CIPFA\ LASAAC

the 2014/15 code of practice on local authority accounting in the united kingdom – accounting for schools in local authorities in England and Wales

invitation to comment

the people in public finance

invitation to comment

Introduction

1. Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper practices'. This includes, for the purposes of local government legislation, compliance with the terms of the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code), prepared by the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC). The Code is reviewed continuously and is issued annually.

2. Under the oversight of the Financial Reporting Advisory Board, the CIPFA/LASAAC Code Board is in a position to issue mid-year updates to the Code. However, this will only be done in exceptional circumstances.

3. This single issue consultation on accounting for schools in local authorities focusses largely on the application of the 2014/15 Code's provisions on primarily the Group Accounting standards which were consulted on generally in the summer of 2013 and can be accessed here http://www.cipfa.org/policy-and-guidance/consultations-archive/201415-code-of-practice-on-local-authority-accounting-consultation.

4. This ITC sets out CIPFA/LASAAC's proposals for developing an addendum for the new edition of the Code (the 2014/15 Code) to apply to accounting periods commencing on or after 1 April 2014. This ITC requests interested parties' views on the report of the Joint HM Treasury and CIPFA/LASAAC Working Group *Accounting for Public Sector Schools*, on the adaptation proposed to the Code and whether CIPFA through its Local Authority Accounting Panel will need to produce additional accounting guidance on the issue.

5. The Working Group has concluded that for *community schools, voluntary controlled, voluntary aided and foundation local authority maintained schools* the balance of control is with the local authority and therefore their transactions should be *included in the local authority financial statements*. It follows that academies and free schools are not under local authority control. These schools are outside the scope of this consultation.

The Consultation Process

6. Where CIPFA/LASAAC is interested in specific issues, consultation questions have been included in the ITC. However, CIPFA/LASAAC welcomes comments on any aspect of the draft addendum to the 2014/15 Code. In order to assess comments properly CIPFA/LASAAC would prefer respondents to support comments with clear accounting reasons and, where applicable, preferred alternatives.

7. Responses to this Invitation to Comment will be regarded as on the public record and are required to be published on the CIPFA Website unless confidentiality is specifically requested. If you require your response to be treated as confidential please indicate this clearly on the response itself. Copies of all correspondence and an analysis of responses will be provided to the Financial Reporting Advisory Board.

8. A copy of the Exposure for this draft of the addendum to the 2014/15 Code in pdf format can be down-loaded from the CIPFA website

9. Responses are required by **4 April 2014** and may be sent to:

The Secretary
CIPFA/LASAAC Local Authority Accounting Code Board
Policy and Technical Directorate
CIPFA
3 Robert Street
London
WC2N 6RL

Fax: 020 7543 5695

E-mail: code.responses@cipfa.org

(For ease of handling, e-mailed responses using the Word document form provided are preferred.)

Accounting for Schools in Local Authorities in England and Wales

10. In May 2013 a Joint Working Group of HM Treasury and CIPFA/LASAAC was formed to consider the accounting treatment of local authority maintained schools in England and Wales. Details of the Terms of Reference of the Group are included in the report *The Accounting Treatment of Local Authority Maintained Schools in England and Wales*. The report attached at Appendix A to this ITC. The work of this group was finalised at the beginning of February 2014.

11. CIPFA/LASAAC is consulting on the findings of the Working Group most of which relate to the application of accounting standards. Therefore largely no direct provisions need to be included in the Code and there is no requirement for a significant extension of the Code's provisions. This ITC is seeking interested parties' views on the conclusions of the report. It is also seeking interested parties' views on a proposed approach to the practical consequences of the conclusion of that report.

12. The amendments to the Code proposed as a result of those practical consequences are included in the Exposure Draft for an Addendum to the 2014/15 Code and the addition of a new Appendix E *Accounting for Local Authority Schools in England and Wales*.

The Adaptation to the Code's Provisions

13. Following its analysis of Group Accounting Standards[1] the Working Group concluded that that local authority maintained schools in England and Wales should be included in the local authority group boundary. The Working Group considered that "the *inclusion of schools in the local authority's single entity accounts, instead of their group accounts, is unlikely to alter decision making".* Therefore following CIPFA/LASAAC's proposals in the 2013/14 consultation on accounting for schools the Working Group considers that a practical treatment would be an adaptation to the provisions of the Code in Chapter Nine *Group Accounts*, ie that schools transactions are treated in a manner similar to branches and are consolidated into the local authority single entity financial statements.

14. The proposal is therefore to adapt the definition of the local authority single entity financial statements. Subject to evidence from the consultation process supporting the considerations of the Working Group about whether this adaptation would alter decision making, CIPFA/LASAAC concurs that it should propose an adaptation to the Code as set out in Appendix E as an Addendum to the 2014/15 Code.

15. The Working Group concluded that local authority maintained schools are entities capable of consolidation in the local authority boundary. This would mean that local authorities would need to consider the IFRS 12 *Disclosure of Interests in Other Entities* requirements for local authority schools. This issue is not covered in the Working Group's report. However, CIPFA/LASAAC considers that care needs to be taken to ensure that the disclosures required by IFRS 12 do not overburden local authority financial statements with excess information and obscure the main messages. Therefore it has included additional provisions to encourage local authorities only to report those transactions which materially impact on the presentation of a true and fair view of local authority performance, financial position and cash flows and to report disclosures on schools in aggregate.

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[1] IFRS *10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12* Disclosure of Interests in Other Entities, IAS 27 *Separate Financial State*ments (as amended in 2011), IAS 28 *Investments in Associates and Joint Ventures* (as amended in 2011).

16. The Working Group's report does not refer to community special, foundation special and local authority maintained nursery schools. However, CIPFA/LASAAC considers that the principles of the Working Group's report would apply to these schools. It therefore follows that the accounting treatment for the schools in the report would also apply. This consultation is seeking interested parties views on this issue in the questions below.

Consultation Questions

Accounting for Schools in Local Authorities in England and Wales

Q1	Do you agree with conclusions of the Working Group in Appendix A (sections A to E of the report)? If not, why not? What alternatives do you suggest? Please provide any additional commentary you consider relevant to your response.
Q2	Do you agree with the Working Group's comments that "*the inclusion of schools in the local authority's single entity accounts, instead of their group accounts, is unlikely to alter decision making*"? If you agree, please provide evidence to support your response. If you disagree please provide evidence, why not? What alternatives do you suggest?
Q3	Do you agree with the proposed adaptation to Chapter Nine *Group Accounts* of the 2014/15 Code in relation to the inclusion of schools transactions in the local authority single entity accounts including the aggregation of the disclosure requirements for schools? If not, why not? What alternatives do you suggest?
Q4	Do you agree with CIPFA/LASAAC's comment in paragraph 16 above that the principles of the Working Group's report would apply to community special, foundation special and local authority maintained nursery schools and that the same accounting treatment would also apply? If not, why not? What alternatives do you suggest?
Q5	Do you agree with the accounting treatment for non-current assets used by schools outlined in Section F of the Working Group's report? If not, why not? What alternatives do you suggest?
Q6	Do you have examples of non-current assets used by schools in England and Wales for which there is no documentation of ownership, leasehold or other agreements to use the asset and which may require additional guidance to be provided? Please provide the examples of the transactions and the type of guidance you consider might be needed.
Q7	The Working Group's report largely focuses on the application of the Code. Do you consider that there are any other areas on the accounting treatment of local authority schools which require additional application guidance? If yes, please specify the areas and the accounting transactions which require additional the guidance.

PUBLIC SECTOR ACCOUNTING FOR SCHOOLS WORKING GROUP

THE ACCOUNTING TREATMENT OF LOCAL AUTHORITY MAINTAINED SCHOOLS IN ENGLAND AND WALES

SUMMARY

This paper details the findings of the Working Group on the accounting for public sector schools in England and Wales.

The Working Group has concluded that local authority maintained schools are separately identifiable entities.

This is based on the Working Group's assessment that:

- Schools represent a set of integrated economic activities;
- Financial information required by schools to produce general purpose financial reports is capable of being separately identified; and
- Schools are capable of being treated legally like a person (although a separate legal identity is not a prerequisite) and of making binding decisions.

The Working Group has further concluded that the balance of control rests with local authorities for community schools, voluntarily controlled, voluntary aided and foundation schools, and that these schools should be included in the financial statements of local authorities. It thus follows that academies and free schools are not under local authority control and should not be consolidated by them. This is based on consideration of:

- Local authority powers to close or cease to maintain a school;
- Local authority powers to make significant changes to a school (although it was acknowledged that some changes, such as changing the religious designation of a school with a religious character, cannot be made by local authorities);
- Local authority intervention powers which exist in the event of poor operational performance;
- The existence of elements of 'de facto' control arising from local authorities' monitoring and guidance of schools, subject to the evidence of this being provided as a part of the consultation process; and
- The absence of joint control in accounting terms, as key decisions do not require unanimous approval.

In addition to assessing public sector schools under group accounting standards, the Working Group has considered the practical implications and recommends that, in order to reduce the burden on local authorities, consideration is given to schools being included in the local authority single entity financial statements rather than being separately split out and accounted for by local authorities as separate entities within the Group Accounts as a part of the consultative process. Consideration should also be given to providing additional guidance to local authorities for accounting for non-current assets where the arrangements have not been documented or when original documentation can't be found. In both cases, further information is first required on the practicalities of consolidation for local authority preparers and this will need to be addressed in the public consultation.

SECTION A: BACKGROUND

1. In October 2012, the Financial Reporting Advisory Board (FRAB) recommended that a cross-cutting working group should be formed to consider how local authorities should account for schools in accordance with the new accounting standard IFRS 10 *Consolidated Financial Statements*.

2. The Working Group brings together a range of expertise, including financial reporting experts, local authority and devolved government representatives, and church and public sector school representatives.[1] This paper sets out the conclusions reached by the Working Group and the basis for their conclusions. The Group's findings will be verified through a public consultation undertaken by CIPFA/LASAAC.

SECTION B: TESTS APPLIED IN DETERMINING THE ACCOUNTING TREATMENT

3. The Working Group considered three key questions in reaching its conclusions:
   i. Are schools entities which are capable of being consolidated?
   ii. If they are, should they be consolidated by local or central government based on International Financial Reporting Standards (IFRS)?
   iii. If they should be consolidated, what are the practical implications?

4. In each case, the Group's assessment is based on accounting criteria. The accounting criteria used are mainly drawn from the following international accounting standards:
   i. IFRS 10 Consolidated Financial Statements
   ii. IFRS 11 Joint Arrangements
   iii. IFRS 12 Disclosure of Interests in Other Entities
   iv. IAS 27 Separate Financial Statements (as amended in 2011)
   v. IAS 28 Investments in Associates and Joint Ventures (as amended in 2011)

5. Although the Working Group's analysis focuses on arrangements in England and Wales, the principles and methodology could similarly be followed for schools in Scotland and Northern Ireland.

SECTION C: ARE SCHOOLS ENTITIES WHICH ARE CAPABLE OF BEING CONSOLIDATED?

6. The Working Group first considered whether schools can be considered to be entities capable of consolidation, based on definitions within IFRS, International Public Sector Accounting Standards (IPSAS) and the European System of Accounts. Relevant extracts of guidance are included in Appendix A.

7. In practical terms, the specifications in IFRS and other guidance mean that to be treated as an entity, the unit in question would need to have the following characteristics:

   i. It would represent a set of integrated economic activities
   ii. Its activities and resources and assets, liabilities and reserves would need to be capable of being separately identified from any other entity and financial information about the entity which would be useful for making decisions about providing resources to the entity is capable of being produced
   iii. It would be capable of being treated legally like a person. In practical terms it would function legally (e.g. by entering into contracts in its own name, employing officers) and make binding decisions through its governing body with those decisions being made for its principal function

8. It is not necessary for a unit to prepare financial statements in order to demonstrate the second characteristic. The Working Group's assessment is that maintained schools' income, expenditure, assets and liabilities are identifiable. In particular, schools produce annual information about their income and expenditure. Although schools do not routinely provide

[1] See Appendix D for the terms of reference for the Working Group.

information on assets and liabilities, this information could be produced as a school's assets and liabilities are identifiable.

9. Maintained schools' governing bodies all have corporate status. Where a unit has corporate status, the normal presumption is that it is an entity. The Working Group questioned whether a different assessment applies to a school, separate to its governing body. The Working Group's conclusion is that there are no legal powers given to the schools above those given to the governing body and therefore the two are indivisible.

10. Furthermore, the Working Group's assessment is that schools represent a set of integrated economic activities and are capable of being treated as legal entities. Although the different categories of maintained schools have different powers (e.g. some categories of schools employ staff) all schools:
    - Can, subject to certain restrictions, enter into contracts;
    - Set the strategic direction for the school through their governing body; and
    - Commission action and manage the performance of the school as an autonomous unit for operational purposes.

Conclusion

11. The Working Group concluded that schools are separate entities for accounting purposes on the basis that:
    - Schools represent a set of integrated economic activities;
    - Financial information required to produce general purpose financial reports is capable of being separately identified; and
    - Schools are capable of being treated legally like a person and of making binding decisions.

SECTION D: ASSESSMENT OF IFRS GROUP ACCOUNTING STANDARDS

12. IFRS 10, *Consolidated Financial Statements*, requires entities to consolidate entities that they control. It specifies that control exists only if an investor has power over an investee, has exposure to variable returns from its involvement with an investee and has the ability to use its power to affect the level of variable returns. This is regardless of the nature of the involvement with the entity being considered for consolidation.

13. A public sector entity has power over an entity considered for consolidation when it has existing rights that give it the current ability to direct the relevant activities.[2] Decisions over relevant activities may include operating decisions, capital and budgetary decisions; or the appointment, remuneration and termination of service providers or key management who have the ability to direct the relevant activities.[3] The public sector entity then has to assess whether it is exposed, or has rights, to variable returns from its involvement with the investee.

14. IFRS 10 sets out the steps for assessing control of another entity:
    i. Consider the purpose and design of the entity considered for consolidation in order to determine the relevant activities (those that significantly affect returns)
    ii. Determine how decisions about the relevant activities are made
    iii. Identify who has the current ability to direct those activities (as IFRS 10 specifies that only one entity can control)
    iv. Identify who receives returns from those activities.

15. The assessment against each of these steps is set out in detail below.

[2] IFRS 10 describes this entity as an investee; this report will refer to the entity considered for consolidation or school as appropriate.
[3] IFRS 10 paragraph B12.

i) Consider the purpose and design of the entity that is being considered for consolidation in order to determine the relevant activities (those that significantly affect returns)

Purpose and design of schools

16. Local authorities and schools have defined duties under legislation in relation to accountability and performance. Local authorities are required by law to ensure that there is sufficient, effective provision of education to the children within the local authority area. The purpose and design of schools can be considered from the perspective of the decisions taken by the body that governs the everyday operation of the schools. The governing body is responsible for determining how the funds provided by central government via local government distribution are to be applied to secure effective educational outcomes. They do this through overseeing performance and setting the strategic direction of the school, acting as the custodians of the property assets and by considering the future status of the school.

17. Governing bodies are made up of individuals drawn from the staff, parents, the local authority and, where relevant, the promoters. With the exception of voluntary aided schools and qualifying foundation schools, none of these bodies has a majority of voting rights. The majority of the operational decisions are usually delegated to the headteacher.

18. The key economic aspect of the operations of the school is that all stakeholders in the process agree that the services are provided largely free of charge at the point of delivery. The economic benefits arising from the operation of the school are transferred to pupils and their parents. This leaves a reduced pool of returns to be shared amongst the “investors” or interested parties in the school.

19. The Working Group also recognised that the provision of education in the maintained schools framework has developed as a part of the collaborative working arrangements that have evolved over time with the other interested parties, including religious groups, who make certain assets available to schools.

Returns

20. Returns can be financial or non-financial.[4] This requires public sector accounts preparers to consider other benefits or advantages, in addition to direct returns such as dividends. The Working Group identified two primary returns:

- Benefits that accrue from the successful provision by others of primary and secondary education. This will enable a local authority to meet its statutory duties under sections 13 and 14 of the Education Act 1996 (EA 1996) to contribute towards the spiritual, moral, mental and physical development of the community by securing that sufficient, appropriate primary and secondary education is available to meet the needs of the population of their area; and

- The achievement of the authority’s duties under Section 13A of the same Act as amended for English and Welsh authorities i.e. the duty to promote high standards, ensure fair access to educational opportunity and the fulfilment of potential standards to education for children within the local education area.

21. The Working Group therefore assessed that the primary returns from schools are non-financial and relate to the achievement of educational objectives. There are also returns for other bodies or persons from the activities of the school. Other promoters gain returns from the same relevant activities, for example, the churches through their diocese. The other obvious beneficiaries from each of the schools are the service recipients and central

[4] IFRS 10 application guidance B57 references returns that are not available to other interest holders, including economies of scale and the sourcing of scarce products, and IFRS 10 Basis of Conclusions B63 and B64 confirms the IASB’s intention to have a broad definition of ‘returns’ that would include synergistic returns as well as more direct returns.

government to meet its educational objectives. There may be other returns, such as those relating to residual interests in assets.

Relevant Activities

22. Relevant activities are those that most significantly affect returns. First, the Working Group assessed that returns from schools are variable and can be affected by a range of activities related to the quality of education provided by a school performance or the loss of that service provision.

23. For a school, relevant activities may therefore fall into the following areas:
- Planning the deployment of budgets to secure the availability and allocation of places;
- The effective education of pupils
- Managing property assets to maximise the returns (including potential sale, subject to the statutory provisions on this)
- Determining future operating environment (for example, a change of status of the school).

24. The relevant activities of a school are those which have the potential to have the most significant effect on the educational output/outcomes, which may include:
- School closure or ceasing to maintain local authority school
- Changing the status of a school to become an academy
- Making other major changes, such as changing size, adding or removing a sixth form, or other changes in category of a school
- Managing school educational performance, including dealing with serious failure.

25. There are other school activities which affect educational output and other returns. For example, the diocese has control over religious activities for church schools. Although this is a relevant activity (as religious education forms part of the educational output from a church school), the Working Group has assessed that it is not one of the most significant relevant activities for the purposes of the consolidation decision. Instead, these were considered to relate to satisfying the wider duties of local authorities to ensure the provision of education services.

Relevant activities – identification by analogy to structured entities

26. Relevant activities may not necessarily be activities that require decisions to be made in the normal course of a school's operations; such decisions may be required only when particular circumstances arise or events occur, such as at the start of an entity's life. An analogy can be drawn to structured entities in the private sector for which operating arrangements can largely be fixed at inception; they are on 'auto pilot' with few significant decisions that affect returns being required after inception unless an event occurs that needs to be dealt with. For those entities, the focus is typically on which entity can take action in the future when an event occurs that needs to be dealt with, because it is that action that will have the most significant effect on returns. The fact that the right to make decisions is contingent on particular circumstances arising, or an event occurring, does not result in it being excluded from the assessment as to whether an investor has power over the entity.

ii) Determine how decisions about the relevant activities are made

and

iii) Identify who has the current ability to direct those activities

27. The Working Group considered the interaction of controls operated by schools, local authorities and central government. In particular, they considered central government constraints over school operations and reserved powers, local authority controls relating to school performance and other decisions relating to relevant activities made by schools.

What relevance do voting rights have to decisions about relevant activities?

28. IFRS 10 states that an assessment of power is straightforward when the power is obtained directly or solely from voting rights. However, it recognises that this is not always the case and that complexity can arise, particularly where power might arise from contractual arrangements.

29. Schools have governing bodies with individuals drawn a range of different groups . However, an assessment of voting rights doesn't necessarily mean that a school is controlled by its governing body, or by an entity with majority voting rights on the governing body. This is because it is necessary to consider the extent to which those voting rights give the holder the power to direct relevant activities. In this context, a school's governing body cannot unilaterally make decisions in relation to the relevant activities set out in paragraph 24. For example, it might be able to move out of the maintained sector, but the granting of academy status is determined by the approval of the Secretary of State.

30. Instead, powers to direct the relevant activities arise from statutory provisions. These can be seen as having the same status as contractual arrangements as they arise from the application of statutory provisions to particular situations entered into by the various parties. An assessment is needed as to whether the statutory provisions, or other legal or constructive rights, give one party the right to specify what a school does in relation to the relevant activities, or how it does it; if they do, then that party is likely to control the school.

Central government constraints and reserved powers

31. The Working Group assessed whether schools are controlled by central government by considering the effect of the reserved step-in rights of central government and whether local authorities act as agents for central government in relation to public sector schools.

32. The Secretary of State has the power in the Academies Act 2010 to convert poorly performing local authority maintained schools to sponsored academies. IFRS 10 states that if a party holds substantive rights to remove the decision-maker and can do so without cause then the decision-maker is an agent. Central government power means that the Government has the ability to remove local authorities from the involvement with any school. However, as this would depend on either general changes to legislation, or specific powers conditional on specific events, for example a school failing or a governing body making an application for academy status, the Government removal would not be without cause.

33. The private sector provides similarities where an ultimate parent may require a subsidiary to manage an entity. The subsidiary can control the entity's relevant activities with the ultimate parent reserving step-in rights. By analogy to schools, the reserved rights of central government do not prevent local authorities from directing the relevant activities of schools and, in consequence, having control over them.

34. If central government uses it powers under the Academies Act 2010 to convert a local authority maintained school to an academy, or allows a school to be set up without local authority involvement, then central government consolidates that school in the Department for Education's group accounts. This applies to academies and free schools, and these types of school are therefore excluded from the consideration of the interactions between schools and local authorities below and from the Working Group's assessment of local authority consolidation.

35. Further details of the central government consolidation considerations are included in Appendix C.

Interaction between schools and local authorities

36. Schools and local authorities are each able to direct relevant activities at different times. The Working Group assessed whether schools or local authorities were able to direct the activities which most significantly affect the provision of high quality education and concluded that local authorities do. This took into consideration that schools normally manage many of their own day-to-day operations (while returns remain within an acceptable range) but, in the event of poor educational performance, the local authority has step-in rights. This power to intervene when returns are outside of an acceptable range was seen as key. The considerations in assessing the interactions between schools and local authorities are set out below.

What relevance does a school's economic dependence on local authority funding have?

37. IFRS 10 sets out that economic dependence, on its own, does not lead to one entity having power over another, but in some circumstances it can be an indicator. In order to indicate control, grant funding in the public sector would need to be supported by an operational mandate for the grantor to be the main or sole source of funding for the entity and there would need to be strict direction of the processes, outputs and outcomes associated with the funding. This situation is not considered to be normal within the public sector in the UK.

38. Local authorities are the main source of funding for maintained schools. Whilst individual schools have autonomy over the use of their budgets and their governing bodies are accountable, in law and in practice, for all their schools' major decisions.[5] Local authorities are responsible for holding maintained schools to account for their financial management and performance.[6] They are responsible for setting and monitoring a local financial framework for schools. Appendix B sets out in overview the funding sources for maintained schools.

39. Local authorities are not able to use the funding mechanism to specify the operational mandate for the school's funding. Local authorities may only suspend a school's right to a delegated budget under certain circumstances.[7] It is considered that such situations are rare. A local authority may also intervene to suspend a school's right to a delegated budget where there are concerns about standards – see Tables 1 and 2. This latter power, when combined with the authority's duties under Section 13A, may then be an indicator of control.

Are the rights held by local authorities substantive or protective?

40. There is a risk that the regulation of an entity could be blurred with control. There are public sector and private sector examples of regulation impacting on the ability of an entity to operate freely; for example:

- Granting of licences, health and safety policies, restrictions on the sale or use of dangerous goods and general legislation; and
- Statutory provision of public services, with the power to intervene in a protective capacity.

41. Regulatory control does not normally give rise to control over an entity for the purposes of IFRS 10. Although regulation can restrict financial and operating policy, regulation must be considered at the micro (entity) level, not the macro-level to be considered for control purposes.

42. Distinction needs to be made between protective rights and substantive rights. Protective rights are defined as rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate. One example of a

[5] *Accountability system statement for education and children's services*, Department for Education September 2012
[6] See paragraph 20
[7] These are where the governing body has persistently or substantially breached a requirement or restriction relating to its delegated budget; has not managed its budget share satisfactorily; or has not managed satisfactorily its expenditure or sums received in the exercise of its power to provide community facilities and services.

protective right is a lender's right to restrict a borrower from undertaking activities that could significantly change the credit risk of the borrower to the detriment of the lender. In the public sector, the inclusion of conditions on a grant is normally deemed to be protective.

43. IFRS 10 requires that when assessing whether an entity has power, it must consider only substantive rights, i.e. rights to control the relevant activities of another entity. For a right to be substantive, the holder must have the practical ability to exercise that right and the right needs to be exercisable when decisions about the relevant activities need to be made. IFRS 10 application guidance is clear that rights can be substantive, even though the ability to exercise those rights is contingent. This would be when the relevant activities being considered are dependent on specific events sometime in the future.

44. A local authority has intervention powers when schools are causing concern or are eligible for intervention. There is a set of specified criteria before the duties of the authority can be invoked and therefore the power is contingent on events. The Working Group's assessment is that this is a substantive right and that if the intervention event occurs then there is a significant effect on returns. However, it is noted that the power of this right to affect returns is restricted to removing negative returns by returning failing schools to an appropriate level of performance. They do not allow the direction of a school to influence the level of returns from an acceptable level of performance to a higher one.

Do local authorities have 'de facto' control over schools?

45. In addition to considering formal rights, IFRS 10 also requires an entity to assess whether it has de facto control over another body. For example, if voting rights were relevant then it is possible that an entity could have de facto control if it holds a large block (but not a majority) of voting rights if the remaining voting rights were widely dispersed.

46. The Working Group noted that, in practice, local authorities work with schools on an on-going basis and provide advice to the Board of Governors which is acted upon. Those parties that might technically be viewed as having ultimate control do not step in. The existence of at least an element of de facto control needs to be considered alongside a local authority's other rights to build an overall picture of control.

Is there joint control between schools and local authorities?

47. If control exists under IFRS 10, but it is determined that an investor does not control an entity by itself, then a joint arrangement may exist under IFRS 11 *Joint Arrangements*. A joint arrangement will exist if there is a contractual arrangement in place that gives all of the parties (or a group of the parties) joint control of the arrangement. This exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

48. IFRS 11, *Joint Arrangements,* focuses on the underlying nature of contractual rights and obligations rather than the legal form of arrangements in determining the accounting for joint arrangements. Similarly to the consideration given to whether voting rights are relevant, it is not considered that formal contracts have to be in place as statutory powers can also create enforceable arrangements.

Overall assessment of who has the current ability to direct relevant activities

49. The Working Group's assessment of who controls each relevant activity, and whether arrangements require unanimous agreement, are set out in Tables 1 and 2.

50. In identifying who has the current ability to direct relevant activities, the following principles apply per the analysis in the preceding sections:

- the returns identified are variable;
- the local authority's returns are based on its duties under sections 13, 13A and 14 of the EA 1996;

- voting rights are unlikely to be a determining factor;
- economic dependence may be a factor if combined with other considerations in specific scenarios;
- care needs to be taken to differentiate between substantive and protective rights;
- the analysis is made on the presumption that local authorities are principals;
- the possibility of joint control, as indicated by the requirement for decisions about the relevant activities to be unanimous, needs to be considered.

51. IFRS 10 requires that when two or more entities with an interest in another entity have the current ability to direct relevant activities and those activities occur at different times, the investors shall determine which investor is able to direct the activities that most significantly affect those returns consistently with the treatment of concurrent decision making rights.

52. Overall, the Working Group's assessment is that the balance of control rests with local authorities.

iv) Identify who receives returns from those activities

53. As set out in paragraphs 20 and 21, the Working Group's assessment is that local authorities receive returns from schools in relation to meeting their statutory requirements for the provision of education.

Conclusion

54. The Working Group has concluded that community schools, voluntarily controlled, voluntary aided and foundation schools meet the criteria for consolidation into local authority accounts under IFRS.

SECTION E: PRACTICAL IMPLICATIONS OF CONSOLIDATION - RECOGNITION IN THE LOCAL AUTHORITY FINANCIAL STATEMENTS

55. The previous sections of this report have concluded that community schools, voluntarily controlled, voluntary aided and foundation schools are separate entities controlled by local authorities. IFRS 10 as adopted by the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) would require these schools to be reported in a local authority's group accounts. In reaching their conclusion, the Working Group recognised that there are practical considerations about the relative costs and benefits of such an approach and that an adaptation of IFRS 10 might be desirable. The consultation process will be able to gather views on these costs and benefits such that CIPFA/LASAAC can decide whether it will be necessary to propose an adaptation of IFRS 10 in the Code. The preliminary views of the Working Group are set out below.

Costs of consolidation

56. The Working Group recognises that there are questions over whether it is desirable for a local authority to split out and re-consolidate schools into their group accounts, with the local authority single entity financial statements being prepared in addition to group accounts. At present, it appears that many schools do not prepare their own full financial statements, and in particular balance sheets are often not produced. A substantial amount of time and expense might be required in order to extract amounts from local authority accounting records.

57. The Group considered that a pragmatic alternative to consolidating schools within local authority group accounts could be to allow them to be included in the local authority single entity financial statements (effectively treating them in a manner similar to branches or cost centres of the local authorities). The Working Group understands that this treatment is used by many local authorities at the moment when accounting for schools under existing consolidation standards and considers that there might be benefits of a more consistent approach. This treatment would require IFRS 10 as adopted by the Code to be adapted.

Benefits of consolidation

58. The Working Group noted that the inclusion of schools in the local authority's single entity accounts, instead of their group accounts, is unlikely to alter decision making. In its consultation on the C*ode of Practice on Local Authority accounting in the United Kingdom 2012/13 Code Update and 2013/14 Code*[8], CIPFA/LASAAC considered the consolidation of community schools into local authority accounts and proposed that consolidation into a local authority's group accounts would not produce a substantially different report for the Comprehensive Income and Expenditure Statement and Balance Sheet. The only statements where there would be a different analysis of schools' financial information would be in the Group Cash Flow Statement and the Group Segmental Analysis. Applying the principles of this proposal it is not clear that there are any users of the local authority financial statements who would find this information useful for decision making purposes across all types of maintained schools.

59. CIPFA/LASAAC also considered that for community schools it would not be useful to the readers of the financial statements to have two separate reports of the same information; albeit with a potentially different subjective analysis in the segmental analysis or where there may be different reports of cash flows (it is not clear whether or not these cash flows would be materially different).

Conclusion

60. The Working Group recommends that further consideration is given to the option of schools being included in the local authority single entity financial statements, rather than being separately split out in group accounts. This acknowledges that consolidation is technically correct, but is based on avoiding the additional cost to local authorities given that a previous consultation proposal suggested that it will not result in significantly better financial information for users. Further evidence on the costs to preparers will need to be obtained through the consultation process.

SECTION F: PRACTICAL IMPLICATIONS OF CONSOLIDATION - RECOGNITION OF NON-CURRENT ASSETS INCLUDING ASSETS OWNED BY OTHER PROMOTERS

61. There are different types of arrangements for non-current assets between schools and their promoters. These include:
    i. The local authority or school purchasing assets for the school to use
    ii. An individual or organisation leasing assets to a school, charging either a market or subsidised rate
    iii. An individual or organisation donating assets to a school
    iv. An individual or organisation letting a school use its assets, without a formal agreement being in place, or where original documentation can't be found

62. Where non-current assets are owned by the local authority or the school, it is considered that these assets will normally be recognised in local authority financial statements under the requirements of the Code.

63. If the assets are subject to any of the requirements of the Code relating to leases (or the other provisions in the Code for lease type arrangements) the tests that are applicable under IAS 17, *Leases,* should be applied to these lease arrangements. Detailed application

[8] The consultation is available at http://www.cipfa.org/policy-and-guidance/consultations-archive/the-code-of-practice-on-local-authority-accounting-in-the-uk-201213-code-update-and-201314-code

guidance is provided for local authorities on the accounting treatment of leases in the Code Guidance Notes for Practitioners[9].

64. If schools' non-current assets are acquired under service concession arrangements i.e. PFI or PPP arrangements then schools and local authorities will need to consider whether these assets are recognised in the local authority financial statements under the provisions of the Code (Section 4.3 Service Concession Arrangements: Local Authority as Grantor). The Working Group noted that where this is the case, it appears that local authorities are already accounting for the assets in this way.

65. If a school receives donated assets then they will be recognised at their fair value on receipt and subsequently treated in the same way as purchased assets in local authority financial statements. It is not necessary for legal title to be transferred but the school must be able to recognise the asset in accordance with the asset recognition requirements of the Code and thus must be able to control the economic benefits and service potential [10] of the asset for example by having guaranteed continuing use in order to recognise a donated asset.

66. The Working Group's view is that other, informal, 'lease-type' arrangements should be assessed under IAS 17, Leases. 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.

67. There may also be cases where assets have been used by a school over a long time period and the original documentation either can't be found or may not have existed. In this case, additional guidance may be needed for preparers. The consultation process will need to identify the types of transaction where this is the case.

Conclusion

68. The existing Code includes appropriate provisions on accounting for non-current assets. This guidance covers owned, leased and donated assets, and will apply to various documented arrangements between schools, local authorities and other promoters. However, the Working Group recommends that consideration is given to producing further specific application guidance to cover buildings provided at no charge by religious bodies under IAS17, Leases, with the Working Group's expectation as outlined in paragraph 66 that they would be accounted for as operating leases and not recognised as assets of the school. Whether such guidance is needed should be confirmed through the public consultation.

[9] Code of Practice on Local Authority Accounting in the United Kingdom Guidance Notes For Practitioners 2013/14 Accounts, CIPFA, November 2013

[10] See the definition of an asset in paragraph 2.1.2.23 of the 2013/14 Code.

Table 1 - What rights do schools, English local authorities and central government have over the relevant activities?

Relevant activity	**Who has the power to control the variable returns?**	**Control conclusion**
School closure or cease to maintain a local authority school	Local authorities can initiate a proposal to discontinue any category of maintained school provided this is a reasonable exercise of their statutory powers. Any person can object, which would include the governing bodies. In England the local authority has full responsibility for taking the proposals forward during this procedure unless a relevant aggrieved person requests that the proposals are referred to the Schools' Adjudicator.[11] Such persons can be the relevant diocesan board for the Church of England, the Bishop of any diocese of the Roman Catholic Church as relevant, or the governing bodies of foundation, voluntary or foundation special schools. This does not include community schools or community special schools governing bodies.[12] In the case of a discontinuance, it is likely that the control over the school's operating policies will be in order to gain returns from an authority's: • activities in pursuit of its duties under Section 13 of the Education Act 1996, and/or • duties as an admissions authority and/or • potential to share in the realisation of proceeds from the sale of the assets and/or • ability to benefit or be at risk of the surplus of deficits on closing schools balances, on closure.	Local authorities control the relevant activity. Local authorities can decide to close or cease to maintain a community school. Voluntary and foundation schools have the ability to initiate the same statutory proposals. However, the decision maker for this process is the local authority. The diocese has the right to appeal and therefore the authority does not have unfettered power over the decision, but the appeals process is designed to adjudicate via the schools adjudicator and not to renegotiate an agreed (i.e. unanimous) position. The power is therefore shared but is not joint control.
Changing the status of a school to become an academy	The Secretary of State has the power in the Academies Act 2010 to convert poorly performing local authority maintained schools to sponsored academies. The governing body must pass a resolution confirming its desire to convert to academy status. The Secretary of State approves school proposal and issues an Academy Order. The local authority does not have control over this process, although it may be a consultee as a part of the academy conversion process. In the case of voluntary aided schools a governing body cannot change its status to become an academy without the consent of the bishop.	Central government controls the relevant activity, or, in the case of voluntary aided schools, there is joint control between central government and the bishop.
Making changes/changing major articles the most of which require statutory proposals (including	The local authority or governing body can initiate various proposals. The governing body runs the decision making process for changing the category of a school, other than for a community school, to a foundation school. However, the local authority can refer the decision to the Schools Adjudicator where they feel it will have	Local authorities control the relevant activity. Local authorities control the relevant

[11] Paragraph 14 of Schedule 2 of the Education and Inspections Act 2006

[12] Note that the statutory provisions in relation school closure have recently been subject to consultation by the Department for Education in the consultation paper Changes to the System of School Organisation (Department for Education, September 2013)– the changes included in the consultation may lead to changes in the commentary in this table.

Relevant activity	Who has the power to control the variable returns?	Control conclusion
enlargement of premises, adding or removing a sixth form, other changes in category of a school).	a negative impact on standards. The local authority runs the decision making process for other changes, including: • changing the category of a community school; • significantly enlarging a school; and • adding or removing a sixth form. These major changes require statutory processes including formal consultation proposals. Where the local authority runs the decision making process, it will make the initial determination unless a relevant person requests that the proposals are referred to the Schools' Adjudicator.[13] Such persons can be the Church of England Diocese, the bishop of a diocese of the Roman Catholic Church, the Secretary of State, or the schools governing body and trustees. The local authority would gain returns from these proposals being successfully made in pursuit of its duties: • under Section 13 of the Education Act 1996, and/or • as an admissions authority.	activity. Maintained schools of all types (including voluntary and foundation schools) have the ability to initiate some statutory proposals. However, the decision maker for this process is the local authority. The diocese has the right to appeal and therefore the authority does not have unfettered power over the decision but the appeals process is designed to adjudicate via the schools adjudicator and not to renegotiate an agreed (i.e. unanimous) position. The power is therefore shared but is not joint control.
School performance including failure to meet standards (education, health and safety etc), dealing with serious failure, who takes the decisions on holding the schools to account and when decisions up to and including for example imposition of an Interim Executive Board.	The local authority has step-in powers in relation to schools operational performance.[14] Statutory guidance for local authorities on schools causing concern relating to an authority's duties describes the four criteria for eligibility that must be met before the school is defined as being eligible for intervention by the authority.[15] There are also stages before the intervention point where authorities might issue a performance standards and safety warning notice. Before deciding to give such a warning notice, local authorities must draw on a suitable range of quantitative and qualitative information to form a complete picture of a school's performance and be satisfied that it has met these criteria. Local authorities are required to maintain a scheme for financing schools which sets out the framework for the financial relationship between them and the schools they maintain.[16] The scheme must include procedures for maintaining effective financial	Local authorities control the relevant activity. The step-in powers are conditional on the poor operation of a school. The overall process is collaborative as both the school and local authority work together. However, as the decisions don't require unanimous agreement (the local authority has ultimate power), there is not joint control.

[13] Paragraph 33 to Schedule 3 of The School Organisation (Prescribed Alterations to Maintained Schools) (England) Regulations 2007 as amended
[14] Part 4 of and Schedule 6 to the Education and Inspections Act 2006 (EIA 2006)
[15] Department for Education 2008
[16] Section 48(1) of the School Standards and Framework Act 1998

Relevant activity	Who has the power to control the variable returns?	Control conclusion
	management, securing value for money and providing financial information to the local authority. An authority may suspend a school's right to a delegated budget if the provisions of the authority's financial scheme (or rules applied by the scheme) have been substantially or persistently breached, or if the budget share has not been managed satisfactorily. A school's right to a delegated budget share may also be suspended for other reasons i.e. if a school is eligible for intervention.	

Table 2 - What rights do schools, local authorities and Welsh Ministers have over the relevant activities?

Relevant activity	Who has the power to control the variable returns?	Control conclusion
School closure or cease to maintain a local authority school	Local authorities can make proposals to discontinue a community, voluntary or foundation school under Sections 43 and 44 of the School Standards and Organisation (Wales) Act 2013 (SSO(W) Act 2013) Governing bodies of voluntary and foundation schools can make proposals to discontinue their schools[17]. Any person can object. Section 50 of the Act requires that proposals for discontinuance which affect sixth forms have to be approved by Welsh Ministers. Welsh Ministers also have to approve proposals where the proposer is not the local authority and the objection is made by that authority. Section 51 requires that local authorities approve any proposal which is not approved by Welsh Ministers and which has been made by a proposer other than the relevant local authority; and an objection to the proposals has been made and has not been withdrawn in writing[18]. Proposals other than those decided upon under Section 51 are decided upon by those bodies making the proposals.	Control over the relevant activity varies depending on the situation. Local authorities can decide to close or cease to maintain a community school if it does not have sixth form provision. Decisions to close schools with sixth form provision for all categories of school are decided by Welsh Ministers. Voluntary and foundation schools have the ability to initiate statutory proposals for discontinuance. However, the decision maker for this process for these schools may be Welsh Ministers, the local authority or the governing body as proposer depending on the circumstances. The decisions are taken by different parties but this is not joint control.
Making changes/changing major articles the most of which require statutory	Local authorities can make proposals to make significant alternations to a community school under Section 42 of the SSO(W) Act 2013. Local Authorities can increase or decrease the capacity of a foundation or voluntary school without a religious character.	Control over the relevant activity varies depending on the situation.

[17] Under Section 43 of the Act

[18] Before the end of 28 days beginning with the end of the objection period

Relevant activity	Who has the power to control the variable returns?	Control conclusion
proposals (including enlargement of premises, adding or removing a sixth form, other changes in category of a school).	Governing bodies of voluntary schools can make proposals to make significant alterations to their school[19]. Any person can object. Section 50 of the Act requires that proposals for alteration which affect sixth forms have to be approved by Welsh Ministers. Welsh Ministers also have to approve proposals where the proposer is not the local authority and the objection is made by that authority. Section 51 requires that local authorities approve any proposal which is not approved by Welsh Ministers and which has been made by a proposer other than the relevant local authority; and an objection to the proposals has been made and has not been withdrawn in writing[20]. Proposals other than those decided upon under Section 51 are decided upon by those bodies making the proposals.	Local authorities can decide make significant alterations to a community school if it does not have sixth form provision. Decisions to alter a school with sixth form provision for all categories of school are decided by Welsh Ministers. Voluntary and foundation schools can make significant alterations under the statutory proposals. However, the decision maker for this process may be Welsh Ministers, the local authority or the governing body as proposers depending on the circumstances. The decisions are taken by different parties but this is not joint control.
School performance including failure to meet standards (education, health and safety etc), dealing with serious failure, who takes the decisions on holding the schools to account and when decisions up to and including for example imposition of an Interim Executive Board.	The SSO(W) Act 2013 specifies six grounds for local authority to intervene in relation to schools causing concern. If it is satisfied that the grounds exist then it may issue a warning notice. Having issued the notice the local authority has power to intervene when the governing body has failed to comply or secure compliance with the notice to the authority's satisfaction. In addition, the local authority has the power to intervene in a school where it has been deemed by Estyn to require significant improvement or special measures (no warning notice is required), or one or more of the grounds 1- 6 for intervention exist and there is a related risk to the health and safety of any person that calls for urgent intervention (no warning notice required). These provisions come into force on 20 February 2014. Local authorities are required to maintain a scheme for financing schools which sets out the framework for the financial relationship between them and the schools they maintain.[21] The scheme must include procedures for maintaining effective financial management, securing value for money and providing financial information to the local authority. An authority may suspend a school's right to a delegated budget if the provisions of the authority's financial scheme (or rules applied by the scheme) have	Local authorities control the relevant activity. The step-in powers are conditional on the poor operation of a school. The overall process is collaborative as both the school and local authority work together. However, as the decisions don't require unanimous agreement (the local authority has ultimate power), there is not joint control.

[19] Under Section 43 of the Act
[20] Before the end of 28 days beginning with the end of the objection period
[21] Section 48(1) of the School Standards and Framework Act 1998

Relevant activity	Who has the power to control the variable returns?	Control conclusion
	been substantially or persistently breached, or if the budget share has not been managed satisfactorily. A school's right to a delegated budget share may also be suspended for other reasons i.e. if a school is eligible for intervention.	

Appendix A

International Financial Reporting Standards and Other Pronouncements Extracts on the Reporting Entity

A1 Provisions in IFRS that Working Group considered are listed below.

A2 IFRS 3 *Business Combinations* includes the following definition:

"an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants."

A3 IFRS 10 *Consolidated Financial Statements* requires an entity to consider whether it should treat a portion of an investee as a deemed separate entity if the following condition is satisfied:

"Specified assets of the investee … are the only source of payment for specified liabilities of, or specified other interests in, the investee. Parties other than those with the specified liability do not have rights or obligations related to the specified assets or to residual cash flows from those assets. In substance, none of the returns from the specified assets can be used by the remaining investee and none of the liabilities of the deemed separate entity are payable from the assets of the remaining investee. Thus, in substance, all the assets, liabilities and equity of that deemed separate entity re ring-fenced from the overall investee. Such a deemed separate entity is often called a 'silo'." (IFRS 10, paragraph B77)

A4 In March 2010 the IASB issued an Exposure Draft of the Conceptual Framework for Financial Reporting. The following is extracted from the Exposure Draft:

Exposure Draft - Conceptual Framework for Financial Reporting The Reporting Entity March 2010

"RE3 A reporting entity has three features:

(a) economic activities of an entity are being conducted, have been conducted or will be conducted;

(b) those economic activities can be objectively distinguished from those of other entities and from the economic environment in which the entity exists; and

(c) financial information about the economic activities of that entity has the potential to be useful in making decisions about providing resources to the entity and in assessing whether the management and the governing board have made efficient and effective use of the resources provided.

These features are necessary but not always sufficient to identify a reporting entity.

"RE4 Identifying a reporting entity in a specific situation requires consideration of the boundary of the economic activities that are being conducted, have been conducted or will be conducted. The existence of a legal entity is neither necessary nor sufficient to identify a reporting entity. A reporting entity can include more than one entity or it can be a portion of a single entity.

"RE5 A single legal entity that conducts economic activities and does not control any other entity is likely to qualify as a reporting entity. Most, if not all, legal entities have the potential to be reporting entities. However, a single legal entity may not qualify as a reporting entity if, for example, its economic activities are commingled with the economic activities of another entity and there is no basis for objectively distinguishing their activities. In some jurisdictions, there may be questions about whether those entities are separate entities under the law.

"RE6 A portion of an entity could qualify as a reporting entity if the economic activities of that portion can be distinguished objectively from the rest of the entity and financial information about that portion of the entity has the potential to be useful in making decisions about providing resources to that portion of the entity. For example, a potential equity investor could be considering a purchase of a branch or division of an entity.

Consolidated Financial Statements

"RE7 An entity controls another entity when it has the power to direct the activities of that other entity to generate benefits for (or limit losses to) itself. "

The European System of Accounts (ESA)95 definition of an Institutional Unit

A5 The text defining 'institutional units' for statistical purposes, from the European System of Accounts (ESA)95 is extracted below.

"*2.12. Definition:*

The institutional unit is an elementary economic decision making centre characterized by uniformity of behaviour and decision-making autonomy in the exercise of its principal function. A resident unit is regarded as constituting an institutional unit if it has decision-making autonomy in respect of its principal function and either keeps a complete set of accounts or it would be possible and meaningful, from both an economic and legal viewpoint, to compile a complete set of accounts if they were required.

In order to be said to have autonomy of decision in respect of its principal function, a unit must:
(a) be entitled to own goods or assets in its own right; it will therefore be able to exchange the ownership of goods or assets in transactions with other institutional units;
(b) be able to take economic decisions and engage in economic activities for which it is itself held to be directly responsible and accountable at law;
(c) be able to incur liabilities on its own behalf, to take on other obligations or further commitments and to enter into contracts.

In order to be said to keep a complete set of accounts, a unit must keep accounting records covering all its economic and financial transactions carried out during the accounting period, as well as a balance sheet of assets and liabilities. "

Appendix B

Sources of Funding for Maintained Schools

B1 The key elements of funding for state funded schools can be summarised as follows:

Statutory age pupils

B2 The Governor's Handbook States "The funding system for maintained schools is based on the dedicated schools grant (DSG) and pupil premium. Most funding is provided through the DSG which is currently allocated to local authorities on the basis of historic data. From April 2013, local authorities are required to pass on most of the money directly to schools and are only allowed to retain funding centrally under certain circumstances. Most of the DSG is distributed to maintained schools using locally determined formulae. To date, there has been significant variation in how local authorities allocate funding to schools. In order to move to a more consistent, comparable and transparent system, from April 2013 local authorities are required to use much simpler formulae. They are limited to a maximum of 12 factors in their formulae, which relate largely to pupil characteristics and pupil numbers (taken from the Annual School Census data), and less so on the circumstances of the school. Funding is available for pupils with high needs in special schools or mainstream school, based on the needs of the pupil."

B3 The local authority determines the formula for school budget shares in consultation with the Schools Forum and in line with constraints imposed by the School and Early Years Finance Regulations. The local authority makes the calculated budget share available to all of its maintained schools.

B4 Exactly the same formula is used by each local authority to calculate the budget share for all categories of school within its area, including academies. Budget shares for academies are recouped from the local authority and paid to academies by the Education Funding Agency (EFA).

Pupil Premium

B5 The pupil premium is calculated in accordance with a national formula determined by the Secretary of State. Exactly the same formula is used for all categories of state funded schools including academies.

B6 EFA pays the pupil premium directly to academies, and pays pupil premium to the local authority in respect of pupils in maintained schools, and other settings funded by the local authority. The local authority is required to pass the relevant amount to each maintained school as an addition to its budget share, and to other settings as appropriate to pupil placements.

Sixth form pupils

B7 Funding for 16+ pupils is calculated in accordance with a national formula determined by the Education Funding Agency. Exactly the same formula is used by the EFA for all categories of state funded schools including academies.

B8 EFA pays the sixth form funding directly to academies, and pays sixth form funding to the local authority in respect of pupils in maintained schools. The local authority is required to make the relevant amount available to each maintained school as an addition to its budget share.

Early Years

B9 Pupils of less than statutory age (nursery pupils) are funded on the basis of participation in a registered setting. Local authorities make this funding available on the same basis for all maintained schools as an addition to their budget shares. Local authorities also pay this funding direct to academies and to other private, voluntary and independent settings.

Higher Needs

B10 Additional funding is provided by local authorities for pupils with higher levels of need than are expected to be met from formulaic allocations. These amounts are allocated on a pupil specific basis and are known as top ups.

B11 In maintained schools the top ups are made available as an addition to the budget share. Local authorities also pay top ups directly to academies, further education colleges, non-maintained special schools, alternative provision, Private, Voluntary and Independent (PVI) providers, and other independent settings.

Other Grants

B12 Both DfE and the EFA have powers to award other grants. Specifically the EFA pays an additional Education Services Grant to academies on a per pupil basis to fund responsibilities which the local authority meets on maintained schools behalf.

Appendix C

Central Government Consolidation Considerations

Central government accounting boundaries

C1 The accounting boundary for a central government department is similar to the concept of a group under generally accepted accounting practice, but is based on control criteria used by the Office for National Statistics (ONS). The ONS classify entities to either the private or public sector. Public sector entities can be either market or non-market. Non-market public sector bodies form what is known as 'general government' and this is then subdivided into sub-sectors, including central government and local government. If the ONS classify an entity to central government then that entity has to be consolidated into the accounts of its sponsoring department. An annual designation order sets out the entities that each department must consolidate.

C2 Academies and free schools have been classified by the ONS as being central government entities and they are therefore consolidated by the Department for Education. Although central government does not consolidate purely from an analysis of accounting standards, the assessment is similar as it is based on control, rather than by ownership or whether or not the entity is publicly financed. International guidance used by the ONS defines control as the ability to determine general corporate policy. For example, this control can be exercised through the appointment of directors, control of voting power, through special legislation or decree, or through regulation. The main difference to IFRS 10 is that it isn't necessary for a controlling entity to benefit from returns.

Central government interaction with local authorities

C3 Central Government delegates its responsibilities to provide education through legislation to local authorities and sets the regulations for the operation of all local authority activities in relation to schools. The Working Group considered whether, from an IFRS perspective, schools should be consolidated only by central government, with local authorities accounting as agents.

C4 IFRS 10 states that only one body controls an investee and therefore an investor with decision-making rights shall determine whether it is a principal or an agent. IFRS 10 describes an agent as a party primarily engaged to act on behalf and for the benefit of another party or parties. An agent therefore does not control the investee when it exercises its decision-making authority. IFRS 10 sets out the following factors to be considered in determining whether a decision maker is an agent:

i. The scope of its decision-making authority over the investee
ii. The rights held by other parties
iii. The remuneration to which it is entitled in accordance with the remuneration agreement(s)
iv. The decision maker's exposure to variability of returns from other interests that it holds in the investee.

C5 Determining whether a decision maker is an agent requires an evaluation of all of the factors listed above unless a single party holds substantive rights to remove the decision maker and can remove the decision maker without cause. As set out in paragraph 32, central government has the ability to remove local authorities from the involvement with any school. However, this is conditional on specific events, such as a school failing or a governing body making an application for academy status. Any other intervention to remove a local authority would require a change in legislation. Therefore under the current legislative framework, central government cannot remove local authorities without cause.

C6 Overall, it does not appear that local authorities act as agents of central governments in relation to schools. Tables 1 and 2 set out the scope of their decision-making authority over schools and paragraphs 19 and 20 detail the exposure of local authorities to returns from schools. Local authorities are not remunerated by central government on the basis of returns from schools, but, given the public sector context, this factor is considered less relevant.

Appendix D

HM TREASURY

CIPFA-LASAAC LOGO

Government financial reporting working group in the context of public sector schools

Terms of Reference

Introduction

D1 On 4 October 2012, the Financial Reporting Advisory Board (FRAB) recommended that a cross-cutting working group should form to take forward the issue of applying international accounting standards, principally IFRS 10, Consolidated financial statements, in the context of public sector schools.

D2 The working group should aim to achieve clarity on the accounting for schools and wider financial reporting considerations, including practicability, making recommendations accordingly to the Director, Public Spending at HM Treasury, the Board of CIPFA-LASAAC, the other Relevant Authorities for public sector financial reporting and the Department for Education. The working group should report its progress to the Financial Reporting Advisory Board (FRAB) via the FRAB Secretary.

Membership

D3 The Review Panel will consist of one person representing each of the following:

- Independent Financial Reporting Expert (Chair)
- Department for Education
- Department for Communities and Local Government
- CIPFA-LASAAC
- HM Treasury
- Local Authorities (England & devolved)
- Voluntary Controlled, Voluntary Aided or Foundation Schools
- Audit Commission
- Public Benefit Entity accountancy expert
- Private Sector accountancy expert
- Devolved Government representative(s)
- Health Relevant Authority representative (Monitor or Department for Health)
- Office of National Statistics (ONS)

D4 Observer status membership may be granted to provide additional expertise to the working group with the agreement of the Review Panel.

D5 Working Group meetings will be held monthly.

D6 A list of members is attached at Appendix 1.

Appointments

D7 One member will be appointed by each of the bodies to be represented.

Chairmanship

D8 The Chair of the Review Panel will be an independent financial reporting expert.

Arrangements for the Conduct of Business

Quorum

D9 For panel meetings to be quorate, at least 80% of the membership must be present (including by conference call), with agreed alternative representation as required.

Declaration of Interests

D10 If any member has an actual or potential conflict of interest, this should be declared at the first meeting of the Review Panel or any subsequent meeting in connection with any particular issue as it arises. The Review Panel will decide on the implication of any such declaration.

D11 All declarations of interest will be minuted.

Secretariat support

D12 Secretariat support for the Review Panel will be provided by HM Treasury (Vick Rock) and CIPFA (Sarah Sheen).

Role and Functions

Management Support and Administration

D13 HM Treasury and CIPFA will ensure the co-ordination of all correspondence and panel meetings.

D14 As Relevant Authorities, HM Treasury and CIPFA-LASAAC will be responsible for considering and, if necessary, implementing any recommendations, with the advice of the FRAB, as required, and in partnership with the Department for Education, Department for Communities and Local Government and other Relevant Authorities.

Scope

D15 In discharging its role recorded above, the scope of the review will include:

- All information relating to public sector schools where relevant to government financial reporting.
- Assessing the impact of applying IFRS 10 in the public sector context and any linked financial reporting frameworks, including analysis of Eurostat and IPSASB projects.
- The reporting impact of the accounting treatment, the effect on the alignment of government financial reporting, Whole of Government Accounts and other wider financial reporting considerations, particularly the practicability.
- Evidence taken from appropriate experts outside of the Review Panel membership, as agreed in advance by the Review Panel.
- Analysis produced by the CIPFA-LASAAC working party that considered accounting for schools from a local authority perspective.

Minutes

D16 The Review Panel will be a formally recorded meeting.

Decision Making

D17 The Review Panel shall aim to achieve consensus on its recommendations.