States of Jersey

STATES OF JERSEY
FINANCIAL REPORTING MANUAL

Version 8.2
Based on UK FReM 2014-2015

TREASURY
& RESOURCES

R.46/2017

Contents

1 Introduction

Chapter 1 Contents

1.1 Objectives and scope of the Manual

1.1.1 The Financial Reporting Manual is the technical accounting guide to the preparation of financial statements for the States of Jersey. It is complemented by guidance issued by the Treasurer of the States such as Financial Directions and the Capital Accounting Manual. The Manual is based on the UK Treasury Financial Reporting Manual, adapted for States of Jersey specific situations.

1.1.2 The FReM applies directly to entities defined in Chapter 4 whose accounts are required to be consolidated in the accounts of the States of Jersey.

1.1.3 The principles underlying the application of accounting standards set out in this Manual may also be applied to other funds and accounts within the Jersey public sector. The Manual does not, however, consider the accounting requirements of these funds and accounts any further.

1.1.4 This Manual applies EU adopted IFRS and Interpretations in effect for accounting periods commencing on or before 1 January 2014.

1.2 Using the Manual

1.2.1 The Manual provides guidance on the application of IFRS, adapted and interpreted for the public sector context. In particular, when preparing the Accounts, the following should be noted:

a) in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, accounting policies set out in IFRSs need not be applied when the effect of applying them is immaterial;

b) in accordance with IAS 1 *Presentation of Financial Statements*, applying the concept of materiality means that a specific disclosure requirement in a Standard or in an Interpretation need not be satisfied if the information is not material (disclosures should be limited to those necessary for an understanding of the entity's circumstances); and

c) for the avoidance of doubt, there is no need to develop accounting policies, or provide disclosures, in relation to accounting standards that do not apply to the States of Jersey's circumstances or are immaterial.

1.2.2 In addition the format and content of financial statements need to meet the information needs of the users of those financial statements.

1.2.3 Guidance will be issued to assist entities in applying the Financial Reporting Manual.

1.3 Budgetary Controls

1.3.1 Accounting policies are generally common to both accounting and budgeting.

1.3.2 In selecting relevant accounting policies (see chapter 2), the States should have regard to budgetary and control requirements, but should give paramount importance to the need for financial statements to give a true and fair view.

2 Accounting principles

Chapter 2 Contents

2.1 Application of generally accepted accounting practice

General

2.1.1 The accounting policies contained in this Manual follow generally accepted accounting principles (GAAP) to the extent that it is meaningful and appropriate in the public sector context. Although the term ‘GAAP’ has no statutory or regulatory authority, for the purposes of this Manual, GAAP is taken to be:

a) the accounting and disclosure requirements of the Companies Act 2006 of the United Kingdom (the UK Companies Act);

b) pronouncements by or endorsed by the International Accounting Standards Board (IASB), including the *Framework for the Preparation and Presentation of Financial Statements*, the accounting standards – international accounting statements (IAS) and international financial reporting standards (IFRS) – and interpretations thereof issued by the Standards Interpretations Committee (SIC) or its successor, the International Financial Reporting Interpretations Committee (IFRIC);

c) the body of accumulated knowledge built up over time and promulgated in (for example) textbooks, technical journals and research papers.

2.1.2 For clarity, pronouncements as described in b) above are as reflected in the 2014-15 Financial Reporting Manual issued by HM Treasury (the ‘UK FReM’). The States of Jersey therefore applies all such pronouncements as were relevant and effective at the date of issue of the UK FReM.

2.1.3 For the purposes of accounting by the entities covered by this Manual, GAAP is taken to mean primarily those items listed under (a), and (b) above, interpreted as necessary in the light of the body of accumulated knowledge under (c). References throughout the manual are made to the UK Companies Act. Although the States of Jersey is not required to comply with this legislation it has chosen to consider its requirements as best practice and comply with those requirements which it considers relevant.

2.1.4 In addition to the general principles underlying GAAP, entities covered by the requirements of this Manual need to apply two additional principles – political accountability and regularity. These principles are explained in the context of the States of Jersey in the separate Financial Directions.

Accounting convention

2.1.5 Financial statements should be prepared under the historical cost convention, modified by the revaluation of assets and liabilities to fair value as determined by the relevant accounting standards, subject to the interpretations and adaptations of those standards in this Manual.

No exemptions for smaller entities

2.1.6 The International Financial Reporting Standard for Small and Medium-sized Entities brings together those accounting standards and requirements that are applicable to small and medium-sized entities. Adoption is not available to any entity covered by the requirements of this Manual.

Practical application of guidance

2.1.7 The following chapters refer to practical guidance on the application of GAAP where the Treasurer of the States feels that such guidance will assist in preparing the financial statements. The Treasurer of the States will provide additional guidance on request.

2.2 Preparation and Presentation of Financial Statements

Legal Responsibility for the preparation of Financial Statements

2.2.1 The Public Finances (Jersey) Law 2005, states the following:

32 Treasurer to prepare annual financial statements in respect of accounts of the States

(1) The Treasurer must –

(a) prepare an annual financial statement in respect of the accounts of the States for a financial year within 3 months of the end of the year; and

(b) send the statement to the Comptroller and Auditor General for auditing.

(1A) The statement must include –

(a) the accounts of the Social Security Fund maintained under Article 30 of the Social Security (Jersey) Law 1974 and of the Social Security (Reserve) Fund maintained under Article 31 of that law;

(b) the accounts of the Health Insurance Fund established under Article 21 of the Health Insurance (Jersey) Law 1967; and

(c) the accounts of the Long-Term Care Fund established under Article 2 of the Long-Term Care (Jersey) Law 2012.

(2) The statement must be prepared in accordance with accounting standards issued by the Treasurer with the approval of the Minister.

(3) Paragraph (4) applies where paragraph (1A) or the accounting standards mentioned in paragraph (2) require the accounts of any person or body (whether or not incorporated) to be consolidated with those of the States.

(4) The person or body must provide the Treasurer with any information the Treasurer may require to prepare the annual financial statement.

IASB's Conceptual Framework for Financial Reporting (the Conceptual Framework)

2.2.2 The Conceptual Framework sets out the principles that the IASB believes should underlie the preparation and presentation of general purpose financial statements. In particular, preparers should be familiar with the objective of financial statements, which is to provide financial information about the reporting entity or reportable activity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to it. For the States of Jersey the objective of the financial statements is also to provide information about its financial position, financial performance, changes in financial position and cash flows that is useful to a wide range of users to permit them to assess the stewardship and accountability of management for the resources entrusted to them.

2.2.3 The key users of the information in the financial statements of the States of Jersey are the States Assembly. Other users include the Corporate Management Board, the States of Jersey audit committee and the taxpayer.

2.2.4 In presenting information in their financial statements, preparers should also be familiar with the:

- underlying assumption (financial statements shall be prepared on a going concern basis);
- qualitative characteristics of financial statements;
- elements of financial statements;
- recognition of the elements of financial statements; and
- measurement of the elements of financial statements.

2.2.5 The Conceptual *Framework* notes that financial statements cannot meet all the information needs of users, who may need to consider pertinent information from other sources. However, the provision of financial statements that meet the requirements of the States Assembly will also meet most of the needs of other users.

Financial statements must give a true and fair view

2.2.6 Financial statements prepared in accordance with the requirements of this Manual:

a) should give a true and fair view of the state of affairs of the States of Jersey at the end of the financial year and of the results for the year; and

b) where, in exceptional circumstances, the Treasurer of the States concludes that compliance with a requirement in the JFReM would be so misleading that it would conflict with the objective of the financial statements set out in the Framework it shall depart from that requirement following the principles set out at paragraphs 20-24 of IAS 1. Particulars of any departure, the reasons for it and its effects should be disclosed in the financial statements.

Interpretation of section 393 of the UK Companies Act 2006 for the public sector context

2.2.7 The objectives of section 393 of the UK Companies Act 2006 are to ensure that directors of a company do not approve accounts unless they are satisfied that those accounts give a true and fair view of the assets, liabilities, financial position and profit or loss either of the company or of the group as a whole, as appropriate. Section 393 also requires the auditor of a company, in carrying out his or her functions under the Act, to have regard to the directors' duty.

2.2.8 In applying section 393 of the UK Companies Act 2006, preparers of financial statements should be aware of the following interpretation for the public sector context:

a) any references to 'directors' and 'company' should be read to mean, respectively, the Treasurer of the States and the States of Jersey.

3 Political Accountability

Chapter 3 Contents

3.1 The Statement of Outturn against Approvals

Introduction

3.1.1 This section of the chapter explains the Statement of Outturn against Approvals. Approvals refer to:

a) amounts of income from taxation intended to be raised approved by the States in the Budget Statement;

b) appropriations to revenue heads or capital heads of expenditure approved by the States in the Medium Term Financial Plan or Budget Statement, after any amendments approved in accordance with the Public Finances (Jersey) Law 2005. Under the Public Finances (Jersey) Law 2005, the approval by the States of a revenue or capital head of expenditure authorises the body to withdraw amounts not exceeding that approval from the consolidated fund; and

c) estimates of States Trading Operations approved by the States in the Medium Term Financial Plan or Budget Statement.

The Statement of Outturn against Approvals

3.1.2 The Statement of Outturn against Approvals is the States' accountability statement. It reports the following to the States:

a) a comparison of outturn against the approval for each head of expenditure (or equivalent) for both net revenue expenditure, and capital expenditure;

b) a reconciliation of the revenue outturn to net revenue expenditure disclosed in the Statement of Comprehensive Net Expenditure; and

c) a statement showing the unallocated consolidated fund balance at the end of the financial year.

3.1.3 Explanations of variances between the Approval and outturn should be given in the Management Commentary and the Annex to the Accounts.

The Notes to the Statement of Outturn against Approvals

3.1.4 The Statement of Outturn against Approvals is supported by Notes to the Statement. The following information must be given in the supporting notes.

Note a) Statement of Accounting Policies

3.1.5 This note sets out the accounting policies followed in compiling the Statement of Outturn against Approvals and the associated notes. It sets out the basis that has been used and explains any interpretations of the system that have been applied to the accounts.

Note b) Analysis of net revenue expenditure outturn

3.1.6 This note analyses the net revenue expenditure outturn against approval as follows:

a) Net General Revenue Income by income line as presented in Summary Table A of the Budget Statement, against the Estimate.

b) Near cash net revenue expenditure outturn for the Consolidated Fund by head of expenditure, comparing the net total outturn for each head of expenditure with the Approval.

c) Non-cash net revenue expenditure outturn for the Consolidated Fund by head of expenditure, comparing the net total outturn for each head of expenditure with the Approval.

d) Net revenue expenditure outturn for each Trading Operation, comparing the net total outturn for each operation with the Estimate.

3.1.7 A brief explanation of the reasons for variances between Approvals and outturn, should be given in the Management Commentary and Annex to the Accounts.

Note c) Analysis of capital expenditure outturn

3.1.8 This note analyses the capital expenditure outturn against approval as follows:

a) Capital expenditure outturn for the Consolidated Fund by head of expenditure, comparing the net total outturn for each head of expenditure with the Approval.

b) Capital expenditure outturn for Trading Operations by project, comparing the net total outturn for each project with the Estimate.

Note d) Reconciliations

3.1.9 This note reconciles the information in the Statement as follows:

a) Net revenue expenditure approvals in the Medium Term Financial Plan to the Final Approved Budget.

b) Net revenue expenditure outturn (from Note a) to the net revenue expenditure shown in the Statement of Comprehensive Net Expenditure.

c) Capital expenditure approvals in the Budget Statement to the Final Approved Budget.

d) Capital expenditure to fixed asset additions recorded in the Accounts.

e) Movement in the unallocated consolidated fund balance.

Other notes relating to Political accountability

3.1.10 In addition to the requirements for notes supporting the Statement of Outturn against Approvals the States should also disclose in notes to the accounts:

a) a statement of losses, special and other payments;

b) gifts made over a prescribed limit; and

c) details of loans outstanding at the year end.

4 Accounting boundaries

Chapter 4 Contents

4.1 Accounting standards

4.1.1 The following accounting standards deal with accounting boundaries:

IFRS 10 Consolidated Financial Statements;

IFRS 11 *Joint Arrangements;*

IFRS 12 *Disclosure of Interests in Other Entities;*

IAS 27 *Separate Financial Statements;*

IAS 28 *Investments in Associates and Joint Ventures; and*

IFRS 3 *Business Combinations.*

Applicability

4.1.2 The States of Jersey shall prepare an annual report and consolidated financial statements (as defined in Chapter 5) covering all entities within its consolidation boundary.

4.1.3 The group boundary is similar to the concept of a group under generally accepted accounting practice, but it is based on direct control. Direct control will normally be evidenced by the States, Council of Ministers or a Minister exercising in year control over operating practices, income, expenditure, assets or liabilities of the entity.

4.1.4 The following principles are to be applied when considering whether an entity is within or without the group boundary:

- Entities which are under the direct control of the States, Council of Ministers, a Minister or Corporate Management Board for reasons of the proper governance of the Island's affairs, the realisation of value for the States' interests or the management of the States' liabilities shall be considered within the group boundary. The States considers that it has direct control over the subsidiary companies being States of Jersey Development Company, Andium Homes Limited and Ports of Jersey Limited and as such they are deemed to be within the group boundary.
- Entities which are not under the direct control of the States, Council of Ministers, a Minister or Corporate Management Board for similar reasons shall not be considered within the group boundary.
- The operation of the Common Investment Fund (the 'CIF') as an administrative arranagement is under the direct control of the States. However, in the States of Jersey consolidated financial statements, only the proportion of the CIF which relates to participant entities within the group boundary will be consolidated.

4.1.5 Trust funds (including bequest funds) shall be outside of the States of Jersey accounting boundary.

4.1.6 Where one entity has an investment

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4.1.9 in a second entity that does not meet the criteria for consolidation, it should be treated as an investment in the States of Jersey consolidated financial statements. Investments in other entities should be accounted for following the requirements of IAS 39. For clarity: the States does not have direct control of the following entities which are accounted for as Strategic Investments:

- JT Group Limited;
- Jersey Post International Limited;
- Jersey Electricity plc; and
- Jersey New Waterworks Company Limited.

4.1.10 For the purposes of applying the principles of consolidation, the States of Jersey will be the parent entity in the consolidated financial statements. The States of Jersey will only present consolidated financial statements, and not the primary statements and notes of the parent entity. The financial statements of all entities whose results are to be consolidated will generally have the same accounting reference date.

4.2 Business Combinations

Applicability

4.2.1 IFRS 3 excludes from its scope business combinations involving entities or businesses under common control. Public sector bodies within the States of Jersey accounting boundary are deemed to be under common control. The combination of two or more public sector bodies within the Accounting Boundary into one new body, or the transfer of functions from the responsibility of one part of the public sector to another, will be accounted for as either a Transfer by Merger or as a Transfer by Absorption as detailed below.

4.2.2 For the purposes of this manual, a function is defined as an identifiable business operation with an integrated set of activities, staff and recognised assets and/or liabilities that are capable of being conducted and managed to achieve the objectives of that business operation.

4.2.3 IFRS 3 applies to all combinations involving an entity or entities within the accounting boundary with an entity outside the Accounting Boundary.

4.2.4 When a business combination has been incorrectly reported by preparers, IAS 8 should be applied in determining whether it is necessary to adjust retrospectively for material errors, as set out in Chapter 2 of this Manual. Any prospective change to an entity's reporting boundary where the business combination is not under common control should apply IFRS 3 in full.

Transfer by Merger or Transfer by Absorption

4.2.5 The accounting treatment for transfers of function under common control should be determined by aligning the reporting with the accountability for financial performance. The underlying objective is to ensure the financial reporting supports the accountability for the transferring function, and to do so in a symmetrical way to ensure there is no transparency gap. As both entities will be within the Accounting Boundary there will be no effect on the consolidated financial statements.

4.2.6 Under a Transfer by Merger, the carrying value of the assets and liabilities of the combining bodies or functions are not adjusted to fair value on consolidation. The results and cash flows of all the combining bodies (or functions) should be brought into the financial statements of the combined body from the beginning of the financial year in which the combination occurred. Restatement of comparatives including that of the results for all the combining bodies (or functions) for the previous period, should be provided in accordance with IAS 1 as interpreted by this manual. Comparatives should be adjusted as necessary to achieve uniformity of accounting policies and consistency of presentation.

4.2.7 Under a Transfer by Absorption the carrying value of the assets and liabilities of the combining bodies or functions are not adjusted to fair value on consolidation. There should be no recognition of goodwill and no restatement of comparatives in the primary financial statements. The recorded amounts of net assets should be brought into the financial statements of the transferee from the date of transfer. The net asset/liability carrying value should be recorded at carrying value. Revaluation reserves should be transferred in full, with the remaining balance transferred to the accumulated reserve.

Disclosure

4.2.8 An entity that receives a transfer of functions should disclose in its pages in the Annex to the Accounts that the transfer has taken place (including a brief description of the transferred function), giving the date of the transfer, the name of the transferring body and the effect on the financial statements. Where accounted for as a Transfer by Absorption, the reporting entity should apply judgment as to whether the additional disclosure of financial performance of the function should be provided, to enable users to understand the operation performance.

4.2.9 An entity that transfers functions to another entity should provide the same information about the transfer in its pages in the Annex to the Accounts.

Other requirements

4.2.10 Transfers of non-current assets that are not part of a transfer of functions should be transferred at fair value following the fair value measures in IFRS 3. Where a States Decision specifies the value that should be used for such a transfer, this will be used instead (for example the Protocols for the Transfer of assets to and from the States of Jersey Development Company included in P.73/2010).

5 Form and content of the annual report and accounts

Chapter 5 Contents

5.1 Introduction

5.1.1 This chapter sets out the requirements for the format and content of the annual reports and accounts of the States of Jersey, incorporating the entities covered by the requirements of this Manual. The annual report and accounts includes:

a) the annual report (section 5.3);

b) a statement of the Treasurer of the States and Accounting Officers' respective responsibilities (see paragraph 5.4.2);

c) a governance statement (see paragraph 5.4.3);

d) the primary financial statements and notes (section 5.5); and

e) the audit opinion and report.

5.1.2 Reporting entities that comply with this Manual and are not incorporated as companies will apply chapters 4, 5 and 6 of Part 15 of the UK Companies Act 2006, plus associated statutory instruments, with interpretation for the public sector context. The remaining chapters of Part 15 will not apply.

5.1.3 Guidance on the requirements for a Statement of Outturn against Approvals is set out in Chapter 3.

Summary financial information

5.1.4 If the States wishes to publish a document additional to its annual report and accounts that contains summary financial information it should comply with the requirements of section 426 of the UK Companies Act 2006. The summary data must not be published in advance of the full annual report and accounts

5.2 The Minister's Report

5.2.1 The Minister for Treasury and Resources will prepare a report to accompany the Annual Report and Accounts. The contents of this report will be subject to review by auditors.

5.2.2 The Minister's Report shall be signed and dated by the Minister for Treasury and Resources.

5.3 The annual report

Scope of the annual report

5.3.1 The States of Jersey shall prepare an annual report for inclusion as part of the accounts containing the matters to be dealt with:

- in a Strategic Report as set out in Chapter 4A of Part 15 of the UK Companies Act 2006, as interpreted for the public sector context;

- in a Directors' Report as set out in Chapter 5 of Part 15 of the UK Companies Act 2006 and Schedule 7 of SI 2008 No 410, as interpreted below for the public sector context; and
- in a Remuneration Report as set out in Chapter 6 of the UK Companies Act 2006 and Schedule 8 of SI 2008 No 410, as interpreted below for the public sector context. (Chapter 9 of Part 15 of the UK Companies Act 2006 shall not apply).

5.3.2 Auditors will review the Annual Report for consistency with other information in the financial statements. They are required to express an opinion on the consistency of the Strategic and Directors' Reports elements of the Annual Report as interpreted for the public sector context. These elements will include:

- details of the directors (see paragraph 5.3.10);
- the management commentary (comprising the Strategic Report and Directors' Report) (paragraph 5.3.3);
- progress against key performance indicators, which is within the Annex (paragraph 5.3.5); and
- the preparation of a sustainability report (paragraph 5.3.4)

In order that readers of the Annual Report can identify those paragraph that are subject to the auditors' opinion on consistency, the contents outlined above should be clearly identified by way of headings.

Where there are cross references to information in other sections of the Annual Report, the consistency opinion will be extended to cover this other information.

Strategic report: interpretation of the UK Companies Act requirements for the public sector context

<u>Contents of strategic report – interpretations for the public sector context</u>

5.3.3 The annual report shall contain a strategic report, which shall disclose the matters required to be disclosed in the strategic report under section 414C of the UK Companies Act 2006 as interpreted below.

a) "Members" (s.414C(1)) shall be interpreted to be all users of the accounts;

b) The States of Jersey should treat itself, for the purposes of ss 414C(7), (8) and (9), as if it were a quoted company;

c) In relation to s.414C(2) and s.414C(3) the strategic report should be self-standing and comprehensive in its scope. However, some information might be given in other documents in the cycle of accountability to the States of Jersey and the public. In such cases, the strategic report should provide summarised information with adequate cross-references to the other documents;

d) In relation to s.414C(7)(a) the strategic report should disclose, where applicable, the financing implications of significant changes in the States of Jersey's objectives and activities, its investment strategy and its long-term liabilities (including significant provisions and PFI and other leasing contracts);

e) Sections 414C(7)(b)(i) and (iii) require information on environmental matters and social, community and human rights issues respectively. Environmental issues are covered in the sustainability report within the strategic report (see paragraph

5.3.4 below). Social, community and human rights issues should be disclosed to the extent necessary for the understanding of the business.

f) In relation to section 414C(8)-(10) senior manager is taken to be any member of staff above a Civil Service Grade 15 or equivalent.

5.3.4 The States will produce a sustainability report to be included within the Management Commentary, reporting performance against sustainability targets and their related expenditure.

5.3.5 (S414C(4)) For departments, the Annex to the Financial Statements will satisfy the requirement in the Reporting Statement to disclose performance against key performance indicators.

5.3.6 In addition to the matters described in section 414C of the UK Companies Act 2006, the annual report shall disclose the following information:

a) a comparison of outturn against approvals, with detailed explanations of the causes of significant variances where applicable;

b) a description of the entities within the accounting boundary, together with the names of those persons holding the post of Accounting Officer or equivalent during the year for that entity;

c) the names of any public sector bodies outside the boundary;

d) a description of the States of Jersey reporting cycle, including the business planning and budgeting process, and how readers can obtain further information on these subjects;

e) commentary on the States of Jersey's significant remote contingent liabilities (not disclosed under IAS 37) to enable the reader to understand their nature and what steps the States is taking to minimise the risk of their crystallising; and

f) an explanation of the adoption of the going concern basis where this might be called into doubt, for example where there are significant net liabilities.

Approval and signing of the strategic report

5.3.7 Sections 414D(1) to 414D(3) of the UK Companies Act 2006 shall not apply.

5.3.8 The Treasurer of the States shall sign and date the strategic report.

Duty to provide information on the matters contained in the strategic report

5.3.9 Sub-sections 414A(5) and 414A(6) of the UK Companies Act 2006 shall not apply.

Directors' report: interpretation of the UK Companies Act requirements for the public sector context

Duty to provide information on the matters contained in the Directors' report

5.3.10 The annual report shall contain a directors' report, which shall disclose the matters required to be disclosed in the directors' report under section 416 of the UK Companies Act 2006 as interpreted below.

5.3.11 The term ‘directors’ is interpreted to mean Accounting Officers (with the exception of the Comptroller and Auditor General and Accounting Officers of minor departments to be approved by the Minister for Treasury and Resources) and the Council of Ministers, except where otherwise noted (paragraph 5.3.15).

5.3.12 Sub-sections 415(4) and 415(5) of the UK Companies Act 2006 shall not apply.

Contents of directors’ report: interpretations for the public sector context

5.3.13 In addition to the matters described in section 416 of the UK Companies Act 2006, the annual report shall disclose the following information:

a) an indication of how pension liabilities are treated in the accounts and a reference to the statements of the relevant pension scheme. A cross-reference to the accounting policy note in the accounts and the remuneration report will normally be sufficient;

b) details of company directorships and other significant interests held by directors which may conflict with their management responsibilities. Where a Register of Interests that is open to the public is maintained, disclosure may be limited to how access to the information in that Register may be obtained;

c) information regarding the disclosure of the remuneration paid to the auditors for any non-audit work undertaken by the auditors as required by Regulations made under Section 494 of the UK Companies Act 2006;

d) sickness absence data; and

e) reporting of personal data related incidents.

Contents of directors’ report: statement as to disclosure to auditors

5.3.14 Sub-sections 418(5) and 418(6) of the UK Companies Act 2006 shall not apply.

Approval and signing of directors’ report

5.3.15 Section 419 of the UK Companies Act 2006 shall not apply.

5.3.16 The Treasurer of the States shall sign and date the directors’ report.

Remuneration report: interpretation of the UK Companies Act requirements for the public sector context

5.3.17 Certain disclosures in the remuneration report are subject to audit and these elements must be clearly annotated within the remuneration report as being subject to audit.

Duty to prepare directors’ remuneration report

5.3.18 Sub-sections 420(2) and 420(3) of the UK Companies Act 2006 shall not apply.

5.3.19 References in the Act to ‘Directors’ are interpreted in paragraph 5.3.10.

Contents of directors' remuneration report

5.3.20 Section 421 of the UK Companies Act 2006 requires the preparation of a Remuneration Report containing certain information about the directors' remuneration in accordance with the requirements of Part 4 of Schedule 8 of Statutory Instrument 2008 No. 410. Certain information is subject to audit (see Part 5 of Schedule 8 of SI 2008 No. 410) and will be referred to in the audit opinion.

5.3.21 The States of Jersey shall include information under the headings in SI 2008 No. 410 to the extent that they are relevant. (For example, the line graph required in Part 3 of Schedule 8 will not be applicable).

5.3.22 There is a presumption that information about named individuals will be given in all circumstances and all disclosures in the remuneration report will be consistent with those in the financial statements. Non-disclosure is acceptable only where publication would:

- prejudice the rights, freedom or legitimate interest of the individual; or
- cause or be likely to cause substantial damage or substantial distress to the individual or another, and that damage or distress would be unwarranted,

which for entities covered by the requirements of this Manual include where an individual may be at risk if his or her name is disclosed. Where non-disclosure is agreed, the fact that certain disclosure has been omitted should be disclosed.

5.3.23 The following interpretations apply:

a) salaries should be disclosed in bands of £5,000 for officials and actual amounts for ministers. Salary and allowances covers both pensionable and non-pensionable amounts and includes, but may not necessarily be confined to: gross salaries; overtime; recruitment and retention allowances; private-office allowances or other allowances and any ex-gratia payments. It does not include amounts which are a reimbursement of expenses directly incurred in the performance of an individual's duties. Where applicable, performance pay or bonuses payable should be separately reported from salaries, in bands of £5,000;

b) if a payment for compensation for loss of office (paid or receivable) has been made under the terms of an approved Compensation Scheme, the fact that such a payment has been made should be disclosed;

c) the estimated value of non-cash benefits (benefits in kind) should be disclosed to the nearest £100; and

d) the median earnings of the States workforce and the ratio between this and the earnings of the highest paid employee. The calculation is a form of average, representing a theoretical individual that half of employees earned more than, and half earned less than. Individuals who work part time or on a Zero Hours contract, or who worked for part of the year are included in this calculation which is based on actual amounts paid.

e) the information on pensions should be disclosed as follows:

- the real increase during the reporting year in the pension and (if applicable) related lump sum at retirement age in bands of £2,500;

- the value at the end of the reporting year of the accrued pension and (if applicable) related lump sum at retirement age in bands of £5,000;
- the value of the cash equivalent transfer value at the beginning of the reporting year to the nearest £1,000;
- the real increase in the cash equivalent transfer value during the reporting year, to the nearest £1,000; and
- the value of the cash equivalent transfer value at the end of the reporting year to the nearest £1,000.

f) The remuneration report shall also include a segmental analysis of numbers of staff whose remuneration exceeds £100,000, by £10,000 band.

g) Part 3 of Schedule 8 of Statutory Instrument 2008 No. 410 requires certain information to be included in the annual report section of the remuneration report.

Approval and signing of directors' remuneration report

5.3.24 The Remuneration Report shall be signed and dated by the Treasurer of the States.

5.4 Statements of Responsibility

5.4.1 This section of the chapter applies to all entities covered by the requirements of this Manual.

Statement of responsibilities for the Accounts

5.4.2 The Treasurer of the States should explain his/her responsibility for preparing the financial statements The Statement should also explain the responsibilities of Accounting Officers. The Statement should be positioned after the Annual Report and before the Governance Statement.

Governance Statement

5.4.3 The Chief Executive of the States of Jersey and the Treasurer of the States shall prepare a Governance Statement. They should refer to guidance in Financial Directions published separately by the Treasurer of the States for Governance Statements. Reference should also be made to the governance structure in place for the States of Jersey.

5.4.4 Accounting Officers of all entities covered by the requirements of this Manual shall prepare a Governance Statement. Entities should refer to guidance in Financial Directions published separately by the Treasurer of the States for Governance Statements. In preparing the statement, the Accounting Officer should reflect the particular circumstances in which the entity operates, and adapt the statement accordingly. These statements should not be included in full in the financial statements, but reference should be made as to where they can be located.

5.4.5 The Chief Executive of the States of Jersey and the Treasurer of the States shall sign and date the Governance Statement.

5.5 The Annual Accounts

Introduction

5.5.1 This section of the chapter provides guidance on the format and content of the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Changes in Equity and the Statement of Cash Flows, together with the relevant notes.

5.5.2 In addition to the requirements of the UK Companies Act (see paragraph 5.5.4), this section considers the following accounting standards that prescribe and provide guidance on the formats of, and disclosures in, financial statements:

IAS *1 Presentation of Financial Statements*;

IAS *7 Statement of Cash Flows*;

IAS 10 *Events after the Reporting Period*;

IAS 24 *Related Party Disclosures*; and

IFRS 8 *Operating Segments*.

5.5.3 Other accounting standards, which are dealt with in other chapters of this Manual, might include disclosure requirements. Unless indicated otherwise, those disclosure requirements apply in full.

Requirements of the UK Companies Act 2006

5.5.4 Chapter 4 of Part 15 of the UK Companies Act 2006 deals with the form and content of company accounts, the form and content of group accounts and the disclosure of information about related undertakings. The following interpretations of Chapter 4 of Part 15 of the UK Companies Act 2006 apply:

a) sections 394, 395, 396, 398 to 405 and 407 shall not apply. The duty to prepare accounts, together with the applicable accounting framework, is laid down in the Public Finances (Jersey) Law 2005 (see para 2.2.1);

b) sections 397 and 406 shall be interpreted as a requirement to state in the notes to the accounts that the financial statements have been prepared in accordance with this Manual (see para **Error! Reference source not found.** for the detailed wording);

c) the term “subsidiary undertakings” used in various sections shall be interpreted to mean those entities consolidated into the entity’s financial statements and the term “related undertakings” shall be interpreted to mean those entities outside the reporting boundary;

d) section 408 is superseded by the interpretations of IAS 1 (see below);

e) entities shall provide the information about related undertakings required under section 409 (unless entities apply section 410) as set out in Statutory Instrument 2008 No. 410;

f) the information required by section 411 shall be presented as full time equivalent staff under the following headings:

- staff with an employment contract with the entity;
- States Members.

Reference should be made to the fact that non-States staff (such as agency staff) have been excluded from this analysis.

(Note that the requirements of section 411 override IAS 1.IN13(b) where the requirement to disclose the number of an entity's employees is not required.)

g) where the information required under sections 412 and 413 is readily ascertainable from other information given in the financial statements or in the directors' remuneration report, that information need not be repeated in the notes to the accounts; and

h) the signature referred to in sections 414(1) and 414(2) is that of the Treasurer of the States and Minister for Treasury and Resources. Sections 414(3) to 414(5) shall not apply.

IAS 1 Presentation of Financial Statements (excluding paragraphs 15 to 46)

Statement of Comprehensive Net Expenditure

5.5.5 IAS 1 requires entities to prepare a Statement of Comprehensive Income. The States of Jersey shall prepare a Statement of Comprehensive Net Expenditure in accordance with the format shown below.

5.5.6 Statement of Comprehensive Net Expenditure

	20XX £'000	20YY £'000
Revenue		
Levied by the States of Jersey		
Taxation revenue	X	X
Social Security Contributions	X	X
Island rates, duties, fees, fines and penalties	X	X
Total Revenue Levied by the States of Jersey	**X**	**X**
Earned through Operations		
Sales of goods and services	X	X
Investment income	X	X
Other revenue	X	X
Total Revenue Earned through Operations	**X**	**X**
Total Revenue	**X**	**X**
Expenditure		
Social Benefit Payments	X	X
Staff costs	X	X
Other Operating expenses	X	X
Grants and Subsidies payments	X	X
Depreciation and Amortisation	X	X
Impairments	X	X
Gains on disposal of non-current assets	X	X
Finance costs	X	X
Net foreign-exchange losses	X	X
Movement in pension liability	X	X
Total Expenditure	**X**	**X**
Net Revenue Expenditure/income	**X**	**X**
Other Comprehensive Income		
Revaluation of Property, Plant and Equipment	X	X
Gain/Loss on Revaluation of Strategic Investments during the period	X	X
Reclassification adjustments for gains/losses included in Net Revenue Expenditure	X	X
Gain/Loss on Revaluation of Other Available for Sale Investments during the period	X	X
Reclassification adjustments for gains/losses included in Net Revenue Expenditure	X	X

Actuarial Gain in respect of Defined Benefit Pension Schemes	X	X
Total Other Comprehensive Income	**X**	**X**
Total Comprehensive Expenditure/Income	**X**	**X**

5.5.7

Statement of Financial Position

5.5.8 IAS 1 requires entities to prepare a Statement of Financial Position and provides guidance on the minimum presentation required on the face of the statement of financial position.

Interpretation of the statement of financial position requirements in IAS 1 for the public sector context

5.5.9 For the public sector, the flexibility provided in IAS 1 to select the order of presentation of line items on the Statement of Financial Position and to present on a liquidity basis is withdrawn. To ensure consistency and comparability, the States of Jersey should prepare their Statements of Financial Position in accordance with the format shown below, with additional line disclosure as necessary so as properly to reflect the entity's financial position, capital and reserves.

5.5.10

	Notes	**20XX £000**	**20YY £000**
Non-current assets			
Current assets			
Total assets			
Current Liabilities			
Total Assets Less Current Liabilities			
Non-current Liabilities			
Assets Less Liabilities			
Taxpayers' Equity			

Statement of Changes in Equity

5.5.11 IAS 1 requires entities to prepare a Statement of Changes in Equity.

Interpretation of the Statement of Changes in Equity requirements in IAS 1 for the public sector

5.5.12 The States of Jersey will present a Statement of Changes in Taxpayer's Equity following the format in IAS 1.

Comparative information

5.5.13 IAS 1 provides guidance on the comparative information to be disclosed in the financial statements.

Capital

Interpretation of the capital disclosures requirements in IAS 1 for the public sector context

5.5.14 The financing of public sector entities is ultimately tax-based and an IAS 1-based notion of capital does not apply to many of them. Capital disclosures should be given only where this is appropriate to the States of Jersey.

IAS 7 Statement of Cash Flows

5.5.15 The following requirements should be observed:

a) the States of Jersey should follow the format of the Statement of Cash Flows in IAS 7;

b) In analysing capital expenditure and financial investment, entities should adjust for debtors and creditors relating to capital expenditure and those relating to loans issued to or repaid by other entities in the accounting boundary; and

c) in analysing financing, departments should adjust for debtors and creditors relating to the capital expenditure in respect of finance leases and on-balance sheet PFI contracts.

Notes to the accounts

5.5.16 The following paragraphs provide guidance on note disclosure requirements for the public sector context (but see also paragraph 5.5.3).

Income

5.5.17 The Consolidated Accounts should provide an analysis of income, together with commentary where appropriate, that enables users of the financial statements to understand the nature of the States' income.

Staff numbers and related costs

5.5.18 The total of wages and salaries, social security costs and other pension costs should be disclosed. If staff costs have been capitalised, the amount should be disclosed at the bottom of the analysis of staff costs, together with any Non States staff costs, in order that the total should reconcile to Staff Expenditure in the Operating Cost Statement.

Grants and subsidies payments

5.5.19 A note should analyse all grants and subsidies payments by entity. It should categorise all grants/subsidies, and should separately disclose grants/subsidies of £75,000 or more to any individual/organisation in the year. In the rare instances where disclosure of this detailed information would seriously prejudice the position of the States of Jersey, a general disclosure should be made, together with a reason why the detailed information has not been disclosed.

Property, plant and equipment

5.5.20 As a minimum, entities should analyse their property, plant and equipment under the following headings, distinguishing between owned and leased assets.

information technology – hardware used for processing data and communications;

land – any land holdings and land underlying buildings (see below – land underlying or associated with social housing to be separately disclosed);

buildings excluding social housing – offices, warehouses, hospitals, barracks, hangars, runways, farms and multi-storey car parks, etc. Any underlying and associated land to be disclosed separately as noted above;

social housing – buildings used entirely or primarily as social housing, including any associated structures such as garages and parking areas. Any underlying and associated land, such as gardens and yards, to be separately disclosed;

networked assets – see 7.1.11. Underlying and associated land should be included;

transport equipment – equipment for moving people and/or objects, for example cars, lorries, trains, ambulances and aircraft;

plant, machinery, furniture and fittings – plant and machinery not covered by other categories, including scientific aids and surveillance equipment; office fittings, furniture, showcases, shelving etc.;

antiques and works of art – assets acquired for future generations, for example paintings, sculptures, recognised works of art, and antiques; and

payments on account and assets under construction – assets currently being built and not yet in use.

5.5.21 Operational heritage assets, and non-operational heritage assets that are capitalised, should be included under the appropriate heading.

Intangible assets

5.5.22 Entities should analyse their intangible assets under the following headings:

information technology and websites – software developed in-house or by third parties

development expenditure;

licences, trademarks and artistic originals – original films, sound recordings, etc. on which performances are recorded or embodied; and

patents – inventions that are afforded patent protection.

Trade and other receivables

5.5.23 Entities shall analyse trade and other receivables by type (as appropriate) as set out below:

a) Income Tax Receivables and Accrued Income;

b) GST Receivable and Accrued Income;

c) Provision for taxation receivables;

d) Trade receivables;

e) Prepayments and accrued income;

f) Other Receivables;

g) Provision for non-taxation debtors; and

h) PFI prepayment.

Cash and cash equivalents

5.5.24 The consolidated financial statements shall analyse cash balances between those held in current accounts and in hand. They will separately analyse amounts held on deposit and other cash equivalents.

Trade and other payables

5.5.25 The consolidated financial statements shall analyse payables by type (as appropriate) as set out below:

a) overdraft;

b) trade payables;

c) other payables;

d) Income Tax receipts in advance

e) accruals and deferred income;

f) receipts in advance

g) current part of imputed finance lease element of on-balance sheet PFI contracts;

h) current part of loans; and

i) other headings as appropriate.

Currency in circulation

5.5.26 A note should disclose the States liability in relation to currency in circulation, split between currency and coinage, including the balances held by the States of Jersey.

Provisions for liabilities and charges

5.5.27 In providing particulars of each provision, the consolidated financial statements shall state:

a) the nature of the provision;

b) how the provision is calculated;

c) the period over which expenditure is likely to be incurred; and

d) the discount rate where the time value of money is significant.

Commitments under PFI contracts

5.5.28 Commitments under Private Finance Initiative (PFI) contracts will need to be disclosed. The Treasurer of the States will provide advice on a case by case basis.

Third party assets

5.5.29 Third party assets are assets for which an entity acts as custodian or trustee but in which neither the entity nor government more generally has a direct beneficial interest. Third party assets are not public assets, and should not be recorded in the primary financial statements. Nor should third-party monies be held in public bank accounts.

5.5.30 In the interests of general disclosure and transparency, any third party assets should be reported by way of note. Where significant, the note should differentiate between:

a) third party monies and listed securities: the minimum level of numerical disclosure required is a statement of closing balances at financial year-end. For listed securities, this will be the total market value. Optionally, when considered significant by the entity and at its discretion, further disclosures may be made, including gross inflows and outflows in the year and the number and types of securities held;

b) third party physical assets and unlisted securities: disclosure may be by way of narrative note. For physical assets, the note should provide information on the asset categories involved. Such disclosure should be sufficient to give users of the financial statements an understanding of the extent to which third-party physical assets and unlisted securities are held by the entity; and

c) in the event that third party monies are found to have been in a public bank account at the end of an accounting year, commentary should be included in the note on cash at bank and in hand and in the disclosures above on the amount of third party monies held in the bank account.

Entities within the departmental boundary

5.5.31 The States of Jersey should disclose in a note to the accounts a list of entities within the accounting boundary.

5.5.32 A note including a Statement of Net Comprehensive Expenditure and Statement of Financial Position for each of the Social Security Fund, Health Insurance Fund, Social Security (Reserve) Fund, Long Term Care Fund and Jersey Dental Scheme should also be included.

Annex to Financial Statements

5.5.33 An annex to the consolidated financial statements should report on each entity included within the States of Jersey consolidation, except where separate published Accounts are produced by that entity.

5.5.34 Each entity should prepare a report in line with a format specified by the Treasury, including detail in order for a reader of the accounts to understand the performance of the entity and its material sources of income and expenditure.

5.5.35 In order to allow comparability with entity budgets, there will be no transaction or balance eliminations in the above reports (i.e. neither intra-entity transactions/balances nor inter-entity transactions/balances will be eliminated).

6 Applicability of accounting standards

Chapter Error! Reference source not found. **Contents**

6.1 EU adopted IFRS

6.1.1 A list of EU adopted IFRS is shown in Table 6.1, together with a record or whether they have been adapted or interpreted for the public sector context in this Manual. All standards apply to all reportable activities and reporting entities applying this Manual to the extent that each standard is relevant to those activities and in the light of any statutory requirements or other pronouncements that might from time to time be made by the Treasurer of the States.

Table 6.1

International Standard	**Applies without adaption**	**Applies as interpreted for public sector**	**Applies as adapted for public sector**
IFRS 1 First-time Adoption of IFRS		●	
IFRS 2 Share-based Payments	●		
IFRS 3 Business Combinations		●	
IFRS 4 Insurance Contracts	●		
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations		●	
IFRS 6 Mineral Resources	●		
IFRS 7 Financial Instruments: Disclosures	●		
IFRS 8 Operating Segments		●	
IFRS 10 Consolidated Financial Statements			●
IFRS 11 Joint Arrangements			●
IFRS 12 Disclosure of Interests in Other Entities			●
IFRS 13 Fair Value Measurement	IFRS 13 applies prospectively to entities covered by the Manual from 1 January 2017. Early adoption is not permitted.		
IAS 1 Presentation of Financial Statements		●	
IAS 2 Inventories		●	
IAS 7 Statement of Cash Flows	●		
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	●		
IAS 10 Events after the Reporting Period		●	
IAS 11 Construction Contracts	●		
IAS 12 Income Taxes	●		
IAS 16 Property, Plant and Equipment		●	●
IAS 17 Leases	●		

International Standard	**Applies without adaption**	**Applies as interpreted for public sector**	**Applies as adapted for public sector**
IAS 18 Revenue	●		
IAS 19 Employee Benefits		●	
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance		●	
IAS 21 The Effects of Changes in Foreign Exchange Rates		●	
IAS 23 Borrowing Costs		●	
IAS 24 Related Party Disclosures		●	
IAS 26 Accounting and Reporting by Retirement Benefit Plans	●		
IAS 27 Separate Financial Statements			●
IAS 28 Investments in Associates and Joint Ventures			●
IAS 29 Financial Reporting in Hyperinflationary Economies		●	
IAS 32 Financial Instruments: Disclosure and Presentation	●		
IAS 33 Earnings per Share	●		
IAS 34 Interim Financial Reporting	●		
IAS 36 Impairment of Assets		●	●
IAS 37 Provisions, Contingent Liabilities and Contingent Assets		●	●
IAS 38 Intangible Assets		●	
IAS 39 Financial Instruments: Recognition and Measurement		●	
IAS 40 Investment Property		●	
IAS 41 Agriculture	●		

6.2 Interpretations and adaptations for the public sector context

6.2.1 Table 6.2 provides details of those adaptations and interpretations for the public sector context. Where an adaptation or interpretation to a standard results in an inconsistency with a related Interpretation issued by the IFRS Interpretations Committee (IFRIC) or Standards Interpretations Committee (SIC), the Interpretation is similarly adapted or interpreted. In all other cases, IFRIC and SIC Interpretations will apply in full.

Table 6.2

IFRS 1 First-time Adoption of International Financial Reporting Standards

Interpretations	This Manual requires financial statements to be prepared under the historical cost convention, modified by the revaluation of assets and liabilities to fair value as determined by the relevant account standard, and so the elections available in IFRS 1.16, 17 and 18 are not relevant.
IFRS 3 Business Combinations	
Interpretations	IFRS 3 excludes from its scope business combinations involving entities or businesses under common control. Public sector bodies within the States of Jersey accounting boundary are deemed to be under common control. Therefore IFRS applies only to combinations involving an entity or entities within the accounting boundary with an entity outside the accounting boundary. **Chapter 4 provides guidance on the accounting for a combination of two or more public sector bodies into one new body, or the transfer of functions from the responsibility of one part of the public sector to another.**
IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations	
Interpretations	(1) In order to qualify as 'discontinued operations', the activities must cease completely: that is, responsibilities transferred from one part of the public sector to another are not discontinued operations. (2) For the purposes of identification of discontinued operations, the transfer of operations within one year of the financial reporting date to an entity that is not or will not be consolidated in the States Accounts should be treated as a discontinued operation. (3) The 'value in use' of a non-cash-generating asset 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.
IFRS 7 Financial Instruments: Disclosures	
Disclosure	IFRS 7 disclosure requirements regarding valuation techniques have been relocated to IFRS 13 which will not be adopted in the public sector until 2017. Until IFRS 13 comes into effect, continue with (now deleted) relevant disclosures from IFRS 7 2011, paragraph 7.27-7.27B. Where the entity is exposed to material financial instrument risk the relevant IFRS 7 disclosures should be made. Particular emphasis should be placed on considering appropriate disclosure requirements relating to significant credit risk from receivables.
IFRS 8 Operating Segments	
Interpretation	The Financial Report and Accounts and Annex include a large amount of detailed information relating to the departments, funds and other entities included within them. This information in a lot of cases exceeds that required by the standard, and so a summarised segmental analysis may be provided with reference to other parts of the Financial Report and Accounts including the Annex. The States will report any further segmental information required by IFRS 8 that is regularly reviewed by senior management as per 5.3.11.
IFRS 10 Consolidated Financial Statements	
Adaptations	The group boundary is similar to the concept of a group under generally accepted accounting practice, but it is based on direct control and not on strategic control. Direct control will normally be evidenced by the States, Council of Ministers or a Minister exercising in year control over operating practices, income, expenditure, assets or liabilities of the entity. **Chapter 4 provides guidance on the departmental accounting boundary and application of consolidation standards.**

IFRS 11 Joint Arrangements	
Adaptations	Where one entity has an investment in a second entity that does not meet the criteria for consolidation, it should be treated as an investment in the States of Jersey consolidated financial statements. Investments in other entities should be accounted for following the requirements of IAS 39. **Chapter 4 provides guidance on the departmental accounting boundary and application of consolidation standards.**
IFRS 12 Disclosure in Interests of Other Entities	
Adaptations	Disclosures of interests in other entities will be subject to the adaptations for departments and agencies to IFRS 10, IFRS 11, IAS 27 and IAS 28. **Chapter 4 provides guidance on the departmental accounting boundary and application of consolidation standards.**
IAS 1 Presentation of Financial Statements	
Interpretations	(1) References to 'present fairly' and to 'fair presentation' should be read to mean 'give a true and fair view' and 'truthful and fair presentation' to comply with the requirements of the UK Companies Act 2006. (2) In addition to naming the legislative authority for producing the accounts, the notes to the accounts shall disclose the basis of preparation of the financial statements as being in accordance with this Manual as follows: “The financial statements have been prepared in accordance with the States of Jersey Financial Reporting Manual (JFReM) issued by Treasurer of the States in order to meet the requirements of the Public Finances (Jersey) Law 2005. The accounting policies contained in the JFReM apply International Financial Reporting Standards as adapted or interpreted for the public sector in Jersey. The JFReM applicable to the [financial year] financial year is based on the UK Financial Reporting Manual for the UK financial year ending 31 March [year]. Where the JFReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the States of Jersey for the purpose of giving a true and fair view has been selected. The particular policies adopted the States of Jersey are described below. They have been applied consistently in dealing with items that are considered material to the accounts.” (3) Going concern is interpreted for the public sector context • for non-trading entities, the anticipated continuation of the provision of a service in the future, as evidenced by inclusion of financial provision for that service in published documents, is normally sufficient evidence of going concern. However, a trading entity needs to consider whether it is appropriate to continue to prepare its financial statements on a going concern basis where it is being, or is likely to be, wound up, and • Where an entity ceases to exist, it should consider whether or not its services will continue to be provided (using the same assets, by another public sector entity) in determining whether to use the concept of going concern for the final set of financial statements. • If an entity considers that its accounts should not be prepared in accordance with the going concern principle it should provide an explanation to the Treasurer of the States in advance of making the change.

	• If a non-departmental entity has adopted the going concern basis of accounting where this might be called into doubt, for example where there are significant net liabilities, they must provide an explanation to the Treasurer of the States of why they consider that this approach is appropriate. (4) IAS 1 requires entities to prepare a Statement of Comprehensive Income. The States of Jersey shall prepare a Statement of Comprehensive Net Expenditure. (5) The financing of public sector entities is ultimately tax-based and an IAS 1-based notion of capital does not apply to many of them. Capital disclosures should be given only where this is appropriate to the States of Jersey. (6) The flexibility provided in IAS 1 to select the order of presentation of line items on the Statement of Financial Position and to present on a liquidity basis is withdrawn. **Chapter 5 provides application guidance on the form and content of the annual report and accounts and additional reporting requirements.**
IAS 2 Inventories	
Interpretations	In addition to the types of inventories identified in IAS 2, central government has categories of inventories for which IAS 2 may not adequately cover the accounting treatment. **Chapter 5 provides guidance on the treatment of stockpile goods and military reserve inventories; confiscated, seized and forfeited property; and goods held under price support programmes.**
IAS 10 Events after the Reporting Period	
Interpretations	The date of the Accounting Officer's authorisation for issue of the financial statements of the reporting entities covered by this Manual is normally the same as the date of the Certificate and Report of the Comptroller and Auditor General. The date of authorisation for issue must be included in the Annual Report and Accounts, but not on the title page.
IAS 16 Property, Plant and Equipment	
Adaptations	For 'in use' no specialised property assets fair value should be interpreted as market value for existing use. In the RICS Red Book, this is defined as 'market value on the assumption that the property is sold as part of the continuing enterprise in occupation'.
Interpretations	(1) All tangible non-current assets shall be carried at fair value at the reporting date – that is, the option given in IAS 16 to measure at cost has been withdrawn, as has the option to value only certain classes of assets. (2) It is not necessary to disclose the historical cost carrying amounts (where available). (3) The 'value in use' of a non-cash-generating asset 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. **Chapter 5 provides additional guidance on asset valuations and additional interpretations for applying IAS 16 to heritage assets. Further application guidance on accounting for heritage assets, networked assets and PPP arrangements, including PFI is included in chapter 7. Further guidance of capital accounting is provided in the Capital Accounting Manual.**
IAS 19 Employee Benefits	

Interpretations	(1) IAS 19 requires the present value of defined benefit obligations (and, if applicable) the fair value of the plan's assets to be determined with sufficient regularity that the amounts recognised in the financial statements do not differ materially from those determined at the reporting period date. This shall be interpreted to mean that the period between formal actuarial valuations shall be four years, with approximate assessments in intervening years. Acceptable approximations shall include adjusting full valuation results using the latest available membership data. (2) Voluntary early retirements under scheme rules will be discounted at the pensions rate and not at the provisions rate.
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	
Interpretations	(1) The option provided in IAS 20 to offset a grant for acquisitions of an asset against the cost of the asset has been withdrawn. (2) The option provided in IAS 20 to defer grant income relating to an asset is restricted to income where the funder imposes a condition. Where assets are financed by government grant or donation, the funding element is recognised as income and taken through the Statement of Comprehensive Net Expenditure. To defer this income, a condition imposed by the funder must be: a requirement that the future economic benefits embodied in the grant/donation are consumed as specified by the grantor/donor or must be returned to them, e.g. a grant that is conditional on the construction of an asset. (3) A grant, contribution or donated asset may be received subject to a condition that it be returned to the transferor if a specified future event does or does not occur (for example, a grant may need to be returned if the entity ceases to use the asset purchased with that grant for a purpose specified by the transferor). In these cases, a return obligation does not arise until such time as it is expected that the condition will be breached and a liability is not recognised until that time. Such conditions do not prevent the grant, contribution or donated asset being recognised as income in the Statement of Comprehensive Net Expenditure.
IAS 21 The Effects of Changes in Foreign Exchange Rates	
Interpretations	The presentational currency will be the same as the functional currency i.e. pounds sterling.
IAS 23 Borrowing Costs	
Interpretations	Borrowing costs in respect of qualifying assets held at fair value shall be expensed.
IAS 24 Related Party Disclosures	
Interpretations	(1) For the purposes of IAS 24.9(a), the related party will be one of those defined in paragraph 5.3.11 plus assistant ministers. (2) The requirement to disclose the compensation paid to management, expense allowances and similar items paid in the ordinary course of an entity's operations will be satisfied by the disclosures made in the notes to the accounts and in the Remuneration Report. (3) In considering materiality, regard should be had to the definition in IAS 1, which requires materiality to be judged "in the surrounding circumstances". Materiality should thus be judged from the viewpoint of both the entity and the related party.
IAS 27 Separate Financial Statements	
Adaptations	The presentation of separate, non-consolidated financial statements will only be applied in full if the investment has not been designated for consolidation.

IAS 28 Investments in Associates	
Adaptations	Where a department has an investment in a public sector entity that has not been designated for consolidation, it should be reported following the requirements of IAS 39. **Chapter 4 provides guidance on the departmental accounting boundary and application of consolidation standards.**
IAS 29 Financial Reporting in Hyperinflationary Economies	
Interpretations	As all entities covered by the JFReM have a functional currency of pounds sterling, the Treasurer of the States will notify classification of the economy as hyperinflationary if appropriate.
IAS 36 Impairments of Assets	
Adaptations	References in IAS 36 to the recognition of an impairment loss of a revalued asset being treated as a revaluation decrease to the extent that the impairment does not exceed the amount in the revaluation surplus for the same asset, are adapted such that only those impairment losses that do not result from a clear consumption of economic benefit or reduction of service potential (including as a result of loss or damage resulting from normal business operations) should be taken to the revaluation reserve. Impairment losses that arise from a clear consumption of economic benefit should be taken to the Statement of Comprehensive Net Expenditure.
Interpretations	Where an asset is not held for the purpose of generating cash flows, value in use is assumed to equal the cost of replacing the service potential provided by the asset, unless there has been a reduction in service potential. **Chapter** Error! Reference source not found. **provides additional guidance on the classification of impairments and application guidance.**
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	
Interpretations	Where the cash flows to be discounted are expressed in current prices, entities should use the real discount rates set by the Treasurer of the States. **Chapter 3 details additional requirements for remote obligations outside the scope of IAS 37 to be reported to the States.**
IAS 38 Intangible Assets	
Interpretations	Following the initial recognition of an intangible asset, for subsequent measurement IAS 38 permits the use of either the cost or revaluation model for each class of intangible asset. Where an active (homogenous) market exists, intangible assets should be carried at fair value at the reporting period date – that is, the cost option given in IAS 38 has been withdrawn. Where no active market exists, entities should revalue the asset, using indices or some suitable model, to the lower of depreciated replacement cost and value in use where the asset is income generating. Where there is no value in use, the asset should be valued used depreciated replacement cost. These measures are a proxy for fair value.
IAS 39 Financial Instruments: Recognition and Measurement	
Interpretations	(1) Any financial instrument that is not held in furtherance of the entity's objectives but is held on behalf of government more generally should be accounted for in a separate Trust Statement. Entities should discuss such cases with the Treasurer of the States. (2) Special or 'golden' shares, being those shares retained in businesses that have been privatised but in which the department wishes to retain a regulatory interest or reserve power, should not be recognised in the Statement of Financial Position.

	(3) Where future cash flows are discounted to measure fair value, entities should use the higher of the rate intrinsic to the financial instrument and the real financial instrument discount rate set by the Treasurer of the States as applied to the flows expressed in current prices.
IAS 40 Investment Properties	
Interpretations	All investment property should be accounted for under the fair value model – that is, the option given in IAS 40 to adopt the cost model has been withdrawn. IAS 40 applies in full to all reporting entities covered by this Manual that hold (or are constructing or developing) properties only for the purpose of earning rentals or for capital appreciation or both. If earning rentals were an outcome of a regeneration policy, for example, the properties concerned would be accounted for under IAS 16 and not IAS 40.

7 Further guidance on accounting for assets and liabilities

Chapter Error! Reference source not found. **Contents**

7.1 Property, plant and equipment

Valuations

7.1.1 In considering how best to apply the valuation requirements of IAS 16 so as to ensure that the Statement of Financial Position gives a true and fair view of the value of the assets at the reporting date, entities should consider the following guidance on property and non-property assets. (More detailed guidance is available in the Capital Accounting Manual).

Property

7.1.2 Entities should value their property using the most appropriate valuation methodology. Such methods might include:

- a quinquennial valuation supplemented by annual indexation and no interim professional valuation;
- annual valuations; or
- a rolling programme of valuations of properties (whether specialised or nonspecialised).

7.1.3 It is for valuers, using the Royal Institution of Chartered Surveyors; (RICS) 'Red Book' (RICS Appraisal and Valuation Standards), and following discussions with the entity, to determine the most appropriate methodology for obtaining a fair value. Where a valuer, following discussion with the entity, determined that depreciated replacement cost (DRC) is the most appropriate, entities and their valuers should have regard to the guidance contained in the most recent RICS Red Book.

7.1.4 Where DRC is used as the valuation methodology:

- entities should normally value a modern equivalent asset in line with the Red Book;
- entities should use the 'instant build' approach;
- 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.

7.1.5 The cost of enhancements to existing assets (such as building of a new wing within an existing prison) should be capitalised during the construction phase as an asset under construction. At the first valuation after the asset is brought into use, any write down of cost should be treated as an impairment and charged to the Statement of Comprehensive Net Expenditure.

7.1.6 The States of Jersey should:

- disclose in the accounting policies note the fact that assets are carried at fair value. Entities should also provide information about the approach to valuing their estates, including a statement (where applicable) that alternative sites have been used in DRC valuations;
- disclose in the notes on tangible non-current assets: the date of the last valuations of those property assets that are subject to revaluation, and the names and qualifications of the valuer; and
- discuss in the Management Commentary, where they hold extensive estates: their estate management strategy; the indicative alternative use

values provided by the valuer as part of the routine valuation work, and what those alternative use values mean.

7.1.7 As part of the Property, Plant and Equipment note entities are required, in the year the asset is acquired, to separately disclose the fair value of those assets funded by capital grant or donation. Where the funder provides cash, rather than the physical assets, any difference between the cash provided and the fair value of the assets acquired should also be disclosed.

Non-property (excluding networked assets, donated assets and heritage assets)

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

7.1.9 Assets that are not covered by the above paragraph should be carried at fair value. Entities should value such assets using the most appropriate valuation methodology available (for example, appropriate indices).

7.1.10 The States of Jersey should disclose the following in the notes to their accounts in relation to the valuation of non-property assets:

- in the accounting policies note: the fact that assets are carried at fair value; that depreciated historical cost is used as a proxy for fair value for named classes of assets (where appropriate) and the reasons why; information about any significant estimation techniques (where applicable); and
- in the notes on tangible non-current assets: the dates of the last valuations of any non-property assets that are subject to revaluation and the names and qualifications of the valuer.

Networked assets

7.1.11 Networked assets comprise assets that form part of an integrated network servicing a significant geographical area. These assets usually dispay some or all of the following characteristics:

- they are part of a system or network;
- they are specialised in nature and do not have alternative uses;
- they are immovable; and
- they may be subject to constraints on disposal.

Examples of networked assets include road networks, sewer systems and sea defences.

The road network

7.1.12 Land, Structures and Communications will be accounted for following the guidance in IAS 16.

7.1.13 The road surface asset will be recognised as a single asset following the additional guidance in this manual.

7.1.14 The road surface asset will be held at depreciated replacement cost based on service potential.

7.1.15 Subsequent expenditure on the road surface will be capitalised where it enhances or replaces the service potential. Spending that does not replace or enhance service potential will be expensed.

7.1.16 The annual depreciation charge for the road surface will be the value of the service potential replaced through the maintenance programme plus, or minus, any adjustment resulting from the annual condition survey. The value of maintenance work undertaken will be used as an indication of the value of the replaced part. Where the condition survey show that deterioration in the road surface exceeds the service potential replaced by the maintenance programme the additional deterioration will be taken to the Statement of Comprehensive Net Expenditure as part of the depreciation charge. Where the condition survey shows that deterioration in the road surface is less than the service potential replaced by the maintenance programme the depreciation charge will be reduced by the excess maintenance.

7.1.17 The road surface will be subject to annual valuations as measured by suitable indices. Upward movements in value will be taken to the revaluation reserve and included in comprehensive net expenditure. Downward movements in value will be set against any credit balance held in the revaluation reserve until this credit is exhausted and thereafter to net operating cost.

7.1.18 The road surface will be subject to an annual impairment review. Impairments will be recognised as required by IAS 36 Impairment of Assets as applied by the manual (see section 7.2).

Other Infrastructure

7.1.19 The road accounting methodology detailed above should also be used for the foul and surface water sewerage system and the sea defences network. Where entities hold other networked assets the road surface accounting methodology detailed above may be used where it is appropriate to do so. However approval to use the road surface methodology should first be obtained from Treasurer of the States.

Donated assets

7.1.20 Assets donated by third parties (see also paragraph 7.1.25 on asset transfers), either by gift of the asset or by way of funds to acquire assets, and which meet the criterion in paragraph 7.1.21, should be capitalised at fair value on receipt. The funding element should be recognised as income as required by IAS 20 as interpreted in this Manual.

7.1.21 To qualify for treatment as a donated asset there should be no consideration given in return.

7.1.22 Donated assets do not include:

a) assets financed by States of Jersey Funds;

b) the subsequent capitalised expenditure on a donated asset which is capitalised;

c) assets constructed or contributed to by a developer to benefit the developer's business;

d) assets accepted in lieu of tax.

These types of asset should be accounted for in accordance with IAS 16 in the same way as other assets of that general type.

7.1.23 Donated assets should be revalued, depreciated and subject to impairment review in the same way as other non-current assets.

7.1.24 Details of any restrictions or conditions imposed by the donor on the use of the donated asset should be disclosed in a note to the financial statements.

Asset transfers

7.1.25 Entities may give or receive assets to/from another public sector body (including public sector bodies not covered by the requirements of this Manual) for no consideration. Assets acquired in this way will normally be recognized in accordance with IAS 20 as interpreted in this Manual. Entities should consult the Treasurer of the States before entering into such a transaction.

Heritage assets

Definition

7.1.26 A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the reporting entity in pursuit of its overall objectives in relation to the maintenance of the heritage. Non-operational assets are those that are held primarily for this purpose. Operational heritage assets are those that, in addition to being held for their characteristics as part of the nation’s heritage, are also used by the reporting entity for other activities or to provide other services (the most common example being buildings).

7.1.27 The entity holding the asset should attest annually to the ongoing heritage credentials of its heritage assets. Heritage assets include historical buildings, archaeological sites, military and scientific equipment of historical importance, museum and gallery collections and works of art.

7.1.28 In principle, heritage assets should be accounted for in the same way as any other asset under IAS 16. There are, however, certain characteristics associated with heritage assets that give rise to the need for interpretation of IAS 16:

a) Their value to government and the public in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value derived from a market mechanism or price.

b) Established custom and, in many cases, primary statute and trustee obligations impose prohibitions or severe restrictions on disposal by sale.

c) They are often irreplaceable and their value may increase over time even if their physical condition deteriorates.

d) They may require significant maintenance expenditure so that they can continue to be enjoyed by future generations.

e) Their life might be measured in hundreds of years.

f) Antiques and other works of arts held by reporting entities outside the main collections should be classified as heritage assets only when they fulfil the above requirements. Otherwise, antiques and other works of art should be accounted for in the same way as other assets.

Recognition and measurement

7.1.29 Operational heritage assets should be valued in the same way as other assets of that general type (buildings, for example).

7.1.30 Non-operational heritage assets should be valued subject to the requirements set out in paragraphs 7.1.31 to 7.1.34 below.

7.1.31 Where information is available on the cost or fair value of heritage assets:

(i) they should be presented in the Statement of Financial Position separately from other tangible assets;

(ii) the Statement of Financial Position or the notes to the accounts should identify separately those classes of heritage assets being reported at cost and those at fair value; and

(iii) changes in the valuation should be recognised in the Other Comprehensive Expenditure section of the Statement of Comprehensive Net Expenditure, except impairment losses that should be recognised in accordance with section 7.2 of this Manual.

7.1.32 The accounting convention in this manual is to recognise non-current assets at fair value but, where exceptionally, it is not practicable to obtain a fair value, the heritage assets may be reported at historical cost.

7.1.33 Where assets have previously been capitalised or are recently purchased, information on their cost or fair value will be available. Where this information is not available, and cannot be obtained at a cost commensurate with the benefits to users of the financial statements, the assets will not be recognised in the Statement of Financial Position and the disclosure required by this manual should be made.

7.1.34 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. However, where heritage assets are reported at valuation, the carrying amount should be reviewed with sufficient frequency to ensure the valuations remain current.

Depreciation and impairment

7.1.35 Depreciation is not required on heritage assets which have indefinite lives.

7.1.36 The carrying amount of an asset should be reviewed where there is evidence of impairment, for example, where it has suffered physical deterioration or breakage or new doubts arise as to its authenticity. Any impairment recognised should be dealt with in accordance with the recognition and measurement requirements of IAS 36 *Impairment of Assets* in section 7.2.

<u>Donations</u>

7.1.37 The receipt of donations of heritage assets should be recognised as income and taken through the Statement of Comprehensive Net Expenditure where there are no conditions specifically relating to the operating activities of the entity or recognised as deferred income in the Statement of Financial Position. Where exceptionally, it is not practicable to obtain a valuation for a donated heritage asset, the reasons why should be stated. Disclosures should also be provided on the nature and extent of significant donations.

<u>Disclosures</u>

7.1.38 The disclosures required for heritage assets are set out below and apply to all heritage assets:

a) The States of Jersey's financial statements should contain an indication of the nature and scale of heritage assets held by the entity;

b) The financial statements should set out the States' policy for the acquisition, preservation, management and disposal of heritage assets. This should include a description of the records maintained by the States of its collection of heritage assets and information on the extent to which access to the assets is permitted. The information required by this paragraph may alternatively be provided in a document that is cross-referenced from the financial statements;

c) The accounting policies adopted for the States' holding of heritage assets should be stated, including details of the measurement bases used;

d) For heritage assets that are not reported in the Statement of Financial Position, the reasons why should be explained and the notes to the financial statements should explain the significance and nature of those assets that are not reported in the Statement of Financial Position; and

e) The disclosures relating to assets that are not reported in the Statement of Financial Position should aim to ensure that, when read in the context of information about capitalised assets, the financial statements provide useful and relevant information about the entity's overall holding of heritage assets.

7.1.39 Where heritage assets are reported in the Statement of Financial Position, the following should be disclosed:

(i) the carrying amount of heritage assets at the beginning of the financial period and at the Statement of Financial Position date, including an analysis between those classes or groups of heritage assets that are reported at cost and those that are reported at valuation; and

(ii) where assets are reported at valuation, sufficient information to assist in an understanding of the valuations being reported and their significance.

This should include:

a) the date of the valuation;

b) the methods used to produce the valuation;

c) whether the valuation was carried out by external valuers and, where this is the case, the valuer's name and professional qualification, if any; and

d) any significant limitations on the valuation.

7.1.40 An example of a limitation to be disclosed under paragraph 7.1.39 (ii) d) would be where an asset has a particular provenance, the effect of which is not fully captured by valuation.

7.1.41 Information that is available to the entity and is helpful in assessing the value of those heritage assets that are not reported in the entity's Statement of Financial Position should be disclosed.

7.1.42 The financial statements should contain a summary of transactions relating to heritage assets disclosing, for the accounting period and each of the previous four accounting periods:

a) the cost of acquisitions of heritage assets;

b) the value of heritage assets acquired by donation;

c) the carrying amount of heritage assets disposed of in the period and the proceeds received; and

d) any impairment recognised in the period.

This summary should show separately transactions in assets that are reported in the Statement of Financial Position and those that are not.

7.1.43 The disclosures required by paragraphs 7.1.38 to 7.1.42 may be presented in aggregate for groups or classes of heritage assets provided this aggregation does not obscure significant information. Separate disclosures should be provided for those assets reported at cost and those reported at valuation. Amounts in respect of assets that are not reported in the Statement of Financial Position should not be aggregated with amounts for assets that are recognised at cost or valuation.

Accounting for PPP arrangements, including PFI contracts, under IFRS

7.1.44 This section of the Manual deals with the accounting treatment of PPP arrangements, including PFI contracts, that meet the definition of service concession arrangements in IFRIC 12 Service Concession Arrangements. To be within the scope of IFRIC 12, the service concession arrangement must contractually oblige the private sector operator to provide the services related to the infrastructure to the public on behalf of the grantor (the public sector) (IFRIC 12.3). Contracts that do not involve the transfer or creation of an infrastructure asset for the purpose of the contract fall outside the scope of IFRIC 12, as do arrangements that do not involve the delivery of services to the public. Examples of infrastructure for public services are: roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, telecommunication networks, permanent installations for military etc. operations, and non-current assets used for administrative purposes in delivering services to the public.

7.1.45 The private sector operator will apply IFRIC 12 to those arrangements where:

a) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them and at what price; and

b) the grantor controls – through beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the arrangement.

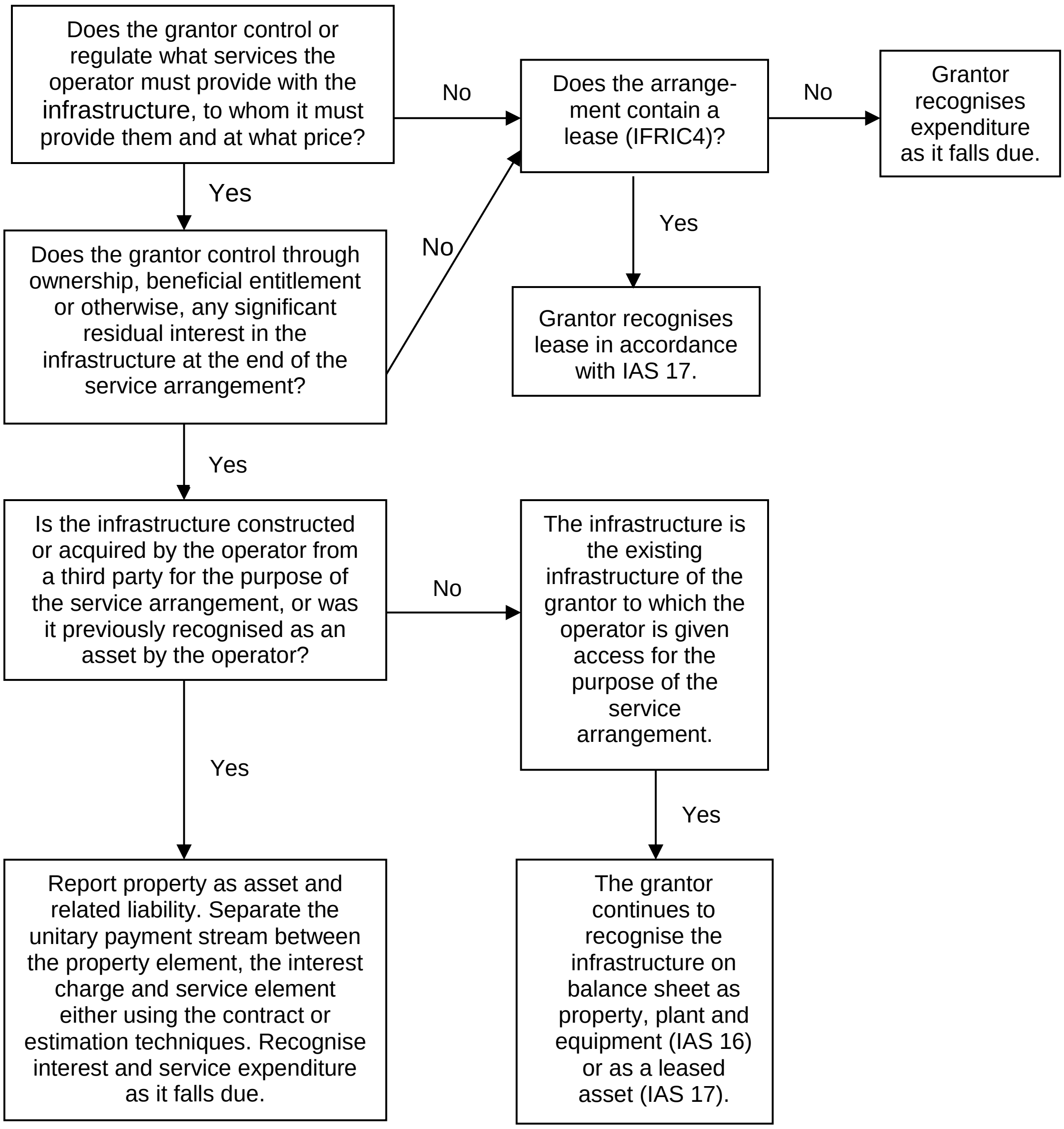
Where the infrastructure asset is used for its entire useful life, and there is little or no residual interest, the arrangement would fall within the scope of IFRIC 12 where the grantor controls or regulates the services as described in the first condition (see also IFRIC 12.6). Significant residual interest will exist where the grantor is contractually required to purchase the infrastructure asset at the end of the term of the arrangement.

7.1.46 IFRIC 12 (Application Guidance paragraph 3) notes that, in determining the applicability of the first condition, non-substantive features (such as price capping that would apply only in remote circumstances) should be ignored and the substance of the arrangement considered.

7.1.47 IFRIC 12, including the Appendices, Information Notes, Illustrative Examples and Basis for Conclusions, provides guidance on how to apply IFRS to service concession arrangements. IFRIC 12 does not create exceptions from other IFRS for transactions that are within service concession arrangements, other than as specifically stated in IFRIC 12. Issues not addressed explicitly in this section of the Manual should be resolved by reference to other IFRS. IFRIC 12 applies to:

- arrangements where the infrastructure is used for its entire useful life;
- infrastructure that the operator constructs or acquires from a third party; and
- infrastructure that the grantor provides to the operator for the purpose of the concession.

IFRIC 12 does not specify the accounting for infrastructure that was held and recognised as an asset by the operator prior to entering the arrangement (IFRIC 12.6-8). This is because the operator would de-recognise the asset under IAS 16. Paragraph 7.1.48 interprets IFRIC 12 for the public sector by including an asset previously owned by the operator within the criteria for recognising the arrangement as a service concession. The flowchart overleaf will assist in determining the appropriate accounting treatment of PPP arrangements, including PFI contracts by public sector grantors.



Initial recognition and measurement of assets and liabilities in new arrangements and contracts

7.1.48 Where there is infrastructure, whether previously owned by the contractor or the grantor, or constructed or acquired from a third party for the purpose of the service arrangement, and the grantor:

a) Controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them and at what price; and

b) Controls through beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement (or there is no residual interest),

then the PPP arrangement or PFI contract is a service concession within the meaning of IFRIC 12 from the grantor's viewpoint.

7.1.49 The grantor should recognise the infrastructure as a non-current asset and value it in the same way as other non-current assets of that generic type. The asset will be recognised when:

a) it is probable that future economic benefits associated with the asset will flow to the organisation; and

b) the cost of the asset can be measured reliably.

The grantor should consider the asset recognition criteria, together with the specific terms and conditions of the binding arrangement, when determining whether to recognise the service concession asset during the period in which the asset is constructed or developed. If the asset recognition criteria have been met a work-inprogress service concession asset and associated liability should be recognised. If not and the grantor makes contributions to the operator in advance of the asset coming into use, the grantor should account for those payments as prepayments.

Subsequent measurement

7.1.50 The asset will be measured in one of two ways:

a) where the contract is separable between the service element, the interest charge and the infrastructure asset (see also paragraph 7.1.51), the asset will be initially measured following the guidance in IAS 17, with the service element and the interest charge recognised as incurred over the term of the concession arrangement (the subsequent measurement should be subject to the guidance of IAS 16); or

b) where there is a unitary payment stream that includes infrastructure and service elements that cannot be separated, the various elements will be separated using estimation techniques as set out in paragraph 7.1.52.

7.1.51 The grantor should separate out the service, interest and infrastructure elements. A contract may be separable in a variety of circumstances, including but not limited to the following:

a) the contract identifies an element of a payment stream that varies according to the availability of the property itself and another element that varies according to usage or performance of certain services;

b) different parts of the contract run for different periods or can be terminated separately. For example, an individual service element can be terminated without affecting the continuation of the rest of the contract; or

c) different parts of the contract can be renegotiated separately. For example, a service element is market tested and some or all of the cost increases or reductions are passed on to the grantor in such a way that the part of the payment by the grantor that relates specifically to that service can be identified.

7.1.52 In situations where it is not possible to separate the contract due to commercial reality, the service element of the payments must be estimated, which could be achieved by obtaining information from the operator or by using the fair value approach. The fair value of the asset determines the amount to be recorded as an asset with an offsetting liability. The total unitary payment is then divided into three: the service charge element, repayment of the capital element of the contract obligation and the interest expense on it (using the interest rate implicit in the contract).

7.1.53 For both existing and new contracts, where it is not practicable to determine the interest rate implicit in the contract, the grantor shall use its cost of capital rate (including inflation). It is expected that this situation would be rare. The rate should not be changed unless the infrastructure element or the whole of the contract is renegotiated.

7.1.54 Under either approach, the grantor will recognise a liability for the capital value of the contract. That liability does not include the interest charge and service elements, which are expensed annually to the Statement of Comprehensive Net Expenditure.

7.1.55 Entities should adopt an appropriate asset revaluation approach as set out earlier in this chapter. Liabilities will be measured using the appropriate discount rate, taking account of the reduction arising from the capital payments included in the unitary payment stream.

7.1.56 Revenue received under any revenue sharing provision in the service concession arrangement should be recognised when all the conditions as laid down in IAS 18 have been satisfied.

7.1.57 The grantor should recognise any guarantees to the operator that it will meet any shortfalls in revenue or repay the debt if the operator defaults in line with the requirements of IAS 32 and IAS 39.

7.1.58 The grantor should derecognise a non-current asset provided to the operator (and not used in the arrangement) and recognise any consideration received at fair value. If the consideration received is in the form of a reduction in future payments, this should be recognised as an asset representing a reduction in the future liability (normally as a prepayment).

Disclosure

7.1.59 The disclosure requirements in respect of PPP arrangements, including PFI contracts, are set out in chapter 5 of this manual.

7.2 Impairments

7.2.1 Where the carrying amount of an asset exceeds its recoverable amount departments will recognise an impairment loss. Departments need to establish whether any of the impairment loss is as a result of:

- Consumption of economic benefit or reduction in service potential, or;
- A change in market price.

7.2.2 A fall in value relating to a consumption of economic benefit or reduction in service potential is always taken to the SoCNE. A fall in value relating to changes in market price should first be offset against a revaluation reserve for the asset in question if there is one, and once that element of the reserve is exhausted the fall in value should be taken to the SoCNE.

7.2.3 Examples of impairments resulting from a consumption of economic benefit or reduction in service potential include losses as a result of loss or damage, abandonment of projects, goldplating and use of the asset for a lower specification purpose.

7.2.4 In preparation for planned changes to the States of Jersey budgeting regime, entities are required to classify impairments on the following basis: certain impairments will score as Departmental Expenditure Limit (DEL) and others as Annually Managed Expenditure (AME). The budgeting treatment does not influence the accounting treatment, but entities might wish to consider whether information about the type and cause of impairment could usefully be included in the relevant notes to the accounts. Impairment categories are defined below.

7.2.5 Where an asset has been impaired due to a clear consumption of economic benefit or reduction in service potential, any balance on any revaluation reserve (up to the level of the impairment) to which the impairment would have been charged under IAS 36 should be transferred to the general fund. This ensures that the outcome as reflected in the reserves figure on the Statement of Financial Position is consistent with the requirements of IAS 36 had the FReM adaptation of IAS 36 not been applied

7.2.6 7.3.6 The capitalised development expenditure that is directly linked to a tangible noncurrent asset should be impaired only where the tangible non-current asset becomes impaired. Where the intangible asset relates to a group of tangible non-current assets, any impairment will be charged only where the entire group is impaired and will be proportionate to the impairment of the group of tangible assets.

7.3 Inventories

7.3.1 In addition to the types of inventories identified in IAS 2, central government has categories of inventories for which IAS 2 may not adequately cover the accounting treatment.

Stockpile goods

7.3.2 Stockpile goods may be defined as strategic materials held for use in national defence and national emergencies. They can be further categorised as:

a) non-current assets, which should be accounted for in the same way as other assets of the same type; or

b) other non-deteriorable and deteriorable inventories. Other inventories should be accounted for under IAS 2.

Confiscated, seized and forfeited property

7.3.3 Seized assets should be recognised at current value when legal ownership is transferred to the States of Jersey. Assets that are held before the point at which legal ownership has been transferred should be treated as third party assets and disclosed in accordance with5.5.30.

7.3.4 The proceeds of items sold to satisfy outstanding tax liabilities, net of sale expenses, should be treated in the same way as other taxation receipts.

Goods held under price support and stabilisation programmes (intervention stocks)

7.3.5 Intervention buying is a method of supporting market prices for certain agricultural commodities. Purchased stocks are valued at cost, adjusted by any depreciation or revaluation to bring them into line with market values.

Unissued Currency

7.3.6 Unissued Currency should be recognised at cost.

Inventories held for distribution at no/nominal charge and inventories held for consumption in the production process of goods to be distributed at no/nominal charge

7.3.7 Inventories held for distribution at no/nominal charge and inventories held for consumption in the production process of goods to be distributed at no/nominal charge should be measured at the lower of cost and current replacement cost.

7.3.8 A public sector entity may hold inventories whose future economic benefits or service potential are not directly related to their ability to generate net cash inflows. These types of inventories may arise when the public sector entity has determined to distribute certain goods at no charge or for a nominal amount. In these cases, the future economic benefits or service potential of the inventory for financial reporting purposes is reflected by the amount the entity would need to pay to acquire the economic benefits or service potential if this was necessary to achieve the objectives of the entity. Where the economic benefits or service potential cannot be acquired in the market, an estimate of replacement cost will need to be made.

8 Further guidance on accounting for income and expenditure

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8.1 Income

8.1.1 Operating and non-operating income

8.1.2 Operating income is any income generated by an entity in pursuit of its activities (generally referred to as fees and charges) or as part of managing its affairs (examples include rents, interest and dividends receivable). Proceeds arising from the sale of investments and non-current assets are accounted for as non-operating income.

Retainable and non-retainable income

8.1.3 All income should be recognised in the Statement of Comprehensive Net Expenditure. Only income that can be retained and set against resource or capital budgets should be recorded in the Statement of Outturn against Approvals.

Taxes and duties

8.1.4 Taxes and duties are economic benefits compulsorily paid or payable to public sector entities, in accordance with laws and regulations established to provide revenue to the government, excluding fines or other penalties imposed for breaches of laws or regulations.

8.1.5 In preparing their financial statements, entities will not recognise or measure the “tax gap”. The “tax gap” is defined as the difference between the hypothetical amounts of revenue due, based on data on economic activity, and revenue receivable. Revenue receivable include both the tax yield from compliant taxpayers and estimates of amounts due from non-compliant, but known, taxpayers. A statement should be included in the accounting policies note that the “tax gap” is not recognised in the financial statements.

8.1.6 Where taxes and duties are recognised on an accrual basis, they will be measured at the fair value of the consideration received or receivable, net of repayments. Revenue is recognised when a taxable event has occurred, the revenue can be measured reliably and it is probable that the economic benefits from the taxable event will flow to the collecting entity. All these elements are required to be satisfied. In the case of Prior Year Basis taxpayers, taxation income will be recognised when a final assessment is raised. For Current Year Basis taxpayers, provisional assessments will be used as a reliable method of obtaining an estimate of the accrued taxation income to be recognised.

Fines and penalties

8.1.7 Fines and penalties are economic benefits paid or payable to government for breaches of laws or regulations where there is a statutory obligation to pay.

8.1.8 Fines and penalties are recognised at the time that the fine or penalty is imposed and becomes receivable by the entity. Where, on appeal, or for other legal reasons, the penalty is cancelled, the amount receivable is derecognised at the date of the successful appeal. Where a financial penalty is imposed, but with an alternative of a non-financial penalty, the financial penalty is recognised initially, but is derecognised when (and if) the option of the non-financial penalty is taken up.

8.1.9 Where fines and penalties are uncollectible or, for policy reasons, (other than the imposition of an alternative penalty), the entity decides that it is inappropriate to pursue collection, the amounts not collected are recorded as an expense. The amounts not collectible are estimated from the most appropriate data available to the entity.

Non-exchange income

8.1.10 IFRS does not include a standard on non-exchange transactions. International Public Sector Accounting Standard 23 'Revenue from non-exchange transactions (Taxes and Transfers)' defines non-exchange transactions as follows:

> *In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.*

Non-exchange income will be accounted for on an accruals basis, provided that a reasonable estimate of that income can be determined.

8.1.11 For the sake of clarity, the following types of income will be classified as non-exchange income, and accounted for in the following way:

Taxation Income
Taxation income will be recognised when a final assessment is raised for Prior Year Basis taxpayers and when a final provisional assessment is raised for Current Year Basis taxpayers.

Social Security Contributions
Social Security Contributions are recognised on an accruals basis, in the same period as the earnings to which they relate.

Long Term Care Contributions
Long Term Care Contributions are recognised in the year the assessed income is earned. Estimates are made based on provisional assessments of income.

Impôts Duty
Impôts duties are recognised when the goods are landed in Jersey.

Stamp Duty
Stamp Duty is recognised when the stamps are sold.

Fines and Penalties
Income from fines is recognised when the fine is imposed.

Seizure of assets
Income in relation to asset seizures should be recognised when the court order is made.

Island Rates
Island Rates are charged on a calendar year basis. Income is recognised in the period for which the rates are charged.

8.2 Expenditure

Grant expenditure

8.2.1 Expenditure in respect of grants or subsidy claims should be recognised in financial statements at the time of the underlying event or activity that gives rise to a liability.

Insurance claims

8.2.2 Expenditure that is subject to an insurance claim should be recorded gross in the accounts. Any receipt from insurers should be shown as income.