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**Guidance on the Opening Balance Sheet**

**Guidance by:**

**The Chartered Institute of Public Finance and Accountancy**

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**CIPFA, the Chartered Institute of Public Finance and Accountancy**, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

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**1.0 Introduction**

* 1. The purpose of this guidance is to help Finance Officers in New Councils interpret and apply the Code of Practice on Local Authority Accounting (the Code) in order to derive the opening balances of the New Councils following Local Government Reform on 1st April 2015.
	2. Specifically, this guidance will deal with the following:
		1. How to account for the impact of reform on assets, liabilities and reserves to arrive at the opening balance of the New Council.
		2. How to calculate the impact of transfers out on the New Council’s Capital Adjustment Account and;
		3. The information required to support the New Council opening balances. This guidance will also provide instructions on how to prepare the opening balance sheet note using the pro-forma template.

**2.0 Accounting treatment for transfers of functions from Local Government Reform**

2.1 Guidance issued by CIPFA regarding the accounting treatment for transfers of functions, assets and liabilities resulting from local government reform stated that

*Paragraph 2.5.2.1 of the Code* defines a transfer of function as a *‘transfer of an identifiable service or business operation with an integrated set of activities, staff and recognised assets and / or liabilities that are capable of being conducted and managed to achieve the objectives of that service or business operation.’*

2.2 The combinations and transfers as a result of Local Government Reform are considered, for accounting purposes, to be *combinations of public sector bodies* (these are most commonly seen in the form of local government reorganisation or other transfers of function from one public sector body to another).

2.3 *Paragraph 2.5.1.1 of the Code* advises that combinations of public sector bodies are deemed to be ‘a combination of businesses under common control’, and as such are outside the scope of IFRS 3 *Business Combinations.*

2.4This means that the combination of two or more local authorities into one new authority, or the transfer of functions (in full or in relation to a geographic area) from the responsibility of one authority (or other public sector body) to another, will need to be accounted for using the principles that apply to *Group Reorganisations / Reconstructions*.

**3.0 New Council Opening Balance Sheet Note**

3.1 As the New Councils are created under a transfer by absorption at the beginning of the financial year, *Paragraph 2.5.4.2 of the Code* states that *for new authorities, where transfers take place at the beginning of the financial year, under transfer by absorption no corresponding amounts for the previous year will be required in the financial statements. The* ***notes to the accounts*** *of the new authority shall include an opening Balance Sheet (i.e. transferred assets and liabilities and opening reserve balances). This shall be clearly identified as the opening balance on the creation of the new authority, not the previous year’s Balance Sheet.* The comparative year balance sheet for the New Council will be the 2014-15 closing balance of the Shadow Council.

3.2 For New Councils to arrive at the opening Balance Sheet position, it needs to take account of;

 - Closing balances of its Predecessor Councils and Shadow Councils;

 - Eliminate inter council balances of Predecessor Councils who together have formed the New Council.

 - Transfers out and acquired functions as a result of Boundary Change

 - Functions acquired from Central Government

 - Impact of ceasing of Joint Committee on the assets, liabilities and reserves

3.3 The first step to produce the New Council’s Opening Balance Sheet note will be to take the audited Balance Sheet as at 31st March 2015 of each of the New Councils’ Predecessor Councils and the Shadow Council adjusting these for any balances outstanding between each of the New Councils’ Predecessor Councils.

3.4 Where the carrying amounts recognised by Predecessor Councils differ from the revised amount held by the New Council, reconciling entries will be needed once the transfer has been accounted for. This will not have an impact on the Opening Balance Sheet note as the effect will be once the transfer has taken place and will be shown in the Movement in Reserves Statement.

3.5 The boundary change as a result of Local Government reform has caused New Councils to transfer out and/ or acquire functions from other New Councils on 1st April 2015. To ensure that Councils recognise the impact of boundary change, the Code states that assets and liabilities shall normally be transferred without adjusting their carrying values as at the transfer date. The Code includes an exception to this where:

1. there is agreement between the two bodies to revise the amounts as a part of the statutory duties; and
2. such amounts were agreed after authorities transferring the services had issued their accounts for the year immediately prior to the transfer date (*see paragraph 2.5.2.1 of the Code*).

If there is a gain or loss on the transaction, the difference will need to be written off. Paragraph 2.5.2.7 of the Code protects the Comprehensive Income and Expenditure Statement, so the gain/loss will be treated as a movement in Reserves.

3.6 The Local Government Act (Northern Ireland) 2014 sets out the functions which the New Council acquired from Central Government on 1st April 2015. Central Government will transfer the assets and liabilities associated with the functions through absorption accounting. Paragraph 4.2.10 of the Financial Accounting Reporting Manual (FReM) states that the carrying value of assets and liabilities will be brought into Financial Statements from the date of transfer. The Revaluation Reserve will be transferred to the New Council in full. As the functions to be transferred are fully financed, the New Council should recognise the carrying value of the functions transferred.

3.7 Department of the Environment Local Government Reform Guidance to New Councils on Financial Reporting for Joint Committees issued on 31st March 2015 provided information on the Joint Committees which will cease to exist on or before the 30 June 2015. SWaMP2008 is the only Joint Committee which did not continue as a body corporate after 31 March 2015. The assets and liabilities associated with SWaMP2008 should be transferred to Armagh, Banbridge and Craigavon at carrying value on 1st April 2015.

**4.0 Impact of Local Government reform on the Capital Adjustment Account**

4.1 Under the Prudential code, depreciation charged on assets is replaced with a minimum revenue provision, which makes a charge to the Income and Expenditure Account for the repayment of borrowing associated with capital expenditure. These adjustments are made against the Capital Adjustment Account (CAA), which reconciles the different rates at which assets are depreciated under proper accounting practice and are financed through the capital controls system.

4.2 Where a New Council is required to transfer functions to another New Council as a result of boundary change. Identifying the transfer values of these functions may become a complicated exercise as the Council is required to transfer assets, liabilities and reserve balances. The Council will be able to identify the value of assets through the Fixed Asset Register, if there is borrowing associated with the Capital Expenditure, the Council will be able to identify the corresponding liabilities. A Council may have difficulties in arriving at the associated CAA balance.

4.3 The illustrative example on the next page sets out how a Council may derived the associated CAA balance of an asset. A Council is required to transfer an asset of £230,000 with an associated debtor of £5,000. The asset was previously revalued up by £20,000 and this balance which is held on the Revaluation Reserve will transfer with the asset. The corresponding liabilities is made up of borrowings of £80,000 and current liability of £5,000 which will be transferred to the New Council. As the Council has the information to support the value of the asset and liability of the function, the unknown is the balance of the CAA which relates to the function. The CAA balance can be calculated from the historic cost of the asset less the existing financing.



**5.0 Documentation to support the Opening Balance Sheet Note**

5.1 The working papers to support the opening Balance Sheet Note should be sufficient and appropriate, with the information provided offering sufficient and relevant evidence that the balances are reliable. As previously stated in paragraph 3.2 the opening Balance Sheet note is made up of the following;

*5.1.1 Closing balances of its Predecessor Councils and Shadow Councils;*

The audited 2014/15 financial statements of the Predecessor Councils and the Shadow Council and the Balance Sheet working papers for each organisation will be adequate to support the figures included in the Opening Balance Sheet note.

The New Council should maintain working papers which detail the eliminate balances, that is, the balances outstanding between the Predecessor Councils of the New Council as at 31st March 2015.

 5.1.2 *Transfers out and acquired functions as a result of Boundary Change*

New Councils should formally agree the transfer of functions through an agreement with the associated Council. The agreement should state: the Councils between whom the transfer is occurring, function that is to be transferred and the financial implications of this transfer, i.e. Historic Cost and accumulated depreciation of the Non-Current Asset, Revaluation Reserve associated with the asset, any current assets and liabilities (debtors), the borrowings outstanding and the CAA balance associated with the asset. The agreement should be signed and dated by both Council.

Councils should ensure that there are adequate working papers provided to support the values stated in the agreement of the transferred function.

 5.1.3 *Functions acquired from Central Government*

New Councils should ensure that there are agreements with Central Government organisations for each function transferred on 1st April 2015.

Similar to that between Councils as a result of boundary change, the agreement should state; the Council and Central Government organisation between whom the transfer is occurring, function that is to be transferred and the financial implications of this transfer, i.e. Historic Cost and accumulated depreciation of the Non-Current Asset, Revaluation Reserve associated with the asset, current assets (debtors), and any reserve balances associated with the asset. The agreement should be signed and dated by both the Council and Central Government organisation.

Central Government organisations should provide documentation such as extracts from Fixed Asset Register to support the reliability of the figures stated in the agreement and land registration deeds and LPS reports to support the valuation and ownership of the assets transferring to the relevant Councils.

 5.1.4 *Impact of ceasing of Joint Committee on the assets, liabilities and reserves*

Paragraph 3.7 states that the dissolution of SWaMP2008 on 31st March 2015 will have an impact on the opening Balance Sheet note for Armagh City, Banbridge and Craigavon Borough Council. The audited 2014/15 financial statements and the working papers of SWaMP2008 will support the transfer of functions to the New Council.

**6.0 Opening Balance Sheet note Proforma template instructions**

6.1 CIPFA have produced a template to aid practitioners in the production of their New Council opening Balance Sheet note as at 1 April 2015. This template contains an input tab which practitioners will complete to populate the opening Balance Sheet note.

6.3 The input tab breaks down the Balance Sheet in four levels, while not all levels may be required for the opening Balance Sheet note, this level of detail will be required in the 2015/16 Proforma accounts model. The input tab splits the information requires practitioners to insert the 2014/15 closing balances of Predecessor councils and the Shadow Council, eliminating any outstanding balances as at 31st March 2015 between the Predecessor Councils of the New Council -, the balances relating to functions transferring out and acquired by the New Council as a result of boundary changes, the impact of functions transferring from Central Government and the transfer of functions as a result of Joint Committees.

6.3 The instructions tab in the Proforma sets out the columns of the input tab each council should complete. A summary is shown in the table below;

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| --- | --- |
| **Council** | **Opening Balance Sheet Proforma****Input tab column to complete** |
| Antrim & Newtownabbey Borough Council  | **Column H-M:** ‘ Predecessor Councils, Inter Council closing balances and Shadow Council closing balances’**Column P**:'Transfers from Central Government' |
| Ards & North Down Borough Council | **Column H-M:** ‘ Predecessor Councils, Inter Council closing balances and Shadow Council closing balances’**Column P:** 'Transfers from Central Government' |
| Armagh City, Banbridge and Craigavon Borough Council | **Column H-M:** ‘ Predecessor Councils, Inter Council closing balances and Shadow Council closing balances’**Column N:** 'Transfers in: Boundary Change'**Column O:** 'Transfers out: Boundary Change'**Column P:** 'Transfers from Central Government'**Column Q:** 'Transfers in from Joint Committee' |
| Belfast City Council | **Column H-M:** ‘ Predecessor Councils, Inter Council closing balances and Shadow Council closing balances’**Column O:** 'Transfers out: Boundary Change'**Column P:** 'Transfers from Central Government' |
| Causeway Coast & Glens Borough Council | **Column H-M:** ‘ Predecessor Councils, Inter Council closing balances and Shadow Council closing balances’**Column P:** 'Transfers from Central Government' |
| Derry City & Strabane District Council | **Column H-M:** ‘ Predecessor Councils, Inter Council closing balances and Shadow Council closing balances’**Column P:** 'Transfers from Central Government' |
| Fermanagh & Omagh District Council | **Column H-M:** ‘ Predecessor Councils, Inter Council closing balances and Shadow Council closing balances’**Column P:** 'Transfers from Central Government' |
| Lisburn & Castlereagh City Council | **Column H-M:** ‘ Predecessor Councils, Inter Council closing balances and Shadow Council closing balances’**Column O:** 'Transfers out: Boundary Change'**Column P:** 'Transfers from Central Government' |
| Mid & East Antrim Borough Council | **Column H-M:** ‘ Predecessor Councils, Inter Council closing balances and Shadow Council closing balances’**Column P:** 'Transfers from Central Government' |
| Mid Ulster District Council | **Column H-M:** ‘ Predecessor Councils, Inter Council closing balances and Shadow Council closing balances’**Column O:** 'Transfers out: Boundary Change'**Column P:** 'Transfers from Central Government' |
| Newry, Mourne & Down District Council | **Column H-M:** ‘ Predecessor Councils, Inter Council closing balances and Shadow Council closing balances’**Column O:** 'Transfers out: Boundary Change'**Column P:** 'Transfers from Central Government' |

**7.0 Alignment of Accounting Policies**

7.1 Once the Opening Balances for the New Council has been determined. Each Council will need to assess whether asset values need to be revised to align with the Council’s accounting policies. It is recommended that this exercise is performed once the opening balances are established.