

LAAP BULLETIN 81

April 2009

Closure of the 2008/09 Accounts and Related Matters

The Local Authority Accounting Panel issues LAAP Bulletins to assist practitioners with the application of the requirements of the SORP, BVACOP and Prudential Code, and to provide advice on emerging or urgent accounting issues. Bulletins provide influential guidance that is intended to be best practice, but are not prescriptive and do not have the formal status of the SORP, BVACOP or Prudential Code.

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INTRODUCTION

1. LAAP Bulletin 73, which provided advice on the closure of the 2007/08 accounts, was issued in April 2008 as a response to comments in the various audit bodies' reports that aspects of local authority financial reporting, whilst generally sound, could be improved. The bulletin was well received by local authorities, and the Local Authority Accounting Panel is therefore issuing this bulletin to provide similar advice for the 2008/09 closure of accounts.
2. This Bulletin applies only to the 2008/09 closure of accounts. It applies to all authorities that are required to prepare their financial statements under the Local Authority SORP 2008 ("the SORP").
3. The bulletin does not include detailed guidance for all these issues; rather it aims to provide sufficient information for authorities to identify issues they will need to address, and indicates where further guidance can be found. The bulletin focuses on those areas that are expected to be significant for most authorities. Inevitably, there will be issues that are relevant to some authorities that are not covered in this bulletin. The bulletin is not intended to replace authorities' processes for identifying issues, but to complement those processes.
4. The bulletin addresses issues that will generally be applicable to authorities across England, Wales, Scotland and Northern Ireland. However, some issues will be more relevant in some jurisdictions than others.

Authorities in England

5. The Audit Commission's announcement of the 2008 Use of Resources scores (March 2009) identifies some key issues with financial reporting in local authorities. Councils have shown a steady improvement in the overall use of resources score since 2005, and this trend continued in 2008. However, financial reporting was the theme that showed the least net improvement between 2007 and 2008.
6. Fewer councils were not meeting the minimum level for financial reporting in 2008 than in 2007, although there were also fewer councils exceeding the minimum level. The Audit Commission commented that "improvements in financial reporting are proving challenging for district councils and are not always sustained as new mandatory reporting requirements are introduced". This highlights the challenges that district councils are facing, and this bulletin aims to assist authorities by highlighting possible areas of difficulty. It should be remembered that some district councils are performing well, just as some single tier and county councils will have performed weakly.
7. The complexities of introducing the financial instruments requirements of the SORP in 2007/08 are likely to have contributed to the difficulties experienced by authorities with financial reporting. The 2008 SORP contained few significant changes, and authorities should take advantage of this to consolidate the changes from 2007/08 into their year-end processes before the transition to IFRS in 2010/11.

Authorities in Scotland

8. The Accounts Commission's report "Overview of the local authority audits 2008" (February 2009) confirmed that accounts preparation and the quality of working papers were generally good. All accounts were submitted for audit on time, and only one audit was completed after 30 September 2008.

9. Commenting on the introduction of the financial instrument requirements, the Accounts Commission stated that most councils dealt well with these changes but a few were required by their auditors to make adjustments to their accounts. The Accounts Commission also noted that “full implementation of IFRS in 2010/11 will result in further significant changes. Councils need to put arrangements in place now to ensure a smooth transition to the new IFRS requirements.”

CONTINUING ISSUES FROM THE 2007/08 CLOSURE OF ACCOUNTS

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (STRGL)

10. The STRGL continues to cause problems in a number of local authorities. Given the difficulties experienced in previous years, this statement is expected to be of interest to auditors.
11. A number of authorities had included additional lines in the STRGL that held balancing items. Only in exceptional circumstances will lines other than those detailed in the SORP be required in the STRGL; if additional lines are required to balance the STRGL, this may indicate underlying problems elsewhere in the accounts.
12. The STRGL in effect reconciles the movement in the balance sheet from one reporting period to the next. To illustrate this, an example of the net worth (equity) section of a balance sheet is shown below:

200x/y £million		200y/z £million
61	Capital Adjustment Account	76
17	Financial Instruments Adjustment Account	15
24	Revaluation Reserve	50
33	Available-for-Sale Financial Instruments Reserve	10
-50	Pensions Reserve	-30
4	Capital Receipts Reserve	9
10	Major Repairs Reserve	25
5	General Fund Balance	20
5	HRA Balance	10
15	Earmarked Reserves	5
124		190

13. In the example, the net worth (equity) section of the balance sheet has increased from £124 million to £190 million, an increase of £66 million. The STRGL should therefore show a total gain of £66 million.
14. The surplus or deficit on the Income and Expenditure Account for the year is part of the total recognised gains or losses in the year, and should be included in the STRGL. Other items that will form part of the STRGL (please note this list is not exhaustive) are:
- Surplus or deficit arising on revaluation of fixed assets;
 - Surplus or deficit arising on revaluation of available-for-sale financial assets; and
 - Actuarial gains and losses on pension fund assets and liabilities.
15. Transactions such as the purchase of a fixed asset will not form part of the STRGL, as these do not represent a movement in the net position on the balance sheet, but rather the exchange of one asset (cash) for another (the fixed asset).

16. Billing authorities (English authorities only) will need to bear in mind that the balance sheet includes amounts relating to the Collection Fund (and statutory Business Improvement District revenue accounts where BIDs are in place), and that these will therefore need to be included in the STRGL.
17. Authorities should note that the net worth of the authority may include the Available-for-Sale Financial Instruments Reserve, as in the example above. A credit or a debit to this reserve would need to be reflected in the STRGL because it will not be reflected in the Income and Expenditure Account, but will impact upon net worth. Where an available-for-sale financial asset has been impaired, any unrecognised losses recycled from the Available-for-Sale Financial Instruments Reserve to the Income and Expenditure Account should then be deducted as an additional item the STRGL to avoid overstating gains for the year.
18. The impairment of financial assets (such as investments in Icelandic Banks) will not require a separate line in the STRGL as the impairment loss is included in the surplus or deficit on the Income and Expenditure Account. Where authorities take advantage of regulations (England and Wales)¹ or statutory guidance (Scotland)² to mitigate the impact of the impairment loss on the general fund (see LAAP Bulletin 79 for further details), the transfer between the General Fund and the Financial Instruments Adjustment Account will not need to be reflected in the STRGL. Both the General Fund and the Financial Instruments Adjustment Account are included in the net worth of the authority, and therefore any adjustment between the two accounts will have a net nil effect.
19. Module 3, Section F of the 2008/09 Guidance Notes gives further advice on the STRGL.

GOVERNMENT GRANTS DEFERRED ACCOUNT

20. Since 1994/95 the SORP has required that grants and contributions should be matched with the assets which they are intended to finance, and to make releases from the Government Grant Deferred Account (GGDA) in line with the depreciation of the related assets once those assets come into use.
21. Where grants and contributions are received prior to work being undertaken (either to enhance an existing asset or to create a new asset), they cannot be credited to the GGDA, because no matching asset or asset under construction is recognised on the balance sheet. Therefore grants and contributions received in advance should be credited to accounts for Grants and Contributions Unapplied until the work has commenced (or to Creditors if there are conditions on the grants or contributions that have not yet been met).
22. Once the work has commenced, and the enhancement, new asset or asset under construction has been recognised on the balance sheet and requires financing, the grant or contribution would be transferred from the relevant Unapplied Account (or Creditors) to the GGDA (or Contributions Deferred Account). In the case of assets under construction the value of the grant transferred from the Unapplied Account (or Creditors) to the GGDA (or Contributions Deferred Account) should not exceed the value of the asset recorded as under construction. Where the recognition criteria have been satisfied (i.e. the work has been done) but the grant has not been received, the authority should recognise a debtor for the grant.

¹ [The Local Authorities \(Capital Finance and Accounting\) \(England\) \(Amendment\) Regulations 2009](#); [The Local Authorities \(Capital Finance and Accounting\) \(Wales\) \(Amendment\) Regulations 2009](#)

² [Finance Circular No 4/2009](#)

23. This section of the bulletin applies to authorities in all jurisdictions. For Scottish authorities, the introduction of the General Capital Grant increases the significance of this section.
24. In 2008/09, existing ring-fenced capital grants are largely replaced by the General Capital Grant in Scotland. Scottish authorities will need to identify the amount of this funding used for specific assets in order to comply with the SORP. Scottish authorities should note that this grant must be fully applied before capital expenditure can be funded through borrowing. Further details of the General Capital Grant can be found in paragraphs 99 - 106 of this bulletin.
25. Consequently authorities should be able to demonstrate that the balance on the GGDA (and the Contributions Deferred Account) relates to particular assets. Both authorities and auditors have reported that some authorities are finding this difficult, as those authorities have grants and contributions that cannot be related to particular assets.
26. Amounts of grants and contributions that cannot be matched with particular assets could have arisen for a variety of reasons. For example, the new unitary authorities created in the mid 1990s were exempt from the revenue accounting aspects of the then new capital accounting regime. This would have led to those authorities accumulating capital government grants in the Government Grant Deferred Account.
27. Paragraph 3.39 of the SORP requires balances in the GGDA (and the Contributions Deferred Account) to be credited to the Income and Expenditure Account over the useful life of the asset to match the depreciation of the asset to which it relates. This cannot be achieved where the grant cannot be linked to a fixed asset.
28. Where authorities are unable to identify assets relating to a proportion of their Government Grant Deferred Account due to events in the past, the grant (or contribution) will need to be derecognised in the balance sheet.
29. Where the amount is not material, the appropriate treatment would be to credit the grant to the 'general government grants' section of the Income and Expenditure Account. The credit will then need to be reversed in the Statement of Movement on the General Fund Balance by a transfer to the Capital Adjustment Account. Authorities may wish to discuss the levels of materiality for these transactions with their auditors.
30. Where authorities identify that the error arose in prior years, the SORP requires such authorities to consider the need for a prior period adjustment. Paragraph 3.35 of the SORP requires a prior period adjustment where the error is fundamental. Assuming the balances arose prior to 31 March 2007, the opening 2007/08 balance sheet should be adjusted by transferring the balances from the Government Grants Deferred Account to the Capital Adjustment Account. This would then be reflected in a revised 2007/08 balance sheet in the 2008/09 accounts. The adjustment should be made to the opening 2007/08 balance sheet to avoid having to restate the Income and Expenditure Account and STRGL in 2007/08.
31. The approaches detailed above are designed to correct past errors on the Government Grants Deferred Account, and are based on the assumption that balances on the Government Grants Deferred Account relate to capital grants or contributions previously received. Where an authority identifies that the balance has arisen for another reason (for example if a capital receipt had been mistakenly classified as a grant), it should correct the error accordingly (for example, in the case of a mis-classified capital receipt the appropriate treatment would be to transfer the balance to the capital receipt reserve).

32. The SORP does not require Grants and Contributions Unapplied to be separately disclosed in the Balance Sheet; however, it does not prohibit separate disclosure. Authorities may therefore choose to present Grants and Contributions Unapplied either as a separate line in the Balance Sheet or consolidated with the GGDA (and Contributions Deferred Account if separately disclosed).
33. Further guidance on accounting for grants and contributions deferred can be found in Module 5, Section I of the 2008/09 Guidance Notes.

CALCULATION OF GAIN OR LOSS ON DISPOSAL OF FIXED ASSETS

34. Some authorities have indicated that further guidance on calculating the gain or loss on disposal of fixed assets would be helpful. This area is covered in Module 5, Section G of the 2008/09 Guidance Notes, but authorities may find the following points helpful.
35. Paragraph 3.131 of the 2008 SORP states that revaluation of a fixed asset at the point of disposal is not permitted. However, the asset should have been revalued when the asset was declared surplus. Further information can be found in the section of this bulletin dealing with revaluation on disposal of assets (paragraphs 83 – 86).
36. The basic calculation of the gain or loss is the difference between the value of the asset (expenditure in the Income and Expenditure Account) and any proceeds recognised on disposal (income in the Income and Expenditure Account). However, these amounts need to be adjusted for other factors:
- Expenditure directly attributable to the costs of disposal - legal fees, estate agent fees, etc, which will have been charged to the Income and Expenditure Account.
 - Any unamortised amounts on the Government Grant Deferred Account (and Contributions Deferred Account if one is maintained) relating to the asset being disposed of are treated as additional income.
37. The gain or loss on the disposal of a fixed asset is the difference between the relevant expenditure and income in the Income and Expenditure Account:

Income	-	Expenditure
Sales Proceeds		Carrying Value of Asset
Balance of Grants and Contributions Deferred		Costs of Disposal, e.g. legal fees

38. The accounting entries associated with the disposal of a fixed asset are as follows:

Dr	Income and Expenditure Account*
Cr	Fixed Assets
Being the carrying amount of the asset	
Dr	Income and Expenditure Account*
Cr	Cash / Creditors
Being any costs of disposal	

Dr	Cash / Debtors
Cr	Income and Expenditure Account*
Being the proceeds of the sale (whether received on disposal or at a different date)	
Dr	Government Grants Deferred / Contributions Deferred
Cr	Income and Expenditure Account*
Being any unamortised capital contributions	

* In the example in the Guidance Notes, a net entry to the Income and Expenditure Account is shown, rather than an entry for each transaction.

39. In England and Wales, amounts relating to any costs of disposal (shaded in the table above) will be a proper charge to the General Fund Balance, as regulations do not permit these to be charged against the capital receipt (an exception exists where the disposal is of an interest in housing land). In Scotland and Northern Ireland, no such limitation exists and the capital receipt can be reduced by the costs of disposal. The other entries will need to be reversed out through the Statement of Movement on the General Fund Balance. The accounting entries are as follows:

Dr	Capital Adjustment Account
Cr	General Fund Balance (and shown as a reconciling item in the Statement of Movement on the General Fund Balance)*
Being the carrying amount of the asset	
Dr	General Fund Balance (and shown as a reconciling item in the Statement of Movement on the General Fund Balance)*
Cr	Capital Receipts
Being the proceeds of the sale (note that if the proceeds do not meet the definition of a capital receipt - for example where they are below the de minimis level in regulations - they should not be transferred to the capital receipts reserve)	
Dr	General Fund Balance (and shown as a reconciling item in the Statement of Movement on the General Fund Balance)*
Cr	Capital Adjustment Account
Being any unamortised capital contributions	
Dr	Capital Receipts (Scotland / Northern Ireland only)
Cr	General Fund Balance (and shown as a reconciling item in the Statement of Movement on the General Fund Balance)* (Scotland / Northern Ireland only)
Being the reduction of the capital receipts by the costs of disposal (Scotland / Northern Ireland only)	

* In the example in the Guidance Notes, a net entry to the General Fund Balance is shown, rather than an entry for each transaction.

40. Any previous revaluation gains in respect of the asset will need to be transferred from the Revaluation Reserve to the Capital Adjustment Account:

Dr	Revaluation Reserve
Cr	Capital Adjustment Account
Being the balance on the Revaluation Reserve in respect of the asset	

41. In some circumstances, the disposal of a fixed asset may give rise to a requirement to repay a government grant or other contribution. The repayment does not form part of the gain or loss on disposal. In England and Wales this expenditure will be treated as Revenue Expenditure Funded from Capital under Statute³ and therefore can be funded from capital resources.
42. In accordance with SSAP 4, the repayment of the grant or contribution should first be offset against the deferred grant or contribution carried on the balance sheet, with only the excess of the repayment over the deferred grant or contribution being charged to the Income and Expenditure Account.
43. In England and Wales, to ensure that compliance with the regulations that require the repayment of the grant or contribution to be treated as Revenue Expenditure Funded from Capital under Statute, the repayment of the grant or contribution should be charged in full to the Income and Expenditure Account. The grant or contribution deferred should be credited to the Income and Expenditure Account (and may be netted off the repayment in the Income and Expenditure Account). Both the repayment of the grant or contribution, and the matching grant or contribution deferred should be reversed out to the Capital Adjustment Account, and shown separately in the Statement of Movement on the General Fund Balance. The full amount of the repayment of the grant or contribution will also need to be shown in the note on capital expenditure and financing.

FINANCIAL INSTRUMENTS - PRESENTATION

44. 2007/08 was the first year that information on financial instruments was required to be presented in line with FRS 25, FRS 26 and FRS 29. Whilst authorities' accounts generally complied with the SORP, this area did cause difficulties, and the presentation of financial instruments information could be improved.
45. Many authorities used a template (such as the examples in the Guidance Notes or templates provided by treasury management advisers) for their financial instruments disclosures in 2007/08. This provided a good starting point for the disclosures and aimed to ensure compliance with the SORP where the disclosures were localised; however the inflexible use of a template can result in disclosures that are more difficult for readers to understand than disclosures that have been tailored for the individual authority. Authorities should therefore consider the following points of good practice when preparing the financial instruments disclosures:
 - Treasury Management policy - whilst templates will note that an authority has a Treasury Management policy in place, readers of the accounts will be interested in the content of the policy rather than its existence; it may therefore be appropriate to include a summary of the relevant points from the policy in the notes to the accounts, or to cross reference to the policy if this has been made public.
 - Accrued Interest - templates may provide detailed explanations of the complex calculations involved in the effective interest rate and other techniques. Such explanations will be necessary for some authorities, but for other authorities that have only relatively simple transactions (e.g. PWLB borrowing and short-term money-market deposits), such explanations may be more complex than required. Authorities should consider whether a simpler, plain English

³ Regulation 25 (1) (c) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended; Regulation 20 (1) (e) of the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 as amended

explanation would be more useful for the readers of the accounts and more reflective of the authority's own portfolio of financial instruments.

- It is expected that the wording in the 2009 SORP will be amended so that it is clear that investments in subsidiaries, associates and joint ventures do not fall within the scope of FRS 26 and Chapter 4 of the SORP, provided these bodies are included in the group accounts. FRS 26 excludes these investments from its scope (unless the investments are held for resale), even though paragraph 4.3 of the 2008 SORP can be read as requiring these investments to be accounted for as financial instruments under Chapter 4 of the SORP. CIPFA/LASAAC has confirmed that this was not the intended reading of the SORP. LAAP considers that the appropriate accounting treatment would be for authorities to carry investments in subsidiaries, associates and joint ventures either at cost less impairment or at fair value. Carrying these investments at cost less impairment is consistent with the exclusion of these investments from the requirements of FRS 26. Authorities should note that all other equity investments should be accounted for as financial instruments under Chapter 4 of the SORP.
- Disclosure of Risk Assessments - the SORP requires an authority to disclose information about the risks to which it is exposed. This information should be related to the authority's Treasury Management policies. Authorities will also need to consider the information to be disclosed in the context of the current financial climate. For example, a disclosure that all investments were with institutions with a prudent minimum credit rating or better may previously have been sufficient. Following the problems experienced by Icelandic banks during 2008/09, readers may wish to see further information, for example an analysis of investments by the country in which the institution is domiciled.
- Authorities should also consider providing information on the context of other risk disclosures. Auditors have commented on the lack of a commentary in some authorities accounts where there was a significant difference between the carrying amount and fair value of fixed rate borrowing. A commentary on the authority's borrowing policy may help users understand the risk being disclosed.
- Authorities should also note that risk assessments should cover all financial instruments, including trade debtors and creditors.

ACCRUED INTEREST AND CURRENT PORTION OF LONG-TERM LIABILITIES AND ASSETS

46. The 2009 SORP is expected to require authorities to present the current portion of long-term liabilities / assets (including accrued interest) within current liabilities / assets. The current portion of long-term liabilities and assets includes elements such as the principal repayments on annuity or equal instalment of principal loans. This requirement is intended to avoid differing presentations within authorities' accounts, and is in line with the expected requirements under IFRS that will apply for 2010/11. Although not a requirement of the 2008 SORP, LAAP would therefore recommend that accrued interest and similar items are shown in the current liabilities / assets lines.
47. Loans and most investments are included on the balance sheet at amortised cost, based on the Effective Interest Rate method. The SORP recognises that it will not always be necessary to undertake a formal effective interest rate calculation where transaction costs are insignificant, and where it is obvious that the nominal interest rate more or less equals the calculated effective interest rate. This will be the case for many PWLB loans and money market deposits.

48. Where no EIR calculation has been undertaken, and the loan or investment is carried on the balance sheet at nominal value, accrued interest should be debited or credited to the Income and Expenditure Account, and added to the value of the loan or investment. This will increase the carrying value of the loan or investment until such time as the accrued interest is paid or received.
49. Where an EIR calculation has been undertaken, the balance sheet values and charges to the Income and Expenditure Account will reflect the calculation. In these circumstances, no further entries relating to accrued interest are required as the EIR calculation takes accrued interest into account.
50. The 2008 SORP is silent on how loans and investments are to be presented in the Balance Sheet. Authorities may therefore include the accrued interest as part of the carrying amount of the loan or investment, and show the total carrying value of the loan or investment in either current liabilities / assets or long term liabilities / assets depending upon the maturity date of the loan or investment. Alternatively, the current elements of long-term liabilities / assets (e.g. accrued interest) may be separately disclosed under current liabilities / assets. This applies whether or not a formal EIR calculation has been undertaken. Whichever approach authorities take should be applied uniformly, i.e. the current portion of long-term liabilities and assets should be shown separately for all liabilities and assets or none. Showing the current portion separately for some liabilities and assets and not others should be avoided. Disclosure of the approach taken in the accounting policies is recommended.
51. The definition of the current portion of long-term liabilities and assets relates to amounts that will be settled or realised within twelve months; i.e. any amounts that involve a cash flow within twelve months. This will be the contractual interest outstanding at the balance sheet date, plus any principal amounts to be paid or received in the following year. Payments in respect of interest that falls due in the following year are not part of the current portion of the liability or asset.

FUNDS INVESTED WITH INVESTMENT MANAGERS [THIS SECTION DOES NOT APPLY TO PENSION FUND ACCOUNTS]

52. The SORP (paragraph 4.19) does not permit authorities to designate available for sale financial assets to at fair value through profit or loss. Instead, financial instruments are required to be classified on initial recognition in accordance with their inherent characteristics.
53. This means that funds invested with fund managers will need to be disaggregated and accounted for as individual investments unless the investments satisfy the criteria to be classified as held for trading, and therefore accounted for at fair value through profit or loss. Where investments are classified as available for sale, unrealised gains and losses will be reported in the Statement of Total Recognised Gains and Losses rather than the Income and Expenditure Account.
54. Financial instruments are held for trading where they are:
 - (a) acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or
 - (b) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or
 - (c) a derivative.
55. Authorities, in consultation with their fund managers, will need to decide whether their investments meet this definition. Further guidance is contained in the

Application Guidance section of FRS 26, paragraph AG 14, and the Guidance on Implementation section of FRS 26, paragraphs B11 and B12. The guidance in paragraph B12 makes it clear that buying and selling financial instruments to balance the risks in a portfolio does not equate to trading; buying and selling must be aimed at generating profits from short-term fluctuations in price.

56. Whether investments within a portfolio would meet the definition of held for trading is likely to depend on the instructions given to the fund manager. If the fund manager has instructions to buy and sell investments to balance risk alone, then it is likely that investments will not meet the definition of held for trading, and that the portfolio will be classified as available for sale. If the instructions to the fund manager allow buying and selling to generate profits from short-term fluctuations in price – even on part of the portfolio – then it is likely that there will be evidence to allow some investments to be classed as held for trading. The portfolio would then be classified as at fair value through profit or loss.

DERIVATIVES

57. The SORP requires all derivatives to be accounted for as held for trading. The examples given in the SORP refer to purchase contracts; however the requirement to account for derivatives as held for trading also applies to sale contracts; if authorities have forward sale contracts, these will need to be accounted for in accordance with the SORP's requirements for accounting for derivatives.
58. The bulletin does not give details of contracts that would meet the definition of a derivative, as this will depend on the details of the individual contract, and no comprehensive list could be produced. However, the application guidance contained in paragraphs AG9 to AG12a of FRS 26 should be considered in deciding whether a financial instrument is a derivative.

WHOLE OF GOVERNMENT ACCOUNTS (WGA)

59. All authorities provided Whole of Government Accounts information in 2007/08. Compared to 2006/07, a higher number of audited returns were received, timeliness improved (although there are still some late returns) and the quality of the returns was better, with fewer validation issues requiring resolution.
60. There are however a number of areas where problems are being encountered. As 2008/09 will be the last 'dry run' year for WGA, it is important that the improvements in the 2007/08 returns are carried forward to 2008/09. Issues identified in relation to local authorities' submissions in 2007/08 included the following topics (not all topics were a problem in all jurisdictions):
- Counter-party transactions
 - Transferred debt
 - Concessionary fares funding flows
 - Precepts included in error
 - Double counting of Police and Fire items in Council returns (Scotland only)
 - Omissions
 - High value of reserve movements classified as "Other"
 - Different classification of items
61. Further guidance on these areas will be provided by CLG and, where relevant, by the devolved administrations as part of the guidance issued with the 2008/09 return.

NEW OR CHANGED REQUIREMENTS FOR 2008/09

IMPAIRMENT OF INVESTMENTS

62. LAAP Bulletins 78 and 79 cover the accounting requirements for impairing investments, and the deferral of the impact of the impairment on the General Fund under regulation or statutory guidance. Further advice on the information to be used in calculating the impairment (based on information from administrators) will be published before authorities are required to complete their accounts, following discussions with interested parties. It is expected that this advice will be published around the start of May, and that impairment (rather than the disclosure of a contingent liability) will be appropriate.

CASH FLOW STATEMENT

63. FRS 1 permits entities to present the Cash Flow Statement by either the direct method showing gross cash flows, or by the indirect method, whereby revenue cash flow is derived by adjusting the overall Income and Expenditure Account surplus or deficit to a cash basis. The 2008 SORP explicitly permits authorities to use either method; this was not the case in previous editions of the SORP.
64. FRS 1 notes that whilst the direct method produces information on specific sources of cash receipts and the purposes for which cash payments were made that may be useful to readers of the accounts, the ASB did not believe that in all cases the benefits to users of this information outweighed the costs to the reporting entity of providing it. Authorities may wish to consider this when deciding whether to present the Cash Flow Statement by the direct or indirect method.

NOTE 21: SUMMARY OF CAPITAL EXPENDITURE AND FIXED ASSET DISPOSALS

65. Paragraph N57 of Module 3 of the SORP Guidance Notes contains a remodelled fixed assets note to the core statements, designed more closely to match the structure expected for Whole of Government Accounts. The purpose of the remodelling was to ensure that the brought forward cost or valuation of each class of assets was clearly identified from accumulated depreciation.
66. The intention of the remodelled note is that impairments resulting from formal revaluations would be recorded in the revaluation line of the Cost or Valuation section, with impairments only being taken to the bottom half of the note where they have not been measured as part of a formal revaluation (for example, a loss in respect of an asset carried at historical cost) and the balance will need to be accumulated. Unfortunately, the heading of this bottom section as Depreciation and Impairments suggests that all impairments would be recorded in this section.
67. This gives an apparent conflict with the format for WGA returns, which include a line for impairment in the Cost section. This conflict can be avoided by ensuring that any impairments covered by revaluations are posted to the top half of the note, perhaps adding a specific line for impairments to the example format in the SORP Guidance Notes if it is considered this would be helpful. If there are any other impairments not covered by revaluations, these should be treated as accelerated depreciation and presented in the bottom half of the note. This will then preserve the integrity of the overall disclosure, which is intended to distinguish cost/valuation from accumulated depreciation.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

68. Prior to the 2008 SORP, English and Welsh authorities used deferred charges to recognise expenditure that regulations permitted to be funded from capital resources, but which did not satisfy the SORP's criteria to be classified as capital expenditure. Examples of deferred charges included work on property not owned by the authority and grants for economic development purposes (where the grant was to be spent on capital items). The 2008 SORP has effectively replaced deferred charges with a new category of expenditure - Revenue Expenditure Funded from Capital under Statute.
69. In Scotland, the concept of deferred charges has not applied since the Prudential Framework was introduced. However, Scottish Government Finance Circular 05/2007 established a consent framework for authorities to apply to borrow to finance expenditure on grants to community groups for capital projects. One Scottish local authority also received additional specific consent to borrow for non-capital purposes in 2008/09. Authorities receiving consents will need to account for this expenditure in line with the requirements for Revenue Expenditure Funded from Capital under Statute.
70. The move to Revenue Expenditure Funded from Capital under Statute has no impact on an authority's 'bottom line'; Council Tax is unaffected by the change. However, the accounting requirements are different and authorities should ensure that they have correctly implemented the revised accounting requirements.
71. Revenue Expenditure Funded from Capital under Statute should be debited to the appropriate revenue account. BVACOP 2008 requires the expenditure to be charged to the appropriate service revenue account (except in exceptional circumstances). Paragraph 4.9.23 of BVACOP 2008 states that such expenditure should now be accounted for in the relevant subjective group, rather than being initially taken to the balance sheet and then amortised.
72. Revenue Expenditure Funded from Capital under Statute will therefore not be charged to the balance sheet in the first instance, as was previously the case in England and Wales. As a result, the requirement to include a note to the accounts showing the movement on deferred charges has also been removed from the SORP. The use of capital resources (borrowing only in Scotland) is achieved by debiting the Capital Adjustment Account and crediting the General Fund Balance and showing as a reconciling item in the Statement of Movement on the General Fund Balance.
73. The introduction of Revenue Expenditure Funded from Capital under Statute will, except in Scotland, be a change of accounting policy. As such, authorities will need to restate the comparative 2007/08 accounts.
74. Where such expenditure is funded from capital grants or contributions, the grants or contributions (or the portions of them that relate to the expenditure) should be recognised as revenue grants or contributions. They should therefore be credited to the relevant service revenue account, but only to match any qualifying expenditure that has been debited to that service. This is because the grants are regarded as revenue grants despite their classification as capital grants for capital control purposes. Both the expenditure and the grant should be reversed out to the Capital Adjustment Account and reported in the Statement of Movement on the General Fund Balance, and included in the note on capital expenditure and financing (see below). This is to ensure compliance with the statutory requirements.
75. Deferred charges would previously have been included in the capital activities section of the Cash Flow statement. As Revenue Expenditure Funded from Capital under Statute is included in the Income and Expenditure Account, it will now be

included in the revenue activities section of the Cash Flow statement, along with any grants credited to the revenue account. This amounts to a change in accounting policy, and the Cash Flow statement for the comparative period will need to be restated.

76. Revenue Expenditure Funded from Capital under Statute, along with any grants credited to the revenue account, will continue to be disclosed in the note on capital expenditure and financing, as these items are still treated as capital for control purposes. However, they will need to be separately identified in the note, and it should be made clear that they form part of the surplus or deficit on the Income and Expenditure Account.
77. Further guidance on accounting for Revenue Expenditure Funded from Capital under Statute can be found in Module 5, Section K of the 2008/09 Guidance Notes.
78. This change of accounting treatment also has implications for government returns such as the Revenue Outturn and Capital Outturn Forms and the Whole of Government Accounts return. Guidance on the completion of the forms, and the appropriate treatment of Revenue Expenditure Funded from Capital under Statute (and any related grants or contributions) will be provided by government. As this expenditure is funded from capital resources, it is anticipated that the expenditure will continue to be treated as capital expenditure in some of the returns. Authorities should therefore ensure they are aware of how the various returns require this information to be presented, especially where this differs from the accounting treatment required under the 2008 SORP.

COSTS ASSOCIATED WITH ABORTIVE CAPITAL PROJECTS

79. The SORP requires expenditure associated with a potential fixed asset that is then not constructed or acquired to be charged to the Income and Expenditure Account. This is because the expenditure does not meet the definition of capital expenditure within the SORP. BVACOP 2008 clarifies how this expenditure is to be treated in the Income and Expenditure Account.
80. BVACOP 2008 requires the expenditure to be charged to the appropriate service revenue account. Costs should be included in the relevant subjective group. For example, staff costs relating to architectural plans would be included in Group 1 – Employees, but payments to external consultants for those plans would be included in Group 4 – Supplies and Services.
81. A consequence of this treatment, which is not new but is now clarified by BVACOP 2008, is that capital resources cannot be used to fund this expenditure unless the expenditure meets the definition of Revenue Expenditure Funded from Capital under Statute (see paragraphs 68 – 78 of this bulletin for the appropriate accounting treatment). In some cases, the terms of the grant or contribution from which the expenditure was to be funded will permit the grant or contribution to fund the expenditure in the revenue account. In such cases, the proportion of the grant or contribution that is used to fund the expenditure should be accounted for as a revenue grant. Section 2 of BVACOP 2008 (Paragraph B10 of Annex B) provides more details of the accounting treatment.
82. Where the terms of the grant or contribution do not permit the grant or contribution to fund the expenditure in the revenue account, the treatment to be followed will depend on the terms of the grant or contribution. Where the terms require the grant or contribution to be repaid, the authority should recognise a creditor. In England and Wales, repayment of the grant or contribution may fall within the definition of Revenue Expenditure Funded from Capital under Statute (see paragraphs 68 – 78 of this Bulletin). Where the terms permit the grant or

contribution to be retained (as may be the case with some non-ringfenced capital grants), the grant or contribution should be retained in the grants or contributions unapplied account until it is applied to fund other capital expenditure.

REVALUATION ON DISPOSAL OF ASSETS

83. Paragraph 3.131 of the 2008 SORP states that revaluation of a fixed asset at the point of disposal is not permitted. This is a new requirement in the 2008 SORP, and is intended to prevent 'deathbed valuations', where the carrying amount of an asset is automatically adjusted to the net sale proceeds.
84. However, this does not mean that authorities should not revalue General Fund assets once the decision to dispose them has been taken. Authorities are required to ensure that the current values of assets are kept up to date. When an asset is transferred from operational to non-operational assets, the asset should be revalued. This is because paragraph 3.124 of the SORP requires surplus properties to be valued at Market Value rather than Existing Use Value; the two valuation bases may produce materially different results and hence a new valuation would be required. Further valuations may be appropriate where the disposal takes a relatively long time after the property has been declared surplus or where there are indications of impairment.
85. LAAP considers that HRA assets being disposed of under Right to Buy legislation will generally remain operational up to the point of disposal. As such, these assets should continue to be valued as operational properties. There would be no revaluation in the balance sheet to a discounted Right to Buy figure at the point where a disposal occurs or is agreed. This approach is in line with the CLG Guidance on Stock Valuation for Resource Accounting⁴, which authorities in England are required to follow by direction⁵. Paragraph 9.3.1 of the Guidance states that for housing assets to be non-operational, they should be vacant; this is supported by additional guidance in paragraph 9.5.1. As this won't apply to a Right to Buy sale, the asset will remain operational and should therefore be carried on the balance sheet as an operational asset until disposal. In England, paragraph 2.2.1 of the Guidance requires operational housing assets to be carried at Existing Use Value for Social Housing (EUV-SH). If authorities consider that their circumstances are such that a revaluation on disposal would be appropriate (for example to ensure the accounts give a fair presentation / true and fair view), they are advised to discuss this with their auditors.
86. Further guidance can be found in Module 5, Section G of the 2008/09 Guidance Notes.

USE OF DEPRECIATED REPLACEMENT COST (DRC) TO VALUE SPECIALISED PROPERTIES

87. Properties are normally classified as specialised where there is insufficient evidence of market transactions to support a valuation on the Existing Use Value basis. Such properties are commonly valued using the DRC approach.
88. The Royal Institution of Chartered Surveyors (RICS) published Information Paper Number 10 *The Depreciated Replacement Cost Method of Valuation for Financial Reporting* in July 2007. This paper states:

⁴ <http://www.communities.gov.uk/publications/housing/guidancestock>

⁵ [The Housing Revenue Account \(Accounting Practices\) Directions 2007](#)

“DRC is only to be used when there is no active market for the asset being valued: that is where there is no useful or relevant evidence of recent sales transactions due to the specialised nature of the asset.”

89. This represents a change in emphasis (DRC may have been used previously because the property was specialised, even if there was sufficient evidence to value on the basis of EUV), and the SORP reflects this in paragraph 3.124. Authorities should confirm with their valuers that the guidance in Information Paper 10 has been followed, i.e. that DRC is only used where there is no active market for the asset being valued.

IMPACT OF ECONOMIC CLIMATE

90. The Statement of Accounts includes an explanatory foreword in which the authority provides information relevant to the accounts. Authorities should consider including an explanation of the impact of the current economic climate on the authority and the services it provides, as this will assist users in assessing, for example, the adequacy of reserves.

Tangible Fixed Assets and Intangible Assets

91. Paragraph 3.121 of the 2008 SORP requires tangible and intangible assets carried in the Balance Sheet at current value to be revalued at intervals of not more than five years. This is to ensure that the amounts carried in the Balance Sheet are materially correct; there is a presumption in the SORP that the values of assets will not change materially in a five year period. However, authorities should consider revising asset values at each year-end if circumstances warrant this.
92. The present economic climate has resulted in more volatile asset values, and authorities should therefore consider whether circumstances are such that an impairment is indicated, and some or all asset values should be revised. Valuation information obtained by the Audit Commission indicates that there has been a significant reduction in value for most properties, and this suggests that authorities should carry out an impairment review. However, they should bear in mind that asset values should only be revised where values have changed materially.
93. Local circumstances will determine whether asset values need to be revised, and hence each authority will need to make its own decision as to whether this is appropriate. However, the following points should be taken into account:
- A number of assets will have last been revalued a number of years ago, and may have experienced valuation gains prior to the recent falls in value. Whilst these increases may not have been sufficiently significant to require recognition in the balance sheet, they may mean that the difference between the carrying amount and the current value is smaller than would otherwise be the case. Authorities should consider whether such differences are significant and therefore require an impairment to be recognised.
 - The most commonly reported falls in property value relate to the housing market; this may not be representative of all classes of property, and authorities should consider revising asset values in the light of specific evidence for the classes of asset they hold. In particular, any changes in the value of specialised properties valued using the DRC approach (see above) may arise from different factors than other assets. Evidence suggests that two factors are likely to affect DRC valuations - decreases in building costs, and decreases in land values. Both will need to be taken into account when considering if assets valued using a DRC basis require an impairment to be recognised.

- Reviewing a sample of properties may provide sufficient evidence of the extent of any impairment and whether this would require recognition.
 - Valuers should be involved in providing new values for assets where an impairment is recognised. Valuers will need to use appropriate valuation techniques, for example desktop valuations. The use of indices may be appropriate (for example building cost indices for the use of DRC valuations).
94. Authorities should note that this bulletin corrects paragraph F4 in Module 5 of the Guidance Notes. This paragraph, in discussing when amendments should be made, includes the criteria that “the change is permanent”. However, it is not a requirement under paragraph 3.128 of the SORP or under FRS 11 that there is evidence that the change is permanent. This factor should therefore not be taken into account in determining whether an amendment is required.
95. RICS has produced guidance for valuers who are valuing assets in a climate of uncertainty. Authorities should ensure valuers are following this guidance, which can be found at:

<http://www.rics.org/RICSWEB/getpage.aspx?p=qx3ZTjIjHjEa4AqiQtYrIjg>

Financial Assets

96. Authorities should also consider whether any financial assets have been impaired. Further advice for authorities with investments in Icelandic Banks will be issued in time for the statement of accounts to be produced. However, authorities should consider whether other financial assets, including trade debtors, may also have been impaired.
97. Factors that authorities should consider when assessing financial assets include whether businesses are facing bankruptcy; whether share values have reduced; and whether financial guarantees have been called in.

Post Balance Sheet Events

98. It is possible that events will occur that affect the valuation of an authorities assets, whether tangible, intangible or financial. Should this be the case, the authority will need to consider whether the event is an adjusting or non-adjusting balance sheet event.

GENERAL CAPITAL GRANT (SCOTLAND ONLY)

99. General Capital Grant was introduced for the first time for the 2008/09 financial year. The General Capital Grant includes funding which used to be provided as Police Capital Grant as well as various other grants. The grant offer letter (4 December 2008) contains detailed terms and conditions for grant usage which must be adhered to. General Capital Grant is not available to fund expenditure on HRA assets.
100. The grant may be used as follows:
- To fund capital expenditure of the local authority (offer letter paragraph 2.2);
 - To fund 3rd party capital expenditure (either through direct spend or the provision of grant) which, if incurred by the local authority, would be capital expenditure (offer letter paragraph 2.3). Authorities should note that Schedule 1 of the offer letter details specific limitations and legislative restrictions to this use which must be complied with.

101. The appropriate accounting treatment for each use is detailed below. Where an authority considers that a different treatment should apply it is suggested that they discuss this with their auditors at an early stage.

General Capital Grant Used to Fund Local Authority Capital Expenditure

102. The offer letter (paragraph 2.5) requires that the grant is utilised in 2008/09. It is assumed that the General Capital Grant will be used to support capital expenditure before any borrowing or the application of capital receipts.
103. The accounting treatment will be, as per paragraph 3.39 of the 2008 SORP, to credit the grant to the Government Grants Deferred account. This credit balance will then be written off (or released) to the service revenue account over the useful life of the asset to match the depreciation of the asset to which it relates.
104. ***This will require authorities to allocate or apportion the use of the grant to specific assets.***

General Capital Grant Used to Fund 3rd Party Capital Expenditure

105. The offer letter (paragraph 2.4) requires that a grant made to a 3rd party should contain conditions specifying that spend must be capital in nature and exclude reclaimable VAT. The offer letter (paragraph 2.5) requires that the grant is utilised in 2008/09. See also Schedule 1 of the letter for other legislative restrictions.
106. Due to the various conditions and restrictions on the use of the General Capital Grant in this way the General Capital Grant should be treated, for annual accounts purposes, as service revenue income in the Income & Expenditure Account (see the section on Revenue Expenditure Funded from Capital under Statute at paragraphs 68 – 78 of this bulletin).

Example

For example an authority may decide to use £0.5m of General Capital Grant to support expenditure by the local Police Joint Board on Police fixed assets. To do so it may offer a grant, with appropriate terms and conditions, to achieve this.

Prior to inclusion of the grant the presentation in the annual accounts (I&E) is:

	Expend	Income	Net
Police Services	£1.4m	£0.0m	£1.4m

Then using the General Capital Grant, as described above, to support £0.5m of grant to the Police Board for capital expenditure would lead to the final presentation being:

	Expend	Income	Net
Police Services	£1.9m	(£0.5m)	£1.4m

This has the consequence of increasing Gross Expend and Gross Income at Net Cost of Services level however there is no change to the Net Expenditure at Net Cost of Services level.

This approach will therefore require that General Capital Grant used to support 3rd party capital expenditure be matched, on the same I&E service line, to the grant or direct expenditure paid by the authority.

LOCAL GOVERNMENT REORGANISATION - PREPARATION AND OTHER COSTS

107. Paragraph F6 of Module 4 of the Guidance Notes states that "it is unlikely, except where ultra vires transactions occur, that material items which derive from events or transactions that fall outside the ordinary activities of the authority will arise." Paragraph D30 of Module 3 of the Guidance Notes comments that reorganisation costs are not strictly an extraordinary item. Costs incurred in preparing for local government reorganisation (and other costs associated with the reorganisation such as redundancy and severance payments) should therefore be classified in the same manner as other costs, although authorities may consider it appropriate to separately disclose these amounts as exceptional items within the Income and Expenditure Account, or to include a note to the accounts detailing the costs
108. When classifying the expenditure incurred on preparing for local government reorganisation, the principles of BVACOP will apply. Costs that meet the definition of Corporate and Democratic Core should be charged to that division of service, whilst other costs should be charged to the appropriate service revenue accounts. It is unlikely that any costs associated with preparations for local government reorganisation will meet the definition of Non Distributed Costs
109. Costs that should be charged to CDC will include members involvement in the preparations, and officer time associated with directly supporting members. Corporate Management costs will include costs associated with developing new corporate governance arrangements for the new authorities. Costs related to preparing for the delivery of specific services under the new arrangements will form part of the service revenue account.
110. Where authorities are using capitalisation directions to fund costs such as redundancy costs, these should be accounted for as revenue expenditure funded from capital under statute (see paragraphs 68 – 78 of this bulletin).

CHANGES TO PENSIONS SORP: PENSION FUND ACCOUNTS AND FRS 17 DISCLOSURES

111. The 2008 SORP incorporates the requirements of a revised Pensions SORP published in July 2007. The Pensions SORP was revised to take account of the requirements of the financial instruments reporting standards FRS 25 and FRS 26.
112. The main changes that have been introduced by the revised Pensions SORP are detailed in paragraph 5.43 of the 2008 SORP. Derivatives are now required to be valued on a fair value basis. Investments are also required to be valued at their fair value and where there is an active market the bid price is usually the appropriate quoted market price; prior to the 2008 SORP the mid-market price was used as the basis for valuing investments. As per paragraph 95C of FRS 17, this is to be accounted for as a change in accounting policy, and restatement of comparative information is required. Paragraph 5.48 of the 2008 SORP includes transitional provisions. Under these provisions, comparative figures do not need to be restated where:
 - (a) the change in accounting policy from valuing investments, including derivatives on a bid rather than a mid-market basis, results in a difference in valuation overall which is immaterial in accordance with paragraph 48 of FRS 18. For many classes of investment (such as FTSE-listed shares) the difference is likely to be immaterial.
 - (b) additional information is disclosed for the first time in respect of transaction costs and the comparative information is not available and it is impracticable

to obtain or estimate the information in accordance with paragraph 104 of FRS 26. In these circumstances this fact should be disclosed and, if appropriate, the extent to which this information has been restated.

113. The Pensions SORP also introduced amended and increased disclosure requirements, and the presentation of the Pension Fund accounts will now include the presentation requirements of FRS 25 *Financial Instruments: Disclosure and Presentation* and parts of FRS 26 *Financial Instruments: Recognition and Measurement*
114. The minimum presentation and disclosure requirements that are expected to apply to a Local Authority Pension Fund are shown in paragraph 5.47 of the 2008 SORP.
115. Paragraph 5.35 of the 2008 SORP (Note 43 (xiv)) requires authorities to disclose the fair value of the scheme assets for the current accounting period and previous four accounting periods. The transitional arrangements in FRS 17 permit authorities not to restate the fair value of the scheme assets for the first two accounting periods; i.e. the fair value will be restated for periods ending 31 March 2008 and 31 March 2007 (subject to the materiality considerations above), but not for the periods ending 31 March 2006 and 31 March 2005. Some authorities have indicated that their experience is that the change in value arising from valuing investments at bid price rather than mid-market price would be less than 1%. This is likely to be non-material and fair values would therefore not need to be restated, although auditors will expect to see evidence that demonstrates the changes are not material.
116. Further guidance can be found in Module 3, Section V (Pension Funds) and Module 4, Section T (Retirement Benefits) of the Guidance Notes. Authorities should note that paragraph V45 of Module 3 does not reflect the revised SORP requirement to value investments at bid price, and should read this paragraph with the requirement to value investments at bid price in mind.

PENSION FUND ACCOUNTS – MINIMUM PENSION GUARANTEE

117. Over a number of years, pension funds have made small (but cumulatively material) overpayments because of miscalculations in the minimum pension guarantee. The governments in the different jurisdictions have confirmed that these amounts will not be reclaimed from pensioners. These overpayments therefore are costs to the pension funds. As these amounts have already been included as expenditure in previous pension fund accounts, no restatement of the accounts is necessary. Instead, pension funds should disclose the overpayments (where material) in the notes to the accounts and the scheme managers report.

LANDFILL ALLOWANCE TRADING SCHEME – CHANGES FOR SCOTLAND

118. Landfill allowances became tradable in Scotland on 1 April 2008. Allowances (whether issued free by the Scottish Government or purchased from another Waste Disposal Authority) should be recognised as assets and classified as current assets. Allowances are measured initially at their fair value. Allowances issued free by the Scottish Government are accounted for as government grants; the allowances are recognised as current assets, and the corresponding entry is to deferred income in the balance sheet. The deferred income is then released to the Income and Expenditure Account as the allowances are used.
119. As landfill is used, a liability is recognised in respect of the landfill usage. The liability should be measured at the best estimate of the expenditure required to meet the obligation at the Balance Sheet date, which will normally be the present market price at the Balance Sheet date of the number of allowances needed to cover actual landfill usage for the year. The only exception would be where an authority was expecting to meet some or all of its obligation by paying a cash penalty to the

Scottish Government. In that case, the cost of the penalty should be used to measure that part of the liability, rather than market price.

120. LATS is currently under review and the Scottish Government has suspended penalties and trading under the scheme since October 2008 pending the review's outcome. It would therefore be reasonable for the asset and liability to be measured at zero in the 2008/09 accounts as there is no market for the allowances. However, as the penalties are only suspended rather than cancelled, the disclosure of a contingent liability may be appropriate. A contingent liability would only need to be disclosed where an authority had exceeded its allowance. Regulation 19 of the [Landfill Allowances Scheme \(Scotland\) Regulations 2005](#) provides details of the penalty scale, and therefore the potential penalty that could be applied.
121. Further guidance on LATS can be found in Module 4, Section Y of the 2008/09 Guidance Notes. Further guidance on contingent liabilities can be found in Module 4, Section D of the 2008/09 Guidance Notes. The requirements for authorities in England and Wales are unchanged.

AREA BASED GRANT (ENGLAND ONLY)

122. In England, Area Based Grant (ABG) replaces Local Area Agreement (LAA) Grant from 2008/09. Unlike LAA Grant, ABG is a non-ringfenced general grant. As such, no conditions on use are imposed as part of the ABG determination, and its use is not restricted to supporting the achievement of LAA targets.
123. The SORP requires ABG to be accounted for as a general grant, which should be included in the Income and Expenditure Account with other general income sources such as income from the collection fund and NDR distribution. A breakdown of general grants income by type of grant should be shown in the Statement of Accounts or in the notes to the accounts and the Cash Flow statement.
124. As the award of ABG does not impose any conditions, ABG should be recognised as income in the period to which it relates; there are no conditions on its use that would require any unused portion of ABG to be treated as a creditor or grant deferred at year end; instead the total amount of ABG received from the year should be included as income in the Income and Expenditure Account. As with any other non-ringfenced general grant, any amount unspent at the end of the year will be included in the balance on the General Fund.
125. Authorities should also note that as ABG is a non-ringfenced general grant, there is no requirement to maintain a separate record of the application of this grant, although they may find it useful to do so.
126. The replacement of LAA Grant with ABG will have a significant impact on the Net Cost of Services sub-total in the Income and Expenditure Account. Authorities may therefore consider it appropriate to disclose this impact in an explanatory note to the accounts. The introduction of ABG does not amount to a change in accounting policy as it is a new grant. Consequently comparative figures for 2007/08 should not be restated.

PERFORMANCE REWARD GRANT (ENGLAND ONLY)

127. Some authorities have questioned whether it would be appropriate to recognise Performance Reward Grant that will be paid in 2009/10 as income in the 2008/09 accounts.
128. Under the basic principles set out in Application Note G of FRS 5, income should be recognised at the point that the authority has obtained the right to consideration in

exchange for its performance. Income in respect of Performance Reward Grant is earned by meeting the targets set out in the Local Area Agreement.

129. Authorities whose agreements completed in March 2008 will have been notified of their grant entitlement, and will have received the first instalment of Performance Reward Grant. In these cases, the authority can be confident about its level of performance and its entitlement to the second instalment of the grant. It would be appropriate to recognise this second instalment of grant as income in 2008/09, even though the grant will not be received until 2009/10.
130. Authorities whose agreements completed in March 2009 have until February 2010 to submit their claims. In these cases, there is likely to be significant uncertainty about the level of performance and hence the entitlement to grant. It would therefore not be appropriate to recognise the Performance Reward Grant income in 2008/09 (as the recognition criteria would not have been met) unless the authority has already collected sufficient information about its performance to demonstrate its entitlement to the grant.

MINIMUM REVENUE PROVISION (MRP) (ENGLAND AND WALES)

131. In 2008/09 authorities are required to make a 'prudent provision' for MRP, having regard to the statutory guidance issued by Department for Communities and Local Government and the Welsh Assembly Government. However, as MRP charged in 2008/09 will be based on capital expenditure up to 31 March 2008, the statutory guidance permits authorities to calculate MRP using the methodology required by earlier regulations, although the guidance also permits authorities to adopt other options for 2008/09. The statutory guidance also expects an MRP statement to have been approved by the full council (or equivalent), and this will set out the choices made by the authority. MRP should be calculated in accordance with the options selected by the authority in its MRP statement.
132. The statutory guidance describes four options for calculating MRP, and places limits on the use of some of the options. Options 1 and 2, which allow MRP to be calculated using the 4% reducing balance basis required by the previous regulations, have restrictions on their use. The difference between options 1 and 2 is in how the balance is calculated. These options may only be used for capital expenditure incurred prior to 1 April 2008, or for expenditure incurred on or after 1 April 2008 which the authority is satisfied forms part of its Supported Capital Expenditure. Other expenditure incurred on or after 1 April 2008 will require the use of another option.
133. Option 3 is the asset life method, under which MRP is charged so that provision is made for the related borrowing over the life of the asset (note that the life of the asset is fixed at this point and does not change if future estimates of the asset life change). Provision may be made on a straight line or an annuity basis. The statutory guidance includes a formula for the straight line basis; the purpose of the formula is to allow the amount charged in future years to be reduced where a voluntary provision is made.
134. Option 4 is the depreciation method, under which MRP is based on proper accounting practices. Under this method, MRP will include impairment charges as well as depreciation.
135. The basic presumption is that MRP charges will first be made in the year after the expenditure is incurred. However, charges can be deferred until the year after an asset becomes operational. This is usually taken to be the point at which an asset becomes available for its intended use, even if the authority does not then actually start using it.

136. The Welsh Assembly Government has recently issued revised statutory guidance⁶. This allows Welsh authorities not to charge MRP on capital expenditure on schemes that commenced on or after 1 April 2008 and will be complete by 31 March 2011, where these schemes are not funded by supported borrowing. MRP will be increased in subsequent years so that, over the life of the asset, full provision is made. Authorities can only use this option where it would be prudent to do so.
137. Further information can be found in the statutory guidance and informal commentaries issued by the Department for Communities and Local Government and the Welsh Assembly Government and the CIPFA publication Practitioners' *Guide to Capital Finance in Local Government*.
138. When preparing their MRP statements for 2009/10, authorities should note that the Invitation to Comment on the 2009 SORP proposes introducing revised accounting arrangements for PFI and PPP schemes. These arrangements will result in more schemes being on balance sheet and therefore subject to MRP (the statutory guidance includes specific provisions for such schemes). Authorities will therefore need to ensure that their MRP statement is updated to take account of any PFI or PPP schemes they might have, where a different method to those included in the original MRP statement is to be used.

NOTES TO THE ACCOUNTS

139. Authorities may be aware that CIPFA/LASAAC was considering issuing a SORP Bulletin to remove some of the required note disclosures in the 2008/09 accounts. This has not proved possible, and authorities should continue to provide the disclosures outlined in the SORP.

STATEMENT OF ACCOUNTS - AUTHORISED FOR ISSUE

140. Paragraphs 3.29 – 3.31 of the SORP explain when the accounts are treated as having been authorised for issue. Some authorities have questioned how this is to be reflected in the certification by the Chief Financial Officer.
141. LASAAC has issued guidance in Scotland⁷, and Scottish authorities should follow that guidance. The guidance states that a statement should be disclosed on the face of the balance sheet in the final published financial statements stating the date the unaudited accounts were issued; and the date the audited accounts were authorised for issue. The authorised for issue date should be consistent with the date the audit certificate is signed.
142. In England, Wales and Northern Ireland there is no formal guidance on how the matter is to be addressed. LAAP therefore recommends the following.
143. Where the statement of accounts has been amended since first being approved by members, the Chief Financial Officer should sign and date the balance sheet (in line with the SORP requirements), and include a statement on the face of the balance sheet that "These financial statements replace the unaudited financial statements authorised at the meeting of [insert committee name or body] on [insert date]". The certification and record of approval by members included in the statement of accounts originally approved by members does not need to be repeated in the updated statement of accounts.
144. Although not required by regulations, it is good practice for the statement of accounts to be re-approved by the same committee or body that originally approved

⁶ <http://wales.gov.uk/docs/dsjlg/publications/localgov/090331guidanceonmrp.pdf>

⁷ http://www.cipfa.org.uk/scotland/download/LASAAC_Authorised_for_Issue_June_2008.pdf

the statement of accounts, and for the chair to sign the amended statement of accounts. Regulations require material amendments to be reported to the committee or body that approved them, so adopting a process of re-approving the accounts should not amount to a significant change for most authorities. However, this may not be possible in some circumstances, for example where accounts are amended following the resolution of an objection.

145. In Wales, further discussions to clarify the precise meaning of the regulations relating to the audited accounts are taking place.

STATEMENT OF ACCOUNTS – CERTIFICATION

146. In England, CLG had consulted on whether to require the Chief Financial Officer to certify that the accounts were “true and fair”. The recent amendment to the Accounts and Audit Regulations⁸ introduces this certification for the 2009/10 accounts; the 2008/09 accounts should therefore continue to be certified as “presents fairly”.
147. The governments in Wales and Northern Ireland are expected to require Chief Financial Officers to certify the accounts as “true and fair” from 2009/10. Again, the 2008/09 accounts should therefore continue to be certified as “presents fairly”.
148. In Scotland, the Accounts Commission has determined that the accounts should be certified as “true and fair” in 2008/09. Responsible officers will therefore need to certify the accounts on this basis.

OTHER ISSUES

PREPARATION FOR IMPLEMENTATION OF IFRS IN 2010/11

149. Authorities will be aware that from 2010/11, local authority accounts will be prepared under a revised Code of Practice on Local Authority Accounting that will be based on International Financial Reporting Standards (IFRS). The IFRS transition date (the date at which figures first have to be prepared under IFRS) is 1 April 2009. This means that in the 2010/11 Statement of Accounts, authorities will be required to prepare a balance sheet as at 1 April 2009 - effectively restating the 31 March 2009 balance sheet.
150. Authorities should consider whether it would be prudent to collect the appropriate information required to restate the 31 March 2009 balance sheet at the same time as the balance sheet is prepared; this may allow for economies of scale and reduce the amount of work required in future. Key issues are:
151. **PFI Schemes** - CIPFA/LASAAC has decided to adopt the Financial Reporting Manual accounting treatment for PFI and PPP schemes in the 2009 SORP. Authorities will therefore need to reassess their PFI schemes in time for the revised accounting treatment to be adopted in their 2009/10 accounts. This will involve restating the 2008/09 accounts, and authorities may find that collecting the required information in parallel with that required to close the 2008/09 simplifies the restatement process. The Scottish Government has recently issued draft Statutory Guidance on accounting for PPP / PFI schemes for consultation, and Scottish authorities are encouraged to review this guidance.
152. **Employee Benefits** - under IFRS, authorities will need to account for holiday pay and other short-term employee benefits on an accrued basis. The first accruals will need to be based on the position as at 31 March 2009, and authorities are advised

⁸ [The Accounts and Audit \(Amendment\) \(England\) Regulations 2009](#)

to collect this information as part of their 2008/09 close-down arrangements, especially if the data may not be available at a later date. Accruals will not be required if the amounts are not material, but in these circumstances auditors will expect to see evidence that the amounts are not material. It is acceptable to base the estimated accruals on samples rather than information for every employee; authorities will need to ensure that sample sizes are appropriate for their circumstances.

153. **Leases** - under IFRS, leases of property are accounted for as two leases - a lease of land and a lease of the buildings. Leases may therefore need to be restated. As with most IFRS transition issues, this is treated as a change in accounting policy, and leases will need to be accounted for as if they had always been accounted for as separate leases under IFRS. Authorities are advised to collect this data as soon as possible, bearing in mind the fact that non-finance staff (valuers and legal staff) are likely to have an essential role in this process.
154. **Property, Plant and Equipment (Tangible Fixed Assets)** - whilst it is anticipated that there will generally be no material difference between the current carrying value of assets and their fair value, this will not always be the case. Authorities are therefore advised to discuss this issue with their valuers and ensure a programme to identify those assets where values may differ is in place. Authorities should note that the draft Code does not require separate components to be identified in the opening IFRS balance sheet and comparative figures (except where authorities have already separately identified components under the SORP). Separate components will need to be identified - where these are significant and have a different asset life to the rest of the asset - as assets and components are acquired, enhanced and revalued from 1 April 2010 onwards.
155. **Systems Changes** - because the introduction of IFRS will lead to different accounting requirements in some cases, authorities will need to ensure that their systems and procedures are updated to address these revised accounting requirements.
156. LAAP Bulletin 80 provides an outline project plan for implementing IFRS that authorities can utilise as the starting point for their own, more detailed project plans.

FURTHER INFORMATION

157. The Audit Commission national reports on CPA scores can be found at:

Single tier and county councils:
<http://www.audit-commission.gov.uk/Products/NATIONAL-REPORT/D97994F2-F25D-4402-8861-CEA711AC40A6/05032009CPATheHarderTestREP.pdf>

District councils:
<http://www.audit-commission.gov.uk/Products/NATIONAL-REPORT/57AA3C22-DAC0-4b3f-AFF6-3CEB3DD4EEF3/05032009DistrictUseResourcesREP.pdf>
158. The Accounts Commission report "Overview of the local authority audits 2008" can be found at:
<http://www.audit-scotland.gov.uk/media/article.php?id=101>
159. The SORP, SORP Guidance Notes and Best Value Accounting Code of Practice can be purchased from:
<http://secure.cipfa.org.uk/cgi-bin/CIPFA.storefront/>