



SCOTTISH EXECUTIVE

Finance and Central Services Department
Local Government Finance Division

Victoria Quay
Edinburgh EH6 6QQ

Finance Circular No 4/2007

Telephone: 0131-244 7018

Fax: 0131-244 7020

To: Directors of Finance of Scottish Local Authorities

david.henderson2@scotland.gsi.gov.uk

Copy to: Finance Officers – Police and Fire
Finance Officers – Regional Transport Partnerships
COSLA

<http://www.scotland.gov.uk>

Your ref:

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30 March 2007

Dear Colleague

**LOCAL AUTHORITY ACCOUNTING
GUIDANCE UNDER SECTION 12(2)(b) OF THE LOCAL GOVERNMENT IN
SCOTLAND ACT 2003**

With our letter of 24 January 2007 we circulated for consultation draft guidance on local authority accounting. The consultation ended on 23 February 2007 and we are grateful to all the authorities and other bodies who responded. Based on the feedback we received, we have made some changes to the guidance. Hazel Black will write to you separately about this.

The guidance is now formally issued by Scottish Ministers under section 12(2)(b) of the Local Government in Scotland Act 2003. I enclose a copy of the guidance, together with an informal commentary and background information.

Any enquiries about the guidance should be addressed to Hazel Black here at:

hazel.black@scotland.gsi.gov.uk

Yours sincerely

David Henderson

GUIDANCE ON PROPER ACCOUNTING PRACTICES

Scottish Executive

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Part 1 of this document gives informal advice only and is not part of the guidance itself, which is contained in Part 2.

PART 1 - BACKGROUND AND COMMENTARY

Changes to the Code of Practice (the SORP)

1. Amendments are being proposed to the *CIPFA/ LASAAC Code of Practice on Local Authority Accounting: A Statement of Recommended Practice (SORP)* to incorporate the requirements of new accounting standards on financial instruments (FRS 26 and FRS 26). The amendments are proposed to take effect from 1 April 2007.

2. The proposed changes to the Code may impact the carrying values on local authority balance sheets, and impact the General Fund and Housing Revenue Account (HRA) balances. The following items have been identified as areas which may be affected by the proposed changes:

- (a) premiums or discounts associated with the refinancing of loans;
- (b) loans to third parties granted at less than market interest rates;
- (c) borrowing where the loan has a stepped interest rate;
- (d) impairment of assets; and
- (e) financial guarantees

3. The statutory guidance has been issued to modify the application of Financial Reporting Standards (FRS) where local authorities have identified (and provided evidence to show) that the proposed changes will adversely impact the charge to taxpayers. Of the items identified above, items (a) to (c) are addressed by the statutory guidance. To date no representation, nor evidence, has been provided to show that items (d) or (e) will adversely impact the charge to taxpayers. It is anticipated that the detailed accounting guidance on how this Guidance is applied will be contained within the SORP.

The relationship between the SORP and the Statutory Guidance

4. Section 12 of the Local Government in Scotland Act 2003 places a duty on local authorities to observe proper accounting practices. Proper accounting practices may be one of three types as defined by the Act:

- a) Those that the local authority is required to observe by virtue of any enactment
- b) Those which have been specified in guidance issued for the purposes of this section and that section by the Scottish Ministers

- c) Those which, whether by reference to any generally recognised, published code or otherwise, are regarded as proper accounting practices to be observed in the preparation and publication of local authorities

5. In the event of any conflict between the three types the legislation ranks them in order from a to c, with a taking precedence over b and c, and b taking precedence over c.

6. This statutory guidance has been issued to modify the effects of the new accounting standards as adopted in the SORP, in particular as it relates to some of the charges required to be made to the Income and Expenditure Account. Unless the guidance specifically permits the SORP to be disregarded the intention of the statutory guidance is to require the SORP to be applied, then a statutory adjustment to be made to control the impact on the General Fund. The guidance does not seek to provide detailed information on the specific accounting adjustment required to comply with the statutory guidance as this will be contained within the SORP or the SORP associated Guidance Notes.

7. Reference is made in the guidance to the 'General Fund'. This includes the Housing Revenue Account (HRA). It is anticipated that the statutory adjustments will be through the Statement of Movement on the General Fund Balance and the Statement of Movement on the Housing Revenue Account Balance. The HRA is still required to receive its share of any costs, statutory or otherwise.

Refinancing of loans – Premiums and Discounts

8. Authorities often negotiate with their lenders to cancel existing debt and replace it with new debt on different terms. For example, an authority with high interest fixed rate debt may decide to cancel its exposure to the high rate debt and replace it with lower interest fixed or variable rate debt. On cancellation, a fee (premium) may be payable. Some repurchasing of debt gives rise to a gain (discount). The 2006 SORP currently includes an exception to the requirement for immediate recognition of a gain or loss on the repurchase of debt, as follows: "Gains or losses on the repurchase or early settlement of borrowing should be recognised in the Income and Expenditure account in the periods during which the repurchase or early settlement is made. Where, however, the repurchase of borrowing is coupled with a refinancing or restructuring of borrowing with substantially the same overall economic effect when viewed as a whole, gains or losses should be recognised over the life of the replacement borrowing."

9. The SORP applying to periods after 1 April 2007 will incorporate FRS 26 which introduces new tests. If the replacement debt has substantially different terms from the old debt, the refinancing should be accounted for as the **extinguishment** of the old debt and its replacement as new debt. The gain or loss on the extinguishment of the old debt should be recognised immediately in the Income and Expenditure Account.

10. Applying the SORP, all existing premiums and discounts (those incurred up to 31 March 2007) will need to be derecognised unless they would have been required to be accounted for as a loan **modification** under the requirements of the 2007

SORP. Any adjustment required will be made through an adjustment to the opening General Fund / Housing Revenue Account balance.

11. The 2007 SORP will also require premiums or discounts incurred after 1 April 2007 to be charged to the Income and Expenditure Account in full in the financial year they are incurred if they do not meet the new criteria.

Statutory Guidance – Premiums and Discounts at 31 March 2007

12. The proposed SORP Exposure Draft Financial Instruments Chapter issued 17 October 2006 states 'All premiums and discounts carried on the closing 2006/07 balance sheet that cannot be attributed positively to identifiable individual loan debts being carried on the balance sheet should be written off. Such premiums and discounts that can be positively attributed to loan debt carried on the 2006/07 closing balance sheet should be applied to adjust the carrying amount of such loans. In other words on completion of the above review of premiums and discounts the restated opening 2007/08 balance sheet will not include an asset for *Deferred premiums on early repayment of debt* or *Deferred discount on early repayment of debt* since all such amounts will have been written off or applied to adjust the carrying amount of the associated (modified) loan debt.

13. In response to representation from local authorities that the review would be time consuming with no real benefit arising, the statutory guidance permits local authorities to forgo the required review and treat all premiums and discounts carried on the closing 2006-07 balance sheet as not being capable of being positively attributed. This will allow them to be written-off by adjusting the General Fund / Housing Revenue Account Balances. The statutory guidance requires this impact to be modified and allows local authorities to continue to spread the revenue charge or credit in accordance with schedules. Nothing in the guidance prevents a local authority from undertaking the review should they choose to do so.

14. A schedule of all premiums and discounts which are treated as extinguished will need to be compiled which details the annual charge to the General Fund (or Housing Revenue Account (HRA)) from 2007-08 until the final year when the premium or discount will be at zero. These schedules should mirror existing schedules held by local authorities which demonstrate compliance with existing practice.

Statutory Guidance – Premiums and Discounts arising after 1 April 2007

15. The 2007 SORP will require premiums or discounts incurred after 1 April 2007 to be charged to the Income and Expenditure Account in full in the financial year they are incurred if they do not meet the new criteria. The guidance does not cover premiums and discounts associated with **modified** loans which should be accounted for in accordance with the SORP. The statutory guidance permits all premiums and discounts arising from an **extinguishment** of a debt to be deferred and charged to the General Fund over a period greater than one year. The guidance covers all premiums and discounts arising from the early repayment of debt. There is no requirement to refinance a debt repaid early.

16. Local authorities are permitted to spread the revenue charge for premiums or discounts over a period longer than one year.

16.1 Where a local authority has refinanced a loan and the replacement loan is a fixed interest rate loan the premium may be charged to the General Fund over the life of the replacement loan.

16.2 Where the replacement loan is a variable rate loan, or has an option or condition which allows the lender to vary the interest rate, the charge to the General Fund shall be over the life of the replacement loan up to a maximum of 20 years.

16.3 Where the loan is repaid early without any refinancing the charge to revenue shall be treated as an overhanging premium.

17. Local authorities should ensure they maintain full records which detail all loans and any associated premiums and discounts, together with a schedule of the associated annual charge to revenue.

18. In any financial year local authorities may choose to charge to the General Fund a sum greater than the annual amount calculated in accordance with the statutory guidance. If local authorities choose to charge more than the schedule value in any one year the schedule of annual charges should be updated to reflect future revised annual charges. Local authorities are permitted to apply additional General Fund resources directly to any specific premium outstanding, such contributions should be applied to the total premium outstanding. If the application of the contribution does not extinguish the premium local authorities are required to revise all the outstanding annual charges for that premium. This revision should reflect that the contribution was applied to produce a proportionate reduction to all future annual charges.

Statutory Guidance – Overhanging premiums

19. Overhanging premiums arise where the replacement loan which determined the period over which the premium was amortised to revenue has itself been repaid early. This leaves the premium outstanding without an associated loan.

20. All overhanging premiums and discounts held by local authorities as at 31 March 2007 may continue to be charged to revenue in accordance with schedules compiled and held by local authorities.

21. Premiums and discounts held at 31 March 2007, which subsequently become overhanging premiums or discounts, may continue to be written-off in accordance with the schedules compiled and held by local authorities. They are not required to be written-off in accordance with the statutory guidance.

22. Overhanging premiums which arise from the extinguishment of debt after 1 April 2007 are required to be charged to the General Fund in a way which matches the annual saving gained from undertaking the refinancing, subject to this not requiring the write-off period to exceed 20 years. For example: A local authority replaces £20m of loans gaining an interest rate reduction of 1% which equates to an annual expenditure saving of say £200,000. The loan being replaced has a

associated outstanding premium of £1.1m which becomes an overhanging premium. The formula to be applied to determine the period of write-off for the overhanging premium is:

Premium divided by annual saving = number of years

For the example given this will equate to 5.5 years. Local authorities may round up to the nearest whole year. In the example given the annual write-off to the General Fund will be £183,333. Where the calculation indicates the number of years for the write-off period exceeds 20 years the statutory guidance requires the premium to be written off in 20 equal instalments.

23. Once the overhanging premium is scheduled for an annual charge to the General Fund the local authority is not required to consider the overhanging premium again should any further refinancing be undertaken.

24. Nothing in the guidance prevents local authorities from writing down premiums to the General Fund more quickly than the guidance permits.

25. Local authorities should ensure they maintain separate records for any overhanging premiums which arise after 1 April 2007 and their annual charge to the General Fund from the initial year to the final year.

Statutory Guidance – Capital Receipts

26. From 1 April 2007, capital receipts may be used to meet the cost of premiums. Capital receipts may also be used by local authorities to reduce the value of any premiums outstanding as at 1 April 2007.

27. The capital receipt may be applied directly to any premium or overhanging premium. The receipt should be applied to the total premium outstanding. If the application of the capital receipt does not extinguish the premium local authorities are required to revise all the outstanding annual charges for that premium. This revision should reflect that the capital receipt was applied to produce a proportionate reduction to all future annual charges.

Statutory Guidance - the Annual Charge

The statutory guidance details how the annual charge to the General Fund should be calculated for premiums treated as extinguished. As premiums represent interest the amount of premium to be charged to revenue should be calculated pro-rata to the interest expenditure profile of the replacement loan/s. So for EIP or maturity loans this equates to a straight line amortisation. For annuity loans the premium will be amortised in line with the expected interest profile. For clarity the interest profile to be used is the expected expenditure interest profile and not the actual cash profile.

28. Premiums associated with modified loans shall be charged to the Income and Expenditure Account in accordance with the SORP in force for the relevant year.

29. Discounts should be treated the same as premiums.

Statutory Guidance – Soft Loans

30. Local authorities sometimes give financial assistance to local organisations by offering loans at interest rates which are lower than the market rate. These are known as 'soft loans'. FRS 26 requires all financial instruments to be initially recognised on the balance sheet at fair value. The fair value of the financial instrument on initial recognition is normally the transaction price. However, if part of the consideration given or received is something other than the financial instrument, the fair value of the instrument is estimated using a valuation technique. For soft loans that carry no interest this will be the present value of all future cash receipts discounted using the prevailing market rates of interest for a similar instrument.

31. On transition to the 2007 SORP soft loans on the closing 2006-07 balance sheet will need to be re-stated to fair value. Where this results in the General Fund balance on the re-stated opening 2007-08 balance sheet being less than the General Fund balance on the closing 2006-07 balance sheet a statutory adjustment is required. The adjustment to the General Fund balance will be equal to the reduction attributable to restating soft loans. This means that for all existing soft loans there is no impact on the General Fund balance.

32. Any new soft loans issued after 1 April 2007 shall be accounted for in accordance with the SORP in force for the relevant year. This means that the statutory adjustment required for existing soft loans is not extended to any new loans.

33. Any modification or extension of an existing soft loans held at 31 March 2007 shall be treated as if it were a new loan advanced and shall be accounted for in accordance with the SORP in force for the relevant year.

Statutory Guidance – Borrowing where the loan has a stepped interest feature

34. A loan with a stepped interest feature is one where the interest rate is fixed for an initial period and at a pre-agreed point in the future this rate changes. If a local authority has such loans these will need to be re-evaluated at 1 April 2007 since there may be a difference between the amortised cost determined in accordance with the 2007 SORP and the carrying amount in accordance with the current accounting treatment. The statutory guidance allows all existing borrowing which has a stepped interest feature to be charged to the General Fund in accordance with the current accounting treatment. This modification is not extended to new loans with these features. Existing stepped loans which are extended or re-negotiated are no longer considered to be an existing loan and are required to be accounted for in accordance with the SORP in force for the relevant year.

GUIDANCE ON PROPER ACCOUNTING PRACTICES

Issued by Scottish Ministers under section 12(2)(b) of the Local Government in Scotland Act 2003

DEFINITIONS

1. In this guidance, the **2003 Act** means the Local Government in Scotland Act 2003.
2. **2007 financial year** is the financial year commencing 1 April 2007.
3. **Local Authority** means a council constituted under section 2 of the Local Government etc. Act 1994 (c.39) and other bodies to which section 12 of the 2003 Act applies.
4. **Annual Charge** – the amount of any statutory premium or statutory discount chargeable to revenue in any financial year.
5. **Annual Saving** – the amount of interest saving identified with any refinancing.
6. **Final year** – means the financial year when the statutory premium or statutory discount outstanding equals zero.
7. **General Fund** – means the fund as detailed in section 93(1) of the Local Government (Scotland) Act 1973. For clarity - reference to the General Fund in this guidance includes the Housing Revenue Account (HRA). Statutory adjustments required by this guidance assume an appropriate adjustment to the HRA balance.
8. **Overhanging premium or discount** – means any statutory premium or statutory discount which can no longer be directly associated with a current loan made to the local authority.
9. **Replacement loan** – means any loan of money to the local authority which the local authority has taken out in order to finance the repayment of any loan repaid early.
10. **Schedule of annual charges** – means a schedule compiled by local authorities to record the annual charge to the General Fund for each statutory premium or statutory discount.
11. **SORP** – the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice.

12. **Statutory premium or statutory discount** – means those premiums or discounts which arise on the early repayment of debt and which are required by the SORP to be immediately recognised in the Income and Expenditure account.

13. **Stepped interest loan** – means any loan of money made to the local authority where the interest rate is fixed for an initial period and at an agreed time in the future a new pre-determined rate is applied.

APPLICATION

14. This guidance applies in relation to the financial year 2007-08 and subsequent financial years. It applies only in Scotland. It applies to all public bodies to which section 12 of the Local Government in Scotland Act 2003 applies.

REPURCHASE OF BORROWING – PREMIUMS AND DISCOUNTS AT 31 MARCH 2007

15. This guidance applies to all statutory premiums and discounts.

16. Premiums and discounts held at 31 March 2007 may be designated as not being capable of being positively attributable to loan debt carried on the 2006-07 closing balance sheet. All premiums and discounts as at 31 March 2007 that are not positively attributable to loan debt carried on the 2006/07 closing balance sheet or have been so designated under this guidance are therefore statutory premiums and discounts.

17. Each local authority is required to list all statutory premiums and discounts. From this list, a schedule should be compiled which details the annual charge, or credit, to the General Fund for each statutory premium or discount for the financial year 2007-08 and each subsequent financial year until the final year. The annual charge, or credit to the General Fund, as detailed in the schedule should reflect existing annual charge schedules which have been compiled in accordance with existing practice.

18. The amount a local authority shall charge to the General Fund for the financial year 2007-08 and each subsequent year until the final year is an amount the same as, or greater than, the sum of the debit amounts as detailed in the schedule for that year. The amount a local authority shall credit to the General Fund for the financial year 2007-08 and each subsequent year until the final year is an amount the same as the sum of the credit amounts as detailed in the schedule for that year.

19. Local authorities are permitted to adjust this schedule at any time to increase the annual charge to the General Fund for any statutory premium with a view to shorten the write-off period. The revision should reflect that the revised annual charge produces a proportionate increase in future annual charges to the General Fund and a shortened timeline.

20. Local authorities are permitted to apply General Fund or HRA reserve balances directly to any specific statutory premium outstanding. The sum shall be

applied to the total outstanding statutory premium. If the application of the General Fund/HRA reserves does not extinguish the statutory premium local authorities are required to revise all the outstanding annual charges for that statutory premium. This revision should reflect that the General Fund/HRA contribution was applied to produce a proportionate reduction to all future annual charges for that statutory premium.

21. Capital receipts may be applied to reduce the value of statutory premiums. The capital receipt may be applied directly to any statutory premium. The receipt should be applied to the total statutory premium outstanding. If the application of the capital receipt does not extinguish the statutory premium local authorities are required to revise all the outstanding annual charges for that statutory premium. This revision should reflect that the capital receipt was applied to produce a proportionate reduction to all future annual charges for that statutory premium. Capital receipts may not be applied selectively to any particular annual charge in any particular financial year.

22. The schedule must be maintained to reflect the application of any additional contributions from the General Fund or the use of capital receipts.

EARLY REPAYMENT OF LOANS - PREMIUMS AND DISCOUNTS AFTER 31 MARCH 2007

23. This guidance applies to all statutory premiums and discounts.

24. Statutory premiums or discounts arising from the refinancing of a loan where the replacement loan is a fixed rate loan may charge the statutory premium or discount to the General Fund over the life of the replacement loan. Local authorities may choose a shorter period than that permitted by this guidance.

25. Statutory premiums or discounts arising from the refinancing of a loan where the replacement loan is a variable rate loan, or has a term which permits the lender to vary the interest rate, may charge the statutory premium or discount to the General Fund over the life of the replacement loan, unless this exceeds 20 years in which case the statutory premium or discount may be charged to the General Fund up to a maximum of 20 years. Local authorities may choose a shorter period than that permitted by this guidance.

26. Statutory premiums or discounts arising from the early repayment of a loan where there is no replacement loan should be treated as an overhanging statutory premium and may be charged to the General Fund over a period no greater than 5 years. Local authorities may choose a shorter period than that permitted by this guidance.

27. Local authorities are required to maintain records that demonstrate which statutory premiums or discounts are associated with which replacement loan/s and a schedule of their annual charge to the General Fund from the initial year to the final year. Local authorities are permitted to adjust this schedule at any time to increase the annual charge to the General Fund for any premium with a view to shorten the write-off period. The revision should reflect that the revised annual charge produces

a proportionate increase in future annual charges to the General Fund and a shortened timeline.

28. Local authorities are permitted to apply General Fund/HRA reserve balances directly to any specific statutory premium outstanding. The General Fund/HRA reserve balances must be applied to the total statutory premium outstanding. If the revenue contribution does not extinguish the statutory premium local authorities are required to revise all the outstanding future annual charges for that statutory premium. This revision should reflect that the General Fund/HRA reserve balances were applied to produce a proportionate reduction to all future annual charges.

29. Capital receipts may be applied to reduce the value of any relevant premium or premiums in the same way as detailed in paragraph 21 of this guidance.

30. The schedule must be updated and maintained to reflect the application of General Fund/HRA reserve balances or the use of capital receipts.

OVERHANGING PREMIUMS OR DISCOUNTS

31. Overhanging premium or discounts existing at 31 March 2007 would not under the proposed 2007 SORP requirements be carried to the restated 1 April 2007 balance sheet. These should be classified as statutory overhanging premiums and discounts and should continue to be charged to the General Fund in accordance with the schedule of annual charges.

32. Premiums and discounts existing at 31 March 2007, which become statutory premiums and discounts, and which subsequently become overhanging premiums or discounts through further refinancing, should be classified as statutory overhanging premiums and discounts. These may continue to be charged to the General Fund in accordance with the existing schedule of annual charges.

33. Overhanging statutory premiums or discounts which arise from the refinancing of debt after 1 April 2007 may be charged to the General Fund in a way which matches the annual saving identified by the refinancing, subject to this not requiring the write-off period to exceed 20 years. The formula to be applied to determine the write-off period for the overhanging statutory premium is:

Overhanging statutory premium (or discount) divided by the Annual Saving = number of years

Where the calculation indicates the write-off period will exceed 20 years the premium or discount must be written off within 20 years. Local authorities may choose to apply a shorter write-off period than that permitted by this guidance.

34. Once the overhanging statutory premium or discount is scheduled for an annual charge to the General Fund the local authority is not required to consider the overhanging statutory premium or discount again should any further refinancing be undertaken.

35. Overhanging statutory premiums or discounts which arise where that debt is not refinanced are required to be charged to revenue within 5 years.

36. Local authorities should maintain a separate record for any overhanging statutory premiums or discounts which arise after 1 April 2007 detailing their annual charge to the General Fund from the initial year to the final year. Local authorities are permitted to adjust this schedule at any time to increase the annual charge to the General Fund for any overhanging statutory premium with a view to shorten the write-off period. The revision should reflect that the revised annual charge produces a proportionate increase in future annual charges and a shortened timeline.

37. Local authorities are permitted to apply General Fund/HRA reserve balances directly to any specific overhanging premium outstanding. The General Fund/HRA reserve balances must be applied to the total premium outstanding. If the application of the General Fund/HRA reserve balances does not extinguish the premium local authorities are required to revise all the outstanding future annual charges for that overhanging statutory premium. This revision should reflect that the General Fund/HRA reserve balances were applied to produce a proportionate reduction to all future annual charges.

38. Capital receipts may be applied to reduce the value of any overhanging statutory premium or premiums in the same way as detailed in paragraph 21 of this guidance

CALCULATION OF THE ANNUAL CHARGE

39. Where a local authority has refinanced a loan and the statutory premium or discount is being charged to the General Fund over the life of the replacement loan/s, the annual charge to should be pro rata to the expected interest profile of the replacement loan/s. The interest profile to be used is the expected expenditure profile not the cash profile.

40. Where a local authority has refinanced a loan and the statutory premium or discount is being charged to the General Fund subject to a maximum of 20 years the annual charge will be equal instalments of the premium or discount.

41. Where there is no replacement loan and the statutory premium or discount is being charged to the General Fund within 5 years the annual charge will be equal instalments of the premium or discount.

42. Overhanging statutory premiums or discounts should be charged to the General Fund in equal instalments.

LOANS TO THIRD PARTIES AT LESS THAN COMMERCIAL INTEREST RATES. ('SOFT LOANS')

43. On transition to the 2007 SORP loans on the closing 2006-07 balance sheet originated at less than commercial interest rates shall be accounted for in accordance with the SORP. Where because of write downs of the carrying amount to fair value this results in the General Fund Balance on the restated opening

2007-08 balance sheet being less than the General Fund Balance on the closing 2006-07 balance sheet the opening 2007-08 General Fund Balance shall be credited with an amount equal to the reduction attributable to restating soft loans.

Subsequently the interest income credited to the Income and Expenditure Account in respect of soft loans carried on the closing 2006-07 balance sheet shall be in accordance with the SORP. The amount credited to the General Fund Balance in respect of interest shall be the contractual interest receivable.

44. Any new soft loans issued after 1 April 2007 shall be accounted for in accordance with the SORP in force for the relevant year.

45. Any modification or extension of an existing soft loan held at 31 March 2007 shall be treated as if it were a new loan advanced and shall be accounted for in accordance with the SORP in force for the relevant year.

BORROWING WHERE THE LOAN HAS A STEPPED INTEREST FEATURE

46. The cumulative interest charge to the General Fund for all stepped interest loans held by local authorities at 31 March 2007 shall not exceed the sum which would have been chargeable in accordance with the authorities existing accounting policy in 2006-07. The charge should therefore be in accordance with the 2006-07 accounting policy (usually the actual interest cost) and not the interest cost as required by the SORP in force for the relevant financial year.

47. From 1 April 2007 the annual interest charge to the General Fund shall not exceed the sum that would have been chargeable if the 2006 SORP had applied.

48. Local authorities are required to keep a schedule reconciling the cumulative interest charged in accordance with the SORP in force for the relevant year and the actual interest charged to the General Fund.

49. Any new borrowing from 1 April 2007 which has a stepped interest feature shall be accounted for in accordance with the SORP in force for the relevant financial year.

50. Any extension or modification to a stepped interest loan held by local authorities as at 31 March 2007 shall be accounted as an extinguishment or a modification in accordance with the SORP in force for the relevant financial year.

Scottish Executive

30 MARCH 2007

Victoria Quay, Leith, Edinburgh EH6 6QQ
