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.