Technical Enquiry Service - Frequently Asked Question

Following the introduction of Appendix E, Accounting for Schools in Local Authorities in England and Wales – what are the main issues that arise?

Local authority maintained schools are those that fall within this category according to the School Standards and Framework Act 1998[1] (as amended).

Appendix E of the 2014/15 *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) covers the main items for consideration in the accounting treatment for local authority maintained schools. In addition, although the prescriptions of the Code's accounting treatment had not changed, clarification of this Appendix was provided in the consultation proposals on the 2015/16 Code, to be found at:

http://www.cipfa.org/-/media/Files/Policy%20and%20Guidance/Consultations/201516%20Sorp%20Consultation/ED%205%20Minor%20Amendments.pdf

(Copy and paste link into your browser if it does not open from this document)

Specific Questions have arisen in respect of Voluntary Aided (VA), Voluntary Controlled (VC) and Foundation Schools.

Do all revenue transactions and current assets and liabilities for VA, VC and Foundation schools need to be consolidated into our single entity financial statements?

The identification of (maintained) schools as entities capable of being consolidated within the local authority boundary and the adaptation included in Appendix E (E1.1 to E1.3) will mean that the income and expenditure recognised by the schools (as it is within the control of schools) would therefore be recognised as the income and expenditure of the authority in the single entity financial statements. Where relevant and where these transactions are within the control of the school, appropriate current assets and liabilities would also be recognised.

Do non-current assets of VA, VC and Foundation schools now need to be consolidated in our single entity accounts?

This will depend on the asset and whether maintained schools as entities control the non-current asset[2]. In the case of the schools' property, plant and equipment this would be subject to the control tests in Chapter 4 (Non-Current Assets) of the Code.

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[1] ie community, voluntary controlled, voluntary aided, foundation, community special, foundation special and nursery schools.

[2] It might also be the case that local authorities control the assets used by the school and therefore these assets should be recognised in local authority balance sheets.

The Schools Technical Alert:

http://www.cipfa.org/-/media/Files/Policy%20and%20Guidance/Boards/CIPFA%20LASAAC%202012/CIPFALASAAC%20Informal%20Comments%20on%20Accounting%20for%20Schools%20%20Final.pdf

contains the example previously given in the accounting for schools consultation (issued in February this 2014) of assets provided by religious bodies where property, plant and equipment provided at no cost by religious bodies would not be recognised in the local authorities' balance sheets. But it must be stressed that this is based on the specific circumstances identified in the consultation and included in the Technical Alert.

Local authorities will need to consider the circumstances of the individual assets held by each school including assets used by all of the categories of maintained school against the relevant control test, for example, under the Code's prescriptions on:

- IAS 16 Property, Plant and Equipment,
- leases and lease type arrangements and
- Service Concession Arrangements (PFI/PPP Schemes), where relevant.

(It is not expected that there will be any changes to the recognition of community school non-current assets owned by local authorities.)

If the accounting policies above (including the revenue transactions) represent a change in accounting policy or a reclassification of items for an authority with a material effect on the financial statements then the Code's requirements for a change in accounting policy and reclassification in Sections 3.3 and 3.4 will need to be followed. Where the effect is material, retrospective restatement will be required and a third balance sheet prepared in accordance with the requirements of the Code (see paragraph 3.4.2.17 (g) of the Code for the latter)[3].

Note that consideration may need to be given to paragraph 3.3.2.13 of the Code as to whether or not full restatement is practicable for all of the transactions that might require restatement.

More guidance on accounting for schools will be included in the forthcoming *Code of Practice on Local Authority Accounting in the United Kingdom Guidance Notes for Practitioners 2014/15* (Code Guidance Notes).

However, recent queries have indicated the need to provide additional, practical guidance on treatment for schools' non-current assets which will be issued by CIPFA in the near future.

DISCLAIMER

The CIPFA Technical Enquiry Service offers members and registered students a service providing information, guidance and advice on professional issues. Please note that the guidance offered by the Technical Enquiry Service should not be taken as an authoritative interpretation of the law and should not be considered as constituting a definition of proper accounting practice. Answers offered are based solely on the information provided to the Service. All reasonable care is exercised in preparing responses to questions. However enquirers should always refer to the primary sources before relying on this advice and check any interpretation of published guidance with their own professional advisors.

[3] CIPFA's guidance on the accounting treatment for a change in accounting policies is included in the Code Guidance Notes Module 3, Section D.