

Financial Reporting Advisory Board Paper

Code of Practice on Local Authority Accounting

Issue:	To consider an update on the issue of the 2013/14 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) principally in relation to accounting for business rate retention (England and Scotland only) and IFRS 13.
Impact on guidance:	Changes to the text of the 2013/14 Code are proposed in relation to accounting for business rates.
IAS/IFRS adaptation?	No adaptations are proposed in relation to accounting for business rates in the Code.
Impact on WGA?	None.
IPSAS compliant?	Yes.
Impact on budgetary regime?	None – local authorities only.
Alignment with National Accounts	The current position regarding alignment with National Accounts is not expected to change.
Impact on Estimates?	None – local authorities only.
Recommendation:	<p>The Board is requested:</p> <ol style="list-style-type: none"> (1) to confirm it is content with the proposed amendments to the 2013/14 Code of Practice on Local Authority Accounting in the United Kingdom based on the Exposure Draft in relation to accounting for business rates retention with any significant changes confirmed by means of electronic circulation. (2) to delegate the review of any final consequential changes arising from that approval process to the FRAB Chair. (3) to note the removal of the proposed amendments for IFRS 13 from the 2013/14 Code and the proposed deferral of the Code's adoption of this standard to 2014/15.
Timing:	2013/14 and 2014/15

DETAIL

Background

1. The last meeting of the FRAB considered the 2013/14 Code. At the meeting the FRAB approved the amendments to the 2013/14 Code with the exception of the IFRS 13 *Fair Value Measurement* amendments. In addition, FRAB noted the anticipated additional single issue consultation on accounting for business rates retention.

Accounting for Business Rates Retention (England and Scotland only)

2. The consultation "Accounting for Business Rates Retention (England and Scotland only)" was issued in December 2012 and will close on 15 February 2013. As reported previously the Local Government Finance Act 2012 brings forward the primary legislative provisions to support the localisation of Business Rates in England. The proposed amendments to the 2013/14 Code are necessary to reflect the changes to statutory requirements. CIPFA/LASAAC has also used this opportunity to consider the accounting requirements for non-domestic rating income in Scotland following recent policy initiatives. CIPFA/LASAAC agreed to this approach to enable the Code to be published, incorporating these important proposals, at the earliest opportunity.

3. The proposed amendments to the 2013/14 Code require local authorities in England to act as principal for their own element of non-domestic rating income and to recognise this income in the Comprehensive Income and Expenditure Statement, in accordance with proper (accounting) practices as defined in the Code. Statutory requirements under the regulations for business rates will stipulate what is chargeable to the General Fund for non-domestic rating income. This is achieved by appropriate adjustments to reserves and reported in the Movement in Reserves Statement. The approach is very similar to that required by the Code for council tax income.

4. The consultation is available on the CIPFA Website at the following address: <http://www.cipfa.org/SupplementarySingleIssueConsultationon201314CodeEnglandandScotlandonly>. The proposed amendments to the Code are included at Annex A to this report.

5. The *Memorandum of Understanding between the Relevant Authorities* sets out that "the Relevant Authorities should aim to have the relevant versions of the other Manuals available by 1 April for the financial year starting on that day and ending on the following 31 March". In order to meet this timetable, the CIPFA Secretariat requests that the FRAB confirm it is content with the amendments to the Code in the Exposure Draft for this single issue with any final significant amendments to be confirmed by means of electronic circulation to FRAB Board Members. It is anticipated that the report with the draft amendments to the Code will be issued to FRAB Members week commencing 4 March 2013.

IFRS 13 Fair Value Measurement

6. At its last meeting, FRAB requested that CIPFA/LASAAC and HM Treasury review the approach to the adoption of IFRS 13 in the Code and the FReM. The review is in its early stages and a verbal update is being provided elsewhere on the agenda. As any changes to the approach to adopting IFRS 13 are likely to 1) require a second consultation on IFRS 13 amendments; and 2) have budgetary implications for local authority accounts preparers, it will not be possible to include the adoption of IFRS 13 amendments in the 2013/14 Code. The CIPFA Secretariat will therefore recommend to CIPFA/LASAAC that the IFRS 13 proposed amendments

to the 2013/14 Code are removed and adoption of IFRS 13 in the Code be deferred to the 2014/15 Code.

Impact on disclosures in the financial statements

7. There may be additional disclosures where authorities consider that elements of the business rates transactions are material to local authority financial statements.

IAS/IFRS compliance

8. The recognition of income and expenditure in relation to business rates is in accordance with the principal / agent principles within IFRS.

Impact on WGA

9. There is no significant impact on WGA requirements.

IPSAS compliance

10. Business rate income is recognised in accordance with IPSAS.

Impact on the budgetary regime

11. The proposals relate to the Code of Practice on Local Authority Accounting in the United Kingdom and therefore do not impact on the budgetary regime.

Summary and recommendation

12. This report notifies Board Members about the single issue consultation “Accounting for Business Rates Retention (England and Scotland only)” and requests that the FRAB confirm it is content with the Exposure Draft with any further significant changes to the 2013/14 Code of Practice on Local Authority Accounting in the United Kingdom being confirmed by electronic circulation.

13. The Board is requested:

- 1) To confirm it is content with the proposed amendments to the 2013/14 Code of Practice on Local Authority Accounting in the United Kingdom based on the Exposure Draft in relation to accounting for business rates retention with any significant changes confirmed by means of electronic circulation.
- 2) To delegate the review of any final consequential changes arising from that approval process to the FRAB Chair.
- 3) To note the removal of the proposed amendments for IFRS 13 from the 2013/14 Code and the proposed deferral of the Code’s adoption of this standard to 2014/15.

CIPFA/LASAAC
February 2013

2.810 TAX INCOME (COUNCIL TAX, RESIDUAL COMMUNITY CHARGES, ~~NATIONAL~~ NON-DOMESTIC RATES (~~N~~NDR) AND RATES)

2.810.1 Introduction

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

2.810.2 Accounting Requirements

~~National~~ Non-Domestic Rates (~~N~~NDR) (~~England, Wales, and~~ Scotland)

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

- a) ~~N~~NDR income is not the income of the billing authority and shall not be included in its Comprehensive Income and Expenditure Statement. The cost of collection allowance received by billing authorities in ~~England and~~ Wales is the billing authority's income and shall be included in the Comprehensive Income and Expenditure Statement (in Scotland an amount for 'collection of non-domestic rates' is included in Revenue Support Grant).
- b) ~~N~~NDR debtor and creditor balances with taxpayers and the impairment allowance for doubtful debts are not assets and liabilities of the billing authority and shall not be recognised in the billing authority's Balance Sheet.
- c) Cash collected from ~~N~~NDR taxpayers by billing authorities (net of the cost of collection allowance in ~~England and~~ Wales) belongs to the Government and the amount not yet paid to the Government at the Balance Sheet date shall be included in the Balance Sheet as a creditor; similarly, if cash paid to the Government exceeds the cash collected from ~~N~~NDR taxpayers (net of the billing authority's cost of collection allowance in ~~England and~~ Wales), the excess shall be included in the Balance Sheet as a debtor.
- d) Cash collected from ~~N~~NDR taxpayers by a billing authority is collected for the Government and is therefore not an operating activity of the billing authority and shall not be included in the billing authority's Cash Flow Statement as a cash inflow except for the cash retained in respect of the cost of collection allowance. Similarly, the billing authority's payment into the ~~N~~NDR national pool is not an operating activity and shall not be included in the billing authority's Cash Flow Statement as a cash outflow. The difference between the cash collected from ~~N~~NDR taxpayers and the amount paid into the ~~N~~NDR national pool shall be

included within financing activities in the Cash Flow Statement.

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

Non-Domestic Rates (England)

2.10.2.2 Non-domestic rating income included in the Comprehensive Income and Expenditure Statement for the year shall be the accrued income for the year. The government's central share and each major preceptor's share of the accrued non-domestic rating income would be available from the information that is required to be produced in order to prepare the Collection Fund Statement (see section 3.9 of the Code). The allowance for the cost of collection will need to be recognised in accordance with the *Service Reporting Code of Practice*.

2.10.2.3 Since collection of non-domestic rating income is in substance an agency arrangement, the cash collectable by the billing authority from non-domestic rating income debtors belongs proportionately to the billing authority, central government (by means of its central share) and the major preceptors. There will therefore be a debtor/creditor position between the billing authority, central government and each major preceptor to be recognised since the net cash paid to central government and each major preceptor in the year will not be its share of cash collectable from non-domestic rates taxpayers.

2.10.2.4 If the net cash paid to central government or a major preceptor in the year is more than its proportionate share of net cash collected from non-domestic rating income debtors/creditors in the year, the billing authority shall recognise a debit adjustment for the amount overpaid to central government or the major preceptor in the year. The major preceptor shall recognise a credit adjustment for the amount to the debtor/creditor position between them brought forward from the previous year. If the cash paid to central government or a major preceptor is less than its proportionate share of net cash collected in the year from non-domestic rating income debtors/creditors, the billing authority shall recognise a credit adjustment for the amount underpaid to central government or the major preceptor in the year. The major preceptor shall recognise a debit adjustment for the amount to the debtor/creditor position between them brought forward from the previous year.

2.10.2.5 The Cash Flow Statement of the billing authority shall include within operating activities only its own share of non-domestic rating income net cash collected from non-domestic rating debtors in the year; and the amount included for precepts paid shall exclude amounts paid to central government and major preceptors. The difference between the central government and the major preceptors' share of the net cash collected from non-domestic rating debtors and net cash paid to central government and major preceptors as precepts and settlement of the previous

year's surplus or deficit on the Collection Fund for non-domestic rating income shall be included within financing activities in the Cash Flow Statement.

2.10.2.6 The Cash Flow Statement of a major preceptor shall include within operating activities the net non-domestic rating income cash received from the Collection Fund in the year (ie the precept for the year plus its share of Collection Fund surplus for the previous year, or less the amount paid to the Collection Fund in respect of its share of the previous year's Collection Fund deficit).

Top Ups and Tariffs

2.10.2.7 Top-up income receivable and tariff expenditure payable shall be recognised by the authority in the Comprehensive Income and Expenditure Statement on an accruals basis. These transactions shall be recognised in the line item Taxation and Non-specific Grant Income and Expenditure. An authority will need to determine, based on the materiality of these items whether they are reported either separately on the face of the Comprehensive Income and Expenditure Statement or in the notes to the financial statements.

Safety Net Income and Levy Expenditure

2.10.2.8 Safety net income and levy expenditure shall also be recognised in the Comprehensive Income and Expenditure Statement on an accruals basis. These transactions will be recognised in the line item Taxation and Non-specific Grant Income and Expenditure. An authority will need to determine, based on the materiality of these items whether they are reported either separately on the face of the Comprehensive Income and Expenditure Statement or in the notes to the financial statements. Debtors and creditors in respect of these items shall be recognised in the Balance Sheet.

Pool of Authorities for Non-Domestic Rating Income

2.10.2.9 The Local Government Finance Act 2012 permits the Secretary of State to designate two or more relevant authorities as a pool of authorities. Authorities that are party to such a pool will need to recognise their share of the income and expenditure (and debtors and creditors) in accordance with the agreed arrangements for distribution of the pool income and expenditure and the accounting requirements of this section of the Code.

Non-Domestic Rates - Retention of Percentage of Income Growth (England and Scotland)

2.10.2.10 In England, where an authority is able to retain any non-domestic rating income growth for the purposes established under rate retention schemes it shall make the transfers required by regulations to the General Fund. The authority shall determine whether it is acting as principal or agent for these sums in accordance with the relevant Scheme requirements and section 2.6 of the Code and shall

recognise such income for which it is acting as principal.

2.10.2.11 In Scotland, where an authority is able to retain an element of its non-domestic rating income growth for the purposes established under a Tax Incremental Financing Scheme, it shall determine the extent to which it is acting as principal for these sums in accordance with the scheme requirements and section 2.6 of the Code and recognise such income for which it is acting as principal.

Non-Domestic Rates – Business Rates Incentivisation Scheme

2.10.2.12 In Scotland, the Business Rates Incentivisation Scheme allows authorities that exceed their annual business rates target to retain 50% of any additional income for the revaluation period. As this element of non-domestic rating income is the income of the authority in the pursuit of its own objectives and the authority bears all the risks of non-collection then this part of the non-domestic rating income of the authority shall be recognised in the Comprehensive Income and Expenditure Statement of the authority and disclosed as appropriate in the notes to the financial statements.

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2.810.3 Statutory Accounting Requirements

Non-Domestic Rates (England)

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

Council tax (England)

~~2.810.3.42~~ For both the billing authority and major preceptors, the difference between the council tax income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement.

Residual community charge (England)

~~2.810.3.23~~ The difference between the community charge adjustment included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be taken to the General Fund (ie the previous year's community charge adjustment) shall be taken to the Collection Fund Adjustment Account.

2.810.4 Disclosure Requirements

2.810.4.1 Tax income reported in the Comprehensive Income and Expenditure Statement shall be disclosed in line with the requirements of the Code set out in section 3.4 (Format of the Financial Statements), which include disclosures for council tax (Wales) and rates (Northern Ireland). Disclosures in respect of the Collection Fund (England), Council Tax Income Account (Scotland) and Non-Domestic Rates Account (Scotland) are set out in section 3.69 of the Code.

2.10.4.2 In accordance with paragraphs 2.10.2.7 and 2.10.2.8 above an authority will need to determine whether top-up income/tariff payments and safety net income and tariff expenditure will need to be reported separately on the face of the Comprehensive Income and Expenditure Statement or in the notes.

2.10.4.3 Lead authorities of a designated pool of authorities may need to consider whether a true and fair presentation of its non-domestic rating income arrangements might require that a memorandum account be produced in the financial statements for the pool.

2.810.5 Statutory Disclosure Requirements

2.810.5.1 There are no statutory disclosures in relation to the Non-Domestic Rates (England), the Collection Fund (England), the Council Tax Income Account (Scotland) and the Non-Domestic Rates Account (Scotland).

2.810.6 Changes since the 2011/12 Code

~~2.810.6.1 There have been no changes in accounting for tax income (council tax, residual community charges, national non-domestic rates (NNDR) and rates) since the 2011/12 Code. This section of the Code has been updated for the requirements of the localisation of business rates in England and adds new provisions for any business rates schemes where local authorities are permitted to retain an element of business rates growth, including the Business Rates Incentivisation Scheme in Scotland.~~

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

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3.69.2 Accounting Requirements

3.69.2.1 Even though taxation debtors are non-contractual debts and are excluded from the scope of IAS 39, the accounting requirements in the Collection Fund (England), Council Tax Income Account (Scotland) and Non-Domestic Rate Account

(Scotland) in respect of the write-off of uncollectable debts and allowance for impairment of doubtful debts follow the impairment provisions of chapter seven (paragraphs 7.3.3.1 to 7.3.3.6) of the Code. However, the statements shall be presented in accordance with the statutory accounting requirements.

3.69.3 Statutory Accounting Requirements

Collection Fund (England)

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

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

The accounting statement shall show:

Amounts required by statute to be credited to the Collection Fund

- a) council tax (showing the amount receivable, net of benefits, discounts for prompt payments and transitional relief)
- b) transfers from General Fund – council tax :
 - ~~council tax benefits~~
 - transitional relief
 - discounts for prompt payment
- ~~e) income collectable from business ratepayers~~
- c) non-domestic rates (showing the amount receivable, net of discretionary and mandatory reliefs)
- d) transitional protection payments non-domestic rates, if applicable
- ~~de) income collectable in respect of Business Rate Supplements~~
- ~~ef) contributions:~~
 - towards previous year's Collection Fund deficit – council tax
 - towards previous year's Collection Fund deficit – non-domestic rates
 - adjustment of previous years' community charges

Amounts required by statute to be debited to the Collection Fund

- ~~fg) precepts and demands from major preceptors (specify) and the authority =~~
council tax
- ~~h) business rate:~~
payment to national pool

- costs of collection shares of non-domestic rating income to major preceptors (specify) and the (billing) authority – non-domestic rates
- i) payment with respect to Central Share (including allowable deductions) of the non-domestic rating income to be paid to central government by billing authorities
- j) transitional protection payment receivable, if applicable
- h)k) Business Rate Supplements:
payments to levying authority's Business Rate Supplement Revenue Account
administrative costs
- ii) impairment of debts/appeals for council tax:
write-offs of uncollectable amounts
allowance for impairment
- m) impairment of debts/appeals for non-domestic rates:
write-offs of uncollectable amounts
allowance for impairment
- n) charge to General Fund for allowable collection costs for non-domestic rates
- o) transfers to General Fund for, where applicable, "amounts to be disregarded" in accordance with statutory requirements, reported separately by major Scheme
- jp) contribution:
towards previous year's estimated Collection Fund surplus – council tax
towards previous year's estimated Collection Fund surplus – non-domestic rates
adjustment of previous years' community charges
- kg) movement on fund balance (reported separately for council tax, non-domestic rates, business rates supplements and community charges)
- rl) opening fund balance (reported separately for council tax, non-domestic rates, business rates supplements and community charges)
- ms) closing fund balance (reported separately for council tax, non-domestic rates, business rates supplements and community charges).

Council Tax Income Account (Scotland)

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

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

The accounting statement shall show:

- a) gross council tax levied and contributions in lieu

- ~~b)~~ council tax benefits (net of government grant)
- ~~eb)~~ discounts for prompt payment
- ~~ec)~~ other discounts and reductions
- ~~ed)~~ write-off of uncollectable debts and allowance for impairment
- ~~fe)~~ adjustment to previous years' community charge and council tax
- ~~gf)~~ transfers to General Fund.

Non-Domestic Rate Account (Scotland)

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

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

The accounting statement shall show:

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

3.69.4 Disclosure Requirements

3.69.4.1 Having regard to paragraph 3.4.2.2526 -of the Presentation of Financial Statements section of the Code, authorities shall disclose the following notes in relation to the Collection Fund (England), the Council Tax Income Account (Scotland) and the Non-Domestic Rate Account (Scotland):

Collection Fund (England)

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

Council Tax Income Account (Scotland)

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

Non-Domestic Rate Account (Scotland)

- 5) Analysis of rateable values at the beginning of the year.
- 6) An explanation of the nature and amount of each rate fixed.

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

3.69.5 Statutory Disclosure Requirements

3.69.5.1 There are no statutory disclosure requirements in relation to accounting for the Collection Fund (England), the Council Tax Income Account (Scotland) and the Non-Domestic Rate Account (Scotland).

3.69.6 Changes since the 20112/123 Code

3.69.6.1 ~~There is~~ have been no changes in accounting for the Collection Fund (England), the Council Tax Income Account (Scotland) and the Non-Domestic Rate Account (Scotland) since the 2011/12 Code. section of the Code has been amended for the changes required for localisation of business rates in England and for amendments to recognise locally retained business rates in Scotland.