# Exposure Draft

The changes introduced in the Invitation to Comment mainly affect Chapter 4 Non-current assets, in particularly Section 4.1 Property, plant and equipment and Section 4.5 Intangible Assets. Where there are changes proposed to the Code, only the relevant sub sections have been produced.

# **CHAPTER 2 Concepts and principles**

* 1. **FAIR VALUE MEASUREMENT**

The section on Fair Value measurement is amended as follows:

### Introduction

##### Adaptation and application for the public sector context

* + - 1. There is only one adaptation to IFRS 13 for the public sector context (see paragraph 2.10.1.3 below). However, Section 4.1 of this Code adapts IAS 16 to require that items of property, plant and equipment that are operational and therefore held for their operational capacity by the authority are measured for their service potential at existing use value, existing use value – social housing or depreciated replacement cost (see Section 4.1 of the Code), and not at fair value. Surplus assets (property, plant and equipment) are measured at fair value. This adaptation aligns with IPSAS 46 *Measurement* principles.

# **CHAPTER 3 Financial statements**

* 1. **ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS**

The section on accounting policies, changes in accounting estimates and errors is amended as follows:

### Introduction

##### Adaptation and interpretation for the public sector context

* + - 1. The Code adapts IAS 8 on an annual basis with respect to the reporting requirements for the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (see paragraph 3.3.4.3). Disclosure requirements are confirmed annually in the year of adoption of accounting changes for new or amended standards in Appendix C of the Code.
      2. When applying the changes to the measurement of non-investment assets including intangible assets (agreed following HM Treasury’s Thematic Review of Non-Investment Asset Valuation) from 2025/26 and throughout the transition period (the first full revaluation cycle), authorities are not required to follow the requirements of IAS 8 following a change in accounting policy [IAS 8. 19]. Changes to the valuation of non-investment assets as set out in the Code will be applied prospectively, with no restatement of prior year figures.

For the avoidance of doubt, entities do not need to professionally revalue all PPE in 2025/26 to implement changes to the regime for valuing PPE. For example: An entity holds a building which was last professionally revalued on 1 April 2023. The next 5-yearly revaluation would be on 1 April 2028, which is 5 years from the last valuation.

# **CHAPTER 4 Non-current assets**

* 1. **PROPERTY, PLANT AND EQUIPMENT**

### Introduction

* + - 1. Authorities shall account for property, plant and equipment in accordance with IAS 16 *Property, Plant and Equipment,* except where adaptations to fit the public sector are detailed in the Code.
      2. IPSAS 45 *Property, Plant and Equipment* is based on IAS 16, and introduces no additional accounting requirements. Although, alongside IPSAS 46 *Measurement,* it provides additional guidance for public sector bodies, ie the basis for determining fair value (now described in the Code as current value) and introduces the concept of ‘current operational value a current value measurement basis developed for assets held for their operational capacity.
      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. Tangible heritage assets are accounted for in accordance with this section of the Code subject to the specific requirements of Section 4.10 of the Code.
      4. Where property, plant and equipment are held under a lease, the treatment of the right-of-use asset shall follow Section 4.2 in terms of recognition (also see IFRS 16); however, in such cases, other aspects of the accounting treatment for these assets, including depreciation, are prescribed in this section. Similarly, property, plant and equipment acquired under service concession arrangement (PFI/PPP) schemes shall follow Section 4.3 of the Code in terms of recognition, but subsequent measurement requirements for property, plant and equipment held under service concession arrangements including depreciation are prescribed in this section.
      5. This 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

* + - 1. The following adaptations and interpretation of IAS 16 for the public sector context apply.

###### Recognition and measurement

* Infrastructure assets, community assets (except for community assets where the valuation option has been adopted, in accordance with Section 4.10 of the Code) and assets under construction (excluding investment property – see Section 4.4) 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. Infrastructure assets or community assets (except for community assets where the valuation option has been adopted, in accordance with Section 4.10 of the Code) shall also not be measured at current value. Note that in this and predecessor Codes these assets have consistently been required to be measured at depreciated historical cost, but this has in practice been subject to modification. The annex to this section provides a historical summary of the modifications to historical cost and sets out how the depreciated historical cost basis of measurement has been established.

* All other classes of asset shall be measured at current value (or in the case of heritage assets, valuation, in accordance with Section 4.10 of the Code). If there is no market-based evidence of current value because of the specialist nature of the asset and the asset is rarely sold, authorities may need to estimate current value using a depreciated replacement cost approach. The current 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.
* The requirement to revalue an asset when its fair value differs materially from its carrying value has been withdrawn (IAS 16 paragraph 34). Revaluations for each class of property plant and equipment are undertaken using one of the following three processes:
  + - A quinquennial revaluation supplemented by annual indexation in intervening years
    - A rolling programme of revaluations over a five-year cycle, with annual indexation applied to assets during the intervening years
    - For non-property assets only, appropriate indices
* When applying indexation authorities should use the best available index. However, in the extremely rare circumstance that no index is available, the Code does not require assets to be revalued more frequently than every three years.
* Out of cycle revaluations are not required unless there is an indication of impairment when applying IAS 36, which may require an asset to be fully revalued.
* Revaluations carried out prior to 2025/26, in line with former requirements of the Code, remain valid throughout the transition period (being 1 April 2025 to the date the next revaluation is due for a given asset). During the transition period, the maximum period between revaluations must not exceed five years when supplemented by annual indexation, or three years when no index is available.
* For property, plant and equipment within this section of the Code the option in IAS 16 for the treatment of accumulated depreciation and impairment where the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset is withdrawn.

###### Definitions

* For this section of the Code, current value (for land and buildings) is to be interpreted as the amount that would be exchanged 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 UK VPGA 6 and UK VPGA 4[[1]](#footnote-2)of the Royal Institution of Chartered Surveyors (RICS) *Valuation – Global Standards 2017: UK national supplement*.[[2]](#footnote-3)

### Accounting requirements

##### Definitions

* + - 1. Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and impairment losses.
      2. Class of property, plant and equipment is a grouping of assets of a similar nature and use in an authority’s operations. The following classes of property, plant and equipment are used in the Code:

##### Operational assets

* Council dwellings (ie dwellings within the Housing Revenue Account).
* Other land and buildings.
* Vehicles, plant, furniture and equipment.
* Infrastructure assets (inalienable assets, expenditure on which is only recoverable by continued use of the asset created, ie there is no prospect of sale or alternative use; examples include highways, structural maintenance of highways, footpaths, bridges, permanent ways, coastal defences, water supply and drainage systems).
* Community assets (ie assets that an authority intends to hold in perpetuity, that have no determinable useful life and that may, in addition, have restrictions on their disposal). The definition of community assets no longer includes items that are now accounted for as heritage assets.

##### Non-operational assets

* Surplus assets (ie assets that are not being held for operational capacity, but that do not meet the criteria to be classified as either investment properties under Section 4.4 of the Code or non- current assets held for sale under Section 4.9 of the Code).
* Assets under construction.
  + - 1. **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.
      2. **Current value** measurements reflect the economic environment prevailing for the service or function the asset is supporting at the reporting date. In this section of the Code, the current value measurement bases include:
         * existing use value defined in accordance with UK VPGA 6 and UK VPGA 4[[3]](#footnote-4)of the Royal Institution of Chartered Surveyors (RICS) *Valuation – Global Standards 2017: UK national supplement*[[4]](#footnote-5)for assets providing service potential to the authority where an active market exists (see paragraph 4.1.2.9). Where there is no market and/or the asset is specialised, depreciated replacement cost is used (see paragraph 4.1.2.7)
         * existing use value – social housing (EUV–SH) as defined in UK VPGA 7 and UK VPGA 4[[5]](#footnote-6)of the Royal Institution of Chartered Surveyors (RICS) *Valuation – Global Standards 2017: UK national supplement*[[6]](#footnote-7)for operational council dwellings (see paragraph 4.1.2.10)
         * fair value as defined in paragraph 4.1.2.11 and in accordance with the Code’s adoption of IFRS 13 (see Section 2.10) for surplus assets.
      3. **Depreciable amount** is the cost of an asset, or other amount substituted for cost, less residual value.
      4. **Depreciation** is the systematic allocation of the depreciable amount of an asset over its useful life.
      5. **Depreciated replacement cost**[[7]](#footnote-8) **(DRC)** is a measurement technique that 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 a measurement technique 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. Authorities should follow specific public sector guidance, including that issued for local authorities, on the approach to DRC measurement.
      6. **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.
      7. **Existing use value[[8]](#footnote-9)** is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had acted knowledgeably, prudently and without

compulsion, assuming that the buyer is granted vacant possession of all parts of the asset required by the business, and disregarding potential alternative uses and any other characteristics of the asset that would cause its market value to differ from that needed to replace the remaining service potential at least cost.

* + - 1. **Existing use value – social housing (EUV–SH)[[9]](#footnote-10)** is the estimated amount for which a property should exchange, on the date of valuation, between a willing buyer and a willing 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.
      2. **Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Section 2.10).
      3. **Historical cost** is deemed to be the carrying amount of an asset as at 1 April 2007 (ie brought forward 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. **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.
      5. **Qualified valuer** is a person conducting the valuations who holds a recognised and relevant professional qualification and having sufficient current local and national knowledge of the particular market, and the skills and understanding to undertake the valuation competently.
      6. **Residual value** of an asset is the estimated amount that an authority 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.
      7. **Useful life** is the period for which an asset is expected to be available for use by an authority.
      8. Further definitions, including definitions of entity-specific value and recoverable amount, are contained in IAS 16.

##### Recognition

*No changes to this section*

##### Initial measurement

*No changes to this section*

##### Measurement after recognition

* + - 1. Infrastructure assets and assets under construction (excluding investment property – see Section 4.4) shall be measured at depreciated historical cost. An authority may measure community assets at either valuation (in accordance with Section 4.10 of the Code) or historical cost. See also the annex to this section, which presents a summary of how the depreciated historical cost basis of measurement has been established.
      2. All other classes of asset shall be measured at current value. For operational assets where there is an active market, this shall be existing use value in accordance with the RICS definitions. If there is no market-based evidence of current value because of the specialist nature of the asset and/ or the asset is rarely sold, authorities may need to estimate current value using DRC. DRC is a measurement technique as outlined in paragraph 4.1.2.7. The current value of council dwellings shall be measured using EUV–SH. EUV–SH is a method of valuation that is based on current value with additional special assumptions. Surplus assets shall be measured at fair value in accordance with Section 2.10 of the Code.
      3. Authorities may elect to adopt a depreciated historical cost basis as a proxy for current 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 current 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. Classes of assets whose current value can be measured reliably shall be carried at a revalued amount, being its current value at the date of revaluation less any subsequent accumulated depreciation and accumulated impairment. When an item of property, plant and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. 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 revalued amount of the asset.
      5. 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) or reversing a previous revaluation decrease charged to surplus or deficit on the provision of services on the same asset.
      6. 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), the reversal of a revaluation decrease previously recognised in surplus or deficit on the provision of services shall not exceed the increase that would reinstate 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.
      7. Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation (as opposed to an impairment, which is covered in Section 4.7), the decrease shall be recognised in the revaluation reserve up to the credit balance existing in respect of the asset (ie up to its depreciated historical cost) and thereafter in surplus or deficit on the provision of services

*The ‘Measurement decision for an item of property, plant and equipment’ flowchart will be updated in line with changes to the Code.*

* + - 1. Where assets are revalued (ie the carrying amount is based on current value), revaluations shall be undertaken using one of the following three processes: .
         * A quinquennial revaluation supplemented by annual indexation in intervening years
         * A rolling programme of revaluations over a five-year cycle, with annual indexation applied to assets during the four intervening years
         * For non-property assets only, appropriate indices

When applying indexation authorities should use the best available index. However, in the extremely rare circumstance that no index is available, the Code does not require assets to be revalued more frequently than every three years.

Out of cycle revaluations are not required unless there is an indication of impairment when applying IAS 36, which may require an asset to be fully revalued.

Revaluations carried out prior to 2025/26, in line with former requirements of the Code, remain valid throughout the transition period (being 1 April 2025 to the date the next revaluation is due for a given asset). During the transition period, the maximum period between revaluations must not exceed five years when supplemented by annual indexation, or three years when no index is available.

* + - 1. The current value of land and buildings is usually determined by appraisal of appropriate evidence that is normally undertaken by professionally qualified valuers. The purpose of applying indexation to asset values is to ensure the value of an asset is kept materially up to date for movements in variables, eg build costs, rental income etc. Absolute precision is not expected, neither is it achievable. Indices used in intervening years should be relevant to the type of asset measured using industry standards and local authorities must have due regard to guidance issued by CIPFA on indices to be used.

##### Depreciation

*No changes to this section*

##### Revaluation surplus – Scottish local authorities

*No changes to this section*

##### Derecognition

*No changes to this section*

### Statutory accounting requirements

*No changes to this section*

### Disclosure requirements

* + - 1. Where authorities conclude that following the requirements of this section of the Code results in accounting entries that are immaterial, authorities need not follow this section of the Code but should include the de minimis level within the disclosure of accounting policies (see Section 3.4).
      2. Disclosure of accounting policies in relation to property, plant and equipment is required, where these accounting policies are significant to the authority’s financial statements (see Section 3.4). An authority shall disclose information within these accounting policies that helps users to understand the valuation techniques used to develop the current value measurements for significant categories of property, plant and equipment.
      3. Having regard to paragraph 3.4.2.27 of the Presentation of Financial Statements section of the Code, which permits authorities not to provide a specific disclosure if information is not material, 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:
   1. the measurement bases used for determining the gross carrying amount
   2. the depreciation methods used
   3. the useful lives or the depreciation rates used
   4. the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period. As a temporary relief from the reporting periods commencing 1 April 2021 through to 31 March 2025, local authorities are not required to report gross book value and accumulated depreciation for infrastructure assets. This temporary relief has been introduced to the Code because historical information deficits resulting from the reporting requirements outlined in the annex to this section of the Code mean that this information is unlikely to faithfully represent what it purports to represent[[10]](#footnote-11)(See subparagraph 4.1.4.3 7) ), and
   5. a reconciliation of the carrying amount at the beginning and end of the period[[11]](#footnote-12)showing:
      1. additions (including donated assets)
      2. 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
      3. increases or decreases resulting from revaluations under Section 4.1 of the Code 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
      4. impairment losses recognised in surplus or deficit on the provision of services in accordance with Section 4.7 of the Code
      5. impairment losses reversed in surplus or deficit on the provision of services in accordance with Section 4.7 of the Code
      6. depreciation, and
      7. other changes.
2. The financial statements shall also disclose the amount of contractual commitments for the acquisition of property, plant and equipment.
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:
   1. residual values
   2. the estimated costs of dismantling, removing or restoring items of property, plant and equipment
   3. useful lives, and
   4. depreciation methods.
4. If items of property, plant and equipment are stated at revalued amounts, subject to the application of paragraphs 2.1.2.14 to 2.1.2.17 to ensure that material information is not obscured the following shall be disclosed:
   1. the effective date of the revaluation
   2. whether an in-house or external valuer was involved, and
   3. the methods and significant assumptions applied in estimating the items’ current values.
5. Authorities can choose to include the following narrative to explain the change in valuation regime from 2025/26:
6. *From 1 April 2025, the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requirements changed in respect of revaluations of property, plant and equipment. Where authorities do not have a rolling programme of revaluations in place and/or the assets are not non-property assets subject to indexation, authorities revalue their assets every five years with annual indexation applied to assets during the four intervening years. In extremely rare circumstances where no index is available, authorities do not revalue these assets more frequently than every three years.*The financial statements shall disclose a summary of capital expenditure during the reporting period, including assets acquired under leases, analysed for each category of assets, together with the sources of finance and the actual capital financing requirement at the end of the reporting period measured in accordance with paragraph 90 of the Prudential Code.
7. Where a local authority decides not to report gross cost and accumulated depreciation because information does not faithfully represent the required information for infrastructure assets, the disclosure note on property, plant and equipment shall include the following statement:

‘In accordance with the temporary relief offered by the update to the Code on infrastructure assets, this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.’

Where a local authority decides not to report gross cost and accumulated depreciation in accordance with the temporary relief, it shall also:

* + - * + disclose the rationale for not reporting this information and set out the possible impact on the financial statements, demonstrating particularly the impact on faithful representation and the relevance of the information not disclosed, including the scope for the information to enable the users of the financial statements to take economic or other decisions
        + ensure that this information is maintained as memorandum information in the permanent records of the local authority.
      1. Paragraph 4.1.2.2 of the Code sets out the classes of property, plant and equipment used in the Code, ie council dwellings, other land and buildings, vehicles, plant, furniture and equipment, infrastructure assets, community assets, assets under construction and surplus assets (those assets that are surplus to operational 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 on this basis.
      2. An authority may elect (but is not required) to make disclosures in respect of community assets in accordance with Section 4.10 of the Code (Heritage Assets) rather than in accordance with this section of the Code. An authority may elect (but is not required) to separately disclose those community assets reported in the Balance Sheet that it holds in trust. As property, plant and

equipment items, the disclosures in paragraphs 4.1.4.1 to 4.1.4.4 apply to surplus assets. However, as surplus assets are measured at fair value, the disclosures in Section 2.10 will apply to surplus assets, where relevant, and subject to the materiality judgements of the authority including the application of paragraphs 2.1.2.14 to 2.1.2.17 to ensure that material information is not obscured.

### Statutory disclosure requirements

*No changes to this section*

# **CHAPTER 4 Non-current assets**

* 1. **LEASES AND LEASE TYPE ARRANGEMENTS**

The section on leases and lease type arrangements is amended as follows:

### Introduction

* + - 1. Authorities which choose to adopt IFRS 16 *Leases* shall account for leases in accordance with IFRS 16 *Leases*, except where adaptations to fit the public sector are detailed in the Code. IPSAS 43 *Leases* is aligned with IFRS 16 *Leases* and provides additional guidance for public sector bodies. . Transport for London has been permitted to apply the Code requirements relating to IFRS 16 implementation for the 2019/20 and subsequent financial years with a date of initial application of 1 April 2019.

# **CHAPTER 4 Non-current assets**

* 1. **INTANGIBLE ASSETS**

### Introduction

* + - 1. Authorities shall account for intangible assets in accordance with IAS 38 *Intangible Assets,* except where adaptations to fit the public sector are detailed in the Code. IPSAS 31 *Intangible Assets* provides additional guidance for the public sector.
      2. Intangible assets may be contained in or on a physical substance (eg a compact disc for software). Authorities will need to use judgement to determine whether an asset that incorporates both intangible and tangible elements is accounted for as an intangible asset or as property, plant and equipment.
      3. This section of the Code does not cover financial assets (see Chapter 7), intangible assets held for sale in the ordinary course of business (see Chapter 5), leases within the scope of IFRS 16 and Section 4.2 of the Code (however, this section of the Code applies to leased intangible assets after initial recognition), non-current assets classified as held for sale (see Section 4.9), assets arising from employee benefits (see Chapter 6) or contract assets (in accordance with Section 2.7). Intangible heritage assets are accounted for in accordance with this section of the Code subject to the specific requirements of Section 4.10.

##### Adaptation and interpretation for the public sector context

* + - 1. The following adaptations and interpretation of IAS 38 for the public sector context apply.
      2. The option to measure intangible assets using the revaluation model is withdrawn. Authorities that have been using the revaluation model should disclose this change in methodology at the transition date (1 April 2025).
      3. The carrying values at the transition date will be considered historical cost (IAS 38 paragraph 72).

### Accounting requirements

##### Definitions

*No changes to this section*

##### Recognition and measurement

* + - 1. An intangible asset shall be recognised if it is probable that the expected future benefits attributable to the asset will flow to the authority, and the cost of the asset can be measured reliably. An intangible asset shall be measured at cost.
      2. Expenditure incurred on an intangible asset after it has been recognised will normally be charged to surplus or deficit on the provision of services as incurred. Only rarely will subsequent expenditure meet the recognition criteria in the Code. Where this occurs, an authority shall recognise the expenditure in the carrying amount of the intangible asset. Further details can be found in IAS 38 (see paragraphs 18 to 68).
      3. Paragraphs 33 to 41 of IAS 38 deal with the acquisition of intangible fixed assets as part of a business combination. These paragraphs do not apply to the single entity financial statements of local authorities, as local authorities are deemed to be under common control and therefore outside the scope of IFRS 3 Business Combinations. Where authorities are reorganised, intangible assets are accounted for using the merger accounting approach rather than the IFRS 3 approach. Paragraphs 33 to 41 of IAS 38 may be relevant to an authority’s group accounts where acquisitions take place.

##### Government grants

*No changes to this section*

##### Internally generated assets

*No changes to this section*

##### Development of websites

*No changes to this section*

##### Past expenses not to be recognised as an asset

*No changes to this section*

##### Measurement after recognition

* + - 1. IAS 38 allows an intangible asset to be carried at a revalued amount only where its fair value can be measured by reference to an active market. This option has been withdrawn , and an intangible asset will therefore be carried at its cost less any accumulated amortisation and any accumulated impairment loss.

##### Useful life

*No changes to this section*

##### Amortisation

*No changes to this section*

##### Retirements and disposals

*No changes to this section*

### Statutory accounting requirements

* + - 1. Statute and proper practice restrict the use of capital receipts, and prescribe the charges that can be made to the General Fund and Housing Revenue Account (see part 2 of Appendix B for the legislative basis). To comply with these restrictions, the gain or loss on the derecognition of an intangible fixed asset shall be reversed out of the General Fund or Housing Revenue Account.

The General Fund or Housing Revenue Account shall 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 derecognition of the intangible asset. The gain or loss that is reversed out of the General Fund or Housing Revenue Account excludes any costs of disposal that either cannot be capitalised under regulation or statutory guidance or that the authority has chosen not to capitalise. The double entries are a credit to the capital receipts reserve or (in Scotland) a statutory capital fund or a capital grants and receipts unapplied account of an amount equal to the disposal proceeds and a debit to the capital adjustment account equal to the carrying amount of the intangible asset.

* + - 1. In addition, where the intangible asset was previously carried at fair value, before the option to measure intangible assets using the revaluation model was withdrawn. Any balance on the revaluation reserve in relation to the intangible asset will need to be transferred to the capital adjustment account. The entries required are debit revaluation reserve, credit capital adjustment account.
      2. These entries will be reflected in the Movement in Reserves Statement.
      3. Amortisation and impairment charged to surplus or deficit on the provision of services are not proper charges to the General Fund or 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. Minimum revenue provision (England, Northern Ireland and Wales) and the statutory repayment of loans fund advances (Scotland) are proper charges to the General Fund, but do not appear in surplus or deficit on the provision of services. 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 the statutory repayment of loans fund advances 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).

### Disclosure requirements

* + - 1. Disclosure of accounting policies in relation to intangible assets is required, where these accounting policies are significant to the authority’s financial statements (see Section 3.4 of the Code).
      2. Having regard to paragraph 3.4.2.27 of the Presentation of Financial Statements section of the Code, which permits authorities not to provide a specific disclosure if information is not material, authorities shall disclose the following notes in relation to intangible assets:

1. An authority shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:
   1. whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used
   2. the amortisation methods used for intangible assets with finite useful lives
   3. the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period
   4. the line item(s) of the Comprehensive Income and Expenditure Statement in which any amortisation of intangible assets is included
   5. a reconciliation of the carrying amount at the beginning and end of the period showing:
      1. additions, indicating separately those from internal development, those acquired separately, and those acquired through business combinations
      2. 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
      3. impairment losses recognised in surplus or deficit on the provision of services during the period in accordance with Section 4.7 of the Code (if any)
      4. impairment losses reversed in surplus or deficit on the provision of services during the period in accordance with Section 4.7 of the Code (if any)
      5. any amortisation recognised during the period, and
      6. other changes.
2. 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 intangible assets, such disclosure may arise from changes in estimates with respect to:
   1. residual values
   2. an assessment of an intangible asset’s useful life, and
   3. amortisation methods.
3. For an intangible asset assessed as having an indefinite useful life an authority shall disclose the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the authority shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life.
4. An authority shall disclose a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the authority’s financial statements.
5. An authority shall disclose the amount of contractual commitments for the acquisition of intangible assets.
6. An authority shall disclose for intangible assets acquired by way of a government grant and initially recognised at fair value:
   1. the fair value initially recognised for these assets, and
   2. their carrying amount

### Statutory disclosure requirements

*No changes to this section*

# **CHAPTER 4 Non-current assets**

* 1. **IMPAIRMENT OF ASSETS**

The section on impairment of assets has been amended as follows:

### Accounting requirements

##### When to assess for impairment

* + - 1. At the end of each reporting period an assessment shall take place as to whether there is any indication that an asset may be impaired. If any indication exists, the recoverable amount shall be estimated having regard to the application of the concept of materiality in identifying whether the recoverable amount of an asset needs to be estimated. If no indication of an impairment loss is present, the Code does not require a formal estimate of recoverable amount, with the exception of intangible assets.
      2. Undertaking a full revaluation should not be a default process to demonstrate there has not been a material impairment of an asset and comply with IAS 36. Rather, it should be the consideration of impairment triggers which determine whether the recoverable amount of an asset needs to be calculated and therefore whether a full revaluation is needed or not before the next revaluation. IAS 36 paragraphs 12-14 sets out the indicators entities must consider when determining whether an asset is impaired. IAS 36 paragraphs 12-14 do not necessarily require entities to undertake full revaluations each year to comply with the standard. The Code does not expect authorities to undertake a full, professional revaluation of an asset to demonstrate there are no indicators of material impairment.
      3. An intangible asset with an indefinite useful life or not yet available for use shall be assessed annually at any time during the year, irrespective of whether there is any indication that it may be impaired.

# **CHAPTER 4 Non-current assets**

* 1. **HERITAGE ASSETS**

The section on heritage assets has been amended as follows:

### Introduction

* + - 1. There is no IFRS that deals with tangible heritage assets. . Authorities shall therefore account for tangible heritage assets in accordance with FRS 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland,* Section 34, except where adaptations to fit the public sector are detailed in the Code. Previously IPSAS 17 *Property, Plant and Equipment* only provided limited guidance. However, this standard has been replaced by IPSAS 45 *Property, Plant and Equipment,* which removes the scope exclusion for heritage assets and provides additional guidance for public sector bodies.
      2. Authorities shall account for intangible heritage assets in accordance with IPSAS 31 *Intangible Assets,* except where adaptations to fit the public sector are detailed in the Code.

##### Interpretations for the public sector context

* + - 1. IPSAS 31 has been updated to require entities to recognise intangible heritage assets in the Balance Sheet. The Code requires authorities to recognise intangible heritage assets where the authority has information on the cost or value of an intangible heritage asset.
      2. For the avoidance of doubt, FRS 102 shall be interpreted by this section of the Code to permit valuations by any method that is appropriate and relevant which do not have to be carried out by external valuers (see paragraph 4.10.2.9). Depreciation is also not required for assets that have indefinite lives (see paragraph 4.10.2.10).

# **APPENDIX A IFRSs with limited application to local authorities**

#### **INTRODUCTION**

* + 1. A small number of IFRSs are only expected to apply to local authorities in limited circumstances. As such, the Code does not include detailed accounting requirements for these IFRSs. Where an IFRS is relevant to a local authority, the authority shall comply with the requirements of the relevant IFRS. The standards not covered in detail in the Code are:
    2. IAS 12 *Income Taxes* (as amended 2016), SIC 25 *Income Taxes – Changes in the Tax Status of an Entity or its Shareholders* and IFRIC 23 *Uncertainty over Income Tax Treatments* relate to taxes on an entity’s income (for example, corporation tax). They do not relate to accounting for VAT, council tax or non-domestic rates, which are covered elsewhere in the Code. IAS 12 is not expected to be relevant to an authority’s single entity financial statements. Group entities will account for their own tax; however, a consolidation adjustment may be required in the group accounts where group entities have accounted for tax under UK GAAP. This standard was amended in December 2010 by *Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)*.
    3. IAS 21 *The Effects of Changes in Foreign Exchange Rates* relates to accounting for exchange rates and exchange rate movements. IFRIC 22 *Foreign Currency Transactions and Advance Consideration* provides clarification of the application of IAS 21. IPSAS 4 *The Effects of Changes in Foreign Exchange Rates* provides additional guidance for the public sector. Where local authorities have foreign currency transactions, they shall use the spot exchange rate at the date of the transaction to record the transaction in pounds sterling. For more complex foreign currency transactions, authorities shall refer to IAS 21. This standard was amended in August 2023 by *Lack of Exchangeability (Amendments to IAS 21).*
    4. IAS 29 *Financial Reporting in Hyperinflationary Economies* and IFRIC 7 *Applying the Restatement Approach under IAS 29* relate to financial reporting in hyperinflationary economies. IPSAS 10 *Financial Reporting in Hyperinflationary Economies* provides additional guidance for the public sector. These standards are not expected to be relevant to local authorities.
    5. IAS 41 *Agriculture* sets out the accounting requirements for agricultural activities undertaken for commercial gain. IPSAS 27 *Agriculture* provides additional guidance for the public sector. Biological assets that are not held for agricultural activity (eg trees in public parks, police horses and police dogs, and the management of biological assets held for research, experimental and public recreation purposes, including breeding for the preservation of species and raising in game parks and zoos) are not subject to the requirements of IAS 41. Where material, these assets shall be accounted for in accordance with IAS 16 *Property, Plant and Equipment.*
    6. IFRS 2 Share-based Payment sets out the accounting requirements for payments that are made by the transfer of equity instruments. IFRS 2 will only apply to local authorities in the rare circumstance that they transfer shares or other equity instruments in a subsidiary or associate in return for goods or services received.
    7. .
    8. IFRS 6 Exploration for and Evaluation of Mineral Resources specifies the accounting requirements for expenditure incurred while an entity is exploring for and evaluating mineral resources; it does not apply after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. This standard is not expected to be relevant to local authorities.
    9. IFRS 17 *Insurance Contracts* specifies the financial reporting for insurance contracts by an entity that issues such contracts. The standard does not cover insurance contracts held by a policyholder. A number of transactions such as giving a financial guarantee and product or service warranties are outside the scope of IFRS 17.

1. UK VPGA 6 Local authority and central government accounting: existing use value (EUV) basis of value; UK VPGA 4 Valuation of local authority assets for accounting purposes. [↑](#footnote-ref-2)
2. As issued November 2018, effective from 14 January 2019. [↑](#footnote-ref-3)
3. UK VPGA 6 Local authority and central government accounting: existing use value (EUV) basis of value; UK VPGA 4 Valuation of local authority assets for accounting purposes. [↑](#footnote-ref-4)
4. As issued November 2018, effective from 14 January 2019. [↑](#footnote-ref-5)
5. UK VPGA 7 Valuation of registered social housing providers’ assets for financial statements; UK VPGA 4 Valuation of local authority assets for accounting purposes. [↑](#footnote-ref-6)
6. As issued November 2018, effective from 14 January 2019. [↑](#footnote-ref-7)
7. UK VPGA 1.5 “Valuations based on depreciated replacement cost” of the Royal Institution of Chartered Surveyors (RICS) Valuation – Global Standards 2017: UK national supplement; and RICS Guidance Note Depreciated replacement cost method of valuation for financial reporting (1st edition, November 2018) have more information on this matter. [↑](#footnote-ref-8)
8. Defined by UK VPGA 6 of the Royal Institution of Chartered Surveyors (RICS) Valuation – Global Standards 2017: UK national supplement. [↑](#footnote-ref-9)
9. Defined by UK VPGA 7 of the Royal Institution of Chartered Surveyors (RICS) Valuation – Global Standards 2017: UK national supplement. [↑](#footnote-ref-10)
10. Note that this temporary relief does not apply to local authorities in Scotland, for which an analogous treatment is prescribed by *Local government finance circular 09/2022: statutory override – accounting for infrastructure assets* issued in August 2022 by the Scottish Government. [↑](#footnote-ref-11)
11. Note that only a reconciliation of the carrying amount is required for the financial statements. In order to complete the Whole of Government Accounts return, the information specified for this reconciliation requires to be available the split between cost/valuation and depreciation/impairment. [↑](#footnote-ref-12)