

## **BELOW THE LINE FORECASTS AS AT MONTH 10:**

As at month 10, the below the line forecast is an underspend of £1684k. This is made up of a variety of factors. The main reason for the underspend has been the capitalisation of highways expenditure.

Until the financial year 2009-10, the Council had to account in accordance with the CIPFA SORP (Statement of Recommended Practice) which ensures that local government complies with UK GAAP (Generally Accepted Accounting Practice). One of the accounting standards used within the SORP was FRS (Financial Reporting Standard) 15, this relates to the accounting of fixed assets. FRS 15 implied that expenditure could be capitalised if it enhanced the asset beyond its previously assessed standard of performance i.e. if you built a new road, any subsequent improvements to the road could only be capitalised if they were large and fundamental changes to the structure of the road compared to the last date that the road was valued.

From 2010-11, all Councils are required to account in accordance with IFRS. Under IFRS, the accounting standard for fixed assets has changed to International Accounting Standard (IAS) 16. Though most of the accounting provisions within FRS 15 remain, there is an important difference "*it is not necessary for expenditure to improve the condition of the asset beyond its previously assessed standard of performance – the measurement is against the actual standard of performance at the date of expenditure<sup>1</sup>*". This means that the Council can capitalise expenditure if it improves, or maintains, the standard of the asset in its current state (not against the state of the asset when it was acquired or revalued). This point is confirmed in the IFRS guidance notes from CIPFA<sup>2</sup>.

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<sup>1</sup> 4.7.3 CIPFA's code of practice on transport infrastructure assets

<sup>2</sup> Module 4, B46 page 375-376