

LAAP BULLETIN 90

CAPITAL INTEREST RATES 2012/13

OCTOBER 2011

The Local Authority Accounting Panel issues LAAP Bulletins to assist practitioners with the application of the requirements of the CODE, SeRCOP 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 CODE, SeRCOP or Prudential Code.

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BACKGROUND

Capital Accounting By Local Authorities: Definition Of Interest Rates For The Purpose Of Determining Capital Charges In 2012/2013 For Those Authorities That Wish To Continue To Use Them For Financial Management Purposes

The Code of Practice on Local Authority Accounting in the United Kingdom 2006 (the SORP) removed the requirement to make a capital financing charge with effect from the 2006/2007 statement of accounts. The capital financing charge has however become an intrinsic part of financial management at some authorities. There may be some authorities therefore that may wish to continue to include a capital financing charge for management accounting purposes. Also, authorities may need to include the capital financing charge in the measurement of cost for some purposes. CIPFA will continue to issue guidance on the appropriate rates of interest to use for calculating capital charges, so that authorities that choose to do so can prepare their management accounts on this basis or use them for other purposes such as costing.

RATES OF INTEREST

The rates of interest to be used are notional and prescribed by CIPFA. The following statement defines the interest rates that have been fixed for the financial year 2012/13.

Assets carried at current value

For assets carried at current value the rate of interest to be applied in determining capital charges will be 3.5%. This rate is based on the discount rate that HM Treasury uses for central government capital charging purposes on the 1 October of the preceding year (i.e. 1 October 2011 for 2012/13).

Assets carried at historical cost

For assets carried at historical cost, that is infrastructure assets, community assets and plant and equipment carried at depreciated cost as a proxy for fair value, the rate to be applied will be 4.69%. This is based on the average PWLB interest rate applying to the longest dated maturity loan generally offered by the PWLB (currently 49.5 – 50 years) during September 2011.