

Financial Reporting Advisory Board Paper

Code of Practice on Local Authority Accounting – Accounting for Local Authority Maintained Schools

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| Issue: | To consider the final amendments to the <i>Code of Practice on Local Authority Accounting in the United Kingdom</i> (the Code) 2014/15 in relation to accounting for local authority maintained schools. |
| Impact on guidance: | Changes to the text of the (main) 2014/15 Code have already agreed by FRAB. The proposed change is in relation to accounting for local authority maintained schools. |
| IAS/IFRS adaptation? | Yes, CIPFA/LASAAC is proposing an adaptation to the definition of single entity financial statements ie separate financial statements per IAS 27. |
| Impact on WGA? | This adaptation will promote consistency in local authority accounting practice for schools and therefore lead to improvement in WGA accuracy. |
| IPSAS compliant? | No, as will require an adaptation to the single entity financial statements – see above IAS/IFRS adaptation. However, the accounting treatment included in the Working Groups’ report is likely to be consistent with IPSAS 6 – 8 which is a current IPSASB project. |
| Impact on budgetary regime? | None – local authorities only. |
| Alignment with National Accounts | The current position regarding alignment with National Accounts may improve as the changes clarify the accounting treatment of local authority maintained schools. |
| Impact on Estimates? | None – local authorities only. |
| Recommendation: | The Board is requested: <ul style="list-style-type: none"> 1) To provide comments on the Invitation to Comment on the Code and Exposure Draft Accounting for Local Authority Schools in England and Wales. 2) To agree to delegate approval of the adaptation in the Addendum to the 2014/15 Code to the Chair of FRAB. |
| Timing: | 2014/15 |

DETAIL

Background

1. The FRAB agreed the majority of the amendments to the Code at its meeting on 13 December 2013. This was followed by subsequent amendments being approved by the Chair and an additional FRAB Member by 14 February 2014. These subsequent amendments were principally in relation to clarification of the treatment of IFRS 13 *Fair Value Measurement* and other minor amendments.
2. This report sets out briefly the need to include an adaptation to the 2014/15 Code in respect of accounting for local authority maintained schools ie by including an adaptation to the definition of the single entity financial statements¹.
3. The adaptation is currently subject to a consultation process which commenced on 21 February 2014 and will conclude on 4 April 2014.

Consultation

4. The consultation is primarily based on the report of the Joint Working Group of HM Treasury and CIPFA/LASAAC (the Working Group). The consultation papers are included at Annex A to this report. The final report was agreed on 19 February 2014². The report largely follows the outline which FRAB received at FRAB 119 by the Chair of the Working Group. CIPFA/LASAAC considered the report at its meeting on 20 February 2014 (CIPFA/LASAAC had been able to consider the substantive report in accordance with normal timings for meeting papers). The report concludes that the balance of control lies with the local authority and thus local authority maintained schools³ should be included in the local authority group boundary.
5. CIPFA/LASAAC viewed the report very positively. It issued the report with a covering consultation paper including relevant consultation questions on the CIPFA website the next day. Following the concerns raised by FRAB at FRAB 119 the consultation period was reduced from CIPFA/LASAAC's standard consultation period of eight weeks to a six week period. CIPFA/LASAAC voted on this issue as it remains concerned that eight weeks should normally be the minimum period for consultations. To ensure that the consultation is seen by the maximum number of interested parties the Chair of CIPFA/LASAAC has written to Treasurers Societies and the Working Group Members have been invited to bring the consultation to the attention of their network of contacts (in addition to CIPFA/LASAAC's normal procedures to bring this to the attention of the relevant interested parties).
6. The principal and immediate issue for CIPFA/LASAAC was the need for an adaptation. The Exposure Draft of the adaptation is included at Annex B to this report. The adaptation to the single entity financial statements requires that the transactions of local authority maintained schools are recognised in the single entity financial statements and not solely in the group accounts. The argument in the consultation papers is that the inclusion of schools in the local authority's single entity accounts, instead of their group accounts, is unlikely to alter decision

¹ IAS 27 uses the term 'Separate Financial Statements' but this has been changed for the purposes of the Code to 'Single Entity Financial Statements'.

² A factual clarification of Welsh legislation was added on 21 February 2014, CIPFA/LASAAC were informed of this change at its meeting on 20 February 2014.

³ The Working Group Report considered Community, Voluntary Controlled, Voluntary Aided and Foundation Schools as defined in the Schools Standards and Framework Act 1998

making. It is also a practical argument in relation to the cost/ benefit of the alternative ie to include a large number of schools as subsidiaries in local authority group accounts. CIPFA/LASAAC is seeking interested parties' views on this argument to support the need for an adaptation.

7. The consultation paper also considers two other issues not covered by the Working Group's report, ie:

- the reporting requirements under IFRS 12 *Disclosure of Interests in Other Entities* – CIPFA/LASAAC has proposed that the Addendum include a recommendation that the disclosures in IFRS 12 that would apply to schools should be aggregated in the interests of not obscuring the key messages in local authority financial statements, and
- whether the other maintained schools (ie community and foundation special schools and local authority maintained nurseries) should be treated in the same way as maintained schools included in the report.

8. The Working Group report also considers the accounting treatment of non – current assets in section F. It requires that where the accounting treatment is covered by an agreement, eg a lease or lease type agreement or a PFI contract, the relevant requirements of the Code must be followed. The report also sets out that the Working Group's general expectation, for example, for buildings provided at no charge by a religious body, is that in many cases the school may not have the right to continuing use of the assets and the assets can be taken back by their owners at any point. Therefore they would be accounted for as operating leases and would not be recognised as assets of the school.

9. It is possible that for a number of areas including non-current assets further application guidance will be needed. The consultation seeks interested parties' views on this issue. Following the consultation CIPFA's Local Authority Accounting Panel (the Panel responsible for issuing local authority accounting application guidance) will consider the issues that arise and the form and content of any resultant application guidance.

Approval Post Consultation

10. In the interest of ensuring the accounting treatment is clear as soon as possible for local authority and schools accounts preparers CIPFA/LASAAC has sought to include the changes to the Code in an Addendum which, subject to the consultation process, can be added to the main body of the 2014/15 Code and published at the same time. This will also maximise the time that these accounts preparers have to change their accounting policies and identify any information requirements needed to comply with the changes. This will mean a slight delay in the timetable for publication of the 2014/15 Code (anticipated to be 25 April 2014). However, this will mean an accelerated approval process for the Addendum. Subject to FRAB's views on the Addendum (included in the Annex), FRAB is requested to delegate approval of the Addendum to the FRAB Chair. FRAB members will note that the proposed changes to the Code are short and consist of 3 paragraphs. If consultation responses do not support the adaptation further work on the options available is likely to be needed before CIPFA/LASAAC can report to FRAB.

Impact on disclosures in the financial statements

11. The disclosure requirements for local authority schools will increase as local authorities will need to follow the requirements for IFRS 12 on schools, but see also the earlier comments on the need to aggregate these disclosures. These are consistent with the FReM reporting requirements.

IAS/IFRS compliance

12. An adaptation is proposed to IAS 27. See paragraph 6 above. However, the consultation argues that this is unlikely to alter decision making.

Impact on WGA

13. Yes, the non-current asset clarification provided by the Working Group's report may contribute to the removal of one of the qualifications in WGA. It is also likely to promote a consistent treatment in line with the provisions of the Working Group report and therefore is hoped to improve the accuracy of information provided.

IPSAS compliance

14. The Memorandum of Understanding requires relevant authorities to consider whether an adaptation of EU adopted IFRS is required where different or additional guidance is contained in an IPSAS. The following paragraph is intended to demonstrate that due consideration has been given to this requirement.

15. The Code consultation and Working Group report is based on the accounting treatment required principally by IFRS 10 and the other Group Accounts standards issued by the IASB in 2011. This is subject to a current project on the update of IPSAS 6 - 8 relating to the Group Accounts standards. Consequently the Code will not be fully IPSAS compliant in these areas until the relevant IPSASs are updated in line with the IPSASB 'rules of the road'. The adaptation would, however, not be consistent with IPSAS 6 Consolidated and Separate Financial Statements.

Proposed text for the 2014/15 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) Addendum

16. The detailed proposals included in the Exposure Draft and consultation are attached in the Annexes to this report.

Impact on the budgetary regime

17. The proposals relate to the Code of Practice on Local Authority Accounting in the United Kingdom and therefore do not impact on the budgetary regime.

Summary and recommendation

18. This report sets out details of a proposed amendments to the Code of Practice on Local Authority Accounting in the United Kingdom, in an Addendum to the Code.

19. The Board is requested:

- 1) To provide comments on the Invitation to Comment on the Code and Exposure Draft Accounting for Local Authority Schools in England and Wales.
- 2) To agree to delegate approval of the adaptation in the Addendum to the 2014/15 Code to the Chair of FRAB.

CIPFA/LASAAC
3 April 2014