SECTION 2

The Definition of Total Cost

~~PARTNERSHIPS~~ JOINT ARRANGEMENTS

2.2~~4~~6 Chapter nine of the Code recognises two~~three~~ types of joint ~~venture~~ arrangement – joint operations and joint ventures~~jointly controlled entities, jointly controlled operations and jointly controlled assets~~. ~~Jointly controlled entities~~Joint ventures are consolidated into the Group Accounts, with the investment in the entity accounted for in the single entity accounts at cost or valuation. Where the arrangement is classified as a joint venture, consolidation should be accounted for using the equity method as described by IAS 28 (as amended in 2011). Joint ventures are therefore excluded from the total cost of local authority services and are not considered for the purposes of SeRCOP. ~~The single entity accounts will include transactions between the authority and the jointly controlled entity.~~ Authorities will ~~also~~ need to account for their share of ~~jointly controlled~~joint operations ~~and jointly controlled assets~~ in their single entity accounts, in accordance with chapter nine of the Code. Further detailed guidance on accounting for joint arrangements (ie joint operations and joint ventures) is provided in the '*Accounting for Collaboration in Local Government including the Group Accounts Workbook*' ~~paragraphs 2.27–2.30 below~~.

~~2.26.1 The requirements in relation to partnerships in paragraphs 2.26–2.30 of SeRCOP relate to jointly controlled assets and jointly controlled operations only. Where an authority participates in a jointly controlled entity, it should account in its single entity accounts for transactions with the jointly controlled entity in the same way as with other entities. The figures will then be adjusted in the group accounts in accordance with paragraph 2.49 of SeRCOP. Informal arrangements that do not meet the Code definition of jointly controlled assets or jointly controlled operations are not partnerships; authorities should account for their own income, expenditure, assets and liabilities.~~

~~2.26.2 In the context of Best Value, it is also important that, when interpreting this guidance, a~~

~~Best Value authority ensures its disclosures are consistent with the four Cs of Best Value. To this end, the aim is to provide information that:~~

~~Facilitates consultation with stakeholders about partnership activity.~~

~~Enables the comparison of performance year on year and between authorities, regardless of service delivery arrangements.~~

~~Promotes challenges to what authorities do and how they do it. CIPFA takes the view that partnerships are often an excellent vehicle for achieving better value, but are not always a good thing per se. Accounting information and reports should, therefore, help authorities to constantly monitor the continued validity of each partnership arrangement.~~

~~Helps to demonstrate that an authority has a competitive approach to service delivery including any partnership arrangements.~~

2.25~~7~~ ~~The total cost of a service includes those costs attributable to an authority's proportion of a relevant partnership (ie a jointly controlled operation or jointly controlled asset). Relevant partnerships are those governed by statute, agency arrangements, contractual relationships or understandings that are in substance dealt with as if there were a formal relationship, but which do not give rise to an entity~~. Revenue and expenditure~~Costs~~ attributable to joint operations is ~~partnerships are~~ recognised for total cost purposes within the Net Cost ~~Surplus or Deficit on the Provision~~ of Services of the authority and allocated to service headings to the same extent that expenditure, income or other contributions are recognised as relating to services' expenditure in those same accounts within the Code. Where the activities of joint operations cannot be identified to service headings, a separate line or lines describing the activity should be included alongside the SEA services.

~~2.27.1 The principle of accounting for total cost is that cost must be inclusive, and this means that the costs attributable to partnership working need to be identified and aggregated within those costs incurred by the body itself, ie those transactions that it is in substance accountable for. The authority's share of the partnership income and expenditure should be reflected in the appropriate subjective grouping.~~

~~2.27.2 It follows, therefore, that total cost excludes the transactions of other entities that it works with as partners, unless:~~

~~The transaction is a contribution by the partner towards the authority's costs. In such cases the contribution is to be shown as income that part-funds the authority's activity.~~

~~There is a compelling case that in substance the transactions of the partner are those of the local authority, and, practically speaking, the authority is responsible for the commitments that arise from the transactions. Such situations can arise when an authority is a formal accountable body for a partnership (see paragraph 2.28 and related guidance for more details).~~

2.26~~8~~ Where ~~the~~ an authority is the lead authority in an arrangement with other entities or local authorities (which may not be classified as a joint operation)~~in substance exercises control over a~~

~~relevant partnership~~, the gross total cost of the service(s) concerned includes all the authority's expenditure, whether by way of contribution or otherwise, which relates to that arrangement~~partnership~~. Contributions received from other parties will be included as income. ~~Where such control does not exist, total cost includes the authority's contributions measured on an accruals basis to all organisations where statutory, contractual or informal partnerships exist.~~

~~2.28.1 It is important to distinguish between cases where the 'partnership' is a separate entity conducting its own business with the partners jointly exercising control over its operating and financial policies and those where it is simply a mechanism for each of the partners to carry out its own business better by securing more effective co-operation between the partners. Partnerships that are entities will usually be 'jointly controlled entities' as defined by the applicable accounting standard IAS 31 *Interests in Joint Ventures* and will be included in the authority's group accounts but not in the authority's net expenditure of continuing operations in the Comprehensive Income and Expenditure Statement. In the single entity statements, they are excluded from the total cost of the service(s) concerned, although transactions between the authority and the jointly controlled entity may be reflected in the total cost of one or more services.~~

~~2.28.2 This contrasts with partnerships that are not 'jointly controlled entities' (ie jointly controlled operations and jointly controlled assets), where the income and expenditure of the partnership attributable to the local authority is accounted for in its Comprehensive Income and Expenditure Statement and therefore the amounts included in the net expenditure of continuing operations will be included in the total cost of the service(s). The question in these cases is therefore how to identify 'the income and expenditure of the partnership attributable to the local authority'. The answer will depend on whether the authority in substance controls the partnership or whether it does not.~~

~~What to Include in Total Cost~~

~~2.28.3 The total cost of a service should include those transactions that an authority is in substance accountable for as an entity. Therefore, where the authority does control the partnership, all the partners' expenditure that relates to the partnership, whether by way of contribution or otherwise, is included in the gross total cost of the service(s), with contributions received from other parties included as income. This will be the case only where the local authority has control of and gains economic benefit from the partnership arrangement and, practically speaking, the authority is responsible for the commitments that arise from the transactions. There is a possibility that such situations can arise when an authority is a formal accountable body for a partnership.~~

~~2.28.4 Where the authority does not control the partnership, it accounts for its attributable share of income and expenditure to the extent that expenditure, income or other contributions are recognised as related to services' expenditure. Joint committees may have been incorporated as entities, such as those in Scotland which have been incorporated as joint~~

~~boards by Order under section 20 of the Local Government (Scotland) Act 1994. These joint committees are jointly controlled entities and are not included in the net expenditure of continuing operations. Joint committees that have not been incorporated as entities should be accounted for as jointly controlled operations and/or jointly controlled assets. The Code incorporates the requirements of IAS 31 *Interests in Joint Ventures* and requires authorities to account for their attributable share of the income and expenditure (and the assets and liabilities) of such partnerships. Total cost thus includes the relevant proportion of actual income and expenditure of all organisations where statutory, contractual or informal partnerships exist. Any difference between the relevant proportion of actual income and expenditure and any contributions made will result in the authority recognising a creditor or debtor (where the partnership does not report its own cash, but reports a debtor or creditor with a lead authority) or a revised cash balance (being its share of the partnership's cash balance where the partnership reports its own cash) for the difference. If a surplus has arisen on a partnership, and the partners have agreed that this balance can be retained, authorities may wish to transfer their proportion of the surplus to an earmarked reserve (or earmarked portion of the General Fund).~~

~~2.28.5 The following table gives examples of common transactions that are included in or excluded from total cost.~~

~~Transaction type~~	~~Always include~~	~~Always exclude~~
~~Financial contributions measured on an accruals basis to all organisations where formal, contractual or informal partnerships exist.~~	~~Yes~~	
~~Grants paid by an authority to partner organisations.~~	~~Yes~~	
~~An authority's own (agreed) share of any expenditure, deficit or surplus arising from any partnership.~~	~~Yes~~	
~~Non-financial contributions to partnerships, eg the use of premises at peppercorn rents or the free provision of services to the partner by the authority's staff.~~	~~See paragraphs 2.28.7–2.28.12~~	
~~Dividends payable or receivable from entities in which the authority has an interest. This includes dividends from companies limited by shares or costs being reimbursed by other corporate entities.~~		~~Yes~~
~~Proportions of expenditure or income of an informal partnership to the extent that they relate to another authority or entity's share of the costs. (This exclusion should be rebutted if the local authority is likely to pick up the costs as~~		~~Yes~~

~~Transaction type~~	~~Always include~~	~~Always exclude~~
~~a consequence of the partner's lack of financial resources or where such costs are effectively paid for by the authority by way of a grant.)~~		
~~Expenditure and income, other than any contribution to revenue expenditure, attributable to (separate entity) joint boards, companies in which the body has an interest, industrial and provident societies and charitable trusts in which the authority has an interest.~~		~~Yes~~
~~Income and expenditure in relation to subsidiary or associated companies, jointly controlled entities and other corporate bodies. Where the local authority, acting as a principal, does not make the accounting transactions, income and expenditure will be excluded from total cost. Where it acts as an agent for, say, an economic development company, the amounts should be excluded from total cost.~~		~~Yes~~
~~Expenditure that has by statute to be performed through a separate corporate entity and where equivalent services are not performed by the authority, eg bus undertakings, airports and, in England and Wales, the operation of waste disposal facilities.~~		~~Yes~~
~~Where the authority is acting under a formal agency agreement (see also paragraph 2.11.6 of S*e*RCOP).~~		~~Yes~~
~~Income and expenditure of a partnership for which the authority is acting as a formally appointed accountable body.~~	~~This will be dependent on whether the authority is of the opinion that it has control over the distribution of the grant which provides a real economic benefit to it as the controlling entity. See paragraphs 2.28.13–2.28.20.~~	

~~2.28.6~~ ~~To determine total cost where informal partnership arrangements exist, costs should be split on the basis of financial obligations. For example, depreciation relating to assets provided to the informal partnership should be charged to the arrangement on the basis of a proportional share of assets employed.~~

~~Non-cash Contributions~~

~~2.28.7 Except where the amounts are immaterial, total cost should also include an authority's assessment of non-cash contributions to a relevant partnership.~~

~~2.28.8 Authorities frequently offer support to partners in the form of subsidised premises usage, by donating the time of their officers or by the provision of support services. Depending on the value of these non-cash contributions, a failure to account for them could lead to flawed decisions about whether to enter into a new partnership or continue involvement with an existing partnership.~~

~~2.28.9 As a matter of principle, CIPFA would, therefore, encourage authorities to identify and include material non-cash contributions in the appraisal and monitoring of partnership arrangements and to account for these arrangements in the relevant divisions of service contributing to the partnership. Using the above examples, this can be achieved by calculating:~~

~~an appropriate allocation of the depreciation for the premises occupied or, where appropriate, the premises rental costs~~

~~an appropriate hourly rate based on the full costs of employing an officer who supports a partnership~~

~~support services: an appropriate allocation in line with the seven principles of apportionment outlined in S*e*RCOP.~~

~~2.28.10 Once the value of the non-cash contributions has been calculated, it can be used as the basis for a dummy bill to the partner. Any material costs over and above the agreed grant level should, with the partner's agreement, be invoiced on an agreed basis. Note: the physical raising of bills, etc is not necessary. Journal entries would suffice and are normally less of an administrative burden.~~

~~2.28.11 The advantages of identifying and valuing non-cash contributions to partnership arrangements in this way are that it:~~

~~Makes the full support to the partner organisation transparent as a grant is recorded. This transparency should thus improve the consultation, comparison and challenge aspects of Best Value.~~

~~Shows the resources devoted to a partnership and, therefore, not available for other purposes, ie it gives an indication of the opportunity costs of supporting a partnership.~~

~~Is relatively easy to administer. This limits the costs associated with achieving greater transparency.~~

~~Reduces the risk that any debt raised will not be paid.~~

~~2.28.12 The obvious risk of calculating non-cash contributions is that the necessary administration costs are not justified. It is, therefore, only necessary to do this where the cost of collecting the information about premises values, officer time, etc is exceeded, in the authority's~~

~~opinion, by the value of knowing the full cost of its involvement with a partnership. Accordingly, the effort to obtain accurate non-cash cost estimates should be in proportion to the materiality of the support provided to the partnership.~~

~~Issues Arising where an Authority is the Accountable Body~~

~~2.28.13 Where an authority is the formal accountable body for a grant, the authority will need to decide whether it should account for the whole grant as its income, and whether it should recognise any provisions or contingent liabilities. These issues are discussed below.~~

~~Deciding whether to include the costs of a partnership~~

~~2.28.14 The example below shows some questions that an authority could ask to help it ascertain the substance of its transactions as an accountable body. The answers to the questions will help to indicate the substance of any potential liability faced and, therefore, whether it should consider including the entire grant received as income and all the grant distributions as expenditure in its SEA.~~

~~Do the transactions being considered relate to:~~

- ~~activities or transactions by the authority's own staff or commissioned from its appointed agents?~~
- ~~work done within the geographic area for which the authority is normally responsible?~~

~~Does the authority:~~

- ~~have any responsibilities beyond passing funds on to other organisations identified by the grant-giving body, eg managing the quality of work done or deciding which entities qualify for the funds?~~
- ~~have any rights to apply the economic benefits underlying cash transactions for its own purposes other than in the interests of the partnership?~~

~~2.28.15 Authorities can use the questions above to assist in their assessments of whether or not they have control over the distribution of the grant and gains real economic benefits as the controlling authority. Any one of the questions is unlikely to give a complete answer in relation to the decisions as to whether it is in substance accountable for the income and expenditure. The ultimate decision should, therefore, be taken in the context of all the answers and all other information relevant to the assessment of whether, or not, an authority actually exercises control over the distribution of grants and receives the economic benefits through the ability to direct resources and/or is subject to the risks inherent in the partnership arrangement or agreement.~~

~~Liabilities of an accountable body~~

~~2.28.16 As the accountable body, an authority may have continuing contingent liabilities in relation to the funds it receives from the grant-giving body, eg a responsibility to make good any misapplied funds. It is likely that in substance the transactions are not those of the~~

~~authority, but that a liability could conceivably exist. In this case, the authority will need to have regard to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Under IAS 37, commitments arising because a local authority was an accountable body could be shown either as a provision, provided that it meets the definition of a provision in IAS 37, or as a contingent liability, again in accordance with IAS 37.~~

~~Provisions~~

~~2.28.17 The recognition criteria for a provision require that:~~

~~(a) an entity has a present obligation (either legal or constructive) as a result of a past event~~

~~(b) it is probable that a transfer of economic benefits will be required to settle the obligation~~

~~(c) a reliable estimate can be made of the obligation.~~

~~For example, an authority may recognise a provision in its accounts at year-end where a breach of grant entitlement conditions has been found and a reliable estimate may be made for the scale of repayments owed to a grant-paying department.~~

~~Requirement for a contingent liability disclosure~~

~~2.28.18 A contingent liability is:~~

~~a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the authority, or~~

~~a present obligation that arises from past events but is not recognised because:~~

~~(a) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, or~~

~~(b) the amount of the obligation cannot be measured with sufficient reliability.~~

~~2.28.19 A contingent liability note would match the likely circumstances where a grant-paying department was considering the recovery of a grant payment but the authority disputed the liability for repayment. If material, this would need to be disclosed in the annual Statement of Accounts.~~

~~Illustrative examples of the application of IAS 37~~

~~2.28.20 The following example shows how the circumstances surrounding a scheme can change and illustrates when and how to apply IAS 37 for partnerships for which the authority is the accountable body.~~

~~Stages in the development of the liability~~	~~Suggested disclosure~~

~~The authority receives a £10m grant from a government department in the expectation that it will pass agreed amounts on to its partners in an agreed scheme.~~ ~~(NB the full £10m is distributed to its partners. The authority is not the recipient of the grant.)~~	~~A holding account in the general ledger records the receipt of the grant and the payments to partners, but the authority's total cost is unaffected. No further disclosure is needed.~~
~~The grant-paying department suspects that some of the funds have been misapplied by one of the partner organisations and is investigating, with a view to recovering the misapplied funds from the authority.~~	~~This is a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control. Therefore, a contingent liability note is appropriate.~~
~~The government department completes its investigation and indicates that it intends to seek to recover the misapplied funds from the authority.~~	~~This liability is of uncertain timing and possibly also an uncertain amount, but an estimate of the amount can be made and a provision can be charged to the revenue account and to total cost.~~

~~Illustrative Examples of What to Include in Total Cost~~

~~2.28.21 Take the example of five local authorities. Each provides sports outreach services in partnership with a local sports club. Each partner's net contribution to the partnership is £50,000. However, the financial arrangements differ in each authority, and the example shows how the different arrangements affect the accounts of the local authority.~~

~~Arrangements~~

~~Authority~~	~~Arrangements~~
~~A~~	~~The authority is responsible for 100% of service delivery. It employs and supervises all the coaches. The sports club pays £50,000 in 12 equal instalments during the year to the authority towards the costs of the service.~~
~~B~~	~~The sports club does all the coaching. It employs and supervises the coaches. The authority pays £50,000 to the sports club during the year in return for agreed levels of activity.~~
~~C~~	~~An independent voluntary organisation committed to sport in the community recruits, pays and supervises the coaches. Some coaches are unpaid volunteers. The council grant aids the voluntary organisation £50,000 pa and the sports club donates £50,000 pa~~

~~Authority~~	~~Arrangements~~
	~~to the voluntary organisation.~~
~~D~~	~~A private firm responded to a tender by the local authority for the provision of the sport outreach service and provides the contract under the supervision of the local authority for £95,000. Client officers' costs at the local authority are £5,000 per annum. The sports club pays £50,000 in 12 equal instalments during the year to the authority towards the costs of the contract.~~
~~E~~	~~The authority and the sports club established a jointly owned company limited by guarantee to provide the sports outreach service to an agreed specification. The authority provides administrative support valued at £5,000 to the company to pay wages, raise and pay invoices, etc. It also pays £40,000 to subsidise agreed loss-making activities and allows the company free use of an office in a leisure centre. The commercial rent for the office is estimated at £5,000. The company keeps any income from service users. The sports club annually pays £40,000 and provides £10,000 worth of equipment to the company.~~

~~Accounting entries~~

~~Authority~~	~~What the authority's SEA accounts will show~~
~~A~~	~~£100,000 recreation and sports staff, supplies, premises, etc expenditure.~~ ~~£50,000 recreation and sports income from the sports club.~~
~~B~~	~~£50,000 recreation and sports contract payment expenditure.~~
~~C~~	~~£50,000 recreation and sports grant aid expenditure.~~
~~D~~	~~£95,000 recreation and sports and recreation contract payment expenditure.~~ ~~£5,000 recreation and sports staff, supplies, premises, etc expenditure.~~ ~~£50,000 recreation and sports income from the sports club.~~
~~E~~	~~£10,000 recreation and sports grant aid expenditure.~~ ~~£40,000 recreation and sports contract payment expenditure.~~

~~**Note:** Example assumes that the community sports activities normally take place at locations not owned by the authority; hence, there are no material premises-related non-cash contributions.~~

~~Splitting Partnership-related Costs between Two or More Divisions of Service in the SEA~~

~~2.28.22 Some partnerships will relate to relatively narrow areas of activity accounted for in a single division of service in the Best Value authority's SEA. This is the case in the illustrative examples above, where all the transactions relate to the Recreation and Sport division of Cultural and Related Services. However, some partnerships will cover activities normally recorded in more than one division of service, ie the illustrative example could conceivably be extended to include:~~

~~outreach theatre workshops accounted for in the Culture and Heritage division of service~~

~~children's play outreach accounted for as Children's and Education Services expenditure.~~

~~2.28.23 Materiality is the main consideration when deciding whether to split the costs related to a partnership between more than one section of the SEA.~~

~~2.28.24 Partnerships can be quite diverse and could easily cover children's services, tourism, transport, economic regeneration and much more. In these circumstances the grant distribution and spending should be split between the relevant divisions of service. This may not be easy – the effort to make the split accurately will depend on the materiality of the transactions.~~

~~2.28.25 For the purposes of reporting performance, a materiality level based upon the accounting statements is too high. Material accuracy in performance reporting terms relates to the impact on individual service divisions, eg Tourism, and to performance indicators (national or local) that are affected by any inaccuracy.~~

~~Joint Arrangements with the NHS including Pooled Budgets~~

~~2.28.26 The partnership arrangements in section 256 of the National Health Service Act 2006 or in section 194 of the National Health Service (Wales) Act 2006 have been developed to give NHS bodies and local authorities the flexibility to be able to work with each other and other agencies to respond effectively to improve services, either by joining up existing services, or by developing new, co-ordinated services. Similar arrangements exist in Scotland, where the relevant legislation is Part 2 of the Community Care and Health (Scotland) Act 2002.~~

~~2.28.27 These partnership arrangements, which are variously referred to as lead commissioning, integrated provision and pooled budgets, allow each partner to make a contribution to the budget and retain statutory responsibility for their own services. If these arrangements are to work effectively, all partners need to maintain and demonstrate accountability.~~

~~2.28.28 Detailed guidance on accounting for these arrangements is given in the CIPFA publication *Pooled Budgets: A Practical Guide for Local Authorities and the National Health Service (Fully Revised Second Edition 2009)*. As the following extract from the first edition of that publication explains, the basic rule is that each partner accounts for its own contribution to~~

~~the joint arrangement or pooled budget:~~

~~*Given the nature of the pooled budget arrangement, each partner should account for their contribution to the budget. The host should send monitoring reports on a quarterly basis, and at the year end prepare a memorandum of accounts with their statement of accounts that shows what has been received, and spent, and what remains. This memorandum of accounts will be sent to each of the partners at the year end for inclusion in their statement of accounts. Records will need to be retained for at least six years.*~~

~~2.28.29 The contribution will be accounted for across an authority's SEA according to actual spending as recorded in the quarterly monitoring reports mentioned above, which should be based on the pooled budget's management accounts.~~

~~Other Issues~~

~~2.28.30 There are four other issues that will need to be considered when accounting for partnerships for the single entity financial statements, where the transactions are those for which the authority itself is in substance accountable as a part of a partnership arrangement:~~

~~(i) Fixed asset accounting~~

~~If the partnership uses assets in the delivery of its activities and no depreciation is shown in the authority's proportion of costs, an adjustment will need to be made to the cost for depreciation on the proportion of the asset for which the authority controls access to the underlying economic benefits.~~

~~(ii) Accounting policies~~

~~The partnership reflected in the authority accounts should use the same accounting policies as the local authority. If this is not the case, other than when the effect will be immaterial, adjustment will be needed to reflect the financial consequence of the differences. The principle must be to standardise the local authority's accounting practices.~~

~~(iii) Accounting periods~~

~~The partnership's accounting period should be the same as that of the authority. Where this is not the case, efforts should be made to adjust the financial information so that it does reflect the same accounting period. This is normally carried out by taking the audited results of the partnership organisation and adjusting them, based upon the management accounting information both at the start and at the end of the financial year. Authorities will appreciate that this approach should only be adopted where they are satisfied that management accounting records are of an adequate standard. In the case of comparatively small partnerships, information from different accounting periods can be used, but only if the previously mentioned approaches are impracticable. Where there are inconsistencies in accounting year-ends, the following options should be examined (in order of preference):~~

~~(1) the authority should look to organise its affairs so that year-ends are the same~~

(2) ~~the authority should use a combination of financial and management accounts~~

(3) ~~if it is not a major entity, the authority can use the most readily available audited accounting information.~~

(iv) ~~Correlation of accounting~~

~~Inaccuracies in reporting partnership results can occur if the transactions between the parties are not agreed at the time that the numbers for total cost are compiled. Authorities should adopt practical steps to agree the partnership balances at the date of consolidation or aggregation provided that this is within three months of the authority's reporting date.~~

~~Guidance on Governance Issues for Partnerships~~

2.28.31 ~~The CIPFA/SOLACE publications *Delivering Good Governance in Local Government: Framework* (2007) and *Guidance Note* (2012) are essential guidance when evaluating governance issues in relation to partnership arrangements.~~

2.28.32 ~~Sound governance arrangements are the key to harnessing the benefits of partnerships with others outside local government. The CIPFA/SOLACE Framework defines the core principles of good governance for local government:~~

(i) ~~focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area~~

(ii) ~~members and officers working together to achieve a common purpose with clearly defined functions and roles~~

(iii) ~~promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour~~

(iv) ~~taking informed and transparent decisions which are subject to effective scrutiny and managing risk~~

(v) ~~developing the capacity and capability of members and officers to be effective~~

(vi) ~~engaging with local people and other stakeholders to ensure robust public accountability.~~

2.28.33 ~~These principles are taken from *The Good Governance Standard for Public Services* (2004) developed by the Independent Commission on Good Governance in Public Services with support from the Office for Public Management and CIPFA and have been adapted for local government purposes.~~

2.28.34 ~~These principles need to be translated into a framework which seeks both to ensure that they are fully integrated into the conduct of the authority's business and to establish a means of demonstrating compliance. The fundamental principles should therefore be reflected in the dimensions of a local authority's business.~~

2.28.35 ~~It is crucial that the principles defined are adhered to in developing strategic partnership arrangements and that such arrangements are monitored for effectiveness in practice and~~

~~subject to review on a continuing basis to ensure that they are up to date. For example, in developing partnerships, local authorities will need to maintain sound arrangements for explicit accountability to stakeholders for the authority's performance and its effectiveness in the delivery of services and the sustainable use of resources. By adopting and maintaining an up-to-date local code of corporate governance in line with the CIPFA/SOLACE Framework, authorities will have the tools in place to underpin sound partnership arrangements. The CIPFA/SOLACE Framework also recommends that the governance arrangements with respect to partnerships and other group working incorporate good practice as identified by the Audit Commission's report *Governing Partnerships: Bridging the Accountability Gap* (2005).~~

~~2.28.36 Key issues relating to the governance of partnerships are:~~

- ~~Decisions to enter into a partnership should be carefully evaluated to ensure the authority would benefit. This implies that very careful selection of partners is important.~~
- ~~To be successful, partnerships must benefit all the parties involved.~~
- ~~To be successful, partners must trust each other.~~
- ~~To be successful, clear objectives for the partnership should be identified and documented at the outset. There should be a simple but clear partnership agreement.~~
- ~~Structures to manage the partnership and report its activities to the partners are crucial.~~
- ~~Review mechanisms, including knowing the true costs (direct, indirect and opportunity) of partnerships, are important.~~
- ~~Partnership reviews should result in learning by and adaptation of the partnerships.~~

~~2.28.37 It is also important that the partnership agreement can be modified as the environment in which it operates changes and different solutions emerge. In CIPFA's view, any partnership memorandum or agreement also needs to allow scope for renegotiation of different elements of the arrangement, provided these are specified from the outset. Agreements should also include break clauses and set out disengagement procedures, including a wind-down plan.~~

~~2.28.38 It is critical that the partnership arrangement should be subject to the rigours of performance management. Continuous review and effective appraisal of the partnership operation should be an integral part of its management to ensure that it continues to meet the aims and objectives of all partners.~~

~~Links between partnership governance and accounting for partnerships~~

~~2.28.39 These findings lend further weight to the recommendation that extra information should be collected about significant partnerships and included in the notes to the accounts and in performance reports because:~~

- ~~The discipline required to identify what information needs to be collected for the notes will~~

~~make each partner focus on the joint objective of the partnership.~~

~~Where rights and duties are clearly stated in partnership agreements, it becomes straightforward to identify the transactions that each partner is accountable for and, therefore, what an authority needs to include in total cost.~~

~~The discipline needed to collect the information identified, including the value of non-cash contributions, will also provide information that will inform management decisions about whether to enter into new partnerships or continue with existing ones.~~

~~The exchange of information by the partners should help to develop the openness and trust that is crucial to the success of partnerships. It also requires structures to be put in place to manage the partnership and report its activities to the partners. This in turn provides a mechanism for the effective ongoing review of each partnership.~~

~~Links between partnership governance and achieving Best Value~~

~~2.28.40 The good governance of partnerships requires clear objectives to be established for each partnership and regular reviews of information to demonstrate whether the partnership is achieving its objectives and at what cost. The information required for the good governance of partnerships is, therefore, also supportive of Best Value, as it:~~

~~provides a good basis for consultation about the continued value of the partnership~~

~~may prompt challenging questions about the effectiveness of partnership arrangements~~

~~gives fuller information to set performance comparisons in context~~

~~allows the cost effectiveness and, therefore, the competitiveness of partnership arrangements to be examined.~~

~~2.29 For reporting within the Surplus or Deficit on the Provision of Services, total cost will exclude any transactions actually entered into by another entity. Where these transactions are under the control of the authority because the authority has a controlling interest in the entity, where the authority has a dominant or significant influence over the entity, or where the authority is able to exercise control over an entity by acting jointly with another party, then the transactions will be brought together in the Group Surplus or Deficit on the Provision of Services prepared for the group financial reporting.~~

2.~~30~~27 The requirements for preparing total cost figures for group accounting are set out in paragraph 2.~~49~~46 below.

DEFINITION OF TOTAL COST FOR GROUP ACCOUNTS

2.~~49~~46 Many authorities have interests in companies and other entities that will need to be encompassed in arrangements for financial reporting, particularly group accounts in the Statement of Accounts.

In order to bring financial information from different entities together effectively, variations are required from the accounting policies that would normally be applied by local authorities. The principle of total cost remains applicable to group reporting, so that authorities should follow the principles set out in paragraphs 2.10 to 2.23~~5~~ for the purposes of establishing total cost for the financial reporting of group activity, but with the following differences:

Where the activities of a subsidiary ~~(or a jointly controlled entity consolidated using proportional consolidation)~~ can be identified to service headings, gross total cost for services should include any impairment of goodwill that arose on the acquisition of an interest in a subsidiary (or jointly controlled entity consolidated using proportional consolidation). Where this is not possible, impairment of goodwill should be presented as a separate line in net expenditure of continuing operations.

~~2.49.1 Where an interest in a subsidiary, associate or joint venture is acquired and the consideration given for the interest is less than the fair value of the share of the assets and liabilities of the entity acquired by the authority, the difference is accounted for in group accounts as goodwill. Under IFRS, goodwill is not amortised. However, goodwill should be reviewed for impairment and any impairment charged to the relevant service revenue account.~~

~~2.49.2 Where the activities of the entity that has been acquired by the authority involve more than one service division, any impairment of goodwill should be apportioned on a reasonable and practical basis, following (where possible) the seven principles of apportionment. This may, for example, be on a basis of the group income and expenditure attributable to the subsidiary.~~

~~2.49.3 Where the activities of the entity include elements that are not included in the SEA, the impairment charge in relation to those elements should be made to a separate heading in the net expenditure of continuing operations.~~

Where the activities of a subsidiary ~~(or a jointly controlled entity consolidated using proportional consolidation)~~ can be identified to service headings, the operating results of subsidiaries should be allocated or apportioned as income and expenditure to the group total cost of the services ~~in accordance with the other principles of this paragraph~~. Where this is not possible, a separate line or lines describing the activity should be included alongside the SEA services.

~~2.49.4 The effect of these provisions is that for group financial reporting, the operating results of subsidiaries (and jointly controlled entities consolidated using proportional consolidation) (before interest and taxation) should be aligned with the accounting treatments specified in the preceding paragraphs and then allocated across the divisions of service in the SEA (including the corporate costs of Corporate and Democratic Core and any relevant Non Distributed Costs).~~

~~2.49.5 There may be two instances where allocation is not possible:~~

~~The subsidiary (or jointly controlled entity consolidated using proportional consolidation)~~

~~carries out activities that are not covered by the SEA – in this case, the authority will create appropriate new divisions of service.~~

~~The subsidiary (or jointly controlled entity consolidated using proportional consolidation) has corporate expenses that cannot be allocated or apportioned to particular services – this will rarely be the case but subsidiaries (or jointly controlled entities) might on occasion have expenses that do not contribute to any particular service, in which case the relevant expenses might be posted to Corporate and Democratic Core or to Non Distributed Costs in the SEA, provided that these costs meet the definitions elsewhere in *Se*RCOP.~~

~~2.49.6 Authorities should also ensure that the allocations of subsidiary (or jointly controlled entity consolidated using proportional consolidation) expenditure across the SEA headings comply in all material respects with the seven general principles of overhead recharging.~~

~~2.49.7 Transactions of a subsidiary should be consolidated in their entirety, even if the authority has less than a 100% interest in the subsidiary, as this should show the full value of transactions controlled by the authority. However, below Net Cost of Services the operating profit/loss attributable to minority interests should be reversed out.~~

~~2.49.8 It is recommended that the authority advise the company of the structure and reporting requirements of the SEA so that it can provide relevant information to the authority. Authorities may insert a new line (or lines) in the segmental analysis where the activities of the company do not meet the definitions of any of the service divisions in Section 3 of *Se*RCOP. These new lines will normally need to be added where services are provided by subsidiaries that offer diverse services that are not normally provided by local authorities. When adding new lines to the segmental analysis, local authorities should ensure that the descriptions of these services clearly demonstrate what services are provided and are understandable to readers of the accounts.~~

Transactions between the authority and its subsidiaries ~~(and jointly controlled entities consolidated using proportional consolidation)~~ should be eliminated from the group income and expenditure included in total cost.

~~2.49.9 As group financial reporting presents the authority and its subsidiaries as if they were a single reporting entity, transactions between the authority and its subsidiaries (and between subsidiaries) should be excluded from the income and expenditure included in total cost.~~

~~2.49.10 For example, where a subsidiary provides housing management services to the authority from premises rented from the authority, total cost will exclude the payments made by the authority for services rendered by the subsidiary and the rent charged and paid on the office accommodation. An example is shown below:~~

	~~Purchaser~~		
~~Seller~~	~~Anytown Council~~	~~Subsidiary Y~~	~~Subsidiary Z~~
~~Anytown Council~~		~~Provision of IT services £1.5m~~	
~~Subsidiary Y~~	~~Building maintenance contracts £5m~~		~~Facilities management services £500,000~~
~~Subsidiary Z~~	~~Adult Social Care – central support services £1m~~		
~~The consolidation adjustments for the above intra-group transactions are:~~			
~~Anytown Council~~	~~Deduct £5m from the gross expenditure of Children's and Education Services, Adult Social Care and Housing Services (per relative attributions) to each service division.~~ ~~Deduct £1m from Adult Social Care (per relevant service division receiving the service).~~ ~~Deduct £1.5m from gross trading income recognised in Net Operating Expenditure.~~		
~~Subsidiary Y~~	~~Deduct £5m and £500,000 gross income from the Children's and Education Services and Adult Social Care and Housing segments.~~ ~~Deduct £1.5m from gross expenditure charges to segmental analysis.~~		
~~Subsidiary Z~~	~~Deduct £1m gross income from Adult Social Care segment.~~ ~~Deduct £500,000 from gross expenditure on Facilities Management Services charged to Children's and Education Services segments.~~		

Where transactions between the authority and its subsidiaries, associates and joint ventures have resulted in unrealised profits on the disposal of non-current~~fixed~~ assets, the unrealised profits should be eliminated from group total cost.

~~2.49.11 In special circumstances, elimination of intra-group transactions might not remove all the~~

~~effects of intra-group activity for income and expenditure purposes. This will be the case where group entities have been providing each other with fixed assets and charging more or less than actual cost. Where the acquirer has recorded the acquisition at cost and the provider has accounted for a profit or loss on the transaction, the profit/loss is unrealised as far as the group is concerned. Total cost will need to be adjusted to exclude any such profits/losses. Adjustments will also be needed to the depreciation charged by the acquirer to make sure that it is based on the cost of the asset to the group rather than the price that was paid between the group entities.~~

~~2.49.12 The above special circumstances will seldom arise but they are more likely to arise where an entity is carrying out capital works for the authority.~~

~~2.49.13 The following example shows how depreciation is adjusted:~~

~~Subsidiary Y provides building services to Anytown Unitary Authority. It has provided a new school building at a cost of £4m. At the end of the year, the council capitalised this at £4.5m based on the payments made to Subsidiary Y. The school is estimated to have a useful life of 30 years. Therefore depreciation charged for the year is £75,000 (the council has a policy of charging depreciation based on a mid-year figure). Depreciation charged on the actual cost of the asset would be £67,000 (rounded to the nearest thousand pounds).~~

~~Therefore, to adjust for the depreciation charge, the following entries are required:~~

~~Dr~~	~~Accumulated depreciation Anytown Unitary Authority~~	~~£8,000~~
~~Cr~~	~~Service Revenue Account in the adjusted Income and Expenditure Account of Anytown Unitary Authority~~	~~£8,000~~
	~~To abate the depreciation charge in the council's adjusted Income and Expenditure Account~~	

Apart from any unrealised profits covered by the previous item, no adjustment should be made for associates and joint ventures consolidated using the equity method to total cost figures for services. The authority's share of the operating profits of associates and joint ventures is shown as a separate line in the Surplus or Deficit on the Provision ~~Net Cost~~ of Services (ie below the net cost of services line).

~~2.49.14 Associates and joint ventures (except jointly controlled entities consolidated using proportionate consolidation) are brought into group accounts using the equity methodology. The transactions of such entities are not consolidated on a line-by-line basis. Thus, in any disclosure of the Net Cost of Service, the transactions of associates and joint ventures will not be included in total cost figures for services but will be shown in the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure~~

~~Statement.~~

~~2.49.15 Transactions between the authority and associates and joint ventures (except jointly controlled entities consolidated using proportionate consolidation) are not eliminated under equity methods. However, some adjustment might be needed to the authority's results if there are unrealised profits on fixed asset transactions between the authority and its associates/joint ventures (see paragraphs 2.49.9 and 2.49.10).~~

~~2.49.16 Authorities will also need to consider the following requirements of the Code:~~

- ~~Paragraph 9.1.2.49 of the Code states: '*Group Accounts shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies of the subsidiaries, associates and jointly controlled entities shall be aligned with the policies of the reporting authority, for the purposes of Group Accounts, where materially different. Such adjustments as are necessary to align the group accounting policies may be made as consolidation adjustments.*'~~
- ~~The assets, liabilities, income and expenses of a subsidiary (and jointly controlled entity consolidated using proportionate consolidation) are combined line by line with similar items in the authority's single entity financial statements or reported as separate line items to the authority's single entity financial statements.~~

~~2.49.17 The effect of these references is that, where an authority has subsidiaries (and jointly controlled entity consolidated using proportionate consolidation) that are required to be consolidated on a line-by-line basis, the operating results of the subsidiary will need to be adjusted to align with total cost principles and the SEA.~~

~~2.49.18 Examples of the group account statements, which may be presented alongside the single entity statements, are contained in the CIPFA publication *Code of Practice on Local Authority Accounting – Guidance Notes for Practitioners*.~~