

# Introduction

Welcome to *Local Authority Capital Accounting: A Reference Manual for Practitioners*, which has been written to help you negotiate the technical and practical challenges of capital accounting.

In recent years, some local authorities have seen significant turnover in their finance teams as individuals move on or efficiencies hit home. As a result, many finance staff are finding their roles expanding to take on new areas. Suddenly being asked to take on capital accounting work can be a daunting prospect, as it is one of the most technically challenging areas of the accounts and seems to be especially prone to frequent changes. Furthermore, effective capital financing requires grappling with a complex and sometimes opaque set of legislative provisions, which are also subject to frequent change.

As the area providing some of the biggest values on the balance sheet, capital also attracts significant audit interest as any mistakes can easily be substantial. And, as budgets become ever tighter, there is a greater focus on the application and use of capital financing, especially as the revenue costs of borrowing become a larger portion of the total budget. Putting all these issues together, further support for practitioners in this area is essential.

This manual is aimed at anyone working in capital, from beginners to the very experienced, who wish to have an overview of capital accounting and capital finance and get a flavor of the key practical issues. It is designed to complement CIPFA's other more detailed publications in this area, such as:

- The *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) and its associated *Guidance Notes for Practitioners: Accounts* (the Code Guidance Notes)
- *The Prudential Code for Capital Finance in Local Authorities (2017 Edition)* (the Prudential Code) and its associated *Guidance Notes for Practitioners (2018 Edition)*
- *Practitioners' Guide to Capital Finance in Local Government (2018 Edition)*
- *Code of Practice on the Highways Network Asset (2016 Edition)*

References to these CIPFA publications throughout this manual are to the editions listed above.

This is the third edition of the Reference Manual. The 2016 edition has been updated to reflect new statutory guidance and the suspension of arrangements for the recognition of the Highways Network Asset. The opportunity has also been taken to add a few more frequently asked questions (FAQs).

The focus in this manual is on real-world application of the theory, and on the provision of useful advice and tips gleaned from those with hands-on experience in the area. It has three major sections:

## SECTION ONE – FREQUENTLY ASKED QUESTIONS AND TOP TIPS

---

This is a reference section with chapters organised by topic. It draws upon the most frequently asked questions about capital received by CIPFA's Finance Advisory Network, the Technical Enquiry Service and TISonline's discussion forums. It also contains a wealth of top tips on making the accounting work in the real world, including tips on getting through the audit as smoothly as possible and using capital accounting systems effectively. There is a list of all the topics and FAQs covered at the start of the section.

You will find this section useful if you have a specific question, if you want to read more about good practice or if you want to gain a deeper understanding in a particular area.

## SECTION TWO – ASSET STORIES

---

This section contains two fictional asset 'stories'. Story 1 shows events happening to a building over an authority's eight-year ownership. Story 2 shows the treatment of leased vehicles, in the accounts of both the lessor and the lessee.

In each story, several years in the lives of the assets are represented, showing the relevant capital transactions required. There is a brief summary of events at the start of each year, so if you want to find a worked example of a particular type of transaction, use these as a starting point. Each year ends with tables that show the major account values at particular points during the year.

You will find this section useful if you want to see a transaction calculated in full to understand where the numbers come from, or if you want to find a worked example of your real-world situation.

## SECTION THREE – GLOSSARY OF TERMS

---

This section contains simple two- or three-sentence explanations of more than 70 capital accounting terms that are used in this manual.

You will find this section useful if you want to check the meaning of a new term or find out where to go for more guidance.

## SCOPE AND LIMITATIONS OF THIS MANUAL

---

Although this manual provides useful practical guidance and examples in relation to capital accounting in local authorities, it cannot address every situation. Consequently, you need to interpret the guidance and examples and apply your own professional judgement to your local circumstances. We strongly recommend that you also refer to the relevant Codes of Practice and associated guidance notes referred to above.

This publication has been drafted on the basis of English and Welsh statutory requirements. While the Code's adoption of International Financial Reporting Standards (IFRS) is the same for all authorities, the statutory framework differs, depending upon your jurisdiction, and so you need to ensure that you have applied the legislation relevant to you.

# Contents

<b>SECTION ONE: FREQUENTLY ASKED QUESTIONS AND TOP TIPS.....</b>	<b>1</b>
CHAPTER A: BASICS OF CAPITAL ACCOUNTING FOR LOCAL AUTHORITIES.....	7
CHAPTER B: CAPITALISATION OF COSTS INCURRED IN PURCHASE OR CREATION OF AN ASSET .....	11
CHAPTER C: CAPITALISABLE COSTS WHEN ADDING TO AN ASSET, INCLUDING RECTIFICATION ISSUES .....	22
CHAPTER D: DEALING WITH INCOMPLETE PROJECTS AT YEAR END .....	26
CHAPTER E: REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE: REFCUS .....	29
CHAPTER F: ASSET CATEGORISATION.....	33
CHAPTER G: VALUATION OF ASSETS .....	41
CHAPTER H: COMPONENTISATION .....	52
CHAPTER I: DEPRECIATION AND USEFUL LIVES .....	56
CHAPTER J: LEASING .....	60
CHAPTER K: DISPOSALS .....	66
CHAPTER L: HISTORICAL COST OF AN ASSET.....	70
CHAPTER M: BASIC REQUIREMENTS OF AN ASSET REGISTER .....	73
CHAPTER N: GRANTS AND CONTRIBUTIONS .....	77
CHAPTER O: BORROWING, THE CAPITAL FINANCING REQUIREMENT AND MINIMUM REVENUE PROVISION.....	80
CHAPTER P: USE OF THE CAPITAL ADJUSTMENT ACCOUNT AND THE MOVEMENT IN RESERVES STATEMENT .....	85
<b>SECTION TWO: ASSET STORIES .....</b>	<b>89</b>
YEAR SUMMARIES: STORY 1 – A BUILDING STORY.....	89
YEAR SUMMARIES: STORY 2 – A VEHICLE STORY.....	90
STORY 1: YEAR 0.....	91
STORY 1: YEAR 1.....	94
STORY 1: YEAR 2.....	97
STORY 1: YEAR 3.....	102
STORY 1: YEAR 4.....	106
STORY 1: YEAR 5.....	110
STORY 1: YEAR 6.....	115
STORY 1: YEAR 7.....	117
STORY 1: YEAR 8.....	120
STORY 2: YEAR 0A – THATLAND DISTRICT COUNCIL .....	122
STORY 2: YEAR 1A – THATLAND DISTRICT COUNCIL .....	124
STORY 2: YEAR 2A – THATLAND DISTRICT COUNCIL .....	127
STORY 2: YEAR 1B – THEOTHERPLACE BOROUGH COUNCIL.....	130
STORY 2: YEAR 2B – THEOTHERPLACE BOROUGH COUNCIL.....	132
<b>SECTION THREE: GLOSSARY OF TERMS .....</b>	<b>135</b>