential of the asset. Rather the expenditure maintains the asset's potential to deliver future economic benefits or service potential that it was expected to provide when originally acquired.

4.1.2.19 Where a component is replaced or restored (ie enhancements), the carrying amount of the old component shall be derecognised to avoid double counting and the new component reflected in the carrying amount, subject to the recognition principles as set out in paragraph 4.1.2.16 being met. This accounting treatment shall be applicable to enhancement expenditure incurred from 1 April 2010.

Initial measurement

4.1.2.20 An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost and capitalised on an accruals basis.

4.1.2.21 Donated assets transferred to an authority shall be measured at its fair value as at the date of acquisition (see section 2.3 of the Code). In this situation the measurement at recognition of an asset, acquired at no or nominal cost, at its fair value, does not constitute a revaluation.

4.1.2.22 The measurement of cost comprises:

- purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

4.1.2.23 The accounting treatment of borrowing costs is referred to in section 4.8 of the Code.

4.1.2.24 The cost of an item of property, plant and equipment is the cash price equivalent at the date when the asset is recognised. When payment is deferred beyond normal credit terms, the cost of the asset is the cash equivalent (that is, the discounted amount). The difference between this amount and the total payments is recognised as interest over the period of the credit in Surplus or Deficit on the Provision of Services.

4.1.2.25 The cost of an item of property, plant and equipment held by a lessee under a finance lease is determined in accordance with section 4.2 of the Code (also see IAS 17).

4.1.2.26 Where property, plant and equipment are acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, the cost of the acquired item shall be measured at fair value unless:

- The exchange transaction has no commercial substance, or
- The fair value of neither the asset received nor the asset given up can be reliably measured.

4.1.2.27 The acquired item is measured at fair value even if the authority cannot immediately derecognise the asset given up. The acquired item is measured at the carrying amount of the asset given up if it is not measured at fair value.

Measurement after recognition

4.1.2.28 Infrastructure, community assets and assets under construction (excluding investment property – see section 4.4 of the Code) shall be measured at historical cost).

4.1.2.29 All other classes of asset shall be measured at fair value. If there is no market-based evidence of fair value because of the specialist nature of the asset and the asset is rarely sold, authorities may need to estimate fair value using a DRC approach. The fair value of council dwellings shall be measured using EUV–SH. EUV–SH and DRC are methods of valuation that are based on fair value with additional special assumptions for each of the respective methods.

4.1.2.30 Authorities may elect to adopt a depreciated historical cost basis as a proxy for fair value for non-property assets that have short useful lives or low values (or both). For depreciated historical cost to be considered as a proxy for fair value, the useful life must be a realistic reflection of the life of the asset and the depreciation method used must provide a realistic reflection of the consumption of that asset class.

4.1.2.31 Classes of assets whose fair value can be measured reliably shall be carried at a re-valued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and accumulated impairment. When an asset is re-valued, any accumulated depreciation and impairment at the date of valuation shall be eliminated against the gross carrying amount of the asset and the net amount restated to the re-valued amount of the asset. Where authorities use the alternative method of proportionately restating any accumulated depreciation and impairment at the date of valuation, they should refer to IAS 16.

4.1.2.32 Where the carrying amount of property, plant and equipment is increased as a result of a revaluation, the increase shall be recognised in the Revaluation Reserve, unless the increase is reversing a previous impairment loss charged to Surplus or Deficit on the Provision of Services on the same asset (see section 4.7 of the Code) or reversing a previous revaluation decrease charged to Surplus or Deficit on the Provision of Services on the same asset.

4.1.2.33 A revaluation gain shall be used to reverse a previous revaluation decrease recognised in Surplus or Deficit on the Provision of Services on the same asset. In the same way as the treatment of a reversal of a previous impairment loss (see section 4.7 of the Code), the reversal of a revaluation decrease previously recognised in Surplus or Deficit on the Provision of Services shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no revaluation decrease been recognised for the asset in prior years. Any excess above the carrying amount that would have been determined (net of amortisation or depreciation) had no revaluation decrease been recognised for the asset in prior years shall be treated as a revaluation gain and credited to the Revaluation Reserve.

4.1.2.34 Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation, ie a significant decline in an asset's carrying amount during the period that is not specific to the asset (as opposed to an impairment which is covered in section 4.7

of the Code), the decrease shall be recognised in the Revaluation Reserve up to the credit balance existing in respect of the asset (ie up to its historical cost) and thereafter in Surplus or Deficit on the Provision of Services.

4.1.2.35 Where assets are re-valued (ie the carrying amount is based on fair value), valuations shall be carried out at intervals of no more than five years. Valuations may be carried out on a rolling basis or once every five years.

4.1.2.36 The fair value of land and buildings shall be undertaken by professionally qualified valuers.

Depreciation

4.1.2.37 Land and buildings are separate assets and shall be accounted for separately, even when they are acquired together. Depreciation applies to all property, plant and equipment, whether held at historical cost or re-valued amount, with two exceptions:

- investment properties carried at fair value in accordance with section 4.4 of the Code (also see IAS 40 *Investment Property*)
- land where it can be demonstrated that the asset has an unlimited useful life (excluding land subject to depletion, ie quarries and landfill sites).

4.1.2.38 An asset shall not be depreciated until it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of:

- the date that the asset is classified as held for sale in accordance with section 4.9 of the Code (also see IFRS 5), and
- the date the asset is derecognised.

4.1.2.39 The only other ground for not charging depreciation is when the residual value of an asset is equal or greater than the asset's carrying amount. Repairs and maintenance do not remove the need to depreciate an asset.

4.1.2.40 Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Where there is more than one significant part of the same asset which have the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge. In practice this can be achieved by only separately accounting for significant components that have different useful lives and/or depreciation methods. The requirement for componentisation for depreciation purposes shall be applicable to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2010.

4.1.2.41 The depreciation charge shall be based on the depreciable amount allocated over the useful life of the asset, using a depreciation method that reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed.

4.1.2.42 The depreciation charge for each period shall be recognised in Surplus or Deficit on the Provision of Services unless it is included in the carrying amount of another asset.

4.1.2.43 The residual value, useful life and depreciation method shall be reviewed at least at each financial year end and, if expectations differ from previous estimates in relation to residual value and/or useful life and/or there has been a significant change in the pattern of consumption of the future economic benefits or service potential, the changes shall be accounted for as a change in an accounting estimate (as opposed to a change in accounting policy) in accordance with chapter two of the Code (also see IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*). The requirement to review the residual value, useful life and depreciation method at least at each financial year shall be in addition to the valuations at intervals of no more than five years (see paragraph 4.1.2.35).

4.1.2.44 To determine whether an item of property, plant and equipment is impaired, local authorities shall refer to section 4.7 of the Code (also see IAS 36 *Impairment of Assets).*

Derecognition

4.1.2.45 The carrying amount of an item of property, plant and equipment shall be derecognised:

- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

4.1.2.46 The gain or loss arising from derecognition of an asset shall be the difference between the net disposal proceeds, if any, and the carrying amount of the asset. The gain or loss arising from derecognition of an asset shall be included in Surplus or Deficit on the Provision of Services when the item is derecognised (unless section 4.2 of the Code requires otherwise on a sale and leaseback – also see IAS 17).

4.1.2.47 As set out in paragraph 4.1.2.19, the carrying amount of a replaced or restored part of the asset is derecognised, with the carrying amount of the new component being recognised subject to the recognition principles as set out in paragraph 4.1.2.16 being met. This recognition and derecognition takes place regardless of whether the replaced part had been depreciated separately.

4.1.2.48 If it is not practicable to determine the carrying amount of the replaced part, authorities may use the cost of the new part as an indication of what the cost of the replaced part was at the time it was acquired or constructed (adjusted for depreciation and impairment, if required).

4.1.2.49 The consideration receivable on disposal of an asset is recognised initially at its fair value. If payment is deferred (ie beyond normal credit terms), the consideration received 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.

4.1.2.50 A deferred credit (ie the balance on the Donated Assets Account) relating to the asset should be recognised in Surplus or Deficit on the Provision of Services.

4.1.2.51 IAS 16 refers to the derecognition issues arising where in the course of its ordinary activities, an entity routinely sells items of property, plant and equipment that it has held for rental to others. This is not anticipated to be common for authorities. In the event that this is relevant, authorities should refer to the IAS 16.

4.1.3 Statutory Accounting Requirements

General Fund – depreciation

4.1.3.1 General Fund service revenue accounts, central support services and trading accounts and the Housing Revenue Account (as defined in CIPFA's *Best Value Accounting Code of Practice)* shall be charged with depreciation.

4.1.3.2 Depreciation charged to Surplus or Deficit on the Provision of Services is not a proper charge to the General Fund (see part 2 of Appendix B for the legislative basis). Such amounts shall be transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

4.1.3.3 On a re-valued asset, a transfer between the Revaluation Reserve and Capital Adjustment Account shall be carried out which represents the difference between depreciation based on the re-valued carrying amount of the asset and the depreciation based on the asset's historical cost.

Housing Revenue Account – depreciation

4.1.3.4 The Housing Revenue Account shall be charged with depreciation.

4.1.3.5 On a re-valued asset, a transfer between the Revaluation Reserve and Capital Adjustment Account shall be carried out which represents the difference between depreciation based on the re-valued carrying amount of the asset and the depreciation based on the asset's historical cost.

4.1.3.6 **England**: Depreciation for HRA non-dwellings charged to Surplus or Deficit on the Provision of Services are not proper charges to the Housing Revenue Account (see part 2 of Appendix B for the legislative basis). Such amounts shall be transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

4.1.3.7 Depreciation charges for HRA dwellings are real charges to the HRA since the Major Repairs Allowance is likely to constitute a reasonable estimate of depreciation for HRA dwellings. Where the depreciation for HRA dwellings is less than the Major Repairs Allowance (MRA), an amount equal to the difference shall be transferred from the Housing Revenue Account to the Major Repairs Reserve and reported in the Movement in Reserves Statement. Conversely where depreciation charges for HRA dwellings are greater than the MRA, an amount equal to the difference shall be transferred to the Housing Revenue Account from the Major Repairs Reserve and reported in the Movement in Reserves Statement (see part 2 of Appendix B for the legislative basis).

4.1.3.8 **Scotland**: Depreciation for HRA dwellings and non-dwellings charged to Surplus or Deficit on the Provision of Services are not proper charges to the Housing Revenue Account (see part 2 of Appendix B for the legislative basis). Such amounts shall be transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement and replaced with HRA loans fund principal, via an appropriation from the Capital Adjustment Account.

4.1.3.9 **Wales**: Depreciation for HRA dwellings and non-dwellings charged to Surplus or Deficit on the Provision of Services are not proper charges to the Housing Revenue Account (see part 2 of Appendix B for the legislative basis). Such amounts shall be transferred to the Capital

Adjustment Account and reported in the Movement in Reserves Statement and replaced with HRA Minimum revenue Provision, via an appropriation from the Capital Adjustment Account.

Revaluation gains or losses

4.1.3.10 The General Fund and Housing Revenue Account (as defined in CIPFA's *Best Value Accounting Code of Practice)* shall be charged in certain instances with revaluation gains or losses in accordance with this section of the Code.

4.1.3.11 Revaluation gains or losses charged to Surplus or Deficit on the Provision of Services are not proper charges to the General Fund (see part 2 of Appendix B for the legislative basis). Such amounts shall be transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Gains or losses on derecognition

4.1.3.12 Net gains or losses on derecognition shall be charged to other operating expenditure.

4.1.3.13 The gain or loss is not a proper charge to the General Fund or Housing Revenue Account (see part 2 of Appendix B for the legislative basis). As a result the General Fund or Housing Revenue Account should be debited (in the case of a gain) or credited (in the case of a loss) with an amount equal to the gain or loss on disposal of the asset (net of any disposal costs), with the double entries being:

- a credit to the Capital Receipts Reserve of an amount equal to the disposal proceeds (subject to paragraph 4.1.2.49)
- a debit to the Capital Adjustment Account of an amount equal to the carrying amount of the fixed asset disposal (less any balance transferred from the Donated Assets Account).

4.1.3.14 If the asset derecognised was carried at a re-valued amount an additional entry is required; the balance on the Revaluation Reserve in respect of asset derecognised is written off to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

4.1.3.15 In England and Wales only, the proportion that is required to be paid over to central government as a 'housing pooled capital receipt' should be charged to Surplus or Deficit on the Provision of Services and the same amount appropriated from the Capital Receipts Reserve and credited to the General Fund Balance and reported in the Movement in Reserves Statement.

4.1.3.16 Minimum Revenue Provision (England and Wales) and Loans Fund Charges (Scotland and Northern Ireland) are proper charges to the General Fund, but do not appear in the Comprehensive Income and Expenditure Statement. Such amounts shall be transferred from the Capital Adjustment Account and reported in the Movement in Reserves Statement. The amounts of Minimum Revenue Provision or Loans Fund Charges to be charged to the General Fund for the year are set out in the appropriate regulations and statutory guidance (see part 2 of Appendix B for the legislative basis).

4.1.4 Disclosure Requirements

4.1.4.1 Where authorities conclude that following the requirements of this section of the Code result in accounting entries that are immaterial, authorities need not follow this section of the Code and include the de minimis level within the disclosure of accounting polices (see section 3.4 of the Code).

4.1.4.2 Disclosure of accounting policies in relation to property, plant and equipment is required (see section 3.4 of the Code).

4.1.4.3 Having regard to paragraph 3.4.2.25 of the Presentation of Financial Statements section of the Code, authorities shall disclose the following notes in relation to property, plant and equipment:

1) The financial statements shall disclose, for each class of property, plant and equipment:
   a) the measurement bases used for determining the gross carrying amount
   b) the depreciation methods used
   c) the useful lives or the depreciation rates used
   d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period, and
   e) a reconciliation of the carrying amount at the beginning and end of the period showing:
      i) additions
      ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with section 4.9 of the Code and other disposals
      iii) increases or decreases resulting from revaluations under chapter four, section 1 and from impairment losses recognised or reversed in Other Comprehensive Income and Expenditure and taken to the Revaluation Reserve in accordance with section 4.7 of the Code
      iv) impairment losses recognised in Surplus or Deficit on the Provision of Services in accordance with section 4.7 of the Code
      v) impairment losses reversed in Surplus or Deficit on the Provision of Services in accordance with section 4.7 of the Code
      vi) depreciation, and
      vii) other changes.
2) The financial statements shall also disclose:
   a) the amount of contractual commitments for the acquisition of property, plant and equipment, and
3) In accordance with section 3.3 of the Code, an authority discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant and equipment, such disclosure may arise from changes in estimates with respect to:
   a) residual values
   b) the estimated costs of dismantling, removing or restoring items of property, plant and equipment
   c) useful lives, and
   d) depreciation methods.

4) If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:
   a) the effective date of the revaluation
   b) whether an in-house or external valuer was involved, and
   c) the methods and significant assumptions applied in estimating the items' fair values.
5) Summary of capital expenditure during the reporting period, including assets acquired under finance leases, analysed for each category of fixed assets, together with the sources of finance and capital financing requirement.

4.1.4.4 The existing categories of assets are sub-categories, being council dwellings, other land and buildings, vehicles, plant, furniture and equipment, infrastructure assets, community assets, assets under construction, investment property, assets held for sale and surplus assets (those assets that are surplus to service needs but that do not meet the criteria to be classified as either investment property or assets held for sale). Authorities shall disclose the information set out in paragraph 4.1.4.3 above, paragraph 4.4.4.2 and 4.9.4.2 on this basis.

4.1.5 Statutory Disclosure Requirements

4.1.5.1 There are no statutory disclosures required in relation to property, plant and equipment.

4.1.6 Changes since SORP 2009

4.1.6.1 The Code uses the same recognition criteria for subsequent expenditure as initial expenditure with regard to capitalisation (see paragraph 4.1.2.16). The SORP has separate criteria for enhancement expenditure, ie expenditure can be capitalised where the expenditure 'extends the economic life of the asset', which is not a requirement of the Code. However, it is not expected that this will result in different accounting treatments.

4.1.6.2 The SORP required the separate recognition of two or more significant components of an asset for depreciation purposes (ie as if each component was a separate asset in its own right) where the useful life is substantially different. However, this section of the Code has a greater emphasis in this area and defines significant in the context of 'the cost that is significant in relation to the total cost of the asset'.

4.1.6.3 The Code requires that, where a component is replaced or restored, the carrying amount of the old component is derecognised to avoid double counting and the new component reflected in the carrying amount, subject to the recognition principles as set out in paragraph 4.1.2.16 being met. This includes the derecognition of parts of an asset not previously recognised as a separate component.

4.1.6.4 The Code requires residual values to be based on current prices at the Balance Sheet date (see paragraph 4.1.2.43). The SORP defines residual values as being based on prices prevailing at the date of the acquisition (or revaluation) of the asset and which do not take account of expected future price changes.

4.1.6.5 Renewals accounting is not permitted under the Code.

4.1.6.6 Under the Code there is a clear distinction between an impairment loss and revaluation loss. Under the SORP this was not explicit.

4.1.6.7 The Code requires a revaluation decrease charged to the Surplus or Deficit on the Provision of Services to be reversed where there is a subsequent revaluation gain on the same asset. Under the SORP the reversal of a revaluation decrease (ie fall in prices not specific to an asset) was conditional on the events that resulted in the decrease and the subsequent gain being linked.

4.2 LEASES AND LEASE-TYPE ARRANGEMENTS

4.2.1 Introduction

4.2.1.1 Authorities shall account for leases in accordance with IAS 17 *Leases*, except where interpretations or adaptations to fit the public sector are detailed in the Code. IPSAS 13 *Leases* is based on IAS 17, and introduces no additional accounting requirements, although it provides additional guidance for public sector bodies. SIC 15 *Operating Leases – Incentives*, SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease* are also relevant to accounting for leases.

4.2.1.2 This section of the Code shall be applied in accounting for all leases except licensing agreements for items such as patents and copyright. However, this section shall not be applied as the basis for measurement of property held by lessees that is accounted for as investment property or investment property provided by lessors under operating leases; these leases are measured in accordance with section 4.4 of the Code and IAS 40 *Investment Property*. This section shall be applied even where substantial services are provided by the lessor unless the provisions in section 4.3 of the Code (PFI and PPP arrangements) apply, when that section of the Code shall be applied.

Interpretation for the public sector context

4.2.1.3 No interpretations or adaptations of IAS 17 and IPSAS 13 are required for the public sector context; these standards, along with SIC 15, SIC 27 and IFRIC 4, are applied in full.

4.2.2 Accounting Requirements

Definitions

4.2.2.1 A **lease** is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. In considering the accounting arrangements for a particular agreement, authorities shall take into account the requirements of SIC 27 and IFRIC 4.

4.2.2.2 A **finance lease** is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

4.2.2.3 An **operating lease** is a lease other than a finance lease.

4.2.2.4 Further definitions, including definitions of minimum lease payments, gross investment in the lease and net investment in the lease are contained in IAS 17.

4.2.2.5 The definition of a lease includes hire purchase contracts.

Classification of leases

4.2.2.6 Leases are classified as either finance leases or operating leases based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

4.2.2.7 Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

1) the lease transfers ownership of the asset to the lessee by the end of the lease term
2) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value so as to make it reasonably certain the option will be exercised
3) the lease term is for the major part of the economic life of the asset
4) the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset, and
5) the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

4.2.2.8 The examples above are not always conclusive. If it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership, the lease is classified as an operating lease. For example, if the lease transfers ownership of the asset for a variable payment equal to its fair value, the lessee may not have substantially all risks and rewards incidental to ownership. Lease classification is made at the inception of the lease.

4.2.2.9 Leases of land and buildings are classified as finance or operating leases in the same way as leases of other assets. However the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. When the land has an indefinite economic life, the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term (ie in determining whether the land element is an operating or finance lease, an important consideration is that land normally has an indefinite life; a lease of land may be a finance lease where the title does not pass to the lessee by the end of the lease term if consideration of all the factors leads to this conclusion). A payment made on entering into or acquiring a leasehold that is accounted for as an operating lease represents prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

4.2.2.10 When accounting for a lease of land and buildings, the minimum lease payments are allocated between the land and the buildings elements in proportion to their relative fair values. Where the amount that would initially be recognised for the land element is immaterial, the land and buildings may be treated as a single unit for lease classification.

4.2.2.11 Separate measurement of the land and buildings elements is not required where the lessee's interest in both is classified as an investment property (see section 4.4 of the Code and IAS 40) and the fair value model is used (as required by section 4.4 of the Code). Where an authority, as lessee, classifies a property interest held under an operating lease as an investment property, it shall account for the interest as a finance lease and the fair value model shall be used. The authority will continue to account for the interest as a finance lease even where subsequent events mean the property is no longer classified as an investment property. An example would be where the authority occupies the property itself.

WED00000643_0111