

EXPOSURE DRAFT E: OTHER AREAS

2.1 CONCEPTS

Fees and charges | for services under statutory requirements (exchange transactions)

- 21251 Local authorities are required or permitted to charge for services or goods under numerous statutory provisions. These include charges for planning application fees, application fees for taxi licensing or alcohol and entertainment licensing, various inspection fees, housing rental income for the Housing Revenue Account etc. There is an implied contract for these transactions and therefore income is recognised in accordance with Section 2.7 of the Code.

4.6 REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

4.6.2 Accounting requirements

- 4.6.21 Revenue expenditure funded from capital under statute shall be accounted for in accordance with proper practice under the rest of the Code, and effect shall be given to the statutory requirements by making the adjustments set out in 4.6.3 below. No IFRS or IAS deals with ~~these items~~ statutory impact of these items on the reserves as they are a statutory departure from normal accounting practice.

4.3 SERVICE CONCESSION ARRANGEMENTS: LOCAL AUTHORITY AS GRANTOR

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Measurement of the liability

- 4.3.2.20 Where a service concession arrangement can be separated into a service element and a construction element, the service element shall be expensed as incurred, and the construction element accounted for as if it were a ~~finance~~-lease. A contract may be separable in a variety of circumstances; see paragraph 4.3.2.13.
- 4.3.2.21 Subsequent to initial recognition, the service concession arrangement liability shall be measured following the principles set out in Section 4.2 of the Code and ~~IFRS 16AS-17 (ie for the measurement of the lease liability following the arrangements for assets acquired under a finance lease)~~. The liability shall be reported as a financial liability but shall be measured under Section 4.2 of the Code (Leases), not Chapter 7 of the Code (Financial Instruments).
- 4.3.2.23 Scheduled payments under the arrangement shall be allocated between a) operating costs to reflect the service element of the arrangement, b) repayment of the liability, and c) an imputed finance charge (based on the interest rate implicit in the contract). Where it is not possible to determine the rate implicit in the contract, the authority shall use its cost of capital rate (including inflation). It is expected that this situation would be rare. The liability shall be measured as a financial instrument based on elements b) and c) of the scheduled payments above, using the same ~~actuarial method measurement requirements as for the lease liability used for finance leases~~ under Section 4.2 of the Code and ~~IFRSAS 176~~.

Payments

- 4.3.2.25 By definition, where a PPP or PFI arrangement can be separated into construction and service elements, the payments for each element will be readily identifiable. The service element shall be charged as expenditure as incurred. The construction element shall be allocated into an element relating to the repayment of the liability and an interest element in accordance with the ~~measurement of the lease liability arrangements for a finance lease~~ (see Section 4.2 of the Code and ~~IFRAS 167~~). The interest element shall be charged to the surplus or deficit on the provision of services as incurred, with the balance of the payment used to reduce the outstanding liability on the balance sheet.
- 4.3.2.34 Where the arrangement does not involve a permanent transfer of the assets to the operator, a local authority shall account for the arrangement as a lease under Section 4.2 of the Code and ~~IFRAS 167~~. Where the asset provided by the authority is provided in the form of an operating lease, there is not a disposal of the asset, which remains on the authority's balance sheet. The granting of the operating lease is one element of the consideration provided to the operator for the provision of the asset and services.

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- 4.3.2.36 Where the asset provided by the authority is provided in the form of a finance lease, the local authority shall derecognise the asset in accordance with Section 4.2 of the Code and IFRAS 167. The authority shall also recognise on the balance sheet the consideration received from the operator. Depending on the circumstances of the arrangement, this may be the reduction or elimination of an existing liability, a prepayment, or asset provided by the operator. Any difference between the carrying value of the asset given up and the consideration received from the operator shall be recognised in surplus or deficit on the provision of services.
- 4.3.2.37 Where the arrangement involves ~~either a finance lease or an operating lease~~, any payments to be made by the operator for use of the asset are to be taken into account when measuring the assets and liabilities to be recognised on the balance sheet.

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