

**TEESDALE DISTRICT COUNCIL**

**Report To: AUDIT & GOVERNANCE COMMITTEE  
2 June 2008**

**From:** Chief Finance Officer

**Lead Member:** Lead Member for Resources: Councillor G K Robinson

**Ward Member:** All

**Subject: CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING  
IN THE UK – SORP 2007**

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**1.0 SUMMARY**

1.1 This report provides a summary of the changes to accounting practice in respect of the annual statement of accounts that the authority is required to comply with in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2007 (the SORP). This includes significant changes to how financial instruments are reported and how fixed assets and capital expenditure are accounted for.

**2.0 RECOMMENDATION(S)**

**2.1 It is recommended that**

**2.1.1 The changes in accounting requirements and the impact of these changes on the statement of accounts are noted.**

**3.0 LINK TO CORPORATE OBJECTIVES/KEY PRIORITIES**

3.1 Objective: Improvement Programme

3.2 Priority: Maximising Resources

3.3 Outcome: Members are aware of the major changes in reporting requirements prior to considering the draft Statement of Accounts for 2007/08

**4.0 BACKGROUND**

4.1 The SORP specifies the accounting principles and practices required to prepare a statement of accounts that presents fairly the financial position and transactions of local authorities. It also prescribes the accounting treatment and disclosures for all normal transactions and interprets accounting standards and other pronouncements.

- 4.2 The SORP has effect for the financial years commencing on or after 1 April 2007.

## **5.0 CHANGES IN ACCOUNTING PRACTICE AND GUIDANCE**

- 5.1 The Statement of Recommended Practice (SORP) 2007 has introduced some major changes to local authority financial statements. These changes are intended to make the financial statements easier to read and bring them more in line with practices in the private sector.

- 5.2 The most significant of these changes for this authority are:

### **5.2.1 Financial Instruments**

The 2007 SORP requirements are now based on Financial Reporting Standards (FRSs) 25, 26 and 29 that relate to financial instruments. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability of another. The Council's investments and borrowings are therefore all financial instruments.

The FRSs cover the way the Council must measure the value of its financial instruments at the balance sheet date and disclose additional information such as an explanation of key risks. For example, councils historically locked into very long term (50 – 60 year) fixed rate borrowing with the Public Works Loan Board at what were very high rates compared with those of today. Such a course of action back then, although providing a certainty regarding the interest levels payable, meant later generations of taxpayers were exposed to higher interest charges.

The key issues arising from the new FRSs for this Council are:

- Additional disclosures, as mentioned above.
- The need to quantify the financial cost of awarding loans at less than market rates of interest (commonly termed "soft loans"), and incorporate this in the Statement of Accounts if material.
- The need to establish what financial guarantees the Council has made and their associated potential cost, and incorporate this in the Statement of Accounts if material.

### **5.2.2 The Replacement of the Fixed Asset Restatement Reserve and Capital Financing Account by a Revaluation Reserve and Capital Adjustment Account**

The rules for showing changes in asset values have changed completely for 2007/08. The Fixed Asset Restatement Account (FARA) and the Capital Financing Account (CFA) have been replaced by the Revaluation Reserve and the Capital Adjustment Account and the

balances on the FARA and the CFA have been combined and transferred to the Capital Adjustment Account as at 1 April 2007, resulting in a starting balance of zero on the new Revaluation Reserve.

The entries to the Revaluation Reserve are intended to record the accumulated gains on the fixed assets held by the authority arising from increases in value as a result of inflation or other factors, to the extent that these gains have not been consumed by subsequent reductions in value. This balance is then reduced by depreciation where it has only been incurred because the asset has been revalued. When an asset is disposed of, these gains are written out to the Capital Adjustment Account. The overall balance therefore represents the extent that asset values included in the Balance Sheet have increased due to revaluation.

The Council's assets are revalued every 5 years, the next revaluation being due on 1 April 2009, so there will be limited impact from this change for the 2007/08 financial year.

The Capital Adjustment Account records the write down of the historical cost of fixed assets due to depreciation, impairment or disposal. It also accumulates the resources that have been set aside to finance capital expenditure. The balance therefore represents timing differences between the consumption of fixed assets and the financing of capital expenditure.

5.3 The above changes have no effect on the overall General Fund balance.

## **6.0 STATUTORY CONSIDERATIONS**

6.1 Financial Implications: None

6.2 Risk:

<b>Risk</b>	<b>Category</b>	<b>Implications</b>
The Statement of Accounts do not comply with the SORP	Regulatory	The statements may not be comparable with other authorities. The Council would be criticised by the external auditors.

6.3 Equality and Diversity: None

6.4 Human Resources: None

6.5 Community Safety: None

6.6 Legal Issues:

The SORP specifies the accounting principles and practices required to prepare a statement of accounts that presents fairly the financial

position and transactions of local authorities in accordance with the legislation that determines proper accounting practices:

- The Local Government Act 2003
- The Accounts and Audit Regulations 2003
- The Local Government and Housing Act 1989
- The Audit Commission Act 1998

**Background papers:**

1. Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2007
2. SORP Guidance Notes for Practitioners

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