Note Section 2.10 is an entirely new section and therefore the amendments are not tracked.

2.10 FAIR VALUE MEASUREMENT

2.10.1 Introduction

2.10.1.1 Local authorities shall measure their assets and liabilities and provide disclosures in accordance with IFRS 13 *Fair Value Measurement*, where another section of the Code requires or permits fair value measurement, except where adaptations to fit the public sector are detailed in the Code.

Adaptation and Application for the public sector context

2.10.1.2 There are no adaptations to IFRS 13 for the public sector context. However, section 4.1 of this Code adapts IAS 16 to require that items of property, plant and equipment that are operational and therefore providing service potential for the authority are measured at for their service potential either 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.

2.10.2 Accounting Requirements

Definitions

2.10.2.1 **Active market** is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

2.10.2.2 **Cost approach** is a valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

2.10.2.3 **Entry price** is the price paid to acquire an asset or received to assume a liability in an exchange transaction.

2.10.2.4 **Exit price** is the price that would be received to sell an asset or paid to transfer a liability.

2.10.2.5 **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.

2.10.2.6 **Income approach** is a valuation technique that converts future amounts (eg cash flows or income and expenses) to a single current (ie discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

2.10.2.7 **Inputs** are the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk, such as the following:

a) the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model); and

b) the risk inherent in the inputs to the valuation technique.

Inputs may be observable or unobservable.

2.10.2.8 **Market Participants** are buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

a) They are independent of each other, ie they are not related parties as defined in IAS 24, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms.

b) They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary.

c) They are able to enter into a transaction for the asset or liability.

d) They are willing to enter into a transaction for the asset or liability, ie they are motivated but not forced or otherwise compelled to do so.

2.10.2.9 **Most advantageous market** is the market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.

2.10.2.10 **Market value approach** is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (ie similar) assets, liabilities or a group of assets and liabilities, such as a business.

2.10.2.11 An **orderly transaction** is a transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (eg a forced liquidation or distress sale).

2.10.2.12 A **principal market** is the market with the greatest volume and level of activity for the asset or liability.

2.10.2.13 Further definitions are included in IFRS 13.

Scope

2.10.2.14 This Section of the Code applies when another Section of the Code requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except as specified in paragraphs 2.10.2.15 and 2.10.2.16.

2.10.2.15 The measurement and disclosure requirements of this Section of the Code do not apply to the following:

a) share-based payment transactions within the scope of IFRS 2 *Share-based Payments*;
b) leasing transactions within the scope of Section 4.2 (Lease and Lease Type Transactions) of the Code and IAS 17 *Leases*; and
c) measurements that have some similarities to fair value but are not fair value, such as net realisable value in Section 5.1 (Inventories) or value in use in Section 4.7 (Impairment of Assets) of the Code

2.10.2.16 The disclosures required by this Section of the Code are not required for the following:

a) plan assets measured at fair value in accordance with Sections 6.1 to 6.4 of the Code;
b) retirement benefit plan investments measured at fair value in accordance with Section 6.5 (Accounting and Reporting by Pension Funds) of the Code; and
c) assets for which recoverable amount is fair value less costs of disposal in accordance with Section 4.7 (Impairment of Assets) of the Code.

2.10.2.17 The fair value measurement framework described in this Section of the Code applies to both initial and subsequent measurement if fair value is required or permitted by other sections of the Code.

Measurement

The Asset or Liability

2.10.2.18 A fair value measurement is for a particular asset or liability. Therefore, when measuring fair value an authority shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include, for example, the following:

a) the condition and location of the asset; and
b) restrictions, if any, on the sale or use of the asset.

The Transaction

2.10.2.19 A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.

2.10.2.20 A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability; or

b) in the absence of a principal market, in the most advantageous market for the asset or liability.

Market Participants

2.10.2.21 An authority shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Price

2.10.2.22 Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique**.**

2.10.2.23 The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. Transaction costs shall be accounted for in accordance with other sections of the Code. Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to a transaction and will differ depending on how an authority enters into a transaction for the asset or liability.

Fair Value Measurement of Non-financial Assets

2.10.2.24 A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Application to Liabilities

2.10.2.25 A fair value measurement assumes that a financial or non-financial liability is transferred to a market participant at the measurement date. The transfer of a liability assumes that a liability would remain outstanding and the market participant transferee would be required to fulfill the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date. In order to reflect that price at which the liability would be transferred to market participants the fair value of the liability, including non-financial liabilities will also need to reflect the non-performance risk which includes but may not be limited to the authority's own non-performance risk.

Liabilities held by Other Parties as Assets

2.10.2.26 When a quoted price for the transfer of an identical or a similar liability is not available and the identical item is held by another party as an asset, an authority shall measure the fair value of the liability from the perspective of a market participant that holds the identical item as an asset at the measurement date.

Liabilities not held by Other Parties as Assets

2.10.2.27 When a quoted price for the transfer of an identical or a similar liability is not available and the identical item is not held by another party as an asset, an authority shall measure the fair value of the liability or equity instrument using a valuation technique from the perspective of a market participant that owes the liability.

Valuation Techniques

2.10.2.28 An authority shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Three widely used valuation techniques are the market approach, the cost approach and the income approach. The main aspects of those approaches are summarised in paragraphs B5–B11 of IFRS 13. An authority shall use valuation techniques consistent with one or more of those approaches to measure fair value.

2.10.2.29 Local authorities are required to follow the fair value hierarchy prescribed by paragraphs 76-90 of IFRS 13 to increase consistency and comparability in fair value measurements and related disclosures. This hierarchy categorises into three levels the inputs to valuation techniques used to measure fair value, these include:

- Level 1 Inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.
- Level 2 Inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 Inputs - unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

Transition

2.10.2.30 Local authorities are required to apply the measurement and disclosure requirements of this section of the Code prospectively from 1 April 2015.

2.10.3 Statutory Accounting Requirements

2.10.3.1 There are no statutory accounting requirements in relation to fair value measurement.

2.10.4 Disclosure Requirements

2.10.4.1 Having regard to paragraph 3.4.2.26 of the Presentation of Financial Statements section of the Code, authorities shall disclose the following notes in relation to fair value measurement for all assets and liabilities measured at fair value in the Code, with the exception of those excluded by paragraphs 2.10.2.15 and 2.10.2.16:

1) An authority shall disclose information that helps users of its financial statements assess both of the following:
    a) for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the Balance Sheet after initial recognition, the valuation techniques and inputs used to develop those measurements.
    b) for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on Surplus or Deficit for the Provision of Services or Other Comprehensive Income and Expenditure for the period.
2) To meet the objectives in disclosure requirement 1) above, an authority shall consider all the following:
    a) the level of detail necessary to satisfy the disclosure requirements;
    b) how much emphasis to place on each of the various requirements;
    c) how much aggregation or disaggregation to undertake; and
    d) whether users of financial statements need additional information to evaluate the quantitative information disclosed.

    If the disclosures provided in accordance with this section and other sections of the Code are insufficient to meet the objectives in disclosure requirement 1), an authority shall disclose additional information necessary to meet those objectives.
3) To meet the objectives in disclosure requirement 1) above, an authority shall disclose after initial recognition in the Balance Sheet, at a minimum, the following information for each class of assets and liabilities (see disclosure requirement 4) below for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this section of the Code):
    a) for recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and, for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of assets or liabilities are those that other sections of the Code require or permit in the Balance Sheet at the end of each reporting period. Non-recurring fair value measurements of assets or liabilities are

those that other sections of the Code require or permit in the Balance Sheet in particular circumstances (eg when an authority measures an asset held for sale at fair value less costs to sell in accordance with section 4.9 (Non-current Assets Held for Sale and Discontinued Operations) of the Code and IFRS 5 because the asset's fair value less costs to sell is lower than its carrying amount).

b) for recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3).

c) for assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the authority's policy for determining when transfers between levels are deemed to have occurred (see disclosure 5) below). Transfers into each level shall be disclosed and discussed separately from transfers out of each level.

d) for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (eg changing from a market approach to an income approach or the use of an additional valuation technique), the authority shall disclose that change and the reason(s) for making it. For fair value measurements categorised within Level 3 of the fair value hierarchy, an authority shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An authority is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the authority when measuring fair value. However, when providing this disclosure an authority cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the authority.

e) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:

  i) total gains or losses for the period recognised in the Surplus or Deficit for the Provision of Services, and the line item(s) in the Surplus or Deficit for the Provision of Services in which those gains or losses are recognised.

  ii) total gains or losses for the period recognised in Other Comprehensive Income and Expenditure, and the line item(s) in Other Comprehensive Income and Expenditure in which those gains or losses are recognised.

  iii) purchases, sales, issues and settlements (each of those types of changes disclosed separately).

  - iv) the amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers and the authority's policy for determining when transfers between levels are deemed to have occurred (see disclosure requirement 5)). Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.

f) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in e)(i) included in the Surplus or Deficit for the Provision of Services that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period, and the line item(s) in the Surplus or Deficit for the Provision of Services in which those unrealised gains or losses are recognised.

g) for recurring and non-recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a description of the valuation processes used by the authority (including, for example, how an authority decides its valuation policies and procedures and analyses changes in fair value measurements from period to period).

h) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy:

  - i) for all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an authority shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with d).
  - ii) for financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an authority shall state that fact and disclose the effect of those changes. The authority shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged with respect to the Surplus or Deficit on the Provision of Services, and total assets or total liabilities, or, when changes in fair value are recognised in Other Comprehensive Income and Expenditure in Reserves.

i) for recurring and non-recurring fair value measurements, if the highest and best use of a non-financial asset differs from its current use, an authority shall disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use.

4) An authority shall determine appropriate classes of assets and liabilities on the basis of the following:

   a) the nature, characteristics and risks of the asset or liability; and

   b) the level of the fair value hierarchy within which the fair value measurement is categorised.

   Determining appropriate classes of assets and liabilities for which disclosures about fair value measurements should be provided requires judgement. A class of assets and liabilities will often require greater disaggregation than the line items presented in the Balance Sheet. However, an authority shall provide information sufficient to permit reconciliation to the line items presented in the Balance Sheet. If another section of the Code specifies the class for an asset or a liability, an authority may use that class in providing the disclosures required in this section of the Code if that class meets the requirements in this disclosure.

5) It is considered that it will be rare for local authorities to transfer between levels of the fair value hierarchy, where this does occur an authority shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred in accordance with paragraph 3) c) and e) iv) above. The policy about the timing of recognising transfers shall be the same for transfers into the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include;

   a) the date of the event or change in circumstances that caused the transfer.

   b) the beginning of the reporting period.

   c) the end of the reporting period.

6) If an authority makes an accounting policy decision to use the exception in paragraph 48 of IFRS 13, ie if the authority manages that group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, it shall disclose that fact.

7) For each class of assets and liabilities not measured at fair value in the Balance Sheet but for which the fair value is disclosed, an authority shall disclose the information required by disclosure 3) b), d) and i). However, an authority is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorised within Level 3 of the fair value hierarchy required by paragraph 3) d). For such assets and liabilities, an authority does not need to provide the other disclosures required by this section of the Code.

8) For a liability measured at fair value and issued with an inseparable third-party credit enhancement, an issuer shall disclose the existence of that credit enhancement and whether it is reflected in the fair value measurement of the liability.

9) An authority shall present the quantitative disclosures required by this Section of the Code in a tabular format unless another format is more appropriate.

10) The disclosure requirements of this Section of the Code need not be applied to

comparative information provided for periods before 1 April 2015.

2.10.5 Statutory Disclosure Requirements

2.10.5.1 There are no statutory disclosures required in relation to fair value measurement.

2.10.6 Changes since the 2014/15 Code

2.10.6.1 The 2015/16 Code introduced the requirements of IFRS 13 *Fair Value Measurement* as adapted for public sector circumstances.

Amendments to other Sections of the Code

Change in Definition

In Sections 2.7, 4.4, 5.1, 5.3, 6.1, 7.1 and 8.1 the definition of **fair value** is replaced with:

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).

In Section 4.9 the definition of fair value is a partially replaced with:

4.9.2.6 **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).~~is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction. For this section of the Code, fair value is to be interpreted as the amount that would be paid for the asset in its highest and best use, ie market value.~~ Fair value for social housing being disposed of under Right to Buy (RTB) legislation is the discounted RTB value.

CHAPTER TWO

Concepts and principles

Fair value

2.1.2.30 The concept of fair value is used throughout the Code. International Financial Reporting Standards now have a consistent definition of fair value introduced by IFRS 13 *Fair Value Measurement*. The measurement and disclosure requirements of the Standard are included in Section 2.10*.* ~~However, the 2014/15 Code does not adopt the requirements of the standard and therefore maintains the previous definitions of fair value which apply in different circumstances~~. ~~In some cases, the Code adapts fair value to reflect service potential. To assist practitioners, table below sets out on an exceptional basis the transactions where the definition of fair value is not applied.~~

Current Value Measurement of Property, Plant and Equipment

2.1.2.31 The Code has introduced the concept and definition of current value to the measurement of property, plant and equipment. Current value measurements reflect the economic environment prevailing for the service or function the asset is supporting at the reporting date (see paragraph 4.1.2.4). The following table demonstrates for accounts preparers when fair value or one of the current value measurement bases apply to the main income, expenditure, assets and liabilities classifications within local authority financial statements.

Circumstance	Fair Value or Current Value Measurement of Property, Plant and Equipment
Revenue recognition; this is the general definition that applies unless a more specific definition applies	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)~~Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction~~.
Property, plant and equipment	~~Fair value (for land and buildings) is to be interpreted as the amount that would be paid for the asset in its existing use.~~ For non-

Circumstance	Fair Value or Current Value Measurement of Property, Plant and Equipment
	specialised assets current value should be interpreted as existing use value. In the RICS *Valuation - Professional Standards*, this is market value based on the assumption that property is sold as part of the continuing enterprise in occupation. For specialised assets current value should be interpreted as 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. This requirement is met by providing an existing use valuation ~~on the basis of existing use value (EUV)~~ in accordance with UKVS 1.3 of the RICS *Valuation - Professional Standards*. The ~~fair~~ current value of council dwellings shall be measured using existing use value–social housing (EUV–SH). The fair value of surplus assets 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)~~should be based on the existing use value of the asset, applying the same assumptions relating to the level of usage, etc as those in the most recent revaluation as an operational asset~~.
Leases	On initial recognition ~~Fair~~ fair value will ~~follow the appropriate class of property, plant and equipment~~be defined as in accordance with section 4.2 of the Code. Subsequent measurement, at current value will follow the appropriate class of property, plant and equipment. Intangible assets are measured at fair value where relevant.~~, or intangible assets~~.
Service concession (PFI and PPP) arrangements	On initial recognition, ~~fair value~~fair value is the cost to purchase the asset. Subsequently, the asset is measured at ~~fair~~ current value which will follow the appropriate class of property, plant and ~~equipment,~~equipment. Fair value measurement will apply, where relevant for intangible assets acquired under service concession arrangements.~~or intangible assets.~~
Investment property	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). As a non-financial asset an investment property shall be measured at highest and best use. ~~Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction. For this section of the Code, fair value is to be interpreted as the amount that would be paid for the asset in its highest and best use, ie market value.~~ The fair value of investment property held under a lease is the lease interest.
Intangible assets	IAS 38 allows an intangible asset to be carried at a revalued amount

Circumstance	Fair Value or Current Value Measurement of Property, Plant and Equipment
	only where its fair value can be determined by reference to an active market. Where there is no active market, assets are carried at cost less any accumulated amortisation and any accumulated impairment loss. Where an intangible asset is required under section 4.5 of the Code to be measured at fair value the definition in section 2.10 of the Code will apply.
Non-current assets held for sale	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). As non-financial assets, non-current assets held for sale shall be measured at highest and best use. ~~Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction. For this section of the Code, fair value is to be interpreted as the amount that would be paid for the asset in its highest and best use, ie market value.~~ Fair value for social housing being disposed of under Right to Buy (RTB) legislation is the discounted RTB value.
Heritage assets	Heritage assets are carried at valuation rather than current or fair value, reflecting the fact that sales and exchanges of heritage assets are uncommon. Valuations may be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations. In some cases it may not be practicable to establish a valuation for a heritage asset, in which case the asset is carried at historical cost if this information is available. Authorities may elect to use this basis for community assets.
Inventories	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).~~Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction.~~
Debtors	Fair value is the 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)~~Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction.~~
Financial instruments	Fair value is the 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).~~Fair value is~~

Circumstance	Fair Value or Current Value Measurement of Property, Plant and Equipment
	~~the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. Usually the best evidence of the fair value is the transaction price (ie the consideration) and unless the transaction was not at arm's-length this should be the value used. However, if the transaction is not based on market terms, a valuation technique shall be used to determine the appropriate fair value for initial recognition of the instrument.~~
Creditors	Fair value is the 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).~~Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction~~.
Employee benefits	Plan assets measured at fair value in accordance with Sections 6.1 to 6.4 of the Code and IAS 19 *Employee Benefits* apply the definition and measurement requirements of fair value in accordance with chapter six of the Code and with the definition of fair value included in section 2.10 of the Code.
Pension fund plan investments	Retirement benefit plan investments measured at fair value in accordance with section 6.5 Accounting and Reporting by Pension Funds of the Code apply the definition and measurement requirements of fair value in accordance with chapter six of the Code and with the definition of fair value included in section 2.10 of the Code.

2.1.2.~~31~~32 ~~The~~ This 2015/16 Code does not require infrastructure assets (eg roads) to be carried at ~~fair value~~current value. Infrastructure is carried at depreciated historical cost. See Appendix D for the Code's future approach to the measurement of transport infrastructure assets.

2.1.3 Statutory Accounting Requirements

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

2.1.4 Disclosure Requirements

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

2.1.5 Statutory Disclosure Requirements

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

2.1.6 Changes since the 201~~3~~4/1~~4~~5 Code

2.1.6.1 The ~~2014~~2015/~~15~~ 16 Code ~~includes commentary on the definition of fair value following CIPFA/LASAAC's decision to defer the adoption of IFRS 13 until the 2015/16 Code.~~includes an overview of the application of fair value and current value to the assets and liabilities held by local authorities following the Code's adoption of IFRS 13 and the confirmation of the concept of current value measurement for property, plant and equipment in section 4.1 of the Code.

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~~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.

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. 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.

4.1.1.4 Property, plant and equipment classified as finance leases under section 4.2 of the Code (also see IAS 17) shall follow section 4.2 in terms of recognition, however in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed in this section. 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 issues for property, plant and equipment held under service concession arrangements 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 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 (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 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. For 2015/16 infrastructure 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.
- All other classes of asset shall be measured at ~~fair~~ current value ~~-~~(or in the case of heritage assets, valuation, in accordance with 4.10 of the Code). 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~~ current value using a depreciated replacement cost approach. The ~~fair~~ current value of council dwellings shall be measured using existing use value–social housing (EUV–SH).
- Surplus assets shall be measured at fair value.
- 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~~ current value (for land and buildings) is to be interpreted as the amount that would be ~~paid~~ 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 UKVS 1.3 of the RICS *Valuation – Professional Standards*.
- ~~The fair value of surplus assets shall be based on the existing use value of the asset, applying the same assumptions relating to the level of usage, etc as those in the most recent revaluation as an operational asset.~~

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 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 and drainage).
- Community assets (ie assets that an authority intends to hold in perpetuity, that have no determinable useful life and which 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 used to deliver services, but which 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.

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 **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 Code the current value measurement bases include[1]:

- **Existing Use Value** defined in accordance with UKVS 1.3 Royal Institution of Chartered Surveyors (RICS) *Valuation - Professional Standards* (RICS January 2014) for assets providing service potential to the authority where an active market exists (see paragraph 4.1.2.9).
- **Existing Use Value – Social Housing** (EUV- SH) as defined in the RICS

[1] ED footnote only: three of these measurement bases are not fair value and are therefore not measured under the requirements of IFRS 13 *Fair Value Measurement*. Note that the need to be clear on which assets are excluded from the scope of IFRS 13 was raised in a query and will be considered by CIPFA/LASAAC following the consultation process.

Valuation - Professional Standards for operational Council Dwellings (see paragraph 4.1.2.10).

- **Depreciated Replacement Cost** as defined in paragraph 4.1.2.7 for assets where there is no market and the asset is specialised.
- **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 of the Code) for surplus assets.

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

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

4.1.2.67 **Depreciated replacement cost**[2] **(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.

4.1.2.78 **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.

4.1.2.9 **Existing Use Value**[3] 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.

4.1.2.810 **Existing Use Value–Social Housing (EUV–SH)**[4] 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:

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[2] The Royal Institution of Chartered Surveyors UKGN 2 Depreciated replacement cost method of valuation for financial reporting has more information on this matter.

[3] Defined by the RICS *Valuation – Professional Standards.*

[4] Defined by the RICS *Valuation – Professional Standards*

- 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~~11 **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). ~~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 existing use value (EUV) in accordance with UKVS 1.3 of the RICS Valuation Standards.~~

4.1.2.~~10~~12 **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~~13 **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~~14 **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.

4.1.2.~~13~~15 **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.

4.1.2.~~14~~16 **Useful life** is the period which an asset is expected to be available for use by an authority.

4.1.2.~~15~~17 Further definitions, including definitions of entity-specific value and recoverable amount are contained in IAS 16.

Recognition

4.1.2.~~16~~18 The cost of an item of property, plant and equipment falling under this section of the Code shall 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 authority, and
- the cost of the item can be measured reliably.

4.1.2.~~17~~19 Costs that meet the recognition principle in paragraph 4.1.2.~~16~~ 18 include initial costs of acquisition and construction, and costs incurred subsequently to add to, replace part of, or service the asset.

4.1.2.~~18~~20 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 as they do not meet the recognition principle in paragraph 4.1.2.~~16~~ 18 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~~21 Where a component is replaced, 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~~ 18 being met. This accounting treatment shall be applicable to subsequent costs meeting the criteria in paragraph 4.1.2.~~16~~ 18 incurred from 1 April 2010.

Initial measurement

4.1.2.~~20~~22 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~~23 Donated assets transferred to an authority shall be initially measured at ~~its~~ their 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~~24 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~~25 The accounting treatment of borrowing costs is set out in section 4.8 of the Code.

4.1.2.~~24~~26 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~~27 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~~28 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~~29 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~~30 Infrastructure and assets under construction (excluding investment property – see section 4.4 of the Code) 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.

4.1.2.~~29~~31 All other classes of asset shall be measured at ~~fair~~ current value. For 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 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~~ current value of council dwellings shall be measured using EUV–SH. EUV–SH and DRC are methods of valuation that are based on ~~fair~~ current value with additional special assumptions for each of the respective methods. Surplus assets shall be measured at fair value.

4.1.2.~~30~~32 Authorities may elect to adopt a depreciated historical cost basis as a proxy for ~~fair~~ 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 ~~fair~~ current ~~value,~~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~~33 Classes of assets whose ~~fair~~ current value can be measured reliably shall be carried at a re-valued amount, being its ~~fair~~current 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~~ asset. ~~and the net amount restated to the re-valued amount of the asset.~~ Where authorities adjust the gross carrying amount in a manner that is consistent with the revaluation of the carrying amount of the asset ~~use the alternative method of proportionately restating any accumulated depreciation and impairment at the date of valuation,~~ they should refer to IAS 16[5][6][7].

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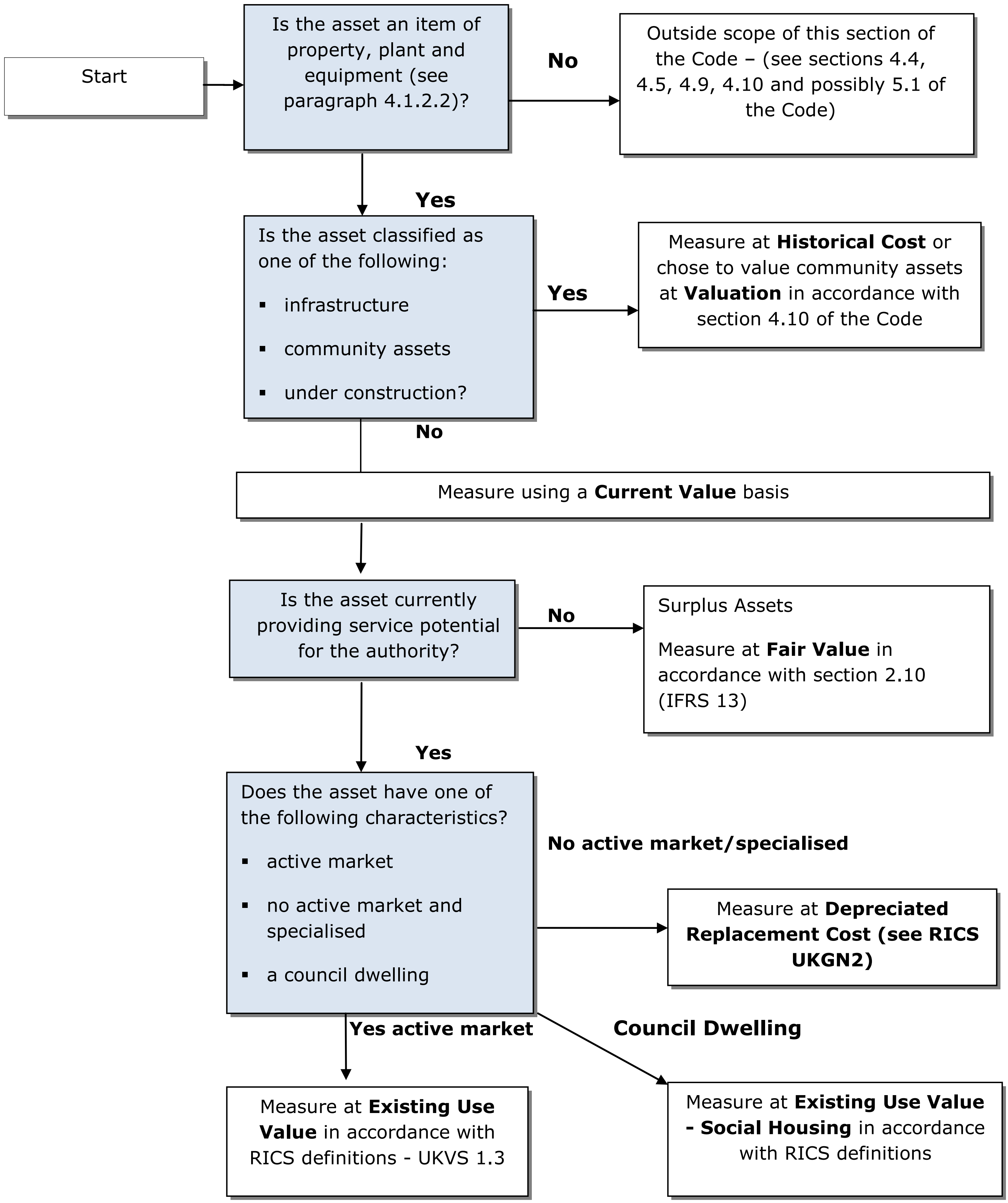
[5] ED Footnote only – these amendments are proposed as a result of *Annual Improvements to IFRSs 2010 -2012 Cycle* issued by the IASB in December 2013 – Note that these amendments have not yet been adopted by the EU.

[6] ED Footnote only – the diagram on the following page is an addition to the Code but for ease of reading has not been inserted as a tracked change.

[7] ED footnote only –see also ED 1 for the diagram on the following page.

Measurement Decision for an Item of Property, Plant and Equipment



4.1.2.~~32~~34 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~~35 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 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.

4.1.2.~~34~~36 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 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 depreciated historical cost) and thereafter in Surplus or Deficit on the Provision of Services.

4.1.2.~~35~~37 Where assets are re-valued (ie the carrying amount is based on fair value), revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period. The items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. Valuations shall be carried out at intervals of no more than five years.

4.1.2.~~36~~38 The ~~fair~~ current value of land and buildings is usually determined by appraisal of appropriate evidence that is normally undertaken by professionally qualified valuers.

Depreciation

4.1.2.~~37~~39 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:

- land where it can be demonstrated that the asset has an unlimited useful life (excluding land subject to depletion, ie quarries and landfill sites), and
- heritage and community assets that have an indefinite life.

4.1.2.~~38~~40 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~~41 The only other ground for not charging depreciation is when the residual value of an asset is equal to or greater than the asset's carrying amount. Repairs and maintenance do not remove the need to depreciate an asset.

4.1.2.~~40~~42 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~~43 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~~44 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. General Fund service revenue accounts, central support services and trading accounts and the Housing Revenue Account (as defined in CIPFA's *Service Reporting Code of Practice*) shall be charged with depreciation.

4.1.2.~~43~~45 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 three 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~~46 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~~47 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~~48 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~~49 As set out in paragraph 4.1.2.~~19~~21, 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~~18 being met. This recognition and derecognition takes place regardless of whether the replaced part had been depreciated separately.

4.1.2.~~48~~50 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~~51 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~~52 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.

4.1.2.5~~1~~3 IAS 16 refers to the derecognition issues arising where in the course of its ordinary activities, an authority 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.

Transition

4.1.2.54 The changes in measurement base for surplus assets shall be applied prospectively from 1 April 2015.

4.1.2.55 The changes in accounting policy specified in the changes to paragraph 4.1.2.33 in relation to the carrying amount of an asset being adjusted to the revalued amount shall apply to all revaluations after the 1 April 2015 and recognised in annual periods beginning on or after the date of initial application of that amendment and in the immediately preceding annual period.

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 policies (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). An authority shall disclose information within the accounting policies and where necessary in the disclosure notes below, ie paragraph 4.1.4.3, that helps users of its financial statements assess for property, plant and equipment measured at current value in the Balance Sheet after initial recognition:

- the valuation techniques and inputs used to develop those measurements (see note 4.1.4.3 1) below) and
- the impact, where material, of any changes in those valuation techniques on the Surplus of Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

4.1.4.3 Having regard to paragraph 3.4.2.26 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 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

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 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:

   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 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 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 on this basis.

4.1.4.5 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 on trust. As property, plant and equipment items the disclosures in 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.

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 the 201~~3~~4/14~~4~~5 Code

4.1.6.1 ~~There have been no changes to the property, plant and equipment section of the Code since the 2013/14 Code.~~ . The 2015/16 Code clarifies the measurement requirements for property, plant and equipment and has introduced the concept of current value. Current value in this section of the Code includes four measurement bases. Note that this new definition means that the measurement requirements for property, plant and equipment providing service potential for an authority has not changed from the 2014/15 Code. The 2015/16 Code has changed the definition of fair value in accordance with the definition in IFRS 13 and has changed the measurement requirements for assets classified as surplus assets.

4.1.6.2 The 2015/16 Code includes amendments to the Code's requirements to IAS 16 in accordance with the *Annual Improvements to IFRS 2010 – 2012 Cycle*.

4.5 INTANGIBLE ASSETS

4.5.2 Accounting Requirements

Definitions

4.5.2.1 **An intangible asset** is an *identifiable* non-monetary asset without physical substance. It must be *controlled* by the authority as a result of past events, and *future economic benefits or service potential* must be expected to flow from the intangible asset to the authority. The most common class of intangible asset in local authorities is computer software. If an item does not meet the definition of an intangible asset (identifiability, control and future economic benefits), expenditure to acquire it or generate it internally is recognised as an expense when it is incurred.

4.5.2.2 ~~If an item does not meet the definition of an intangible asset (identifiability, control and future economic benefits), expenditure to acquire it or generate it internally is recognised as an expense when it is incurred.~~ **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).

…

Measurement after recognition

4.5.2.12 IAS 38 allows an intangible asset to be carried at a revalued amount only where its fair value can be ~~determined~~ measured by reference to an active market. This is unlikely to apply to the single entity financial statements of local authorities, and an intangible asset will therefore normally be carried at its cost less any accumulated amortisation and any accumulated impairment loss.

4.5.4 Disclosure Requirements

4.5.4.2 Having regard to paragraph 3.4.2.26 of the Presentation of Financial Statements section of the Code, authorities shall disclose the following notes in relation to intangible assets:

6) If intangible assets are accounted for at revalued amounts, an authority shall disclose the following:
   a) by class of intangible assets:
      i) the effective date of the revaluation

ii) the carrying amount of revalued intangible assets, and

iii) the carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model, and

b) the amount of the revaluation surplus that relates to intangible assets at the beginning and end of the period, indicating the changes during the period and (in the Group Accounts only) any restrictions on the distribution of the balance to shareholders.~~, and~~

~~c) the methods and significant assumptions applied in estimating the assets' fair values.~~

4.5.6 Changes since the 201~~3~~4/14~~5~~ Code

4.5.6.1 The 2015/16 Code includes the new definition of fair value and other consequential changes to accounting for intangible assets section of the Code following the adoption of IFRS 13 in the Code.~~There have been no changes to the intangible assets section of the Code since the 2013/14 Code.~~

4.7 IMPAIRMENT OF ASSETS

4.7.2 Accounting Requirements

Definitions

4.7.2.3 **Recoverable amount** of an asset is the higher of fair value less costs ~~to sell~~of disposal (ie net selling price) and its value in use.

4.7.2.4 **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).~~**less costs to sell** is the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable, willing parties, less costs of disposal.~~

4.7.2.7 Further definitions, including definitions of~~ active market,~~ cost of disposal and useful life are contained in IAS 36, IPSAS 21 and IPSAS 26.

4.7.4 Disclosure Requirements

2) An authority shall disclose the following for each material impairment loss recognised or reversed during the period for an individual asset:

a) the events and circumstances that led to the recognition or reversal of the impairment loss

b) the amount of the impairment loss recognised or reversed

c) for an individual asset:

   i) the nature of the asset, and

   ii) the reportable segment to which the asset belongs, in line with the format of segmental reporting in section 3.4 of the Code

~~iii~~d) whether the recoverable amount of the asset is its fair value less costs ~~to sell~~of disposal or its value in use

~~iv~~e) if the recoverable ~~service~~ amount is fair value less costs ~~to sell~~of disposal, ~~the basis used to determine fair value less costs to sell (such as whether fair value was determined by reference to an active market)~~ the authority shall disclose the following information[8]:

   i) the level of the fair value hierarchy (see section 2.10) within which the fair value measurement of the asset is categorised in its entirety (without taking into account whether the 'costs of disposal' are observable)

   ii) for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) used to measure fair value less costs of disposal. If there has been a change in valuation technique, the authority shall disclose that change and the reason(s) for making it, and

   iii) for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, each key assumption on which management has based its determination of fair value less costs of disposal. Key assumptions are those to which the asset's recoverable amount is most sensitive. The authority shall also disclose the discount rate(s) used in the current measurement and previous measurement if fair value less costs of disposal is measured using a present value technique.

~~v~~f) if the recoverable service amount is value in use, the approach used to determine value in use.

4.7.6 Changes since the ~~2013~~2014/14~~4~~5 Code

4.7.6.1 ~~There have been no changes to the impairment of assets section of the Code since the 2013/14 Code~~The 2015/16 Code includes the new definition of fair value and other consequential amendments following the adoption of IFRS 13 in the Code relating to accounting for impairments.

[8] ED footnote only – these proposed amendments are introduced as a result of the *Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)* issued by the IASB in May 2013.

CHAPTER SEVEN
Financial instruments

7.1 INTRODUCTION, SCOPE, RECOGNITION AND INITIAL MEASUREMENT, HEDGE ACCOUNTING, DERIVATIVES AND EMBEDDED DERIVATIVES AND DEFINITIONS

Changes since the ~~2013~~2014/14~~5~~ Code

7.1.1.6 The ~~2014~~2015/~~15~~ 16 Code includes the consequential amendments to the definition and disclosure requirements of this chapter of the Code as a result of the introduction of IFRS 13 *Fair Value Measurement*~~the amendments to IAS 32 *Financial Instruments: Presentation* (Offsetting Financial Assets and Liabilities), December 2011, requiring reference to the amended application guidance for offsetting financial assets and liabilities~~.

7.1.4 Initial Measurement of Financial Instruments

7.1.4.2 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)~~is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's-length transaction~~. Usually the best evidence of the fair value is the transaction price (ie the consideration), and unless the transaction was not ~~at arm's-length~~than orderly transaction between market participants, this should be the value used. However, if the transaction is not based on market terms, a valuation technique shall be used to determine the appropriate fair value for initial recognition of the instrument (refer to the bullets below and, where relevant, section 2.10). Typical examples of transactions that might not be made on market terms are:

- interest free or low interest loans advanced by an authority (commonly to local voluntary sector organisations) which are often referred to as soft loans (see paragraphs 7.1.4.3 to 7.1.4.8)
- soft loans made by a local authority to subsidiary bodies consolidated into their Group Accounts (see paragraph 7.1.4.9)

- soft loans received by local authorities (perhaps from government agencies or European Economic Community agencies) (see paragraph 7.1.4.10).

…

Soft loans receivable

7.1.4.10 The fair value of the loan shall be determined as the net present value of the future cash payments discounted using the prevailing market rate of interest at which the authority could borrow for a loan with similar terms. The PWLB interest rate for a loan with similar terms shall be used to estimate the prevailing market rate of interest except where the authority can provide reliable evidence that it would be able to borrow at a lower rate of interest from another lender in an orderly transaction between market participants ~~on arm's-length terms~~. This will result in a lower figure for the fair value of the liability than the loan received; the difference shall be taken to Surplus or Deficit on the Provision of Services as grant receivable in accordance with section 2.3 of the Code.

7.2 ACCOUNTING FOR FINANCIAL LIABILITIES AFTER INITIAL RECOGNITION

7.2.4 Financial Guarantee Contracts

7.2.4.2 The financial guarantee contract shall be initially recognised at fair value. If the contract was issued in an orderly transaction between market participants ~~in a stand-alone arm's-length transaction to an unrelated party~~, its fair value at inception will be the premium received unless there is evidence that this is not a reliable estimate of fair value. If no premium is received the fair value of the financial guarantee contract at inception shall be estimated by considering the probability of the guarantee being called and the likely amount payable under the guarantee.

7.3 ACCOUNTING FOR FINANCIAL ASSETS AFTER INITIAL RECOGNITION

7.3.2 Subsequent Measurement of Financial Assets and Determination of the Amounts to be Recognised in the Comprehensive Income and Expenditure Statement

Available-for-sale financial assets

7.3.2.3 After initial recognition the carrying amount of an available-for-sale financial asset shall be measured at its fair value, without any deduction for transaction costs that would be incurred on sale or other disposal. Authorities are required to use the valuation techniques set out in section 2.10 to measure available-for-sale financial assets. ~~The following hierarchy shall be used in determining a reliable measure of a financial instrument's fair value on remeasurement (the hierarchy also applies to financial assets at fair value through profit or loss):~~

~~a) **Active Market – Quoted Market Price** – published price quotations in an active market are the best evidence of fair value, and if available shall be used to measure the financial instrument. Where more than one price is quoted, the 'bid' price shall be used.~~

~~b) **No Active Market – Valuation Techniques** – if the market for a financial instrument is not active, fair value shall be established by using a valuation technique. Valuation techniques include:~~

- ~~recent market transactions~~
- ~~reference to a transaction that is substantially the same~~
- ~~discounted cash flows and option pricing models.~~

~~An acceptable valuation technique incorporates all factors that market participants would consider in setting a price, and shall be consistent with accepted economic methodologies for pricing financial instruments.~~

~~c) **No Active Market – Equity Instruments** – normally it is possible to estimate the fair value of an equity instrument that has been acquired from an outside party. However, if the range of reasonable fair value estimates is significant, and no reliable estimate can be made, the instrument shall be measured at cost less impairment.~~

~~Unquoted e~~Equity instruments that do not have a quoted price in an active market for an identical instrument (ie a Level 1 input) ~~investments~~ for which a reliable fair value cannot be established

7.3.2.8 One type of financial asset that requires separate consideration for measurement is ~~unquoted~~ equity instruments that do not have a quoted price in an active market for an identical instrument (ie a Level 1 input) whose fair value cannot otherwise be reliably measured~~for which a reliable fair value cannot be established~~. Except for investments in subsidiaries and associates, which are covered by chapter nine of the Code, these should be measured subsequent to initial recognition at cost. Fair value cannot be reliably estimated when the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. There are well-established techniques for valuing unquoted companies and it will often be possible to estimate fair value. Dividends shall be recognised in Surplus or Deficit on the Provision of Services when the right to receive payment is established.

7.3.3 Impairment and Uncollectability of Financial Assets

Impairment of financial assets carried at cost

7.3.3.9 If there is objective evidence of impairment of an ~~unquoted~~ equity instrument that does not have a quoted price in an active market for an identical instrument (ie a Level 1 input) that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar asset. The loss shall be charged to Surplus or Deficit on the Provision of Services. Such impairment losses shall not be reversed.

7.4 FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION REQUIREMENTS

7.4.2 Significance of Financial Instruments for Financial Position and Performance

…

Balance Sheet disclosures

Categories of financial assets and financial liabilities

7.4.2.2 The carrying amounts of each of the following categories shall be disclosed either in the Balance Sheet or in the notes to the accounts:

a) loans and receivables; where material, the carrying amount of soft loans granted by the authority shall be disclosed separately

b) available-for-sale financial assets

c) ~~unquoted~~ equity instruments that do not have a quoted price in an active market for an identical instrument (ie a Level 1 input) ~~investment~~ at cost

d) financial assets at fair value through profit or loss (if any)

e) financial liabilities at amortised cost

f) financial liabilities at fair value through profit or loss (if any).

…

Fair value

7.4.2.13 An authority shall ~~disclose:~~

~~a) The~~disclose the methods and, when a valuation technique is used, the assumptions applied in ~~determining~~ measuring fair values in accordance with the requirements of Section 2.10 of the Code. ~~of each class of financial assets or financial liabilities. For example, if applicable, an authority discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates.~~

~~b) Whether fair values are determined, in whole or in part, directly by reference to published price quotations in an active market or are estimated using a valuation technique.~~

~~c) Whether the fair values recognised or disclosed in the financial statements are determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument (ie without modification or repackaging) and not based on available observable market data. For fair values that are recognised in the financial statements, if changing one or more of those assumptions to reasonably possible alternative assumptions would change fair value significantly, the authority shall state this fact and disclose the effect of those changes. For this purpose, significance shall be judged with respect to surplus or deficit, and total assets or total liabilities, or, when changes in fair value are recognised in equity, total equity.~~

~~d) If c) applies, the total amount of the change in fair value estimated using such a valuation technique that was recognised in surplus or deficit during the period.~~

7.4.2.14 In some cases, an authority does not recognise a gain or loss on initial recognition of a financial asset or financial liability because the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (ie a Level 1 input) nor based on a valuation technique that uses only data from observable markets (see paragraph AG76 of IAS 39). In such cases, the authority shall disclose by class of financial asset or financial liability:~~If the market for a financial instrument is not active, an authority establishes its fair value using a valuation technique (see paragraphs AG74 to AG79 of IAS 39). Nevertheless, the best evidence of fair value at initial recognition is the transaction price (ie the fair value of the consideration given or received), unless conditions described in paragraph AG76 of IAS 39 are met. It follows that there could be a difference between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique. If such a difference exists, an authority shall disclose, by class of financial instrument:~~

a) its accounting policy for recognising that difference in the Surplus or Deficit on the Provision of Services between the fair value at initial recognition and the transaction price to reflect a change in factors (including time) that market participants take into account when pricing the asset or liability ~~would consider in setting a price~~ (see paragraph AG76~~A~~(b) of IAS 39), and

b) the aggregate difference yet to be recognised in the Surplus or Deficit on the Provision of Services at the beginning and end of the period and a reconciliation of changes in the balance of this difference.

c) why the authority concluded that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value.

7.4.2.15 Disclosures of fair value are not required:

a) when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables

b) for an investment in equity instruments that do not have a quoted ~~market~~ price in an active market for an identical instrument (ie a level 1 input) because its fair value cannot otherwise be measured reliably, or

c) for a contract containing a discretionary participation feature (as described in IFRS 4 *Insurance Contracts*) if the fair value of that feature cannot be measured reliably.

Minor Consequential Changes to other Sections of the Code

3.4.2.84 These disclosures are not required for assets and liabilities measured at fair value based on a quoted price in an active market for an identical asset or liability~~recently observed market prices~~. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting period.

4.4.2.13 Exceptionally, there may be evidence when an authority first acquires an investment property (or the property first becomes an investment property following a change of use) that the fair value of the investment property is not reliably ~~determinable~~ measurable on a continuing basis. In such cases, an authority shall account for that property using the cost model in IAS 16 and section 4.1 of the Code (ie the investment property is depreciated over its useful life). The residual value of the investment property shall be assumed to be zero.

Deducting the fair value of any plan assets from the present value of the defined benefit obligation

6.4.3.8 The fair value of any plan assets is deducted in determining the defined benefit liability. ~~When no market price is available, the fair value of plan assets is estimated; for example, by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets.~~ Plan assets exclude unpaid contributions due from the reporting authority to the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, trade and other payables and liabilities resulting from derivative financial instruments.