4.8 Borrowing Costs

10.1.2.85 Where authorities had previously adopted a different policy of capitalising borrowing costs than that adopted under the Code, the revised treatment will constitute a change in accounting policy. In accordance with the option permitted by IFRS 1, the Code requires that the change in policy shall apply from 1 April 2009; borrowing costs capitalised prior to this date shall not be restated.

The Code requires local authorities to select an accounting policy in respect of borrowing costs. Two options are permitted – to expense all borrowing costs as they are incurred, or to capitalise borrowing costs in respect of qualifying assets. Where the latter option is selected, the policy is applied to all qualifying assets (subject to considerations of materiality); it is not permissible to apply a policy of capitalisation to selected qualifying assets only. Section 4.8 of the Code includes the accounting requirements under each permissible accounting policy. More details can be found in Module 4, Section L of the Code Guidance Notes.

The two options were both permitted by the SORP. Where an authority retains the same policy under the Code in 2010//11 that it applied under the SORP in 2009/10, there will be no transition issues in respect of borrowing costs. Where an authority changes its accounting policy in respect of borrowing costs on transition to the Code, it will need to restate its accounts.

The Code contains the following paragraph:

> *10.1.1.12 Where the requirements of the Code in relation to borrowing costs (see section 4.8 of the Code) amount to a change in accounting policy for an authority, the authority shall apply those requirements prospectively from 1 April 2009.*

In accordance with paragraph 10.1.1.12 of the Code, any change in accounting policy is to be applied prospectively from 1 April 2009. The opening 1 April 2009 Balance Sheet will therefore not need to be restated. The 2009/10 comparative accounts will need to be restated, and there are two scenarios that might apply. An authority that expensed borrowing costs under the SORP may elect to capitalise borrowing costs in respect of qualifying assets under the Code. Alternatively, an authority that capitalised borrowing costs in respect of qualifying assets under the SORP may elect to expense borrowing costs under the Code.

Because any change in the accounting policy applies prospectively from 1 April 2009, there will be no impact on Minimum Revenue Provision or Loans Fund charges until 2010/11.

Scenario 1 – Restatement of 2009/10 Borrowing Costs Expensed under the SORP

In this scenario, an authority would have charged borrowing costs to the Income and Expenditure Account (below the net cost of services). To restate the 2009/10 accounts, the authority will need to identify the amount of borrowing costs in the year that relate to qualifying assets; section 4.8 of the Code provides guidance on this matter.

To restate the borrowing costs, the following entries are required:

Dr Property, Plant and Equipment
Cr General Fund (Financing and Investment Income and Expenditure)

With the amount of borrowing costs in the year that relate to qualifying assets (note that these will need to be recorded as additional costs against individual assets in the asset register)

Other entries may also be required, depending on circumstances and the authority's accounting policies.

If a qualifying asset has been depreciated in 2009/10 and the asset had not been revalued prior to depreciation being charged, an additional depreciation charge to reflect the increased cost of the asset under the new accounting policy may be required:

Dr General Fund (Service Revenue Account)
Cr Property, Plant and Equipment

With the additional depreciation

Dr Capital Adjustment Account
Cr General Fund (in the Movement in Reserves Statement)

With the reversal of the additional depreciation

If a qualifying asset has been revalued (upwards or downwards) or impaired, the amount of the revaluation or impairment may need to be adjusted to reflect the higher cost of the qualifying asset recognised under the new accounting policy. The entries required will be:

Dr Revaluation Reserve
Cr Property, Plant and Equipment

With the capitalised borrowing costs that reduce the gain recognised in the Revaluation Reserve

AND / OR

Dr General Fund (Service Revenue Account)
Cr Property, Plant and Equipment

With the capitalised borrowing costs that increase the loss recognised in the Service Revenue Account (or that exceed any gain previously recognised in the Revaluation Reserve)

Dr Capital Adjustment Account
Cr General Fund (in the Movement in Reserves Statement)

With the reversal of the increased loss recognised in the Service Revenue Account

Where a qualifying asset was revalued upwards prior to being depreciated, a depreciation adjustment between the Revaluation Reserve and the Capital Adjustment Account would have been recognised. This adjustment will need to be amended to reflect the revised balance on the Revaluation Reserve. The entries required are as follows:

Dr Capital Adjustment Account
Cr Revaluation Reserve

With the amendment to the depreciation adjustment

Worked examples are given in Examples 1a and 1b in the spreadsheet.

Scenario 2 – Restatement of 2009/10 Borrowing Costs Capitalised under the SORP

In this scenario an authority would have capitalised borrowing costs as part of the cost of qualifying assets. To restate the 2009/10 accounts, the authority will need to identify the amount of borrowing costs in the year that were capitalised as part of the cost of qualifying assets, and restate them as expenditure in the Comprehensive Income and Expenditure Statement.

To restate the borrowing costs, the following entries are required:

Dr General Fund (Financing and Investment Income and Expenditure)
Cr Property, Plant and Equipment

With the amount of borrowing costs in the year that were capitalised as part of the costs of qualifying assets

Other entries may also be required, depending on circumstances and the authority's accounting policies.

If a qualifying asset has been depreciated in 2009/10 and the asset had not been revalued prior to depreciation being charged, depreciation charged in relation to the interest element of the cost of the asset under the previous accounting policy may need to be reversed:

Dr Property, Plant and Equipment
Cr General Fund (Service Revenue Account)

With the amount of depreciation to be restated

Dr General Fund (in the Movement in Reserves Statement)
Cr Capital Adjustment Account

With the reversal of the restated depreciation

If a qualifying asset has been revalued (upwards or downwards) or impaired, the amount of the revaluation or impairment may need to be adjusted to reflect the lower cost of the qualifying asset recognised under the new accounting policy. The entries required will be:

Dr Property, Plant and Equipment
Cr Revaluation Reserve

With the capitalised borrowing costs that reduced the gain recognised in the Revaluation Reserve under the SORP

AND / OR

Dr Property, Plant and Equipment
Cr General Fund (Service Revenue Account)

With the capitalised borrowing costs that increased the loss recognised in the Service Revenue Account under the SORP

Dr General Fund (in the Movement in Reserves Statement)
Cr Capital Adjustment Account

With the reversal of the reduced loss recognised in the Service Revenue Account

Where a qualifying asset was revalued upwards prior to being depreciated under the SORP, a depreciation adjustment between the Revaluation Reserve and the Capital Adjustment Account would have been recognised. This adjustment will need to be amended to reflect the revised balance on the Revaluation Reserve. Similarly, where a qualifying asset is revalued upwards following the reclassification of the interest under the Code, a depreciation adjustment will be required. The entries required are as follows:

Dr Revaluation Reserve
Cr Capital Adjustment Account

With the amendment to the depreciation adjustment / new depreciation adjustment

Worked examples are given in Examples 2a and 2b in the spreadsheet.