AUDIT AND RISK COMMITTEE

21 January 2014

REVALUATION RESERVE

Report of the Director of Resources

STRATEGIC AIM:	**All**

1. PURPOSE OF THE REPORT

1.1 This report is being presented to the Committee in response to a request made to explain how the Revaluation Reserve works at the meeting on 24 September 2013 when Members reviewed and approved the Statement of Accounts (report 220/2013).

2. RECOMMENDATIONS

2.1 That the Committee notes the contents of this report.

3. REASONS FOR THE RECOMMENDATIONS

3.1 To improve the Committee's understanding of the Statement of Accounts and in particular the Revaluation Reserve.

4. THE REVALUATION RESERVE

4.1 Local authorities are required to account for their non-current assets (formerly known as fixed assets) in accordance with the International Accounting Standard No. 16 Property, Plant and Equipment, except where there are adaptations to fit the public sector, and then these are detailed in the CIPFA Code of Practice on Local Authority Accounting.

4.2 In order to present a true and fair view of the Council's financial position in the Statement of Accounts each year the Council has to include its non-current assets at a fair value (generally the market value). It is accepted that Infrastructure Assets (e.g. roads), Community assets (e.g. cemeteries and play areas) and Assets Under Construction are not valued in this way. All other categories of assets should be valued at fair value. These are all assets that the Council's owns and are classed as Other Land and Buildings, Vehicles, Plant and Equipment and Surplus Assets

4.3 To ensure that assets are valued accurately valuations are carried out by professionally qualified valuers. Valuations must be carried out at least every 5 years. The Council has a rolling programme for the valuation of its assets, but an asset must be revalued more regularly if the five-year period is insufficient to keep pace with its material change in value. An asset should also be revalued if for any reason it is thought that the value has changed.

4.4 When an asset is revalued there will be a difference between the value that it is held at on the Balance Sheet and the new value. In simple terms this difference is put to the Revaluation Reserve, although in reality the accounting transactions are more complicated depending on whether it is an upward or downward revaluation and previous depreciation and subsequent expenditure need to be allowed for in making the accounting adjustments.

4.5 A simple example, ignoring depreciation and any downward revaluations of assets, is that an asset is held on the assets register at a value of £1,000,000. It is revalued to a value of £1,100,000. To process this increase in value of £100,000 a double entry is required in the accounts. The entries are shown below.

Upward Revaluation
Dr Asset £100,000
Cr Revaluation Reserve £100,000

These entries result in the asset being shown at its increased value of £1,100,000 (which is its true market value) on the Balance Sheet with a corresponding increase in the Revaluation Reserve to balance. This increase in value has no impact on the General Fund i.e. the increase in value is not counted as profit.

4.6 Subsequently if the asset is sold for £1,400,000 then the gain is posted to the Surplus or Deficit on the Provision of Services on the Comprehensive Income and Expenditure Statement (CIES). The value of the asset held on the Balance Sheet is £1,100,000 and it is sold for £1,400,000 then the gain is £300,000.The simplified adjustments are:

An entry to write out the carrying amount of the asset from the asset register (if it is not revalued to its disposal cost prior to sale) and leave the gain in the General Fund.

Dr Cash £1,400,000
Cr CIES – Operating Expenditure £300,000
Cr Asset £1,100,000

However as the gain cannot have an impact on the General Fund bottom line, as income that meets the definition of capital receipts is reserved for new investment or to repay debt, it is reversed out to the Capital Adjustment Account in the Movement in Reserves Statement and the entries for this are:

Dr General Fund £300,000
Cr Capital Adjustment Account £300,000

An entry is also required to write out the balance in the Revaluation Reserve that relates to the upward revaluation of this this asset (see paragraph 4.5).

Dr Revaluation Reserve £100,000
Cr Capital Adjustment Account £100,000

4.7 The Revaluation Reserve was implemented in local government on 1 April 2007. It is an unusable reserve and was introduced with a nil balance. At this point the value of the assets on the Balance Sheet was deemed to be a proxy for their value. Therefore the value of the Revaluation Reserve that is shown on the Balance Sheet represents any revaluations since that date.

4.8 As part of the audit of the accounts the auditors will audit the entries made that relate to the Asset Register. This will include a review of the Revaluation Reserve. There were no issues identified in the audit of the 2012/13 accounts.

5. RISK MANAGEMENT

RISK	IMPACT	COMMENTS
Time	Low	N/A
Viability	Low	N/A
Finance	Low	N/A
Profile	Medium	Although the financial position of the Authority is high profile at the current time, there is less public interest in the Statement of Accounts.
Equality and Diversity	Low	N/A

Background Papers
Forward Plan
CIPFA Code of Practice on Local Authority Accounting

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A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577.