CIPFA The Chartered Institute of Public Finance & Accountancy

# LAAP BULLETIN 103

## Closure of the 2014/15 Accounts and Related Matters

*March 2015*

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| The Local Authority Accounting Panel issues LAAP Bulletins to assist practitioners with the application of the requirements of the Code of Practice on Local Authority Accounting, SeRCOP and Prudential Code, and to provide advice on emerging or urgent accounting issues. Bulletins provide influential guidance that is intended to be best practice, but are not prescriptive and do not have the formal status of the Code, SeRCOP or Prudential Code. |

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## INTRODUCTION

1. This bulletin covers the closure of accounts and related matters for the 2014/15 year and provides further guidance and clarification to complement the 2014/15 Code of Practice on Local Authority Accounting in the United Kingdom Guidance Notes for Practitioners (Code Guidance Notes). The Bulletin addresses frequently asked questions, and other issues that have arisen since the publication of the Code Guidance Notes.

2. The bulletin focuses on those areas that are expected to be relevant for most authorities. The bulletin is not intended to replace authorities' processes for identifying issues, but to complement those processes.

3. In addition, the bulletin addresses matters that will generally be applicable to authorities across England, Wales, Scotland and Northern Ireland. However, some sections are region specific and are indicated as such.

4. A new section E is included to make local authority practitioners aware of future accounting developments that might have an impact on their authority's current financial planning.

5. Section F provides information from both HM Treasury and DCLG in relation to the preparation of the WGA returns for authorities in England.

## SECTION A - ADDITIONAL GUIDANCE AND CLARIFICATION IN RESPONSE TO FAQS

6. This section provides clarification and further guidance in response to issues identified by practitioners and auditors.

7. The additional guidance, set out below, aims to provide additional clarification on the application of the 2014/15 Code of Practice on Local Authority Accounting in the United Kingdom (Code) that will affect the 2014/15 accounts. It also aims to address any significant issues that may have arisen since the production of the 2014/15 Code Guidance Notes and assist practitioners to effectively produce their 2014/15 financial statements, in accordance with the 2014/15 Code and relevant legislation.

### ACCOUNTING FOR LOCAL AUTHORITY MAINTAINED SCHOOLS[1] IN ENGLAND AND WALES

#### Introduction and Background

8. The accounting treatment for Local Authority Maintained Schools in England and Wales emanates from the report of the Joint HM Treasury and CIPFA/LASAAC working group (the Working Group). Following consultation on the report in 2014, CIPFA/LASAAC introduced a new Appendix E in the 2014/15 Code setting out the accounting treatment for local authority maintained schools. CIPFA/LASAAC and CIPFA have consistently applied the conclusions established in the report of the joint working group. This report is appended to Technical Information Note 14 (01), see link below.

[1] Local authority maintained schools are those that fall within the category for England and Wales defined by the School Standards and Framework Act 1998 (as amended)

9. The principal elements of Appendix E to the 2014/15 Code are:

- Local authority maintained schools are capable of being treated as entities for control purposes (see Code para E.1.1)

- For those schools as entities CIPFA/LASAAC has decided that the balance of control under IFRS 10 Consolidated Financial Statements lies with local authorities and therefore the transactions of schools as entities should be reported within the local authority boundary (see Code para E.1.2)

- The adaptation of IFRS 10 and consequently IAS 27 Separate Financial Statements requires that schools transactions (ie those transactions within the control of schools) should be recognised within the single entity financial statements of local authorities (see Code para E.1.3).

### Update to the 2014/15 Code

10. CIPFA/LASAAC has issued a single issue Update to the 2014/15 Code which provides additional confirmation and clarification of the provisions outlined above and which includes transitional provisions providing for schools' non-current assets to be recognised for the first time following the change in accounting policy outlined in Appendix E. These assets would need to be recognised in accordance with the measurement provisions of Section 4.1 of the Code at fair value (as interpreted in the 2014/15 Code). The transitional provisions permit this valuation to be treated as a deemed cost. Local authorities should refer to the Update of the 2014/15 Code which can be found at:

Update to the 2014/15 Code

### Technical Information Note: 14 (01), Relationship between schools as entities and the accounting requirements for non–current assets used by schools

11. CIPFA/LASAAC has also issued an informal commentary and clarification of the relationship between schools as entities and the accounting requirements for non–current assets used by schools in Technical Information Note (TIN): 14 (01) which can be found at:

Informal Commentary and Clarification of the Relationship between Schools as Entities and the Recognition of Non-current Assets used by Schools

### Application guidance to assist with the accounting for local authority maintained schools

12. **Section A of new Module 10 in the 2014/15 Code Guidance Notes** provides comprehensive application guidance on the requirements of Appendix E of the Code to assist local authorities with the consolidation of schools' income, expenditure, assets, liabilities and reserves in their single entity financial statements.

13. Separate application guidance on the recognition of assets used by schools has been issued by the Local Authority Accounting Panel and is included in **LAAP Bulletin 101 - *Accounting for Non-Current Assets Used by Local Authority Maintained Schools*** which can be found at:

LAAP Bulletin 101 Accounting for Non-Current Assets Used by Local Authority Maintained Schools (PDF, 87 KB)

14. The Local Authority Accounting Panel advises practitioners to consider the entire Bulletin when establishing the required accounting treatment for non-current assets used by their Maintained schools. Paragraph 33 is particularly relevant to VA, VC and foundation schools where assets are owned by religious bodies in the local authority area. However, practitioners should note that this commentary is also likely to be relevant to other transactions eg foundations schools where the assets are owned by other trustees.

15. As set out in LAAP Bulletin 101, practitioners should also note that CIPFA's position on non-current assets remains unchanged from the conclusions specified in the report of the Joint HM Treasury and CIPFA/LASAAC Working Group, upon which Appendix E of the Code is based.

## ACCOUNTING FOR LOCAL AUTHORITY MAINTAINED SCHOOLS TRANSFERRING TO ACADEMY STATUS

### Introduction and Background

16. The Academies Act was passed on 27 July 2010, making it possible for all local authority maintained schools in England to transfer to academy status. Schools transfer to academy status in accordance with a commercial transfer agreement which records information on all the staff, assets and contracts transferring from a school to an academy trust.

17. Paragraph E.1.1 of the 2014/15 Code sets out that local authority maintained schools are "*capable of being treated as separate entities for control purposes*". The adaptation at paragraph E.1.3 then consolidates the transactions of local authority schools into the single entity financial statements rather than into the local authority group accounts.

18. The report of the HM Treasury and CIPFA/LASAAC Working Group also confirms that academies are not within the local authority reporting boundary (For the Working Group report, See Technical Information Note: 14 (01), Appendix A, The Accounting Treatment of Local Authority Maintained Schools in England and Wales – Summary – see link above).

19. When a local authority maintained school transfers to become an academy three issues are raised for financial reporting purposes:

- How should the (consolidated) transactions and balances of the schools (capable of being treated as an entity) be de-recognised from the local authority single entity financial statements?
- Is there a need to impair the non-current assets once the transfer for nil consideration is confirmed?
- How should non-current assets be de-recognised whether originally recognised directly by the authority or as a result of the consolidation process?

### Derecognition of the School as an Entity from the Local Authority Single Entity Financial Statements on Transfer

20. As schools are treated as separate entities for consolidation purposes it is relevant to look to the requirements of chapter nine of the 2014/15 Code including the approach in paragraph 9.1.2.41. The authority on transfer has no continuing interest in the school as an entity and does not receive a consideration on transfer.

Net assets are therefore written off to revenue. The resultant gain or loss should be recognised in the Financing and Investing Income and Expenditure line of the Consolidated Income and Expenditure Statement. It is anticipated that the gain or loss is already being recognised by local authorities on transfer to academy status.

### Transfer of a Function and Impairment of Non-current Assets

21. Schools as entities consolidated into the single entity financial statements also meet key elements of the definition of a transfer of a function (see 2014/15 Code paragraph 2.5.2.1), ie it is an identifiable business operation with an integrated set of activities that are capable of being conducted and managed to achieve the objectives of that service or business operation. The 2014/15 Code confirms at various points (see paragraphs 2.1.2.4 and 3.4.2.23) that a transfer of services under combinations of public sector bodies does not negate the presumption of going concern.

22. Paragraph A24 of Module 2 of the 2014/15 Code Guidance Notes states that this assumption is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). Paragraph A25 Module 2 states that even though assets of a transferring function are to be taken from the authority, with perhaps no compensation, the continued use of the property for the public benefit means that the authority does not need to consider the restriction on its own ability to make use of the property from the going concern perspective. Therefore the performance of local authority assets or assets recognised in local authority financial statements prior to transfer would not be impaired under these circumstances.

### Derecognition of any Non-current Assets Used by Schools on Transfer

23. Where non-current assets have been recognised[2] in local authority balance sheets, this will be either as an asset of the authority or as an asset recognised on consolidation of the schools transactions in the local authority single entity accounts. If local authorities consider that, as a result of the transfer arrangements, the asset should be derecognised from local authority balance sheets[3] then this derecogition transaction is no different from any other asset derecognition.

24. Any non-current asset is likely to either:

- Come within the scope of the Prudential Framework as their cost will have been treated as capital expenditure of the authority on its own property; or

- Have been recognised under the transitional provisions in the Update of the 2014/15 Code and therefore the transaction may be reversed.

25. For capital financing purposes, the transfer of the non-current assets results in no additional gains or losses. Any amounts debited or credited to the Comprehensive Income and Expenditure Statement should therefore be capable of reversal to the Capital Adjustment Account in the Movement in Reserves Statement.

[2] Per paragraph 13 Local Authorities are likely to find LAAP Bulletin 101 useful in this regard.
[3] LAAP understands that the transfer of local authority assets regularly takes the form of a lease arrangement. Local Authorities would need to consider under the Code's requirements in Sections 4.1 and 4.2 whether or not the asset should be de-recognised from the single entity balance sheet.

## LAAP BULLETIN 102 - *ACCOUNTING FOR COLLABORATION-TRANSITION ISSUES*

26. LAAP Bulletin 102 provides practitioners with guidance on issues that may arise from the transition to the new requirements for collaborative arrangements under the amended provisions of the 2014/15 Code, following the issue of the five new (or amended) standards introduced by the IASB in May 2011:

- IFRS 10 *Consolidated Financial Statements*,
- IFRS 11 *Joint Ventures*,
- IFRS 12 *Disclosure of Interests in Other Entities*,
- IAS 27 *Separate Financial Statements* (as amended in 2011), and
- IAS 28 *Investments in Associates and Joint Ventures* (as amended in 2011)

The bulletin can be found at:

http://www.cipfa.org/policy-and-guidance/laap-bulletins/laap-102

## AMENDMENTS TO THE 2015/16 CODE RE: FREQUENCY OF VALUATIONS

27. Following the consultation on the 2015/16 Code and other feedback, CIPFA/LASAAC was aware of different interpretations in relation to the frequency of valuations of Property, Plant and Equipment.

28. Therefore, to avoid doubt CIPFA/LASAAC has included an interpretation in the 2015/16 Code of a 'short period' to explain that IAS 16 as adopted by the Code has provided for the approach to the requirement to revalue simultaneously (as the first sentence in paragraph 38 in IAS 16 is caveated by the second sentence). The short period is interpreted to mean that assets are normally measured once every five years for each class of assets, provided that carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

29. Local authorities are also reminded that paragraph 4.1.4.4 (of the 2014/15 Code) states (the bold font has been added for emphasis):

> "*Paragraph 4.1.2.2 of the Code sets out the classes of property, plant and equipment used in the Code, ie council dwellings, other land and buildings, vehicles, plant, furniture and equipment, infrastructure assets, community assets, assets under construction and surplus assets (those assets that are surplus to service needs but that do not meet the criteria to be classified as either investment property or assets held for sale).* ***Authorities shall disclose the information set out in paragraph 4.1.4.3 on this basis***."

30. This approach is consistent with CIPFA's approach to the frequency of valuation since 2010/11 and the adoption of IFRS. Further guidance in this area is provided in the 2014/15 Code Guidance Notes in Module 4, paragraphs C48 - C49.

## SECTION B - OTHER ISSUES AFFECTING THE 2014/15 CLOSURE OF ACCOUNTS

### ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED:

31. Paragraph 3.3.2.13 of the 2014/15 Code requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code. Paragraph 3.3.4.3 requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year. The standards introduced in the 2015/16 Code that are relevant to the requirements of paragraph 3.3.4.3 are:

- IFRS 13 *Fair Value Measurement* (May 2011);
- *Annual Improvements to IFRSs (2011 – 2013 Cycle)* – see next paragraph for further details;
- IFRIC 21 *Levies*.

32. The issues included in the *Annual Improvements to IFRSs 2011 – 2013* cycle are:

- IFRS 1: Meaning of effective IFRSs;
- IFRS 3: Scope exceptions for joint ventures;
- IFRS 13: Scope of paragraph 52 (portfolio exception); and
- IAS 40: Clarifying the interrelationship of IFRS 3 Business Combinations and IAS 40 Investment Property when classifying property as investment property or owner-occupied property

33. Authorities should refer to Appendix C in the 2015/16 Code in relation to their own disclosures regarding the amendments to the above mentioned standards.

### USE OF EXAMPLE FINANCIAL STATEMENTS FOR PREPARATION OF THE 2014/15 ACCOUNTS

34. Authorities are reminded that the Example Financial Statements included in the appendix to Module 3 in the 2013/14 Code Guidance Notes are provided to illustrate the reporting and disclosure requirements of the 2014/15 Code, they are not intended as a template for local authority disclosures. The examples satisfy the **minimum reporting and disclosure requirements**, and each disclosure is based on the assumption that the transactions, balances or other information are material.

35. The Example Financial Statements do not include an HRA, Collection Fund, Business Rate Supplement Revenue or Pension Fund Accounts as illustrations and/or detailed guidance regarding the disclosure requirements are provided in the relevant sections of the Code Guidance Notes (or separate guidance issued by CIPFA for the pension fund).

36. Authorities should ensure that the disclosures meet their own reporting needs in order to give a “true and fair” view of their financial position and performance.

37. Local authorities may wish to consult with their auditors in the decision making process that establishes the basis upon which notes are included in the financial statements.

38. The 2014/15 Code sets out the disclosure and reporting requirements of local authorities under IFRS. Authorities are reminded that the Code paragraph 3.4.2.26 states that "*authorities need not provide a specific disclosure required by the Code if the information is not material*". As a part of CIPFA/LASAAC's considerations on its simplification and streamlining review CIPFA/LASAAC has added a new section on materiality which includes the comments that:

> *"… local authorities should only include disclosures that are material to the presentation of a "true and fair" view…"*

39. Authorities may find it useful to refer to Chapter 2 of the Code and Module 2, Section A of the Code Guidance Notes which provide further guidance on the Qualitative Characteristics of useful financial information in Financial Statements.

40. For further information/reading in this area CIPFA's publication "*Financial Statements – A Good Practice Guide for Local Authorities*" may assist in identifying improvements in the way the year end accounts are produced. The publication includes guidance on:

- Identifying the users (and potential users) of the financial statements, and what information they need;

- Materiality – the guidance highlights the importance of information that is useful to the users of local authority financial statements.

Further details about this publication can be found at:

http://www.cipfa.org/policy-and-guidance/publications/f/financial-statements-a-good-practice-guide-for-local-authorities-book

**THE ACCOUNTS AND AUDIT (WALES) REGULATIONS 2014 No. 3362 (W. 337)**

41. The Accounts and Audit (Wales) Regulations 2014 were not issued at the time of publication of the 2014/15 Code Guidance Notes.

42. The most substantial change for authorities in Wales is the requirement to disclose a remuneration ratio between the median remuneration of all the authority's employees during the year and that of the authority's chief executive (see regulations 9(2) and 9(8)).

43. Authorities in Wales will need to make the new disclosure introduced by the regulations when preparing their 2014/15 accounts. The regulations can be found at:

http://www.legislation.gov.uk/wsi/2014/3362/pdfs/wsi_20143362_mi.pdf

44. Guidance on the Accounts and Audit (Wales) Regulations 2014 issued by the Welsh Government is available at:

http://gov.wales/topics/localgovernment/finandfunding/publications/accounts-audit-guidance/?lang=en

## THE ACCOUNTS AND AUDIT (ENGLAND) REGULATIONS 2015 No. 2015/234

45. The Accounts and Audit (England) Regulations 2015 have been made and are available at the following address:

http://www.legislation.gov.uk/uksi/2015/234/contents/made

46. These Regulations revoke the Accounts and Audit (England) Regulations 2011 (S.I. 2011/817), although those regulations continue to have effect in relation to financial years ending on or before 31st March 2015.

47. The most substantial changes for authorities in England are:

- The regulations define relevant authorities as Category 1 and Category 2 authorities. Category 1 authorities are those that are not smaller authorities or smaller authorities that have chosen to prepare their accounts for the purpose of a full audit). All other authorities are classed as Category 2 authorities,

- An earlier timetable for the preparation and publication of the statements of accounts for Category 1 authorities,

- Reform of the rules on the exercise of the public's rights to inspect the accounting records and to put objections and questions to the auditor, and

- The introduction of a requirement for an narrative statement to accompany the statement of accounts

48. **The Accounts and Audit (England) Regulations 2011 will be retained for use by authorities in England in closing their 2014/15 Accounts and all other elements of the accounts and audit process for the financial year**.

## CARBON REDUCTION COMMITMENT SCHEME – SECOND PHASE

49. The Carbon Reduction Commitment (CRC) Scheme has been established in phases. Phase 1 ran from April 2010 until the end of March 2014. It is now in its second phase which commenced in April 2014 and runs until March 2019.

50. The CRC Scheme does not apply to every local authority. Only those authorities qualifying to participate in the CRC Scheme need to implement the requirements, ie to purchase and surrender CRC carbon allowances.

51. Comprehensive guidance to assist with the accounting consequences for this second phase of the scheme, together with an example accounting policy, specifically about the scheme is provided in Module 2, Section D of the 2014/15 Code Guidance Notes.

52. Practitioners might also wish to refer to the CRC Energy Efficiency Scheme guidance for participants in phase 2 (2014/15 to 2018/19) published by the Environment Agency and the relevant legislation for further detailed guidance.

## UPDATE ON COMPONENT ACCOUNTING

53. LAAP Bulletin 86 - *Componentisation of Property, Plant & Equipment under the IFRS-based Code* which provides guidance on accounting for component parts of

non-current assets has been updated to provide further practical guidance for practitioners.

54. The update to LAAP Bulletin 86 was issued in February 2015 and is also included in Section B of the new Module 10 in the 2014/15 Code Guidance Notes. A free download of the update to LAAP 86 can be found at:

http://www.cipfa.org/policy-and-guidance/laap-bulletins/laap-86-componentisation-of-property-plant-and-equipment

## CHANGES TO HOLIDAY PAY CALCULATIONS

55. In November 2014 the Employment Appeal Tribunal ruled that holiday pay should include non-guaranteed overtime (ie overtime, which is not guaranteed by the employer, but which the worker is obliged to work, if it is offered). This stems from a discrepancy between EU and UK Law. In the UK, employers have generally used basic pay to calculate how much employees are paid while they are on holiday whilst the European Working Time Directive does not specify how holiday pay should be calculated, suggesting that overall remuneration should be taken into account.

56. The ruling may have implications for local authorities where their employees are required to work overtime as a regular part of their job. The backdated claims have, however, been limited, with the tribunal ruling that workers can only make claims if it is less than three months since their last incorrect payment (of holiday pay), although the claim can be backdated until such time as there is a three month break between underpayments.

57. Authorities will need to assess the likely impact of the ruling and consider whether a provision is required under the Code's adoption of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. To assist with this process, practitioners may wish to refer to chapter 8.2 of the 2014/15 Code. Further detailed guidance is provided in section B, Module 8 in the 2014/15 Code Guidance Notes.

58. Authorities would need to be aware that an appeal against the ruling may be made which may impact on their estimate of any future liability for such backdated claims.

## NON DOMESTIC RATES - PROVISION FOR REFUNDS GRANTED ON APPEAL AGAINST THE RATEABLE VALUE OF BUSINESS PROPERTIES [England only]

### Introduction and Background

*59.* Paragraphs 14-23 of LAAP Bulletin 98 *Closure of the 2013/14 Accounts and Related Matters* provided initial guidance for local authorities on making a provision for business rates refunds granted on appeal. One issue which arose last year was whether authorities should have included an element for refunds on appeals not yet lodged.

60. Paragraph 39 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* explains that, where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. This is referred to as the "expected value" method of estimation and is based on the weighting of the probability of different outcomes.

### Information to Consider When Assessing the Probability of Different Outcomes for the Estimation of the Provisions for Refunds

61. Past experience of the refunds of business rates granted on appeal against the 2005 rating list could be used to inform the estimation process for the provision for refunds of NDR for the 2010 rating list. However, authorities should use all information available to make an informed estimate.

62. Where authorities are using raw data from the Valuation Office or data supplied by an agent analysing such data, there may be more than one appeal for the same hereditament. Local Authorities may need to consider that some of these will be duplicates for the same period of time and would need to be discarded. However, others may be genuine separate appeals which would need to be included in the estimate for the provision for refunds.

63. Currently, most authorities will have outstanding appeals arising from both the 2005 and 2010 revaluations. Appeals can take a number of years to be heard, but new appeals against the 2005 rating list closed in 2010 and new appeals against the 2010 rating list closes on 31 March 2015. Local authorities should also note that the imminent deadline for appeals against the 2010 rating list may result in a spike of appeals in March 2015, which should also be factored into the estimate of the provision.

64. As no further appeals against the 2010 rating list will arise after 31 March 2015 authorities will know the number of outstanding appeals against the 2010 rating list and the (maximum) amount of those appeals (this will also be the case for the outstanding appeals against the 2005 rating list). However, authorities will still need to reflect in the estimate of the provision what the possible outcome of those outstanding appeals might be.

65. LAAP Bulletin 98 makes the point that the refund of non-domestic rates for successful appeals provision is an estimate and therefore will require the exercise of management judgment in forming the estimate.

66. By their very nature, estimates are not absolutely precise figures. Paragraph 3.4.2.83 of the 2014/15 Code requires authorities to disclose information about major sources of estimation uncertainty which could have a material impact on assets or liabilities. Therefore where business rates appeals provisions are material, then authorities will need to consider disclosing the impact of the uncertainty in the Notes to the accounts.

67. The Code's requirements are set out in chapter 8.2 of the 2014/15 Code with further detailed guidance including illustrations provided in section B, Module 8 in the 2014/15 Code Guidance Notes.

## ISSUES AFFECTING THE 2014/15 CLOSURE OF ACCOUNTS [SCOTLAND ONLY]

68. **New Regulations:** Practitioners are reminded of the need to apply the new Local Authority Accounts (Scotland) Regulations 2014 (see SSI 2014/200 and Finance Circular 7/2014). Due to the timing of issue these requirements were not reflected in the 2014/15 Code 2014/15, but the Code is clear that where the statutory provisions require departure from the Code the relevant statutory provisions should be followed (see 2014/15 Code paragraph 1.1.5 for further details). The changes were incorporated into the 2014/15 Code Guidance Notes and practitioners should refer to them for additional information.

69. Management Commentary: The Local Authority Accounts (Scotland) Regulations 2014 include the requirement to provide a Management Commentary. At the date of preparation of this bulletin it is anticipated that the Scottish Government will provide guidance on the expected content. Any such guidance would be expected to appear on the Finance Circular webpage.

70. **New LASAAC Guidance:** Practitioners should note that new LASAAC Guidance applicable to the 2014/15 financial statements includes:

- LASAAC – Asset Decommissioning Obligations [***Scotland only- please note this guidance cannot be applied in England, Wales or Northern Ireland***]. It should be noted that this includes a copy of the statutory mitigation arrangements. The statutory mitigation allowed for restatement purposes is time limited – see link for further information.

- LASAAC – Community Safety Expenditure – providing a definition of Community Safety Expenditure and Service Expenditure Analysis classification requirements. Note that no adjustments should be made where grant distribution may be affected.

71. **Extant LASAAC Guidance:** Extant LASAAC guidance that will apply to the 2014/15 financial year includes:

- LASAAC – NDR – This will affect all authorities. Those authorities with TIF schemes or expecting to achieve the BRIS targets should particularly refer to this guidance.

- LASAAC - STOs. This relates to the identification of Significant Trading Operations.

- LASAAC Council Dwellings. This requires that authorities move to a Beacon Approach (Adjusted Vacant Possession) methodology by 2015/16 accounts at the latest.

72. **HRA Guidance:** The Scottish Government's HRA Guidance was issued during 2014. Practitioners may wish to review their compliance with the guidance, such as the return of significant STO surpluses to HRA. Potentially external auditors and tenants may seek to confirm adherence to the guidance.

73. **Local Government Pension Scheme:** LGPS Governance and regulatory changes may affect the scrutiny of the 2014/15 LGPS accounts. These are in addition to the impact of the new regulations (SSI 2014/200) referred to earlier. Relevant references include:

- LGPS Regulations (Pension Boards etc) SSI 2015/60. In particular Pension Boards can be anticipated to scrutinize the 2014/15 accounts.

- SPPA – Model Pension Board Constitution. Notably this includes a section on the training and skills of board members.

74. LASAAC has previously issued guidance to support the training of Pension Committee members in using Scottish Local Government Pension Scheme financial statements. This may be of assistance to finance practitioners involved in the implementation of the new governance requirements.

## FURTHER USEFUL REFERENCES FOR THE PREPARATION OF THE 2014/15 ACCOUNTS

### LAAP Bulletin 99 - *Local Authority Reserves and Balances*

75. LAAP Bulletin 99 provides an update to LAAP Bulletin 77 and its predecessor LAAP Bulletin 55 to reflect the requirements of the IFRS-based Code.

76. This Bulletin provides guidance to local authorities in England, Northern Ireland, Scotland and Wales on the establishment and maintenance of local authority reserves and balances.

77. LAAP Bulletin 99 is included in Section B of the new Module 10 in the 2014/15 Code Guidance Notes. A free download of the Bulletin can be found at:

http://www.cipfa.org/policy-and-guidance/laap-bulletins/laap-99

## SECTION C – LOOKING FORWARD TO 2015/16

### INTRODUCTION

78. This section provides a brief summary of the **accounting issues** that will affect Local Government accounting during 2015/16.

### ACCOUNTING ISSUES AFFECTING LOCAL GOVERNMENT ACCOUNTING IN 2015/16

#### PUBLIC HEALTH [ENGLAND]

79. Public health responsibilities for children aged 0-5 will transfer to local authorities from 1 October 2015.

80. Practitioners will be aware that two new discretionary Public Health lines were introduced in 2015/16 SeRCOP under the mandatory line miscellaneous:

- Spend on Mandated 0-5 children's services
- Spend on all other 0-5 children's services

81. The Department of Health requires these lines to be reported and treated as if they are mandatory lines and they will be collected in the 2015/16 DCLG RO/RA forms.

82. As DCLG have agreed to include this data on their forms (ie RO/RA forms) it is essential that both the collection forms and CIPFA guidance show the same information.

#### INTEGRATION JOINT BOARDS [SCOTLAND]

83. Integration Joint Boards are due to be established during 2015/16 under the requirements of the Public Bodies (Joint Working) (Scotland) Act 2014. Collaborative service delivery may commence during 2015/16 or on 1 April 2016 at the latest.

84. The Integrated Resource Advisory Group is expected to update previously released draft guidance to address accounting issues for 2015/16. LASAAC may also issue additional guidance regarding financial reporting arrangements for 2015/16.

## IFRS 13 - FAIR VALUE MEASUREMENT AND THE MEASUREMENT OF PROPERTY PLANT AND EQUIPMENT

85. The 2015/16 Code introduces the requirements of IFRS 13 *Fair Value Measurement*. This is a substantial new standard that requires local authorities to measure their assets and liabilities and provide disclosures where a section of the Code requires or permits fair value measurement.

### Property, plant and equipment (PPE)

86. CIPFA/LASAAC is of the view that the definition of fair value in IFRS 13 is not the most appropriate measurement base for operational property, plant and equipment in the public sector. CIPFA/LASAAC's work with HM Treasury has confirmed that it is appropriate to focus on valuing the service potential and thus the operating capacity used to deliver goods and services. CIPFA/LASAAC concluded that exit value although useful information for the users of the financial statements is not the best measurement for assets used for their operational capacity.

87. As a part of its conceptual review of the measurement of property, plant and equipment CIPFA/LASAAC has introduced the concept of current value and clarified the 2014/15 adaptation of the IAS 16 measurement of property, plant and equipment in the 2015/16 Code. It has confirmed the measurement bases under the overarching concept of current value. These include existing use value, existing use value – social housing and depreciated replacement cost for operational assets. The measurement requirements for **operational** property, plant and equipment will therefore not be subject to change. However practitioners should note that disclosures about valuation are enhanced.

88. Surplus assets (ie PPE that is not being used to supply goods and services and does not meet the criteria of assets held for sale) are currently measured at existing use valuation based on their use as an operational asset. However, the 2015/16 Code requires that such assets must now be measured at fair value in accordance with IFRS 13.

### Preparing for the new requirements

89. Local authorities will need to make early preparations to ensure that they can effectively meet the requirements of IFRS 13.

90. Although application guidance will be included in the 2015/16 Code Guidance Notes, LAAP recommends that practitioners refer to the 2015/16 Code for details of the measurement and disclosure requirements of the new standard.

## THE BETTER CARE FUND

### Background

91. A £9.8 billion Better Care Fund (BCF) was announced by the Government in the June 2013 spending round to provide financial support for councils and NHS organisations to jointly plan and deliver local services.

92. The BCF will be complemented by £134 million Social Care Capital Grant (to support investment in adult social care services) and £220 million Disabled

Facilities Grant (to award grants for changes to a person's home), both paid directly from Government to local authorities. The arrangements come into force for the 2015/16 financial year.

93. Authorities may wish to refer to the HFMA's 'Pooled budgets and the better care fund' guidance, published in October 2014, which looks at the governance and finance issues underpinning the operation of a pooled budget. The guidance is available free from the HFMA website.

### BCF Grants Received in Advance during 2014/15 year

94. The Local Authority Accounting Panel understands that authorities may have received grants in advance of the commencement of the scheme during the current 2014/15 year. Where this is the case, it is recommended that practitioners refer to Module 2, Section C of the 2014/15 Code Guidance Notes which provides detailed guidance in relation to grants received in advance.

## LOCAL GOVERNMENT REFORM IN NORTHERN IRELAND

### Local Government Reform

95. Significant changes in the governance, legal and accounting framework will take place in Northern Ireland in the 2015/16 year.

96. The existing 26 Councils will become 11 New Councils on 1 April 2015. The reform will also include the transfer of powers for certain functions from central to local government, and the creation of a new Community Planning function within local government

97. Authorities in Northern Ireland should note that CIPFA is currently drafting the reform accounting guidance to be issued by the Department of the Environment (Northern Ireland) as a Local Government Circular. It is anticipated that this will be available by April 2015.

98. The reforms have necessitated structural changes to the Northern Ireland Service Expenditure Analysis which are set out in the in the 2015/16 Service Reporting Code of Practice.

### The Accounts and Audit (Northern Ireland) Regulations 2015 No. 106

99. Practitioners in Northern Ireland will be aware that the Local Government (Accounts and Audit) Regulations (Northern Ireland) will come into operation on 1st April 2015 and replace the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006. However they do not apply to statements of accounts for periods beginning before 1st April 2015.

## SECTION D FUTURE REQUIREMENTS IN THE CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING IN THE UNITED KINGDOM–THE MEASUREMENT OF TRANSPORT INFRASTRUCTURE ASSETS (2016/17)

100. As noted in the previous Year-end LAAP Bulletin, CIPFA/LASAAC has confirmed the position for future adoption of the measurement requirements of the CIPFA Code of Practice on Transport Infrastructure Assets (the Transport Code), as amended in 2013 ie measurement on a depreciated replacement cost basis. These measurement requirements will apply for the 2016/17 year and will represent a change in

accounting policy from 1 April 2016 requiring full retrospective restatement in accordance with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IAS 1 *Presentation of Financial Statements as adopted by the Code*.

101. Practitioners with transport infrastructure assets will need to refer to Appendix D in the 2014/15 Code for further information. Paragraph D.1.4 recommends that authorities should start their preparations now and states that:

> *"It is recommended that local authorities use the years prior to 2016/17 to establish information collection arrangements to apply full retrospective restatement resulting from the measurement of transport infrastructure assets as authorities are likely to need to provide:*
>
> - *opening balances of the assets for 1 April 2015 (ie the opening balances for the relevant transactions for the comparative year), and*
> - *comparative information on transactions in the preceding year, ie 2015/16"*

102. To assist authorities with these preparations LAAP Bulletin 100 - Project Plan for the Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17 was issued.

103. LAAP Bulletin 100 is included in Section B of the new Module 10 in the 2014/15 Code Guidance Notes. A free download of the Bulletin can be found at:

http://www.cipfa.org/policy-and-guidance/laap-bulletins/laap-100

104. Paragraph D.1.5 sets out the anticipated reporting requirements for the 2015/16 year for transport infrastructure assets. These reporting requirements are confirmed in Paragraph D.1.5 of the 2015/16 Code.

**Guidance on the Code of Practice on Transport Infrastructure Assets**

105. The Highways Asset Management Financial Information Group (HAMFIG) and the Project Implementation Steering Group (PISG) are currently developing guidance to support the 2016/17 move to measurement of transport infrastructure assets at depreciated replacement cost.

106. The new guidance aims to:

- provide finance teams with the details of the valuation approach taken by engineers and the systems and processes involved (and how it links with the accounting requirements);
- give engineers details of the information required by accountants.

107. The nature of transport infrastructure as a homogenous interconnected network, together with the service potential and broader economic benefits that it provides, have meant that there are a number of key differences and assumptions in the processes and accounting policies normally adopted by local authorities for other items of property, plant and equipment. The application guidance sets out CIPFA/LASAAC's initial views on these key financial reporting principles for transport infrastructure assets (which will be subject to the annual consultation process for the (Accounting) Code).

108. The key differences and assumptions are as follows:

- Normally the (Accounting) Code anticipates that local authorities will themselves decide what represents an asset based on the flows of service potential and economic benefits inherent in the asset. However, CIPFA/ LASAAC has agreed in principle that the carriageway[4] part of the network should be treated as a single asset - this is due to the nature of flow of the economic benefits and service potential in a networked asset.
- The cost of a replaced part, e.g. surface of a road, may be used as an estimate of the value of the part it has replaced. The replaced part may also be assumed to be at the end of its useful life. This differs from the usual approach where local authorities use this cost as an indication of what the cost of the replaced part was *at the time the asset was acquired* (see 2014/15 Code paragraph 4.1.2.48).
- The normal expectation of the (Accounting) Code is that accumulated depreciation and impairment will be eliminated when an asset is revalued. This is because these measures are accounting estimates of changes in value relating to the consumption of assets whose cumulative effect is confirmed or contested by a formal valuation reflecting the actual condition of the property at the valuation date. The depreciation and impairment estimates are therefore made redundant by the valuation. However, initial views for the measurement of transport infrastructure assets means that accumulated depreciation and impairment will not be eliminated (written out) on revaluation of the asset.
- This treatment for accumulated depreciation means that the estimate of Gross Replacement Cost, rather than a formal valuation (sometimes described as the certified amount) is included in the accounting transactions and the disclosure note.

109. A fundamental principle in the Transport Code is that the same information should be used for asset management, financial management and financial reporting. Therefore, the data used as the basis for valuation calculations, including depreciation is likely to be held in highways asset management systems rather than corporate asset registers as is typically the case for other assets.

110. The Code of Practice on Transport Infrastructure Assets: Guidance Notes is planned to be published by May 2015.

## SECTION E – FUTURE ACCOUNTING DEVELOPMENTS

111. This section of the Bulletin is intended to make local authority practitioners aware of future accounting developments that might have an impact on their authority's current financial planning.

### IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

112. The IASB published IFRS 15 *Revenue from Contracts with Customers* in May 2014. IFRS 15 is effective from 1 January 2017. It is therefore expected to apply to the local authorities from 2017/18 (subject to EU adoption in time for the 2017/18 Code). IFRS 15 seeks to provide a comprehensive standard for revenue recognition to address inconsistent practices. The core principle in IFRS 15 is that entities

[4] Consideration is still being given as to whether the network should be treated as a single asset

should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

113. For many contracts, accounting for revenue will remain unchanged. Where there are changes (see below) they may have budgetary implications. Where contracts include a variable consideration, this is measured at either expected value (ie probability-weighted amount) or the most likely amount, depending on which is the best predictor of the amount of consideration to which the entity is entitled).

114. Possible areas where practice may change include:

- sales with incidental obligations (eg equipment sales with maintenance agreements),
- transfers of goods and services where there is no observable evidence of the stand-alone price of each of the goods and services,
- licenses of intellectual property,
- situations where there is uncertainty about whether revenue should be recognised at a point in time or over time (eg development of a service provided over time or goods transferred on completion)
- estimates where consideration is variable, and
- situations where customers pay in advance or arrears and financing of the contract needs to be considered.

115. IFRS 15 will also introduce substantial new disclosure requirements for material transactions.

### IFRS 9 - FINANCIAL INSTRUMENTS

116. IFRS 9 Financial Instruments has been issued by the IASB with an effective date of 1 January 2018. The Standard is therefore currently anticipated to be adopted in the 2018/19 Code subject to EU adoption of the standard by the effective date for that Code. Although this might appear a distant prospect, the new Standard could have a financial impact on some local authorities, particularly those that hold or are planning to hold investments that would fall within the Available for Sale category.

117. Currently, Available for Sale financial assets are required to be carried in the Balance Sheet at fair value. However, movements in fair value are accrued in a revaluation reserve and posted to the CIES only when the investment matures or is sold or if it becomes impaired. This classification of financial assets is not included in IFRS 9, exposing these investments to the risk of an accounting treatment in which fair value gains and losses are posted to the CIES as they arise.

118. Opportunities may exist under IFRS 9 to exempt such assets from being carried at fair value (eg, if they are held within a business model whose objective is to hold assets in order to collect contractual cash flows and meet the relevant criteria in IFRS 9) or from immediate debit/credit of losses/gains (eg, equity instruments that are elected as not held for trading). However, the exemptions in IFRS 9 may not extend to all the instruments in which authorities invest.

119. Where the treatments will differ substantially under IFRS 9, CIPFA/LASAAC are working with HM Treasury and the other relevant authorities that produce manuals under the oversight of the Financial Reporting Advisory Board (FRAB) to consider

the impact of the implementation of this standard. Authorities holding or considering holding Available for Sale assets in their medium term financial plans are recommended to start following the debate so that they can ensure their budgetary assumptions will be in line with any newly required accounting treatments.

120. IFRS 9 will introduce a new, expected-loss impairment model that will require more timely recognition of expected credit losses. The new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a timelier basis.

**NEW LEASING STANDARD**

121. The IASB plans to issue a new leasing standard by the end of 2015 (latest project update available at:

http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Documents/Project-Update-Leases-August-2014.pdf

This promises a new accounting model for lessees in which all leases for substantial assets for more than 12 months will be accounted for by recognising a "right to use" asset on the Balance Sheet, together with a liability for the present value of the unavoidable lease payments. In overall terms, this means that leases currently accounted for as operating leases would be treated similarly to finance leases (but recognising only a proportion of the asset's overall value).

122. When the Code adopts the new standard, it is likely that lessees will need to invest time in converting operating leases to the new accounting basis. More importantly from a financial management perspective, the asset recognition requirements are likely to bring all new qualifying leases within the scope of the Prudential Framework as capital expenditure.

123. However, any authorities proposing to become lessees of property in the medium term are recommended to appraise themselves of the latest position in relation to the new leasing standard and follow developments over 2015.

## SECTION F - WGA RETURN FOR 2014/15 [ENGLAND ONLY]

124. The following information in relation to the preparation of the WGA returns for authorities in England has been provided to the Local Authority Accounting Panel by HM Treasury, for information. The final paragraph is provided by DCLG in relation to the Data Collection Tool guidance.

125. Blank Data Collection Tool (DCT) pro-formas for English local government for 2014/15 have been uploaded onto the website at:

https://www.gov.uk/government/publications/whole-of-government-accounts-2014-to-2015-guidance-for-preparers

126. Please note that this is not the actual DCT that you will be required to submit. Instead these are unlocked, macro-free blank templates highlighting any revisions to data capture requirements. Practitioners will be able to begin work using these templates. Unlike the final DCT, there are no protections on these worksheets. This will give you greater freedom to incorporate the DCT (or sections of it) into accounts closure working papers.

127. Authorities will still have to submit a complete DCT that has been through the locking process. This, along with comprehensive guidance and the other necessary forms will be uploaded in due course.

128. A local government WGA user group has recently been set up. Practitioners wishing to be involved with this should contact wga.team@hmtreasury.gsi.gov.uk. There are also opportunities to work at HM Treasury on the 2014/15 WGA accounts production on a short term loan basis in October through to December 2015. For more details or to send an expression of interest, please email the WGA team.

129. DCLG has updated the DCT guidance for 2014-15, which will be available from the same page as the DCT packs in due course. The updated guidance has been reduced from 60 to 27 pages and includes flow diagrams on how to complete both the unaudited and audited stages of the WGA process.