

Report

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Subject	Control Test in Relation to Schools Governing Bodies

The purpose of this report is to consider the impact on local authority accounting of the application of an IAS 27 *Separate and Consolidated Financial Statements/SIC 12 Consolidation – Special Purpose Entities* to schools governing bodies (and to the trusts) in whose ownership the non-current schools assets are vested.

1 Introduction

- 1.1 This report will consider whether schools or the trusts in which assets are vested would be consolidated by local authorities under an IAS 27 *Separate and Consolidated Financial Statements* control test.
- 1.2 The *2012/13 Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) adopts the requirements of IAS 27 with minimal interpretation. The interpretation does not impact on this report.
- 1.3 IAS 27 requires consolidation of entities that are controlled by the reporting entity. The standard does not, however, provide explicit guidance on the consolidation of Special Purpose Entities (SPEs). The CIPFA/LASAAC Working Party – Accounting for Schools in Local Government (Working Party) considered that it would also be necessary to consider schools from this perspective and consider SIC 12 *Consolidation – Special Purpose Entities*. SIC 12 considers under what circumstances an entity should consolidate an SPE. The Code paragraph 9.1.1.9 states:

“SIC 12 provides guidance to ensure that, regardless of the equity holding and control structure, where in substance the special purpose entity is controlled by the sponsor (ie reporting authority), it should be consolidated. Where an authority considers it has relevant transactions, it shall refer to SIC 12.”
- 1.4 This report also provides the Working Party's initial comments on the application of IFRS 10 *Consolidated Financial Statements*. This standard has an effective date

of 1 January 2013. However, the European Financial Reporting Advisory Group (EFRAG) EU Endorsement Status Report of the 6 June 2012 sets out that:

“On 1 June 2012, ARC [Accounting Regulatory Committee] voted on a regulation that requires IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 to be applied, at the latest, as from the commencement date of a company’s first financial year starting on or after 1 January 2014 (i.e. early adoption would be permitted once the standards have been endorsed).”

1.5 It is anticipated that, due to the weight of the agenda for the 2013/14 Code and the significance of the amendments for the five group accounting standards including IFRS 10, CIPFA/LASAAC will not opt for early adoption of these standards. Therefore subject to due process it is anticipated that the 2014/15 Code will see the adoption of IFRS 10 and the other four group accounting standards.

1.6 It should be noted that the following commentary on schools organisational changes represents the Secretariat’s understanding of the legislation and this has still to be confirmed with the Department for Education and the Welsh Government.

2 The Control Test

2.1 For control to exist over another organisation a local authority would need to be established as a parent to a subsidiary. In order for an organisation to be a subsidiary of a local authority parent, two conditions must be satisfied:

- the organisation must qualify as an entity for accounting purposes, and
- it must be controlled by an authority.

Status as an entity

2.2 Although it is a key element of the definition of a subsidiary, IFRSs do not specify precisely what an entity is. The definition in paragraph 9.1.2.17 of the 2012/13 Code makes it clear that the definition is not limited to corporate bodies in legal terms but does not set any particular criteria that unincorporated organisations would need to satisfy.

2.3 The Code reproduces the definition of a ‘business’ from Appendix A of IFRS 3 Business Combinations: 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. However, paragraph 9.1.1.8 itself uses ‘businesses’ and ‘entities’ as separate concepts, suggesting that a business does not have to be an entity.

2.4 Paragraph 25 of IAS 31 provides an indication of what might constitute an entity in the contrast it provides between jointly controlled entities and jointly controlled assets and operations:

“A jointly controlled entity controls the assets of the joint venture, incurs liabilities and expenses and earns income. It may enter into contracts in its own name and raise finance for the purposes of the joint venture activity.”

2.5 In practical terms these treatments mean that an entity would need to be capable of being treated legally like a person. It would function legally (eg by entering into contracts in its own name, employing officers) and make binding decisions through its governing body.

2.6 As schools governing bodies have corporate status it appears clear that there is sufficient evidence to classify them as entities within the scope of the definition, and they therefore could be considered for consolidation. The governing bodies can enter into contracts and some of the categories of maintained schools are employers and have the power to authorise expenditure (often delegated to the head teacher). It is very likely that any trusts that control assets also have corporate status. However, it is difficult to examine the authority's relationship with the trust as this is not established by statutory relationships or public documentation. The Working Party was not able to examine the relationship between the trusts within which the schools non-current assets are vested and therefore this report considers the only the relationship between governing bodies and local authorities.

2.7 The Working Party considered the above discussion on the consideration of schools' governing bodies as entities and considered that it was content that schools' governing bodies could be considered as entities in relation to the control tests

CIPFA/LASAAC's views are sought on whether or not it agrees with the analysis presented above that governing bodies can be considered as an entities for consolidation purposes within the local authority group boundary.

Control

2.8 The definition of control is set out in paragraph 9.1.2.2 of the Code ie:

"the power to govern the financial and operating policies of an entity so as to benefit from its activities."

Benefits

2.9 The benefits element of the definition is relatively straightforwardly satisfied. As a local authority has a duty under Section 13 of the Education Act 1996 to contribute towards the spiritual, moral, mental and physical development of the community by securing that sufficient primary and secondary education are available to meet the needs of the population of their area, benefits will accrue from the successful provision by others of primary and secondary education.

Power to Govern the Financial and Operating Policies of the Entity

2.10 The power to govern financial and operating policies is usually assessed with regard to the ownership of voting power. Where an authority owns more than half of the voting power of an entity, control is presumed to exist. However, the definition is not based exclusively on legal ownership.

2.11 The Code sets out that an authority can own less than 50% of the voting power, but still have control under certain circumstances. These circumstances are:

- the authority has power over more than half of the voting rights by virtue of an agreement with other investors

- the authority has the power to govern the financial and operating policies of the entity under a statute or an agreement
- the authority has the power to appoint or remove the majority of the board of directors or equivalent governing body and control of the entity is by that board or body, or
- the authority has the power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body

2.12 These circumstances are considered in more detail for each of the maintained categories of school in Appendix 1 to this report. Currently local authorities are able to appoint a number of members to the governing body. This varies by categories of school and also differs for English and Welsh schools. However, it is unlikely that in most cases these governors would make up half of the governing membership for any of the categories of the school until and unless such a point is reached when the authority might need to intervene in schools deemed to be causing concern in accordance with the requirements of the Schools Standards and Framework Act 1998.

2.13 It is not straightforward to analyse the power to govern the financial and operating policies of a governing body. Appendix 1 illustrates that the statutory framework places constraints on the parties that are part of the maintained sector and assigns them particular functions. A significant feature of this is that each party accepts limitations on its ability to act in return for the benefits it receives from being part of the sector, reducing the scope of the financial and operating policies that they can determine, particularly those relating to making a financial return from providing services or selling assets. Where a governing body is restricted in the actions that it can take, care needs to be taken in determining whether this is because the actions are beyond its powers or because it is being controlled by another party. In order for the authority to be a parent to a governing body it must not just be able to secure an outcome but secure it by controlling or constraining the decision making of the governing body.

2.14 For instance, an authority may have the ability to take resources from a governing body in a clawback situation set out in Appendix 1, but for this to be evidence that the authority controls the governing body it would need to be the case that either:

- the abilities have been granted as rights by the governing body to the authority, or
- the authority has the power to make the governing body decide that it wishes to transfer the resources to the authority.

2.15 Without this being the case, the authority may be able to claim control of the resources as an asset, but it is arguable that this is not through control of the governing body. If this is not the case and the ability to clawback surpluses were deemed to give control to the authority then this would mean that the authority is the parent of all categories of maintained school.

2.16 The nature of the clawback also needs to be considered. The statutory guidance¹ issued by the Department for Education in relation to authorities' schemes for

¹ Schemes for Financing Schools: Section 48 of The School Standards and Framework Act 1998, and Schedule 14 to the Act, Department for Education December 2010.

financing schools indicates that when developing the schemes authorities should have regard to the principle “that schools should be moving towards greater autonomy, should not be constrained from making early efficiencies”. However this is set against the comments that such Schemes should “be focused on only those schools which have built up significant excessive uncommitted balances and/or where some level of redistribution would support improved provision across a local area”.

- 2.17 Local authorities schemes of delegation must contain a provision which allows schools to carry forward from one year to the next any shortfall in expenditure relative to the schools budget share plus or minus any balance brought forward for the previous year.
- 2.18 The Working Party did not make any significant conclusion in relation to the financial operating policies.
- 2.19 There are points at which an authority can intervene in the activities of the school, where, for example, the authority believes that the performance of a school is such that it is required to appoint more governors in the performance of its statutory duties. However, these rights do not exist unless and until the school’s performance fails. At the point in time the authority does intervene the authority might use its powers to control the governing body, however, these powers are conditional and only exist at the point of intervention and are dependent on the actions the authority might take. Following such actions the authority would need to consider the control test and if appropriate, consolidate the income and expenditure and other assets and liabilities of the governing body.
- 2.20 There is therefore some evidence that the statutory arrangements do provide scope for an authority to exercise influence over governing bodies. However, it might be the case for English authorities that this influence is limited ultimately by the power that resides with the governing body to determine the most fundamental of its operating policies (ie, the framework under which it operates) without any constraint by the authority. In England, governing bodies can apply to convert to academy status. Governing bodies therefore have an ability to end their relationship with an authority. However, this is not entirely within the control of the governing body as to become an academy the school and governing body has to undertake an application process and are therefore not in control of the move from this framework. The approval of the Funding Agreement for academy status lies with the Secretary of State.
- 2.21 Appendix 1 considers in more detail the circumstances where an authority can own less than 50% of the voting power, but still have control and considers the case for each of the categories of school, particularly featuring the financial and operating policies of the schools. The Appendix covers the issues relating to whether or not these schools can be considered to be controlled by the authority. The most significant of these issues are highlighted below.
- 2.22 The Working Party consider that one of the main areas in which local authorities might be demonstrating control over school’s governing bodies is its ability to initiate statutory proposals to make organisational changes to schools. The statutory proposals are listed in Appendix 2 but perhaps one of the most fundamental of these is the ability to close a school. It appears from the Secretariat’s understanding that the authority in the case of community schools is able to invoke most of the statutory procedures and the governing body can only invoke the appeal process for a small number of cases. The decision on these operation changes thus lies with the authority. It seems that the balance of

control in this process ie of the financial and operating policies of the governing body lies with the authority. The control over the operating policies will be in order to benefit the from its activities in pursuit of its duties under Section 13 of the Education Act 1996, and its duties as admissions authorities and potentially the realisation of proceeds from the sale of the assets. It would also benefit or be at risk of the surplus of deficits on closing schools balances, on closure.

- 2.23 However, for the other categories of maintained school ie voluntary controlled voluntary aided and foundation schools, firstly to balance this control these governing bodies can initiate their own statutory proposals to change the organisation of the school including school closure (see Appendix 2). In addition, the governing body and trustees of a foundation or a voluntary school can appeal against a decision on any proposals that apply to their school the decision is then with the School's Adjudicator and therefore ultimately the authority does not have control over this process. This analysis is therefore not conclusive for foundation and voluntary controlled and aided school. Further analysis is therefore undertaken in Section 3.
- 2.24 As the income and expenditure and (following the preliminary conclusions of CIPFA/LASAAC) the assets of community schools are already recognised in the financial statements of local authorities it is unlikely that a group consolidation would provide a different presentation for local authorities. However, consolidation would still be required under IAS 27 unless authorities determine on the ground of materiality not to consolidate the governing bodies.
- 2.25 Commentaries made in October last year on current legislation as it operates in Wales relating to Welsh schools by the Welsh Government in its white paper to consult on the Schools Standards and Organisation Bill 2012 are set out in an extract from the White Paper below

"Local authorities, the governing bodies of voluntary and foundation schools and other promoters have powers to make proposals to: establish, significantly alter, and change the category of, and close schools. The powers apply to mainstream and special schools funded by a local authority. Regulations and guidance documents specify how these powers are to be used."

"The current legislation provides that local authorities or, as the case may be, governing bodies and other promoters, must publish their proposals and give any person the opportunity to object to such proposals. If any objections are received, the proposals must be decided by the Welsh Ministers. The Welsh Ministers may approve the proposals (with or without modification) or reject them."

School Standards and Organisation (Wales) Bill, White Paper Welsh Government October 2011

- 2.26 The comments above appear to refer to all categories of maintained schools in Wales. It appears from these comments that local authorities' control for any of the maintained categories of school in terms of the organisational changes it may instigate do not have unfettered control. As any objections to the proposals result in the proposals being decided by Welsh Ministers. It is therefore unclear that there is control of the governing bodies of Welsh schools and as a result these

schools fall to be analysed with the remaining categories of school in the following paragraphs. Note also this position may be subject to change as in April the Welsh Government has issued the Schools Standard and Organisation (Wales) Bill which introduces significant changes to the way in which school organisation proposals are determined. However, following the issue of these papers the Secretariat will meet with the Welsh Government to discuss the issue.

CIPFA/LASAAC's views are sought in relation to the Working Party's conclusions in relation to the IAS 27 control test and whether or not they conclude that for community schools in England that it is likely that the schools governing bodies should be consolidated into the local authority boundary.

3 SIC 12 Consolidation – Special Purpose Entities

- 3.1 It appears that consideration of IAS 27 does not give a conclusive answer for the remaining categories of school in relation to the issue of control. The Working Party then considered it necessary to consider whether the governing bodies should be consolidated under SIC 12 *Consolidation – Special Purpose Entities*. As noted in the introduction paragraph 9.1.1.1 of the Code confirms that authorities should apply this SIC. Special Purpose Entities (SPEs) are a category of entity established as an anti-abuse measure to prevent the basic principles of IAS 27 being flouted in such a way as to circumvent those rules. SIC 12 applies where it is not possible to discern who has control of an entity by first applying the normal control provisions of IAS 27.
- 3.2 SPEs are characterised in paragraph 1 of SIC 12 as entities created to accomplish a narrow and well-defined objective (eg, to effect a lease or a securitisation of financial assets), established with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their governing body. These provisions will often specify that the policy guiding the on-going activities cannot be modified, other than by its creator or sponsor (“autopilot” arrangements).
- 3.3 Paragraph 10 of SIC 12 sets out circumstances that may indicate a relationship in which an entity controls an SPE. SIC 12 does not require that all the indicators are present. However, the presence of one of the indicators would probably not be sufficient where it is contradicted by the absence of the others:

Ref	Indicator	Commentary
10 a)	In substance, the activities of the SPE are being conducted on behalf of the entity according to its specific business needs so that the entity benefits from the SPE's operation.	One of the examples given in the Appendix to SIC 12 is that the SPE provides a supply of services that is consistent with an entity's on-going major or central operations which, without the existence of the SPE, would have to be provided by the entity itself. This is consistent with the relationship between the authority and the governing body.
10 b)	In substance, the entity has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up	An authority does not have the decision-making powers to control or obtain control of a governing body or its assets (unless, eg, intervention powers are triggered by the actions of

	an autopilot mechanism; the entity has delegated these decision-making powers.	the governing body). The autopilot mechanism does not appear applicable as the limitations on governing bodies arise from statutory provisions rather than contractual arrangements that predetermine that the governing body passes the majority of the benefits of its activities to the authority.
10 c)	In substance, the entity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE.	The authority has no rights to the majority of economic benefits distributed by a governing body (in the form of future net cash flows, earnings, net assets or other economic benefits or to residual interests) additional to those already considered under IAS 27.
10 d)	In substance, the entity retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.	The Appendix to SIC 12 suggests that an indication of control may be obtained by evaluating the risks of each party engaging in transactions with an SPE. There would be a strong indication where the authority guarantees a return or credit protections to outside investors, but these particular scenarios are not relevant to the governing body relationship with the authority. It is arguable that the authority retains an ownership interest in that it has to fund losses accrued by the governing body. However, this is part of the economic dependence on the authority that the governing body is granted by statute and is not secured by the authority in order to obtain benefits. Further analysis of this indicator is considered below.

3.4 In addition to the analysis above the Working Party considered that in terms of the risks facing the authority of financial failure of the school that the authority would bear the risks of this loss. However, a counter argument might be that this is not representation of control of the governing body but of a liability it would face.

3.5 The Working Party considered that this risk of financial liability combined with an ability to be able to control the flow of income to the school by means of controlling the allocation of the delegated schools budget to schools might give the authority the ability to reduce its risk of exposure to loss. This therefore might mean that in substance the authority would be able to exercise control over the governing body. The determination of the schools funding formula is within the control of the local authority (in consultation with its School's Forum) and in

accordance with the requirements of the School Finance Regulations². However, the control of the relevant factors and criteria are not sufficiently sensitive to be able to direct resources to an individual school. This is particularly the case if the factor which might enable the authority to direct resources to a financially failing school affected a number of other schools. This is likely to be the case as a significant percentage of most authorities' school funding formulas are driven by pupil numbers. In addition, the spirit of differential funding arrangements in the Schools Finance Regulations appears not to support redirection of funds for such purposes. It is therefore doubtful that these factors working together will create a control relationship between the governing body and the local authority.

- 3.6 The authority does bear some risk of loss where schools run into a deficit: ultimately when a school closes the deficit (or surplus) would revert to the authority³. However, the Working Party consider that this is mitigated by the number of opportunities to manage any risk of loss to the authority eg individual school's deficits are carried forward by the individual school (in accordance with appropriate mechanisms permitted by an authority's "Scheme of Financing" ie licensed deficits, loan schemes or credit union approaches) and intervention opportunities are available to local authorities where schools are in financial difficulty. The Working Party's debates considered that it was not a regular event that local authorities provided additional payments to schools in deficit position. The Guidance in the Schemes for Financing Schools sets out that an authority cannot write off a deficit balance of any school but it may provide additional assistance from the Dedicated Schools Budget or the authority's own resources.
- 3.7 The Working Party was of the view that it was unlikely that the authority would be exposed to a substantial risk of having to meet these deficits. This is also balanced by local authorities being unable to take the decision itself to be able to avail itself of the potential positive financial consequences of the school's budget being in surplus, for example, if the individual schools budget is in surplus it cannot utilise those surpluses for its own use either inside the schools budget or for other authority's services (by increasing the Central Education Budget) without the agreement of the Schools Forum or the Secretary of State – this decision is therefore in the hands of separate bodies. In Wales the position is limited by what authorities are allowed to deduct from the Schools Budget. Therefore the Working Party is of the view that on balance local authorities are not able to control the governing bodies of foundation or voluntary controlled or voluntary aided schools. It is possible that the same situation exists in Wales; however, the Secretariat has arranged a meeting to discuss the issue with the Welsh Government and will update CIPFA/LASAAC at the meeting.
- 3.8 Therefore for the other categories of maintained school (and it appears to be the case for all schools in Wales) the Working Party considered it could be argued that a local authority was able to ensure its duties of securing educational provision in its local area under paragraph 10 (a). However, this was countered by the limiting economic circumstances of the arrangement set out in paragraphs 3.5 to 3.7 above and thus the absence of an evidences strong relationship with the other indicators.

CIPFA/LASAAC's views are sought on the Working Party's conclusions on control of the categories of maintained schools set out above.

² The Schools Finance (England) Regulations 2012 SI 2012 No. 355 and The School Funding (Wales) Regulations 2010 SI 2010 No. 824 (W. 87) and The School Funding (Wales) Regulations 2010 SI 2010 No. 824 (W. 87).

³ See footnote 1.

4 Impact of IFRS 10 Consolidated Financial Statements

- 4.1 The Working Party was of the view that it was too early at this juncture to consider the application of IFRS 10 on the control test above. It was aware of the issues already considered by CIPFA/LASAAC ie the description of returns being based largely on economic benefits and the standard which focused on the power of an entity (an investor) to control the variable returns of an investee was difficult to assess at this juncture before the standard was adopted by the Code. However, a very early commentary was made by the Working Party that it seemed no more likely that under this standard that the bodies that were currently not controlled by local authorities would be controlled under IFRS 10.

5 Office for National Statistics Classification of Schools

- 5.1 The Working Party requested consideration of the Office for National Statistics Classification of Schools in order to understand how the classification decision was made and thus understand where and how this might differ from the consideration by the Working Party under a control test. This is provided below.
- 5.2 All schools are subject to the normal rules of classification when deciding control. As discussed at the last meeting of the Working Party maintained schools are classified in local government. The overriding principle for control is the control of general corporate policy. The Office for National Statistics (ONS) has looked at the classification historically. This has included a recent review of the classification where no changes were made to the existing classifications. The process of classification in the public sector is similar to the accounting concepts of control. In addition to the overriding principle the ONS use fourteen factors to assist with the analysis; these are listed in Appendix 2. It should be noted that the factors are not ranked in any way. Decisions are made on a case by case basis when looking at the evidence so in some cases one indicator can be enough to determine public sector control in other cases it may require a number of the indicators to be met.

6 Impact of the Conclusions of the Working Party for Non-Current Asset Recognition

- 6.1 In its debates on non-current asset recognition and from its deliberations of the consultation responses to the separate ITC on the issue the Working Party did not make any different conclusions from that already considered by CIPFA/LASAAC in the ITC. The Working Party at its last meeting requested the Secretariat to consider whether or not its conclusions had any impact on the recognition of non-current assets used by schools.
- 6.2 For the governing bodies that are not within the control of local authorities it is unlikely that assets that are not owned by local authorities and whose benefits and day to day use is controlled by the governing body (under the delegated control of the head teacher) should be recognised on local authority balance sheets. This might give rise to queries in relation to school playing fields that are traditionally in the ownership of local authorities. However, it is considered that the same arguments are likely to apply to these assets. There may be occasions where disposal proceeds of these assets are shared with local authorities. In these cases, local authorities would need to decide whether or not this is as a result of a past event before asset recognition could take place. This recognition generally aligns with CIPFA/LASAAC's preliminary analysis in last year's consultation paper.

- 6.3 For community schools whose governing bodies are in the control of the local authority CIPFA/LASAAC considers that as ownership resides with the authority it is likely that the assets would be recognised in local authority balance sheets' as local authorities control the major decisions about the organisational changes to the school and via the admissions policy who receives the service potential from the school it would follow that the assets are recognised on the balance sheet of local authorities.
- 6.4 Issues might be more complex for Welsh community schools. However, it is likely that the income, expenditure and asset recognition decisions set out above also apply to the single entity financial statements in paragraph 2.24. It might be more difficult to recognise these assets on local authority balance sheets where there is no control over the governing body. It is considered likely that this is the case at the moment. However, there are significant changes being proposed by means of the School Standards and Organisation (Wales) Bill currently before the National Assembly for Wales which might change the balance of this analysis.

7 Income and Expenditure

- 7.1 Concern was raised at first meeting of the Working Party that income and expenditure of schools would not be able to be recognised in local authorities' financial statements if authorities were not in control, on a group accounts basis, of the governing body. However, it is considered that this is not likely to be the case, following the decision of CIPFA/LASAAC at its meeting in June 2011 that the Dedicated Schools Grant would be able to be recognised as income in the financial statements and expenditure would be able to be recognised in accordance with the authority's responsibilities ie either as third party payments to the schools or where the authority is the employer as employee expenditure. This might mean some consideration would need to be made in relation to the loss of classification for statistical reporting purposes but would not raise any accounting issues for the Code. It is suggested that additional application guidance might need to be issued either by means of a LAAP Bulletin or the Code Guidance Notes. Following CIPFA/LASAAC's conclusion and the forthcoming consultation CIPFA/LASAAC may want to make this recommendation to LAAP.

8 Conclusions - Implications for the 2013/14 Code

- 8.1 The conclusions of the Working Party have all been based on the application of the standards adopted by the Code and therefore the Code does not appear to require adaptation to resolve the issue.
- 8.2 However, in order to test this application it is likely that the above analysis should be subject to a consultation process. In addition, the debate of the Working Party has given rise to accounting issues that the Secretariat consider have not yet been considered by authorities. It is doubtful that schools governing bodies as corporate entities have been considered for consolidation – the income and expenditure of those corporate bodies is likely already to be reported in local authority financial statements. The governing bodies of schools are not entities that authorities would consider themselves to have an economic interest in.
- 8.3 The issue will therefore need to be considered by local authorities. Pure application of IAS 27 for community schools in local authorities is likely to mean that a group balance sheet would need to be prepared for local authorities that in some cases might not prepare balance sheets. These authorities might take the decision based on materiality not to prepare group balance sheets but this would

be a decision for the authority. In addition the consultation process identified that some authorities are likely to be recognising principally voluntary controlled but also in some instances voluntary aided and foundation schools' assets on their balance sheets and therefore these local authorities would need to derecognise the assets. Subject to the consultation process raising unforeseen issues without adaptation these changed accounting policies would in all likelihood apply in 2012/13. It may be the case that CIPFA/LASAAC might want to consider the need for an adaptation to the Code to recognise the difficulties in the timing of these changes.

- 8.4 The debate in relation to the consolidation of school's governing bodies and the recognition of the assets is a technical accounting issue which has taken over a decade to resolve and has needed significant resource at CIPFA with the assistance of its volunteers, observer membership and the expert advice of a FRAB Member to resolve. It is unlikely that a local authority would have similar resources to resolve this issue. It is therefore suggested that on an exceptional basis an Application Note be added to the Code to set out the accounting issues for local authorities.

CIPFA/LASAAC's views are sought on the impact of the conclusions of the Working Party on the Code and whether or not it wishes to consider any adaptations and the inclusion of an Application Note in the Code.

- 8.5 The Working Party want to consider whether there are any issues for local authorities in terms of their relationships with governing bodies. This will be considered at its next meeting.
- 8.6 Finally, the Secretariat would be grateful if CIPFA/LASAAC would record its thanks to all of the Members of the Working Party (including its own Members, Observer Members from Government Departments, expert advice from FRAB and members the Local Authority Accounting Panel and the Education expert volunteers) for their time, expert accounting and service knowledge and commitment to resolving the issue.

Recommendation

CIPFA/LASAAC is requested:

- (i) to consider the above report and give its views on whether it agrees with the conclusions of the Working Party in relation to the consolidation of governing bodies into the local authorities Group Accounts
- (ii) to consider whether it agrees with the Working Party's conclusions in relation to the recognition of schools' non-current assets
- (iii) to consider whether it would like to include an application note on the issue of accounting for schools as an Appendix to the Code
- (iv) to consider whether there is a need to include an adaptation for the timing of the introduction of the required accounting treatment.