

REPORT

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Committee	CIPFA/LASAAC LOCAL AUTHORITY CODE BOARD
Venue	Barceló Carlton Hotel, North Bridge, Edinburgh
Date	15 December 2008
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Subject	Borrowing Costs Section of Draft IFRS-Based Code

1. INTRODUCTION

- 1.1. At its meeting held on 15 April 2008, CIPFA/LASAAC agreed the format and structure of the IFRS-based Code of Practice.
- 1.2. This report considers the borrowing costs section of the draft IFRS-based Code of Practice on Local Authority Accounting, and CIPFA/LASAAC is asked to approve the section or suggest amendments.

2. SUMMARY OF COMPLIANCE WITH STANDARDS / IMPACT

IFRS Compliance / Adaptations	<i>IAS 23</i> requirement to capitalise borrowing costs not adopted in Code.
IPSASB Compliance / Adaptations	Compliant with exposure draft of revised <i>IPSAS 5</i> . The option to capitalise borrowing costs which are specifically incurred in relation to an asset does not apply to local authorities as the Prudential Code requires authorities to borrow generally rather than specifically.
i-FReM Compliance / Adaptations	The i-FReM adapts <i>IAS 23</i> so that borrowing costs in relation to qualifying assets held at fair value are expensed. However, for qualifying assets held at historical cost, borrowing costs would be capitalised. The draft Code requires these costs to be expensed.
Changes to SORP	The SORP allows (but does not require) borrowing costs to be capitalised in certain circumstances; this option is removed in the

	draft Code.
Impact on Taxation	The option to capitalise borrowing costs in future will be removed, potentially leading to more costs to be immediately expensed.

3. DRAFT CODE

- 3.1. The accounting requirements for borrowing costs are set out in the IPSASB Exposure Draft 35 (*IPSAS 5 Borrowing Costs*). The exposure draft adopts a different treatment to that in *IAS 23 Borrowing Costs*; the approach taken in the exposure draft is consistent with that adopted by the i-FReM.
- 3.2. The exposure draft allows borrowing costs to be capitalised which are specifically incurred in relation to an asset. This option does not apply to local authorities, because the Prudential Code requires authorities to borrow generally rather than specifically. As a result, the draft Code requires all borrowing costs to be expensed.
- 3.3. The accounting requirements are different to those in the SORP in one respect:
 - The SORP permits authorities to capitalise borrowing costs directly attributable to the construction of fixed assets where the authority has adopted a policy of so doing. This option is removed under the Code.
- 3.4. The draft section of the Code covering borrowing costs is included as Appendix A.
- 3.5. The draft section of the Code covering the transition arrangements for borrowing is included as Appendix B. It is proposed that the change of accounting policy is applied prospectively as this treatment is allowed by the *ED 35* and *IFRS 1 First-time Adoption of International Financial Reporting Standards*. The SORP generally requires assets to be revalued periodically; as a result of these revaluations, the capitalisation of borrowing costs in the past will not result in any material misstatement of asset values.

4. RECOMMENDATION

CIPFA/LASAAC is asked to approve the borrowing costs section of the IFRS-based Code of Practice on Local Authority Accounting, or comment on areas where further analysis or changes are requested.